OFFICE OF INSPECTOR GENERAL

For the Millennium Challenge Corporation

# AUDIT OF THE GEORGIA REGIONAL DEVELOPMENT FUND

AUDIT REPORT NO. M-000-09-006-P
September 30, 2009

WASHINGTON, DC

*Office of Inspector General for the*
*Millennium Challenge Corporation*

September 30, 2009

Mr. Darius Mans
Acting Chief Executive Officer
Millennium Challenge Corporation
875 Fifteenth Street, N.W.
Washington, DC 20005

Dear Mr. Mans:

This letter transmits the Office of Inspector General's final report on the *Audit of the Georgia Regional Development Fund*. In finalizing the report, we considered your written comments to our draft report and included those comments in their entirety in Appendix II of this report.

The report contains eight recommendations for corrective action. We consider final action taken on recommendation 2 and management decisions on recommendations 3, 4, 6, and 7. A management decision is still pending on recommendations 1, 5, and 8.

Please provide my office written notice within 30 days of any additional information related to the actions planned or taken to implement recommendations 1, 5, and 8.

I appreciate the cooperation and courtesy extended to my staff during this audit.

Sincerely,

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

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# SUMMARY OF RESULTS

The September 12, 2005, compact between the Millennium Challenge Corporation (MCC) and the Government of Georgia established the Georgia Regional Development Fund (GRDF) to provide access to long term risk capital on viable terms and develop management skills in small and medium enterprises. The compact provided $30 million in committed capital for investment in enterprises and $2 million for technical assistance. The primary objective of the GRDF is to maximize development impact, as well as to earn a reasonable and positive financial return, from investments in small and medium enterprises in agribusiness, tourism, and other sectors, primarily outside of Tbilisi, Georgia's capital city (see page 5). The fund has a 10-year life beginning on November 28, 2006, and ending on April 7, 2016, with an initial 5-year investment period ending on April 7, 2011. The ending balance in the fund will be provided to a charitable organization in Georgia. A professional Fund Manager, hired on December 4, 2006, through a competitive bidding process, identifies potential investments, conducts due diligence on prospective companies, and makes recommendations to the board of directors. The board of directors, an independent body, has overall authority and discretion for the management of the fund. The fund has disbursed $16.45 million of $17.3 million for the eight approved investments, as of March 31, 2009, of $30 million in committed capital (see page 5). The fund provided technical assistance to two companies during 2007 and one company during 2008 with total technical assistance expenditures of about $129,000 (see page 16).

The objective of the audit was to determine whether the GRDF is accomplishing its intended purpose, that is, to maximize development impact, as well as earn a reasonable and positive financial return from investments in small and medium enterprises outside of Tbilisi (see page 5). The audit results showed that the GRDF was pursuing its intended purpose of investing in small and medium enterprises in rural Georgia to foster development and earn a positive financial return. However, the Office of Inspector General (OIG) believes that development impact is being sacrificed in the pursuit of higher financial returns by the Fund Manager because of the structure of the compensation in the Fund Management Agreement (see page 5). In terms of one measure of development impact—jobs creation—there may be significantly fewer beneficiaries of the investments than originally planned. Originally, there were to be 4,400 GRDF beneficiaries after 5 years and 6,600 were to benefit after 10 years. The Fund Manager and Millennium Challenge Georgia (MCG) have acknowledged that achieving this number of beneficiaries is currently unrealistic. Further, the expected return by the Fund Manager for its eight investments averaged about 34 percent. According to the Fund Manager and the experience of other enterprise funds, the return of the committed capital is the typical financial return expectation for enterprise funds. The Fund Manager explained that because of the high cost of operating the GRDF returns above 20 percent are necessary to achieve an upper single digit return (see page 8).

Currently, the impact of the fund's investments is being realized at the firm level. The fund made the majority of its investments during the fourth quarter 2008 and these were being used by the firms to increase capacity and improve their operations. The investments in firms ranged from $1.5 million to $3 million, and the funds have been used to purchase equipment and renovate facilities (see page 5).

Even so, the audit team identified a number of problems with the implementation of the program in Georgia.  The objective of the program—maximizing development impact and earning a positive and reasonable financial return—was not clearly defined and MCC did not have targets in place to measure performance against the program's objective (see page 6).  Also, the due diligence performed by the Fund Manager was not always supported as to the nature and extent of work done on portfolio companies, including character and environmental due diligence and antiterrorism vetting of potential investees, so that the OIG could independently verify these efforts (see page 9).  Also, proper precautions were not being taken in handling asbestos roofing and its disposition at facilities being renovated by an investee (see page 11).  Finally, one investment did not meet the intent of the fund to provide risk capital to firms otherwise unable to obtain funding (see page 14).

This report contains eight recommendations to MCC's vice president, Department of Compact Implementation:  (1) define development impact and reasonable financial return and develop specific measures and targets for use in evaluating the GRDF's performance against its primary objective (see page 9); (2) justify the Fund Manager's existing compensation arrangement (see page 9); (3) require that the Fund Manager develop policy and procedures for conducting character due diligence for each investee and for documenting the results of the character due diligence (see page 11); (4) provide the Fund Manager with current MCC guidance on vetting of individuals and organizations receiving U.S. taxpayer funding (see page 11); (5) require that the Fund Manager identify and document the environmental laws and regulations relevant to the investments (see page 11); (6) require that the Fund Manager review its loan agreements with investees and specify actions in the agreements with regard to the asbestos (see page 13); (7) require periodic environmental reviews by MCG of the GRDF's investments and ensure that environmental audits are done when required (see page 13); and (8) revise the Fund Management Agreement Investment Policy Guidelines to include guidelines preventing investments in investees with resources to fund their own projects (see page 15).

Appendix II contains the management comments in their entirety.  In its response, MCC agreed with four of the eight recommendations in the draft report (Recommendation Nos. 3, 4, 6, and 7), disagreed with three of the recommendations (Recommendation Nos. 1, 2, and 5), and chose not to make a management decision on one recommendation pending further research (Recommendation No. 8).  The OIG believes that Recommendation Nos. 1 and 5 are still valid:  MCC needs a clearly defined objective for the GRDF and measures of performance against its objective and the Fund Manager needs to identify and document environmental laws, regulations, and requirements relevant to the investments.  For Recommendation No. 2, MCC did not agree with the recommendation.  MCC cited a 2005 memorandum that it provided to the OIG after the completion of the audit work which analyzed the Fund Manager's compensation.  The OIG reviewed the memorandum and concluded that it meets the intent of the recommendation.   As the OIG has received documentation to support the Fund Manager's compensation, it considers that a management decision was made and final action taken on the recommendation.

# BACKGROUND

In 1989, the U.S. authorized enterprise funds as an experimental model to support private sector development in selected countries of central and eastern Europe as they transitioned from centrally planned to market-oriented economies. The funds, which are private, nonprofit U.S. corporations, are supposed to make loans and equity investments in small and medium enterprises in which other financial institutions are reluctant to invest.[1]

The Millennium Challenge Corporation (MCC) compact with the Government of Georgia, dated September 12, 2005, created the Georgia Regional Development Fund (GRDF), a $30 million independently managed enterprise fund to provide long-term risk capital to small and medium enterprises primarily in regions outside Tbilisi, the capital of Georgia, and devoted an additional $2 million in technical assistance to improve the business operations of the investees. The primary objective of the fund is to maximize development impact, as well as earn a reasonable and positive financial return from investments in small and medium enterprises in agribusiness, tourism, and other sectors.

A board of directors composed of two Georgian and three non-Georgian nationals with investment and/or development experience has overall authority and discretion for the management of the fund. The board of directors is an independent body. A professional Fund Manager hired on December 4, 2006, through a competitive bidding process, identifies potential investments, conducts due diligence on prospective companies, and makes recommendations to the board of directors. The Fund Manager develops Investment Proposal Memorandums documenting its due diligence on potential investees and provides them to the board for decision-making purposes. These memorandums summarize the proposed investment structure and investee information such as financial history, financial projections, products and production, and market and industry analysis. When identifying potential portfolio companies, the Fund Manager is responsible for complying with the requirements in the Fund Management Agreement, including geographical restrictions, targeted sectors and business activities, organizational form, size standards for permitted investments, and fund investment amounts. After the investment occurs, the Fund Manager monitors portfolio company performance and periodically reports portfolio results.

## AUDIT OBJECTIVE

The Office of the Assistant Inspector General for the MCC conducted this audit as part of its fiscal year 2008 audit plan.[2] The objective of this audit was to answer the following question:

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[1] *Enterprise Funds' Contributions to Private Sector Development Vary*, GAO/NSIAD-99-221, September 1999.
[2] The audit of MCC's program in Georgia was postponed until fiscal year 2009 because of the Georgia-Russia conflict of August 2008.

- Is the Georgia Regional Development Fund accomplishing its intended purpose of maximizing development impact, as well as earning a reasonable and positive financial return from investments in small and medium enterprises in agribusiness, tourism, and other sectors, primarily outside of Tbilisi?

Appendix I contains a discussion of the audit's scope and methodology.

# AUDIT FINDINGS

## Is the Georgia Regional Development Fund accomplishing its intended purpose of maximizing development impact, as well as earning a reasonable and positive financial return from investments in small and medium enterprises in agribusiness, tourism, and other sectors, primarily outside of Tbilisi?

The Georgia Regional Development Fund (GRDF) was pursuing its intended purpose of investing in small and medium enterprises in rural Georgia to foster development and earn a positive financial return. However, we believe that maximizing development impact may be being sacrificed in the pursuit of higher financial returns, especially in light of the incentivized compensation arrangement with the Fund Manager. Under this arrangement, the Fund Manager receives a fixed payment during the first 5 years of the contract, and during the second 5 years receives no fixed payment, but instead receives 20 percent of the fund's profits. The Fund Manager may also be eligible for a bonus payment during a three-year period based on performance. In an explanation of the fund's objective, the Millennium Challenge Corporation (MCC) stated it should not have used the term maximizing in describing the fund's objective because maximizing cannot be measured. Further, it has been acknowledged by the Fund Manager that the twin goals of development impact and financial return may not be compatible and that tough choices will have to be made. As discussed later in the report, the Fund Manager has not been provided guidance from MCC as how to balance development impact and financial return.

In addition, the Fund, which has a 10-year life, has disbursed $16.45 million and approved investments of $17.3 million, or 58 percent, of its $30 million in committed capital with 7 years remaining, as of March 31, 2009. Therefore, whether the fund accomplishes its objective and the actual financial return to the fund will not be known until the end of its 10-year life.[3] The fund currently is in year 3 of its 5-year investment phase and has made eight investments, with six of these in agribusiness and tourism which were identified as targeted sectors during the compact development process.[4]

Currently, the impact of the fund's investments is being realized at the firm level.[5] The fund made the majority of its investments during the fourth quarter of 2008 and these were being used by the firms to increase capacity and improve their operations. The investments in firms ranged from $1.5 million to $3 million and the funds have been used to purchase equipment and renovate facilities as confirmed by Office of Inspector

[3] The ending balance of the GRDF will be provided to a charitable organization in Georgia.

[4] Two investments, while permitted by the Fund Management Agreement's Investment Policy Guidelines, were not in these targeted sectors.

[5] The fund was designed to provide firm-level assistance in the targeted sectors because they contribute significantly to the Georgian economy, especially in impoverished rural areas, and are traditional industries in which capacity could be improved. The premise of firm-level assistance is that by selecting firms with high potential for revenue growth, benefits such as job creation and poverty reduction will result over time. The fund was not designed to significantly change the enabling environment of the businesses, such as working with government bodies on changes in laws and regulations, but to work within the existing framework.

General (OIG) site visits to six of the firms (documented photographically in appendix V of the report).

However, in terms of one measure of development impact—jobs creation—there may be significantly fewer beneficiaries of the investments than originally envisioned. Originally, the compact envisioned that there would be 4,400 GRDF beneficiaries after 5 years and 6,600 beneficiaries after 10 years. The beneficiaries were to include an increased number of employees and suppliers resulting from investments in portfolio companies. The Fund Manager and the Millennium Challenge Georgia Fund (MCG) have acknowledged that achieving this number of beneficiaries is currently unrealistic.

The development impact and the financial return of the GRDF are affected by the design of the fund's investment guidelines and fund management expenses, both of which are discussed below, and external factors, such as the Georgia-Russia conflict, civil unrest following the conflict, and the global financial crisis.

The Investment Policy Guidelines established parameters for permitted investments and prescribed that investments were to be made, for instance, primarily in businesses located outside of Tbilisi, in targeted sectors of agribusiness and tourism, in existing rather than start-up businesses, and in specific sizes of businesses based on revenues and employment, and established a maximum investment size per investee. These guidelines were established to mitigate risk to the GRDF based upon experiences of previous enterprise funds, according to MCC. While the parameters mitigate certain identified risk, they also may result in other risks, such as less diversification in the Fund Manager's portfolio. As a case in point, the August 2008 Georgia-Russia conflict significantly decreased tourism which has yet to recover. Such prescriptive investment parameters may also have resulted in missed opportunities that could have had a greater development impact in Georgia.

Finally, as a means of measuring management efficiency, we also examined the fund's operating expenses as a percentage of committed capital. A U.S. Government Accountability Office (GAO) study on enterprise funds found that operating expenses as a percentage of committed capital averaged 2.8 percent, with the ratio higher during the early years of a fund because of start-up costs, and lower than 2 percent during the last few years of a fund's life. The GRDF's operating expenses are higher than those historically experienced by the funds in the GAO report. These higher than average historic operating expenses reduced the available capital and net financial return to the GRDF.

We noted a number of deficiencies with the design and implementation of the GRDF where improvements can be made as detailed in the following sections. MCC needs to:

- clearly define the objective and measures of performance of the GRDF against its objective,
- strengthen policy and procedures and document due diligence of portfolio companies,
- improve environmental oversight and management of risks, and
- revise investment policy guidelines to ensure that the intent of the fund is achieved.

In addition, we noted other issues regarding the complexity of the bonus calculation for the Fund Manager, the reliability or objectivity of monitoring indicators, and the pace in which technical assistance is being provided to portfolio companies.

## The GRDF Needs a Clearly Defined Objective and Measures of Performance Against Its Objective

Summary: The GRDF's primary objective of maximizing development impact and earning a reasonable and positive financial return was not clearly defined by MCC. The GAO's *Standards for Internal Control in the Federal Government* establishes that performance measures are necessary to help ensure that management's objectives are being achieved. A clearly defined objective would set the expectations for the fund's achievements and guide the Fund Manager in its selection of portfolio companies and is necessary to help ensure that management's objectives are being achieved. The MCC is relying on the incentives built into the Fund Manager's compensation as the means for determining the investments that meet the fund's primary objective. However, the Fund Manager's compensation is mostly driven by the financial success of the portfolio companies and not necessarily development impact, leaving discretion to the Fund Manager on how to achieve MCC's goal.

MCC's compact established that the primary objective of the GRDF is to maximize development impact, as well as to earn a reasonable and positive financial return from investments in small and medium enterprises in agribusiness, tourism and other sectors, primarily outside of Tbilisi. The fund will be considered successful if it achieves this objective. Also, the Fund Management Agreement, Section 3.3, states that "While financial returns on each investment will be considered . . . the principal purpose of the Fund is to have a significant development impact on SMEs [small and medium enterprises] in agribusiness, tourism, and other industries in Georgia in areas outside Tbilisi." However, neither the fund documents nor officials at MCC, MCG, or the Fund Manager defined maximizing development impact or reasonable financial return and the specific measures to be used so that the fund's success could be measured on both an interim and final basis against the objective. In explaining the GRDF's objective, MCC stated that development impact will follow from making sound investments and that it should not have used the term "maximizing" in the describing the fund's objective because maximizing cannot be measured. Further, balancing the twin goals of maximizing development impact and earning a reasonable financial return was also not defined: given that these goals may not be synchronous, development impact could suffer in pursuit of financial return.[6]

[6] It should be noted that there are certain measures for the GRDF's performance, but these measures were not specifically linked or defined as the fund's stated primary objective. These measures include (1) Fund Management Agreement's Development Return, a multi-use measure for identifying eligible portfolio companies, portfolio company performance, and Fund Manager bonus; and (2) MCC monitoring indicators and targets for certain GRDF activities. The Development Return measures are nearly identical to the MCC monitoring measures and include gross wages of the investee, wages paid by the investee, taxes paid by

The GAO's *Standards for Internal Control in the Federal Government* establishes that performance measures are necessary to help ensure that management's objectives are being achieved. In the case of the GRDF, a clearly defined objective would set the expectations for the fund's achievements and guide the Fund Manager in its selection of portfolio companies to maximize development impact while earning a reasonable return.

MCC is relying on the incentivized compensation arrangement to achieve the fund's twin goals of maximizing development impact and earning a reasonable and positive financial return. The GRDF is being viewed as successful by the Fund Manager, MCG, and MCC in terms of financial success—the financial return on the contributed capital invested in the portfolio companies. The eight portfolio company investments are expected to provide on average a 34 percent return based on the financial projections used to make the investment decisions. These returns will be the basis for the Fund Manager's compensation during the final 5 years of the GRDF when it will receive 20 percent of GRDF's profits. According to the Fund Manager and the experience of other enterprise funds, the return of committed capital is the typical financial return expectation for enterprise funds.

Also, the Fund Manager explained that because of the high cost of operating the GRDF, returns above 20 percent are necessary to achieve an upper single digit return. The Fund Manager attributed the higher operating expenses to the administrative resources needed to comply with the many requirements established in the Fund Management Agreement. The operating expenses for the GRDF Fund Manager are higher than those historically experienced by enterprise funds reported in the previously mentioned GAO report. During 2007, the Fund Manager's operating expenses were about 78 percent of the invested capital; this was the first year of operations, when operations were being established and limited investments were made. For 2008, operating expenses were about 12 percent of invested capital as the expenses remained about the same but investments increased significantly. Based on budgeted operating expenses and assuming investment of all committed capital, the operating expenses will be about 4.7 percent for 2009. The bulk of the operating expenses were for the Fund Manager's fixed compensation arrangement which remains in place during the first 5 years of the fund's 10-year life. The Fund Manager also has potential additional earnings up to $250,000 in bonuses per year during a three-year period. During the second 5 years, the Fund Manager will receive a percentage of the profit returned to the fund by the portfolio companies so the expense ratio may be dissimilar.

By not clearly defining development impact and reasonable financial return, MCC cannot be assured that the GRDF is achieving its objective of maximizing development impact while earning a reasonable financial return. This insufficient definition provides the Fund

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the investee, and aggregate value of goods and services purchased by the investee that originated in Georgia. MCC has stated that the Development Return does not equate with development impact.

Also, each of the Investment Proposal Memorandums prepared by the Fund Manager for review and approval by the GRDF's Board of Directors includes a discussion of potential development impact it sees with the proposed investment, such as first mover into an underserved market, revitalization of an industry, or a demonstration effect, but again these measures were not specifically defined as the measures of development impact in terms of the objective.

Manager much discretion in determining how to best maximize development impact through the investment process as well as the reasonableness of the rate of return.

> *Recommendation No. 1: We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, define development impact and reasonable financial return and develop specific measures and targets for use in evaluating the Georgia Regional Development Fund's performance against its primary objective.*

> *Recommendation No. 2: We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, develop and document a justification for the existing compensation arrangement with the Fund Manager.*

## Strengthened Policy and Procedures and Documented Actions Needed for Portfolio Company Due Diligence

Summary: The Fund Manager of the GRDF did not always have supporting documentation on the nature and the extent of the work done during its due diligence of portfolio companies, including character and environmental due diligence and antiterrorism vetting of potential investees. The GAO's *Standards for Internal Control in the Federal Government* establishes that recording transactions and appropriately documenting them are necessary to help ensure that management's objectives are being achieved. The Fund Manager did not document these work activities because it was not contractually required to do so. As such, verification of the Fund Manager's actions cannot be conducted without documentation supporting its actions. Further, the risk exists that insufficient analysis and monitoring was done when conducting environmental and character due diligence and antiterrorism vetting, potentially resulting in ineligible investees receiving funding, risk to the program's success, and investees not complying with all environmental laws, regulations, and rules.

The Fund Manager's files did not always provide support as to the nature and extent of work done to arrive at the Investment Proposal Memorandums which are used by the GRDF board of directors in evaluating potential investments.[7] For instance, the files did not show the nature and extent of the character due diligence that was conducted on the potential investees.[8] In discussion with another donor organization, character risk was identified as a high risk area worthy of substantial review. Due diligence documents

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[7] The Fund Manager documents the totality of its due diligence work for a particular investee in the Investment Proposal Memorandum. The document provides extensive information on the investee, including ownership and management, use of funds and investment structure, historical business description and historical financials, financial projections, investment return sensitivity analysis, and market and industry analysis. In addition, the Investment Proposal Memorandum includes the Environmental Compliance and Due Diligence Summary, the Investment Approval and Compliance Checklist with the Fund Management Agreement, Fund Manager internal policy on conflict of interest, and the executive order on terrorism.

[8] Character due diligence is the process undertaken to vet individuals to ensure that they have a high reputation.

showed that lawsuits and violations at the company level were checked, but it did not show the work done at the director, officer, and senior management levels.

In addition, the files did not show the nature and extent of work done with regard to antiterrorism vetting although the Investment Proposal Memorandums stated that the required vetting lists were checked and the annual report stated that the Fund Manager conducted initial and post-investment monitoring. It should be noted that the lists required to be checked as part of the Fund Management Agreement, dated December 4, 2006, differ from the MCC current requirements that were implemented in response to a prior OIG report on the *Audit of Compliance with Procurement Requirements by the Millennium Challenge Corporation and Its Compact Countries*, M-000-008-02-P, dated March 3, 2008.

In addition, an Investment Proposal Memorandum stated that the Fund Manager visited an investee's production facility and discussed with the investee environmental policy and the need to comply with local laws and regulations related to environmental and social issues. However, a review of the files did not show that the Fund Manager identified all relevant laws, regulations, and requirements for its use in monitoring investee compliance with them.

The GAO's *Standards for Internal Control in the Federal Government* establishes that recording transactions and events accurately and timely, and appropriately documenting the transactions are necessary to help ensure that management's objectives are being achieved. These control activities provide evidence of execution of these activities as well as appropriate documentation for verification.

The Fund Management Agreement provides guidance on vetting of potential investees and compliance with environmental guidelines. Specifically, the Fund Management Agreement states in Section 3.3 (a), Investment Process, that the "Fund Manager will use reasonable best efforts to identify and present to the Board suitable investments that meet the Investment Policy Guidelines . . . ." Section 10.1(m) states "The Fund Manager shall not provide material support or resources directly or indirectly to, or knowingly permit MCC funding to be transferred to, any individual, corporation, or other entity that it knows or has reason to know, commits, attempts to commit, advocates, facilitates, or participates in any terrorist activity . . . ." Section 10.1(n) states "The Fund Manager shall verify, or cause to be verified, appropriately any Person with access to, or which receives, funds paid to, by, or on behalf of the Fund or the Fund Manager, which verification may include verifying if such name appears on applicable watch lists such as the lists maintained on www.epls.gov and the other lists . . . The Fund Manager shall (A) conduct monitoring to comply with this paragraph on at least a quarterly basis, or on such other reasonable periodic basis as MCG or MCC may request from time to time, and (B) deliver a report of such periodic monitoring to MCG with a copy to MCC."

Regarding environmental compliance, the Fund Management Agreement states in Section 3.2 that "All Fund investment . . . must comply with MCC Environment Guidelines . . . ." Further, the Investment Policy Guidelines state that ". . . the Fund Manager shall develop the Fund Environmental Procedures and incorporate them into the Fund's investment appraisal and monitoring processes, as contemplated by Section 3.2 of the Fund Management Agreement, to ensure such compliance."

The Fund Manager explained that its contract did not require that it document all of its actions taken as part of the due diligence process. The Fund Manager's actions cannot be verified because of limited documentation with regard to compliance with laws, regulations, and rules pertaining to character and environmental due diligence and monitoring. As such, the OIG has no assurance as to nature and extent of the work done by the Fund Manager. The risk exists that insufficient analysis and monitoring was done when conducting environmental and character due diligence and antiterrorism vetting, potentially resulting in ineligible investees receiving funding, risk to the program's success, and investees not complying with all environmental laws, regulations, and rules.

*Recommendation No. 3: We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, require that the Fund Manager develop policy and procedures for conducting character due diligence for each investee and for documenting the results of the character due diligence.*

*Recommendation No. 4: We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, provide the Fund Manager with current Millennium Challenge Corporation guidance on vetting of individuals and organizations receiving United States taxpayer funding.*

*Recommendation No. 5: We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, require that the Fund Manager identify and document the environmental laws, regulations, and requirements relevant to the investments.*

## Environmental Oversight and Management of Risks Needs to Be Improved

Summary: Asbestos, a hazardous material commonly used in roofing material in Georgia, was being removed from one investee's building during renovations funded by the GRDF and reused by local villagers. Health and safety standards suggest that hazardous materials be properly handled and disposed of to prevent illness. A number of factors contributed to the situation, including the fact that the loan agreement between the Fund Manager and investee did not contain a provision like other investee loan agreements that required compliance with certain health and safety provisions, otherwise a major breach of the agreement would result. In addition, because the GRDF is independent of the MCG, the Fund Manager is primarily responsible for environmental management and oversight, not MCG. But an increased role by MCG in oversight could have helped to ensure the proper management of this hazardous material. In addition, the Fund Manager's Environmental Procedures requires that an environmental audit be conducted if asbestos is identified: however, one was not performed. An audit may also have aided in highlighting the issue and required a mitigation plan. As a result, this health hazard is perpetuated and may open the GRDF to legal liability.

**Photograph of farm building under renovation with asbestos roofing being replaced. Photograph taken by OIG auditor during a site visit outside of Tbilisi, May 2009.**

Asbestos, a hazardous material commonly used in roofing in Georgia, was found at two of the six investment sites during the OIG's audit.[9] It has been common practice in Georgia to maintain the asbestos in situ, but when it is disturbed it results in additional hazards. In fact, at one site, asbestos roofing was being removed from one of the investee's buildings during renovations and local villagers were reusing the material for their homes and farms, compounding the problem.

Although the Fund Manager, MCC, MCG, and the investee were aware of the presence of asbestos and periodic site visits were being conducted by the Fund Manager, weaknesses in the oversight process resulted in the investee mishandling the asbestos.

For other investee loan agreements, the Fund Manager has required that health and safety issues be addressed in a specified manner, otherwise the investee would be in major breach of the loan agreement and incur penalties. In this instance, the loan agreement with the investee did not have a similar control. In addition, although MCC and MCG have direct oversight authority and responsibility over their programs and implementing partners, the GRDF was designed to be an independent program and overseen by its own board of directors.[10] As a result, the Fund Manager is primarily responsible for oversight and monitoring of the Fund's activities.

In addition, the Fund Manager Environmental Procedures states in Section 4.2(e) "an Environmental audit is required (2) if preliminary information suggest there may be significant historical pollution due to previous site use or if asbestos, PCBs [polychlorinated biphenyls], and other hazardous materials are present." Although asbestos was identified, the Fund Manager did not do an environmental audit.

[9] The Occupational Safety and Health Administration (OSHA) has found that the inhalation of asbestos fibers can cause serious disease of the lung and other organs that may not appear until years after the exposure has occurred. Asbestos is toxic and inhalation of it may cause illness such as malignant mesothelioma and lung cancer. As a result of the dangers of asbestos, U.S. OSHA standards state that when asbestos-containing materials, such as roofing materials containing asbestos, are removed, employers are generally required to conduct daily air quality monitoring for worker safety. In addition, OSHA states that when employees are exposed to airborne concentrations of asbestos that exceed permitted exposure limits, employers must provide protecting clothing, protective equipment, and training to employees.

[10] A former MCG Chief Executive Officer wanted to be directly involved in the implementation of the fund, but MCG officials advocated the fund's independence.

Unless mitigated, the improper removal and disposition of the asbestos will perpetuate this health hazard to handlers of this material. Further, it could create a financial liability in terms of legal action against the GRDF.

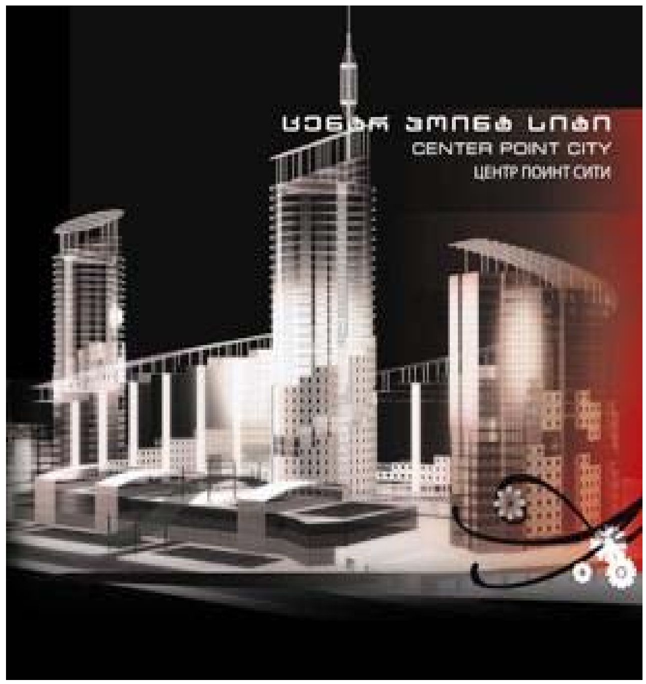
*Recommendation No. 6: We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, require that the Fund Manager review its loan agreements with investees and specify actions in the agreements with regard to the asbestos.*

*Recommendation No. 7: We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, require periodic environmental reviews by Millennium Challenge Georgia of the Georgia Regional Development Fund's investments and ensure that environmental audits are done when required.*

## Intent of Fund Not Achieved with an Investment

Summary: The GRDF is to assist small and medium enterprises that otherwise would not have access to capital; however, the fund loaned $1.8 million to an investee for a hotel chain that not only had the resources to fund the investment, but also was approved for a $2 million dollar loan from a Georgian bank. The Fund Management Agreement's Investment Policy Guidelines did not require the Fund Manager to take into account the investee's resources or other businesses in the decision making process. As a result, the GRDF is not meeting the intended purpose for which the fund was designed with this investment.

The intent of the GRDF is to provide funding to small and medium enterprises to which banks and other donors are less willing to lend. In March 2008, the GRDF approved a $1.8 million investment in a Georgian hotel chain. Although the investment was within the parameters of the general investment guidelines, the investee not only had the resources to fund the project, but also had an existing relationship and a line of credit from the largest commercial bank in Georgia. For example, the investee stated that without the $1.8 million GRDF investment, funding would come from their other company and the commercial bank already approved a loan for $2 million for the hotel chain.




**Rendering of one of the projects planned by the real estate development firm, including high rise buildings, summer and winter gardens, playgrounds, sports facilities, and a four-storied shopping center. Rendering taken from real estate development website, August 2009.**

The investee is part owner of a leading commercial and residential real estate development firm in Georgia that has implemented 20 major projects, with 50 projects currently under operation. In 2006, the company held 35 percent of the supply and 60 percent of sales in Georgia's $500 million real estate market, according to the Fund Manager. Some examples of the projects are (1) 17 story building on the seashore with hotel type small, medium, and large apartments with recreational indoor and outdoor areas and hotel services; (2) climatic health resort with spa using well-known mineral water; and (3) residential complex with four 10 story buildings furnished with playgrounds and sports facilities. In addition, the investee describes the Georgian hotel chain as a new brand of the development group, and as a project under the real estate development group.

The GRDF was designed to address some of the key constraints to enterprise development by improving access to capital for small and medium enterprises. Due diligence conducted by MCC during compact development showed that small and medium enterprises had difficulty obtaining the risk capital they needed in order to grow their business in Georgia. Further, it showed that the banking sector was strong, but was limited in capacity and willingness to lend to small and medium enterprises.

**Photograph of an ongoing project by the real estate development firm in the same city as the GRDF-financed hotel. Photograph taken by OIG auditor, May 2009.**

The Fund Management Agreement's Investment Policy Guidelines did not require the Fund Manager to take into account the investee's resources or other businesses. Specifically, the Fund Management Investment Policy Guidelines states the Fund should not be used to invest in a business with annual revenue of $5 million or more, and only requires legal subsidiaries to be considered with the investee. However, the hotel chain, although not a subsidiary of the real estate development company, is closely related and is described as a project under the company. By investing in this hotel chain, the fund is creating an appearance that U.S. taxpayer dollars are being used to fund an investee whose company has 35 percent of Georgia's real estate market.

*Recommendation No. 8: We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, revise the Fund Management Agreement Investment Policy Guidelines to include guidelines preventing investments in investees with resources to fund their own projects.*

## Other Issues

We also identified other issues while conducting our audit which we wanted to bring to management's attention for its consideration and disposition. The issues included the bonus calculation for the fund manager's compensation, the monitoring indicators for the GRDF, and the use of technical assistance.

- **Bonus Calculation**. In our discussions with the Fund Manager and a board member each found that the bonus calculation methodology was unnecessarily complicated and required an inordinate amount of time to perform. Each suggested that a simpler method should be devised to reward the Fund Manager's performance. The Fund Management Agreement provides that the Fund Manager may receive an annual performance bonus from 2008 to 2011 up to $250,000. The bonus is based upon the degree to which the fund exceeds projections in three performance categories for the year: (1) projected Developmental Return, (2) aggregate projected investee revenues, and (3) projected fund capital to be invested. The Developmental Return is calculated by four subcategories, including the gross revenues of the investee, wages paid by the investee, taxes paid by the investee, and the aggregate value of goods and services purchased by the investee that originated in Georgia. Each of these subcategories receives a weighting at the beginning of the performance period. Further, the Fund Management Agreement provides detailed calculations involving converting the dollar projections into scores, calculating the bonus hurdle rate,[11] and arriving at the number of bonus points.

- **Indicator.** The GRDF has five outcome indicators used to measure its performance. Two of the five indicators may not be reliable or objective. Using U.S. Agency for International Development's (USAID) seven criteria for assessing performance measures, the OIG found that the two indicators requiring information about local suppliers may be subjective. These two indicators are "Increase in Local Suppliers to the Portfolio Companies" and "Increase in Locally Sourced Goods and Services Purchased by the Portfolio Companies." For example, if the product is made outside of Georgia, but brought to Georgia to be assembled or sold, it is unclear whether this product would be classified as being locally supplied.

- **Technical Assistance**. The fund provided assistance to two companies during 2007 and one company during 2008 with total technical assistance expenditures of about $129,000. Of the $2 million available for technical assistance, only about 6 percent has been expended over 3 years and technical assistance is available to firms only during the first 5 years of the fund. The purpose of technical assistance is to improve the operations of the companies such as modernizing accounting systems, business development such as assessing the marketplace, and enhancing development impact. Development impact technical assistance is to enhance the nature, scope, or sustainability of development impact on stakeholders, such as employees, suppliers, and customers.

[11] The annual performance bonus for each bonus year is based on the degree to which the fund exceeds a specified percentage (the Bonus Hurdle Rate) of projections established for a bonus year.

# EVALUATION OF MANAGEMENT COMMENTS

The Millennium Challenge Corporation (MCC) provided written comments to our draft report that are included in their entirety in Appendix II. In its response, MCC agreed with four of the eight recommendations in the draft report, disagreed with three of the recommendations, and chose not to make a management decision on one recommendation pending further research.

In response to Recommendation No. 1, MCC did not agree with the recommendation. MCC's position is that it implicitly defined the "development impact" of the Georgia Regional Development Fund (GRDF) and cited specific measures and targets used to monitor the fund's performance. However, the specific measures and targets cited by MCC constitute the "developmental return" indicators established in the Fund Management Agreement. When starting its audit work, the OIG requested that MCC define the objective of the GRDF and MCC stated that the developmental return did not necessarily equate to development impact and also stated that development impact and financial return can only be accurately measured at the conclusion of the GRDF's life. MCC did not address from the OIG's recommendation that it define "reasonable financial return."

The OIG believes that Recommendation No. 1 is still a valid recommendation because as we stated in our finding, MCC needs a clearly defined objective for the GRDF and measures of performance against its objective. MCC is relying on the Fund Manager as the means for determining the investments that meet the fund's primary objective. Our concern is that the compensation arrangement which is mostly driven by the financial success of the portfolio companies and not necessarily maximizing development impact leaves much discretion to the Fund Manager on how to achieve MCC's goal. Because the OIG did not agree with MCC's proposed corrective action which we believe does not address maximizing developmental impact, a management decision was not reached.

For Recommendation No. 2, MCC did not agree with the recommendation. MCC cited a 2005 memorandum that it provided to the OIG after the completion of the audit work which analyzed the Fund Manager's compensation. The OIG reviewed the memorandum and concluded that it meets the intent of the recommendation. As the OIG has received documentation to support the Fund Manager's compensation, it considers that a management decision was made and final action taken on the recommendation.

For Recommendation No. 3, MCC agreed with the recommendation and will work with the Millennium Challenge Georgia Fund (MCG) and the Fund Manager to strengthen existing procedures to include enhanced documentation of the character due diligence conducted by the Fund Manager as part of its due diligence and on-going antiterrorism procedures. The procedures will be put in place by the end of October 2009. The OIG considers that a management decision was made.

For Recommendation No. 4, MCC agreed with the recommendation and will forward guidance to the Fund Manager by September 30, 2009, on vetting of individuals and organizations receiving U.S. taxpayer funding. The OIG considers that a management decision was made.

For Recommendation No. 5, MCC did not agree with the recommendation. MCC's position is that the Fund Manager makes a reasonable effort to understand the local regulatory environment and its approach is consistent with best practices in fund environmental management. MCC concluded that the OIG's recommendation essentially requires the Fund Manager to act as a legal advisor/regulator to the investees.

The OIG believes that Recommendation No. 5 is still valid. The Fund Management Agreement states that "All Fund investment . . . must comply with MCC Environment Guidelines . . . ." Further, the Investment Policy Guidelines state that " . . . the Fund Manager shall develop Fund Environmental Procedures and incorporate them into the Fund's investment appraisal and monitoring processes . . . to ensure such compliance." The OIG recommendation did not require that the Fund Manager act as legal advisor to the investees, it recommended that Fund Manager identify and document the environmental laws, regulations, and requirements relevant to the investments for the purpose of ensuring compliance with MCC Environment Guidelines and the Fund Management Agreement. Because the OIG did not agree with MCC's proposed corrective action, a management decision was not reached.

For Recommendation No. 6, MCC agreed with the recommendation and new language will be added to all future loan agreements regarding disclosure by investees on the presence of asbestos; the use, trade, or sale of asbestos-containing materials; and the removal and handling of asbestos-containing materials. The OIG considers that a management decision was made.

For Recommendation No. 7, MCC agreed with the recommendation. MCC stated that MCG has primary responsibility for the oversight of the GRDF and determining whether environmental audits are required. MCC also stated that it plans to undertake periodic monitoring this fall to review GRDF performance and its implementation of the environmental procedures. The OIG considers that a management decision was made.

For Recommendation No. 8, MCC chose not to make a management decision on this finding at the time. MCC will conduct additional research and will notify the OIG of its management decision no later than six months after the issuance of the OIG's final report in accordance with Office of Management and Budget requirements. The OIG considers that a management decision was not made.

# SCOPE AND METHODOLOGY

**Scope**

The Office of Inspector General conducted this performance audit of the Georgia Regional Development Fund (GRDF) in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The GRDF Program is a $32.5 million fund meant to improve the performance of small and medium businesses in Georgia. We conducted the audit at headquarters in Washington D.C, and in Tbilisi, Mestia, Poti, Batumi, Kutaisi, Village Noste, Republic of Georgia, during a site visit from May 15 to June 6, 2009. In addition to meeting with Millennium Challenge Corporation (MCC) officials, we met with enterprise fund experts from United States Agency for International Development (USAID), Overseas Private Investment Corporation (OPIC), and World Bank in Washington, D.C. During our site visit, we met with the MCC, Millennium Challenge Georgia Fund (MCG), Fund Manager, beneficiaries and Government of Georgia officials. We reviewed and evaluated relevant documents such as program planning documents, contracts, and eight investment proposals. We also reviewed prior reports on enterprise funds.

We examined the internal control environment by identifying and assessing the relevant controls. Our activities included reviewing transactions and compliance with investment guidelines.

**Methodology**

To answer the audit objective, we established audit steps to determine the following:

- Whether GRDF program investments complied with investment guidance;
- Whether GRDF will meet its planned targets;
- Whether MCC, MCG and the Fund Manager provided oversight of the implementation of the program;
- Whether the independent board provided vetting of investment projects; and
- Whether the Fund Manager followed the guidelines for due diligence.

Specifically, we performed the following activities:

- Interviewed MCC, MCG officials and the Fund Manager to gain an understanding of the overall program and its challenges; and
- Visited 75 percent of the projects in Georgia, comprising 77 percent of the dollars invested, as of the first quarter of 2009.

# MANAGEMENT COMMENTS

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

| | |
|---|---|
| Date: | September 24, 2009 |
| To: | Alvin Brown, Assistant Inspector General, Millennium Challenge Corporation |
| From: | Michael Casella, Acting Vice President, Administration and Finance, Millennium Challenge Corporation /s/ |
| Regarding: | Response to the Draft Report on the Audit of the Georgia Regional Development Fund (GRDF), a Millennium Challenge Corporation Compact Activity in Georgia |

This memorandum serves as MCC's response to the *Draft Report on the Audit of the Georgia Regional Development Fund*.

MCC appreciates the opportunity to comment at this time on the audit of this activity in the MCC Compact with Georgia.

In considering our responses to the recommendations in the draft report, we have relied on input from GRDF's fund manager, SEAF, as well as internal documents written during the due diligence and implementation processes that have shaped GRDF.

**Recommendation 1:** *We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, define development impact and reasonable financial return and develop specific measures and targets for use in evaluating the Georgia Regional Development Fund's performance against its primary objective.*

Although MCC agrees that it should have articulated the objective of Georgia Regional Development Fund (GRDF), which was defined as "to *maximize* developmental impact",) in a more specific manner, MCC has already developed specific measures and targets for evaluating the development impact of GRDF, and therefore disagrees with Recommendation 1 that additional measures are needed.

MCC has implicitly, if not explicitly, defined its developmental impact objective for GRDF using specific measures and targets, including: increase in portfolio company

employees, increase in wages paid to the portfolio company employees, increase in gross revenues of portfolio companies, increase in local suppliers to the portfolio companies, and increase in locally sourced goods and services purchased by the portfolio companies. In the future, MCC will state specifically that its objective for the development impact for projects such as the GRDF is to achieve the specific targets for the measures defined for the project. However, MCC believes that this is clear enough in the case of GRDF that formally redefining the objective is unnecessary.
While some indicator targets may not be met, especially in the short-term, other developmental impact objectives may be met or exceeded in the long run. The draft report states that one of these indicators (number of employees) is unlikely to be met in the near term. That is due, in part, to the fact that GRDF investments have had a different profile than was assumed at the time the objectives were set. It may not be until end-of-Compact and post-Compact assessments are done several years from now that MCC can assess either the net financial or the developmental impact of GRDF's investments.

MCC recognizes that there is no formulaic method for balancing financial outcomes against developmental impact measurements in the determination of fund manager bonuses. Similarly, the current bonus methodology fails to take into consideration the effects on both financial and developmental performance of extraneous factors such as the Russian incursion in 2008. Accordingly, by the end of October, MCC will propose a change in fund management agreement language that will allow the GRDF board to adjust the calculated bonus payment in consideration of such judgmental performance factors. This will not have an impact on the existing cap for such bonuses.

**Recommendation 2:** *We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, develop and document a justification for the compensation arrangement with the Fund Manager.*

MCC disagrees with this recommendation. An analysis of the fund manager's compensation was conducted in 2005 and documented in a memorandum dated January 17, 2005, copies of which were shared with the OIG team on September 10, 2009. There is no need for an additional review at this time.

The 2005 memo prepared by an MCC consultant, which is titled "Compensation Provisions for the Manager of the Georgia Regional Development Fund: Fee and Carried Interest" and which was completed prior to the procurement of a fund manager, concludes that (as GRDF was a relatively small fund operating in a developing country) the compensation structure that was proposed and subsequently included in the procurement documents for the fund manager was not only in line with market practice, but perhaps a little low.

The comparison to US-sponsored enterprise funds that is contained in the audit report is inappropriate for several reasons. First, those funds were much larger. If one includes only the funds of $100 million or less (the category in which GRDF falls), the averages start to converge toward the compensation structure for GRDF. Furthermore, GRDF has certain unique attributes such as the small investment size of GRDF and, more importantly, requirements that the investments be concentrated in selected sectors in rural areas, which make comparisons to funds with much different attributes inappropriate. MCC was also recently told by SEAF that they won a competitive procurement for a fund with some of GRDF's attributes at a higher rate of compensation than they earn for GRDF.

**Recommendation 3:** *We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, require that the Fund Manager develop policy and procedures for conducting character due diligence for each investee and for documenting the results of the character due diligence.*

MCC agrees with this recommendation. The fund manager already has a policy and procedure for conducting character due diligence. However, MCC will work with Millennium Challenge Georgia Fund (MCG) and the fund manager to strengthen existing procedures to include enhanced documentation of the character due diligence conducted by the fund manager as part of their due diligence and on-going anti-terrorism name checking procedures.

MCC has had several discussions with the fund manager's staff regarding both the procedures that need to be amended to note the increased documentation and the procedures that need to be followed to limit access to this information. It is currently contemplated that only the due diligence information collected for individuals connected with investment proposals that are forwarded to the board with a positive recommendation will be retained in the fund manager's files. These procedures should be in place by the end of October 2009.

**Recommendation 4:** *We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, provide the Fund Manager with current Millennium Challenge Corporation guidance on vetting of individuals and organizations receiving United States taxpayer funding.*

MCC agrees with this recommendation. This guidance will be forwarded to the fund manager by September 30, 2009.

**Recommendation 5:** *We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, require that the Fund Manager identify and document the environmental laws, regulations, and requirements relevant to the investments.*

MCC disagrees with this recommendation. As a fund manager, SEAF should not also take on the role of legal advisor to the investees. The environmental requirements to be met by an investee are appropriately contained in the agreements between GRDF and the investee. The OIG's proposed approach essentially requires the fund manager to act as advisor/regulator. It also assumes the investee companies have no knowledge or commitment to local regulatory requirements, and completely ignores the Government of Georgia's role in overseeing compliance through the issuance of licenses, permits, and other activities.

The fund manager makes a reasonable effort to understand the local regulatory environment. Depending on the relevant risks, the fund manager may utilize its technical staff, lawyers, outside counsel and/or consultants to undertake research and analyses, site visits, and/or interviews with potential investee owners, managers and regulatory officials in order to understand the local regulatory environment. Where complex issues arise, the fund manager can and does engage specialists to undertake more detailed analyses. This approach is consistent with best practice in fund environmental management.

**Recommendation 6:** *We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, require that the Fund Manager review its loan agreements with investees and specify actions in the agreements with regard to the asbestos.*

MCC agrees with this recommendation. The following language will be added to all future loan agreements:

"The Company certifies and agrees to the following regarding asbestos:

- The Company certifies that SEAF has been informed of the presence of any asbestos on the Company premises as of the date of investment of which Company owners or managers are aware;
- The Company agrees not to allow any asbestos-containing substances to be brought onto the Company premises during the effective period of this agreement;
- The Company agrees not to trade or sell any asbestos containing materials during the effective period of this agreement;
- If, for any reason asbestos-containing material is present or deemed present on the Company premises, the Company shall notify SEAF immediately, and prior to any moving or removal of such asbestos-containing material shall receive written permission from SEAF, and such removal shall be conducted in compliance with any procedures set forth by SEAF."

**Recommendation 7:** *We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, require periodic environmental reviews by Millennium Challenge Georgia of the Georgia Regional Development Fund's investments and ensure that environmental audits are done when required.*

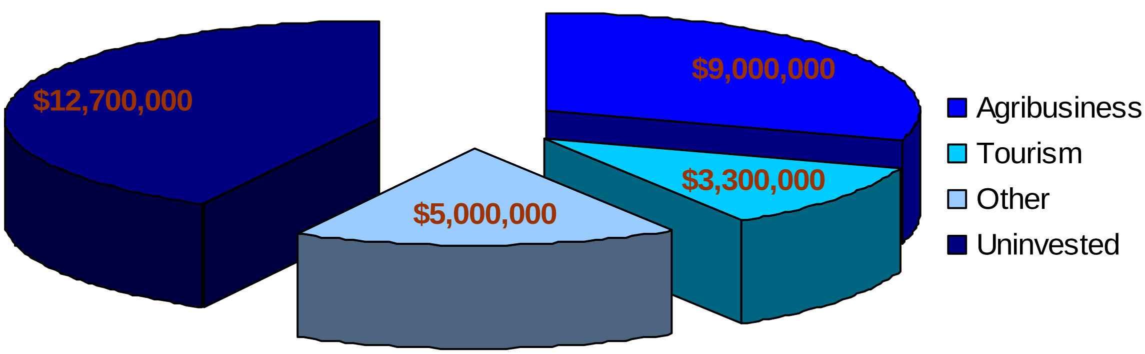
MCC agrees with this recommendation. However, with the exception of Bazi and Doki, GRDF investments were made in the fourth quarter of 2008. Therefore there has been little to monitor until recently. MCG has primary responsibility for the oversight of GRDF and determining whether audits are required in specific cases. It may also review and comment on GRDF environmental reports and undertake site visits, as appropriate. In addition, MCC plans to undertake periodic monitoring beginning this fall to review GRDF performance and its implementation of the environmental procedures. We believe the type and timing of our oversight is appropriate given the investment cycle (average age) and the fact that GRDF is precluded from investing in environmentally sensitive Category A projects.

**Recommendation 8:** *We recommend that the Millennium Challenge Corporation's vice president, Department of Compact Implementation, revise the Fund Management Agreement Investment Policy Guidelines to include guidelines preventing investments in investees with resources to fund their own projects.*

MCC has chosen not to make a management determination on this finding at this time. MCC needs additional time to investigate whether another banking line was available for this financing and how able the primary investor was to access funds from another company in which she was a shareholder. Once this additional work is completed, MCC will notify the OIG of its management decision, which will be no later than six months after the issuance of the final report in accordance with the Office of Management and Budget Circular No. A-50, Paragraph 8(a)(2).

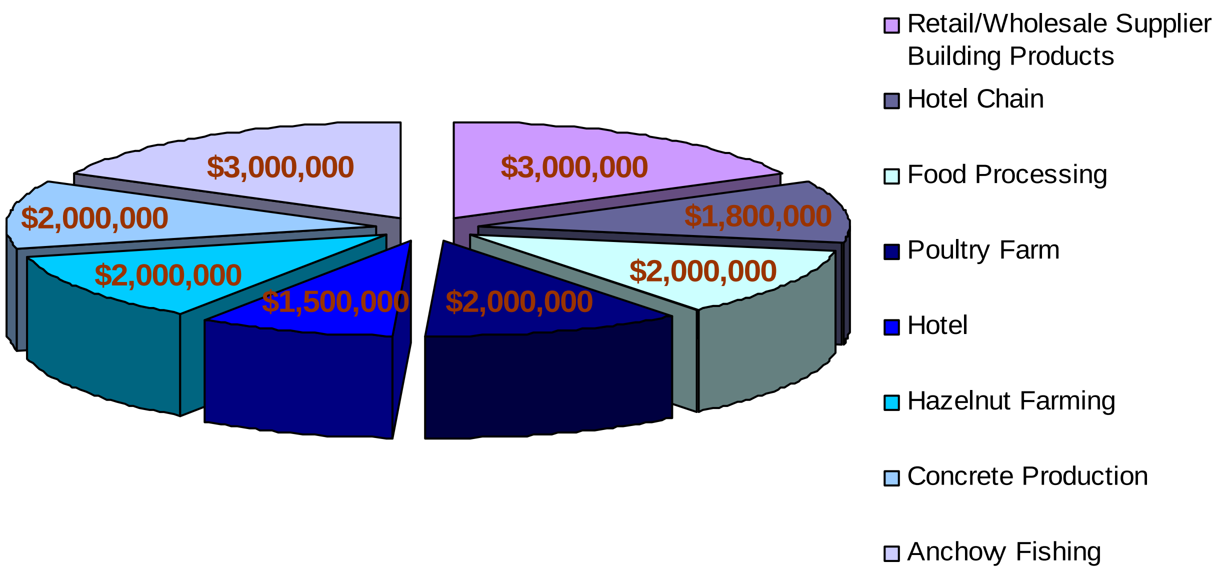
# SUMMARY OF THE GEORGIA REGIONAL DEVELOPMENT FUND INVESTMENT PORTFOLIO

(as of 12/31/2008)



# SUMMARY OF THE GEORGIA REGIONAL DEVELOPMENT FUND INVESTMENTS

**(as of 12/31/2008)**

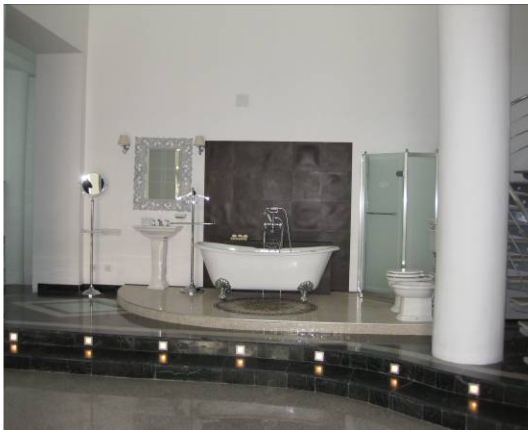


# PHOTOGRAPHS OF GEORGIA REGIONAL DEVELOPMENT FUND INVESTMENT IMPACTS

**Poultry Farm**

**Photographs of a poultry farm hatching egg facility financed with a $2 million GRDF investment for renovating poultry buildings and purchases of hens, feeding equipment, and new egg processing equipment. OIG auditor photographs taken in May 2009, Republic of Georgia.**

### Retail/Wholesale Building Supplier




**Photographs of two retail outlets of the building supplier in which GRDF invested $3 million to expand the firm's operations. OIG auditor photographs taken in May 2009, Republic of Georgia.**

## Black Sea Anchovy Fishing Company


**Photographs of a Black Sea anchovy fishing venture that received a GRDF investment of $3 million to purchase ships and equipment and processing plant upgrades. OIG auditor photographs taken in May 2009, Republic of Georgia.**

## Mobile Concrete Company

**Photographs of concrete factory equipment purchased with a GRDF investment of $2 million. The concrete company is the first large scale production facility in western Georgia, and is intended to meet upcoming demand for a port development in the area. OIG auditor photographs taken in May 2009, Republic of Georgia.**

## Georgia Hotel Chain

**Photographs of a Georgian hotel chain outside of Tbilisi that received a GRDF investment of $1.8 million for construction. OIG auditor photographs taken in May 2009, Republic of Georgia.**

## Ecotourism Hotel

**Photographs of a hotel that received a GRDF investment of $1.5 million to renovate an old hotel into a resort hotel in the Svaneti mountain region and to develop ecotourism. OIG auditor photographs taken in May 2009, Republic of Georgia.**

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