July 20, 2012

Mr. Patrick Fine
Vice President, Department of Compact Operations
875 15th Street, NW
Washington, DC 20005

Dear Mr. Fine:

This letter transmits the Office of Inspector General’s final report on the “Review of the Millennium Challenge Corporation’s Compact Modifications” (Report No. M-000-12-006-S). In finalizing the report, we considered the Millennium Challenge Corporation’s written comments on our draft report.

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

Sincerely,

/s/

Richard Taylor
Deputy Assistant Inspector General for Audit
Millennium Challenge Corporation
SUMMARY OF RESULTS

The Millennium Challenge Act of 2003 (Public Law 108-199, Division D) established the Millennium Challenge Corporation (MCC). Since 2004 MCC has provided foreign assistance to developing countries that met criteria for good governance and economic freedom. MCC signs a compact with each country it assists, building on the country's own national development strategy and documenting the objectives that the country and the United States plan to achieve through the compact. As of September 30, 2011, MCC had awarded $8.2 billion in assistance to 23 countries through compacts (listed in Appendix III).

When entering into a compact, MCC and the compact country anticipate completing projects as planned. However, MCC realizes that compacts may sometimes need to be modified because of unforeseen or changed circumstances, such as unfulfilled host-country agreements, increased costs when implementing a project, environmental risks not identified during the project planning stage, or underperforming contractors. To address these issues, MCC has taken actions including canceling projects or portions of them, reallocating funds from other projects to cover budget shortfalls, and terminating contractors and rebidding contracts. These major changes in costs or expected outcomes constitute significant modifications.

Past audits have noted instances in which MCC significantly modified its compacts during implementation. Therefore, the Office of Inspector General (OIG) conducted this review to determine how many compacts signed between MCC’s inception and September 30, 2011, were significantly modified and what effects those modifications had on compact results. OIG defined a significant modification as a cumulative change in project cost of at least $10 million or a 25 percent change in the estimated economic rate of return (ERR) or the estimated number of beneficiaries. The results of this report will serve as a performance benchmark for MCC’s future compacts.

OIG found that MCC significantly modified project activities under 9 of its 23 compacts. Consequently, those compacts (listed in Table 1) did not or will not achieve planned results.

Table 1. Reasons for Significant Compact Modifications (Unaudited)

<table>
<thead>
<tr>
<th>Compact</th>
<th>Incomplete Planning</th>
<th>Implementation Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Benin</td>
<td>X</td>
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</tr>
<tr>
<td>2. El Salvador</td>
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<td>3. Ghana</td>
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<td>4. Mali</td>
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<td>X</td>
</tr>
<tr>
<td>5. Mongolia</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>6. Morocco</td>
<td>X</td>
<td>X</td>
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<tr>
<td>7. Mozambique</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>8. Tanzania</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>9. Vanuatu</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6</strong></td>
<td><strong>7</strong></td>
</tr>
</tbody>
</table>

1 ERR is a comparison of the costs and benefits of a public investment. MCC uses the ERR to analyze the likely impact on economic growth of its programs. An acceptable ERR for projects is 10 percent or above.
The reasons for the significant modifications can be grouped into two categories: incomplete planning and implementation challenges. For the purposes of this review, OIG considered that planning was incomplete if project activities were not fully defined before the compact was signed or if critical studies, like final feasibility studies, were not completed until after the compact had entered into force. OIG considered that implementation challenges occurred when costs increased unexpectedly, the host government did not implement policy reforms that were critical to the success of a project, or contractors performed poorly.

Under 6 of 23 compacts, the compact countries committed additional funding to cover budget shortfalls. Without this funding, MCC would not have been able to achieve its planned results in El Salvador, Ghana, Lesotho, Mali, Morocco, and Tanzania, as discussed on page 7.

This report details MCC’s actions in response to the unique circumstances in the nine compact countries with significant modifications. While OIG did not determine whether MCC’s actions were appropriate, MCC’s position is that each significant modification represented responsible stewardship and prudent management given the circumstances.

In addition, this report lists compacts that have been terminated, partially terminated, or put on hold. These changes occurred after the compact countries engaged in activities contrary to the national security of the United States or to compact requirements. OIG presents this information because these actions, too, have changed the compacts’ planned results.

In response to challenges faced during compact implementation, in March 2011 MCC established its Policy on the Approval of Modifications to MCC Compact Programs, which contains procedures for evaluating and approving compact modifications. These procedures provide guidance for obtaining approvals for changes in cost, estimated beneficiaries, and estimated ERRs. In addition, the policy defines what constitutes a modification for its compacts.

In addition to the above policy, in January 2012 MCC revised its Compact Development Guidance. The guidance incorporates lessons that MCC and compact countries have learned about how to strengthen the compact development process—for example, by planning implementation and measurement and integrating economic analysis earlier in the compact development process.

The above policy changes should help MCC complete the projects outlined in its compacts and limit the number of significant modifications. Therefore, this report does not contain any recommendations to address the compact planning and implementation challenges discussed in this report.

Detailed review results follow. Appendix I contains the scope and methodology. Our evaluation of management comments is included on page 10 of the report, and management comments appear in Appendix II in their entirety.

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2 Entry into force is the first day of compact implementation.
3 Prior to this policy, MCC established a delegation of authority on May 9, 2007, for the administration of its compacts.
REVIEW RESULTS

MCC Significantly Modified Activities Under Nine Compacts

MCC significantly modified project activities under 9 of 23 compacts because of incomplete planning or implementation challenges. OIG defined a significant modification as cumulative changes in project costs of at least $10 million or a 25 percent change in the estimated ERR or in the estimated number of beneficiaries. Because of the modifications, project costs changed by at least $10 million and the estimated ERR and the estimated numbers of beneficiaries were significantly reduced for some activities.

Incomplete Planning

MCC significantly modified activities under the El Salvador, Ghana, Mali, Morocco, Mozambique, and Tanzania compacts because of incomplete planning. OIG defined incomplete planning as non-completion of critical studies, such as final feasibility studies, until after entry into force and the reduction in project activities before compact signing. Each instance of incomplete planning is explained below by compact country.

El Salvador. The $87 million budget for building a network of connecting roads was eliminated from the compact, and funding was reallocated to the Northern Transnational Highway, which faced a budget shortfall. The reallocation increased the budget for the highway by almost 85 percent, from $145 million to $269 million. Underestimated construction quantities and unit costs identified by final feasibility studies during compact implementation were the main reasons for the increased costs. According to MCC, in the absence of a more complete feasibility study, it was difficult for MCC to detect the low estimates during due diligence. As a result, the estimated ERR for the Northern Transnational Highway was reduced from 24 to 16 percent.

Ghana. The $75 million budget for the community services activity was reduced by 39 percent to $46 million to cover budget shortfalls in other projects. MCC planned to construct 520 schools, 81 small town water systems, and 1,000 boreholes (water access points). After the modification, MCC planned to construct 361 schools, 25 water systems, and 350 boreholes. Because these modifications occurred before MCC issued its policy on approving modifications, MCC was not required to calculate changes in the estimated ERR and estimated beneficiaries.

Mali. The costs for the activities that make up the Bamako-Sénou Airport Improvement Project increased from $88 million to $173 million for two reasons. According to MCC, final feasibility studies completed during compact implementation refined cost estimates for completing the project. In addition, a decrease in the value of the U.S. dollar contributed to the increase in project costs. As a result, the estimated ERR was reduced from 13 to 9 percent.

Morocco. The $58 million budget for the Olive Tree Irrigation and Intensification Project increased by 41 percent to $82 million because the project was not fully defined until compact implementation. The increase in the project’s budget did not cause any significant changes to the estimated ERR or the estimated number of beneficiaries.

4 As explained on page 7, the Government of El Salvador committed additional funding to complete the network of connecting roads.
Mozambique. Only about 50 percent of the planned 500 kilometers of road will be rehabilitated under the $176 million road rehabilitation activity, with no change in the project’s budget. This modification occurred when final feasibility studies completed during compact implementation provided higher-than-expected cost estimates because of commodity price increases, a decrease in the value of the U.S. dollar, and changes to the contingency rate. As a result, the estimated number of beneficiaries was reduced by 63 percent, from 2,260,303 to 827,487. The estimated ERR for one of the segments of roads changed from 9 percent to a range of -1 to 9 percent, while that for the other segment remained at 9 percent.

The number of cities to benefit from the $174 million urban water and sanitation projects was reduced with no change in the projects’ budget. Specifically, the urban water supply project was implemented in four instead of eight cities, and the urban sanitation project was implemented in three instead of six cities. The modification of the project activities occurred after final feasibility studies completed during compact implementation projected higher-than-expected costs. MCC officials agreed to reduce the number of cities where the projects would be completed rather than reallocate funding to cover the increased costs. Before the modification, the estimated ERRs for the projects ranged from 27 to 43 percent; after the modification, the estimated ERRs ranged from 9 to 39 percent.

Tanzania. The $40 million Malagarasi hydropower and Kigoma distribution activities, under the Energy Sector Project, were eliminated from the compact after studies completed during compact implementation identified environmental risks that could not be mitigated in the compact term. As a result, $34 million was reallocated to the transmission and distribution systems rehabilitation and extension activity, $5 million went to the Zanzibar Interconnector activity, and $400,000 was directed to other environmental and social activities. Because these modifications took place before MCC issued its policy on approving modifications, MCC was not required to calculate changes in the estimated ERR and estimated beneficiaries.

Two components of the $35 million nonrevenue water activity were removed from the compact after feasibility studies completed during compact implementation identified higher-than-expected costs and the estimated ERRs for these two components fell below established thresholds. As a result, approximately $23 million of their funding was reallocated to other Water Sector Project activities—$13 million to the Lower Ruvu expansion activity, $10 million to the Morogoro water supply activity, and $400,000 for other environmental and social activities. Since these modifications took place before MCC issued its policy on approving modifications, MCC was not required to calculate changes in the estimated beneficiaries.

The budget for the $13 million Zanzibar rural roads activity increased by 92 percent to $25 million after feasibility studies completed during compact implementation determined that costs would be higher than expected. The estimated ERRs for the five segments of road were 3 percent, 9 percent, 10 percent, 17 percent, and 27 percent and were not calculated until compact implementation. Since these modifications took place before MCC issued its policy on approving modifications, MCC was not required to calculate changes in the estimated beneficiaries.

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5 The contingency rate is a percentage of the project budget that will be set aside to cover unexpected expenses during the course of a project.
6 Nonrevenue water is water for which a utility receives no revenue—because of billing deficiencies, unauthorized extraction, or leaky pipes.
Implementation Challenges

MCC also significantly modified project activities in Benin, El Salvador, Ghana, Mali, Mongolia, Morocco, and Vanuatu because of implementation challenges. These implementation challenges are explained below for each compact country.

**Benin.** The $76 million budget for the waterside improvements activity increased by 41 percent to $107 million because of contract cost variations for the expansion of the wharf on the south side of the terminal and delays in construction. Because these modifications took place before MCC issued its policy on approving modifications, MCC staff was not required to calculate changes in the estimated ERR and estimated beneficiaries.

The $74 million port security and landside improvements activity budget decreased by 20 percent to $59 million. This occurred after the contractor completing a major modification of port security was terminated for poor performance. Another contractor was subsequently hired to complete the work. Because these modifications took place before MCC issued its policy on approving modifications, MCC was not required to calculate changes in the estimated ERR and estimated beneficiaries.

Of nine courthouses to be constructed under the $32 million courts activity, four were not constructed after the Government of Benin did not satisfactorily complete two conditions precedent. As a result, the project budget was reduced by 41 percent to $19 million. Because these modifications took place before MCC issued its policy on approving modifications, MCC was not required to calculate changes in the estimated ERR and estimated beneficiaries.

**El Salvador.** The $21 million budget for the investment support activity decreased by 62 percent to $8 million. This decrease occurred after a midterm review of the activity determined there was not a high demand for it. In addition, business plans funded through the project were much smaller than the ones envisioned in the compact. Because these modifications took place before MCC issued its policy on approving modifications, MCC was not required to calculate changes in the estimated ERR and estimated beneficiaries.

**Ghana.** The budget for the $101 million N1 Highway activity increased by 68 percent to $170 million because of higher costs of inputs such as steel and concrete, design changes to harmonize with the Government of Ghana’s future urban mass transit plans, and adjustments to the contingency rate. Because these modifications took place before MCC issued its policy on approving modifications, MCC was not required to calculate changes in the estimated ERR and estimated beneficiaries.

The budget for the $58 million Agricultural Credit Program was reduced by 48 percent to $30 million because of low repayment rates and poor management and oversight. As a result, the remaining funds were reallocated to activities that needed additional funding. Because these modifications took place before MCC issued its policy on approving modifications, MCC was not required to calculate changes in the estimated ERR and estimated beneficiaries.

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7 A conditions precedent is a requirement in the compact or supplemental agreement that must be satisfactorily completed before disbursement of MCC funding.
Mali. The $94 million Industrial Park Project was eliminated from the compact because the Government of Mali did not have policy and institutional arrangements in place, and the policy reforms critical to the success of the compact would have taken several years to achieve. Therefore, funds were reallocated to other projects.

The $35 million Niono-Goma Coura Road activity under the Alatona Irrigation Project increased by 37 percent to $48 million because of the poor performance of a contractor. Millennium Challenge Account-Mali terminated the contract and rebid the contract with little time remaining. The rebidding led to long delays in construction and higher-than-anticipated costs.

As a result, the estimated ERR of 7 percent was recalculated to a range of -.2 to 13 percent for the options that MCC still planned to fund. Despite the low estimated ERR, MCC determined that completing the road would be worthwhile because it would allow year-round access to Alatona Irrigation Project sites. The estimated number of beneficiaries was also reduced by 35 percent to 182,000. If all contract options were completed, the estimated number of beneficiaries would remain at 281,000.

The number of hectares to be irrigated under the $192 million Alatona Irrigation Project was reduced from 16,000 to 5,200 because of time and budget constraints. Bids received for irrigation infrastructure projects were higher than expected; costs for inputs, such as oil and cement, were higher; and initial cost estimates provided by the engineer were poor. As a result, the estimated ERR decreased from 16 to 13 percent, but the estimated 649,600 beneficiaries remained unchanged.

Mongolia. MCC and the Government of Mongolia agreed to remove the $118 million rail project from the compact after a condition precedent could not be met. Subsequently, the compact was amended to replace the rail project with the North-South Road Project and the Energy and Environment Project and to expand other projects. As a result, the estimated ERRs were reduced for the three projects: (1) the Health Project from 21 to 13 percent, (2) the Vocational Education Project from 21 to 12 percent, and (3) the Property Rights Project from 39 to 21 percent. Because of the expansion of the Health Project, the number of estimated beneficiaries increased from 949,000 to 1,502,000. MCC determined that the modification did not affect the estimated number of beneficiaries of the Vocational Education Project.

The urban component of the $27 million Property Rights Project was modified after assumptions about the location of 75,000 land plots proved inaccurate. This required field teams to go house-to-house to evaluate each land plot. This approach was more labor-intensive than originally planned, increasing the cost to register each plot. As a result, the number of estimated beneficiaries was reduced from 75,000 to 53,000.

Morocco. During compact implementation, the Government of Morocco requested that one site under the Artisan and Fez Medina Project be removed from the compact. The $18 million was then reallocated to a new $21 million activity. As a result, the estimated ERR for the Artisan and Fez Medina Project fell from 21 to 11 percent, and the number of estimated beneficiaries went from 127,317 to 93,364.

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8 On May 4, 2012, MCC’s Board of Directors terminated the Mali compact “following an undemocratic change in government in the country” (included in the “Other Matter” on page 9).
9 The contract included a base price and four options. MCC agreed to fund the base price and the first two options, and the Government of Mali agreed to fund the last two options.
Vanuatu. MCC and the Government of Vanuatu reduced the Transport Infrastructure Project’s scope under the $66 million compact from 11 to 2 activities to include only two high-priority national roads—the Efate Ring Road and portions of the Santo East Coast Road. The decision to reduce the scope was made after bids received were three times higher than expected. In addition, delays in mobilizing implementers, the limited number of contractors, the increase in construction costs, and the fluctuation in currency exchange rates set back project implementation. As a result, the estimated ERR for the Efate Ring Road was reduced from 21 to 15 percent. The estimated ERR for the Santo East Coast Road was reduced from 34 to 29 percent. The estimated number of project beneficiaries was reduced by 68 percent from 65,227 to 21,223.

Reliance on Additional Funding From Compact Countries

MCC relied on the country governments to contribute additional funding to complete projects when MCC funding was insufficient in six of its compacts. These countries were El Salvador, Ghana, Lesotho (not among the compact countries with significant modifications), Mali, Morocco, and Tanzania. These instances were as follows.

El Salvador. The Government of El Salvador committed more than $134 million to the compact because compact funding was not sufficient to construct both the Northern Transnational Highway and the network of connecting roads as originally planned. The additional funding is being used to construct the network of connecting roads and cover any contingencies.

Ghana. The Government of Ghana committed about $25 million to the compact. The additional funding covered cost overruns in the transportation and agricultural infrastructure activities.

Lesotho. Cost overruns occurred in the $122 million activity to provide health-care center infrastructure. Costs increased because (1) buildings deteriorated during the 3.5 years between due diligence and implementation of the project, (2) additional construction costs were identified when detailed designs were completed during compact implementation, and (3) market costs for construction materials and labor increased. In response, the Government of Lesotho committed $55 million in additional funding to cover budget shortfalls.

Mali. The Government of Mali committed at least an additional $30 million for the compact. Until MCC terminated the compact, this funding was to be used for potential cost overruns under the Alatona Irrigation Project, including the completion of the Niono-Goma Coura Road activity.

Morocco. A drop in the value of the U.S. dollar relative to the Moroccan dirham caused an increase in the price per hectare of trees planted as part of the $168 million rain-fed olive, almond, and fig intensification and expansion activity. Therefore, only approximately 50 percent or 62,000 of the original 120,000 hectares of trees could be planted using MCC funding. Subsequently, the Government of Morocco committed an additional $35 million to plant approximately 22,000 more hectares of trees. However, the additional funding was not enough to plant all 120,000 hectares of trees envisioned in the compact.

Tanzania. According to MCC, the Government of Tanzania committed $130 million to ensure that all activities envisioned under the compact would be achieved.
Because of incomplete planning and implementation challenges—such as increased construction costs and a fall in the value of the U.S. dollar relative to local currencies—in El Salvador, Ghana, Lesotho, Mali, Morocco, and Tanzania, compacts fell short on funds. Even with MCC’s significant modifications (except in the case of Lesotho), the compacts were at risk of not achieving their planned results. Consequently, the compact countries committed additional funding. OIG considers these significant changes because sufficient MCC funding was not available to complete the project and because, if the compact countries were unable to honor their commitments, the ongoing compacts might not accomplish the parties’ objectives.
OTHER MATTER

Terminated Compacts Also Triggered Significant Changes in Planned Results

Section 611(a) of the Millennium Challenge Act of 2003 allows the Chief Executive Officer, in consultation with MCC’s board of directors, to suspend or terminate assistance in whole or in part if the compact country or entity (1) engaged in activities contrary to the national security interests of the United States, (2) engaged in a pattern of actions inconsistent with MCA selection criteria, or (3) failed to adhere to the responsibilities outlined in the compact. Of the 23 compacts awarded by MCC, 4 were terminated in whole or part because the compact countries engaged in a pattern of actions inconsistent with criteria used to determine eligibility, and 1 was placed on an operational hold because the compact countries engaged in postelection events that were inconsistent with democratic governance. These countries are Armenia, Honduras, Madagascar, Mali, and Nicaragua (Table 2). As a result, the compacts were not completed as planned and did not reach the planned number of beneficiaries.

Table 2. Compacts on Hold or Wholly or Partially Terminated (Unaudited)

<table>
<thead>
<tr>
<th>Country</th>
<th>Termination Status</th>
<th>Entry Into Force Date</th>
<th>Compact Amount ($ million)</th>
<th>Decision Date</th>
<th>Deobligated Amount ($ million)</th>
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<tbody>
<tr>
<td>Armenia</td>
<td>Operational Hold</td>
<td>Sept. 29, 2006</td>
<td>235.6</td>
<td>June 2009</td>
<td>59.0*</td>
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<tr>
<td>Honduras</td>
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<td>Sept. 25, 2005</td>
<td>215.0</td>
<td>Sept. 2009</td>
<td>10.0</td>
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<td>Mali</td>
<td>Whole</td>
<td>Sept. 17, 2007</td>
<td>460.8</td>
<td>May 2012</td>
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<td>Nicaragua</td>
<td>Partial</td>
<td>May 26, 2006</td>
<td>175.0</td>
<td>July 2009</td>
<td>62.0</td>
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* The funds were deobligated after the compact ended since MCC did not remove the operational hold before it ended.

N/A – No funds have been deobligated to date.
EVALUATION OF MANAGEMENT COMMENTS

On May 30, 2012, MCC provided a formal response to our draft report (included in Appendix II). In its comments, MCC agreed with our results.
SCOPE AND METHODOLOGY

Scope

We conducted this review in accordance with Government Auditing Standards (July 2007 Revision), specifically Chapters 3 and 7 and Sections 7.55 and 7.72 to 7.79. We planned and performed this review to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions in accordance with our objective. We believe that the evidence obtained provides that reasonable basis.

OIG conducted its fieldwork at MCC headquarters in Washington, D.C., from November 14, 2011, to April 12, 2012. OIG designed steps to determine the extent and impact of modifications to MCC’s 23 compact countries. OIG focused its review on modifications that had changes in cost of at least $10 million or changes of at least 25 percent in estimated ERRs and estimated beneficiaries.

Methodology

To answer the review objective, we:

- Interviewed MCC staff to gain an understanding of MCC’s policy on approving modifications and how to compute changes to the estimated ERR and estimated number of beneficiaries.

- Analyzed the compact budgets from compact signing to September 30, 2011, to determine changes in project cost of at least $10 million.

- Reviewed and analyzed MCC’s responses to an OIG questionnaire that identified modifications to individual compacts and changes of at least 25 percent in the estimated ERR or estimated number of beneficiaries and the reasons for the modifications.

- Reviewed and analyzed documents, such as memorandums and investment committee meeting minutes, supporting MCC’s decisions to modify compacts.

- Relied on information in Government Accountability Office and OIG audit reports on Cape Verde.

- Reviewed and analyzed the internal controls over compact modifications at MCC headquarters. These controls included review and approvals for modifications and documentation to support MCC’s decisions.

- Tested all compact modifications that resulted in changes in cost of at least $10 million and changes in estimated ERR and estimated beneficiaries of at least 25 percent from March 8 through September 30, 2011. This was to ensure compliance with MCC’s policy on approving modifications, dated March 8, 2011.
May 30, 2012

To: Richard Taylor  
   Assistant Inspector General  
   Office of Inspector General  
   Millennium Challenge Corporation

From: Patrick Fine /s/  
   Vice President  
   Department of Compact Operations  
   Millennium Challenge Corporation

Subject: MCC Management Response to the Office of Inspector General’s Review of the Millennium Challenge Corporation’s Compact Modifications

Dear Mr. Taylor:

I appreciate the opportunity to respond to the Office of Inspector General’s "Review of the Millennium Challenge Corporation's Compact Modifications". The report cites a wide variety of challenges that MCC has faced in the implementation of its Compact programs, including cost overruns, poor contractor performance, exchange rate fluctuations, price increases for construction materials, and delayed completion of engineering designs. These challenges are neither unique to MCC, nor the developing countries where MCC works. Indeed, implementation challenges of the kinds reported in the Inspector General report are common given the complexity of large projects, whether in the United States or overseas.

The project modifications cited by the Inspector General report also reflect prudent management of taxpayer resources by MCC. The modifications demonstrate that MCC has been willing to take tough decisions and terminate funding for projects with major flaws such as low economic returns or elevated environmental risks. MCC has also terminated funding for projects due to lack of progress on the implementation of key public policies necessary for a project's success.
Many of the compact modifications listed in the report resulted from changing country conditions (such as exchange rate fluctuations). Given MCC’s strict five year implementation timeline and fixed funding levels for compact agreements, cost overruns resulting from changes in market conditions will inevitably lead to project modifications. In such situations, ensuring that scarce taxpayer resources are directed to activities with the greatest potential for impact is also a demonstration of good management.

In the report, the Office of Inspector General cites incomplete planning as a reason for major compact modifications. MCC recognizes the need for thorough due diligence of projects and proper planning. We also recognize that projects are progressively elaborated and that planning is an ongoing process. Modifications may be necessary even in the best-planned project. As the OIG acknowledges, MCC has taken concrete steps to ensure that staff are following best practices to reduce the number of major compact modifications. For example, in January 2012 MCC released new Compact Development Guidelines, which emphasize up-front project preparation, including the completion of feasibility studies, environmental and social impact assessments, resettlement action frameworks, and economic rate of return and beneficiary analyses prior to compact signing.

Once implementation begins, MCC conducts a range of actions to mitigate the need to modify compact programs. For example, MCC's Program Procurement Guidelines give MCC the right to approve major procurements for engineering designs, construction works, and supervisory engineering services, allowing MCC an opportunity to identify and correct major risks that may impact project implementation. Once awards are made, MCC employs independent engineers on all major works contracts to ensure that the agency receives independent, third-party advice on the performance of MCA-hired contractors and supervisory engineers, as well as MCA project managers. MCC staff members also conduct regular project site visits to assess progress and assist with the resolution of implementation problems. If a modification is required during implementation, MCC’s Policy on the Approval of Modifications to Compact Programs provides the agency with a formal process for evaluating and approving major changes of cost and scope to compact programs.

Finally, the Office of Inspector General report notes that in a number of instances MCC's partner governments have made funding commitments to meet Compact cost overruns. The funds, exceeding $375 million, are a demonstration of the commitment that MCC's partner governments have to projects they themselves proposed, developed, and implemented.

In summary, MCC works to prevent major program modifications through rigorous project preparation and close supervision of program oversight. When program modifications are necessary due to unforeseen market or other factors, MCC has a systematic approach for weighing risks and benefits of alternative courses of action, to ensure that U.S. taxpayer resources are prudently managed.

I thank you and your staff for the professional conduct of this review.
## MCC Compacts, April 18, 2005–September 30, 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Compact Signature Date</th>
<th>Entry Into Force Date</th>
<th>Compact End Date</th>
<th>Original Compact Amount ($ million)</th>
<th>Amended Compact Amount ($ million)</th>
<th>Compact Amendment Date</th>
<th>Total Compact Amount ($ million)</th>
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<td>Sept. 29, 2011</td>
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<td>Burkina Faso</td>
<td>July 14, 2008</td>
<td>July 31, 2009</td>
<td>July 31, 2014</td>
<td>480.94</td>
<td>N/A</td>
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<td>Cape Verde</td>
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<td>Oct. 17, 2005</td>
<td>Oct. 17, 2010</td>
<td>110.00</td>
<td>N/A</td>
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<td>El Salvador</td>
<td>Nov. 29, 2006</td>
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<td>Georgia</td>
<td>Sept. 12, 2005</td>
<td>April 7, 2006</td>
<td>April 7, 2011</td>
<td>295.30</td>
<td>100.00</td>
<td>Nov. 20, 2008</td>
<td>395.30</td>
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<td>Ghana</td>
<td>Aug. 1, 2006</td>
<td>Feb. 16, 2007</td>
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<td>Honduras</td>
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<td>Sept. 29, 2010</td>
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<td>Sept. 17, 2012</td>
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<td>Entry Into Force Date</td>
<td>Compact End Date</td>
<td>Original Compact Amount ($ million)</td>
<td>Amended Compact Amount ($ million)</td>
<td>Compact Amendment Date</td>
<td>Total Compact Amount ($ million)</td>
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Note: Amendments do not refer to either modifications or terminations.

N/A – Not applicable because the compact agreement was never amended.

* As explained on page 9, the compact was placed on hold or wholly or partially terminated and funding reduced without an amendment to the compact agreement.

† As of September 30, 2011, the compact had not entered into force, and because a compact ends 5 years after the compact enters into force, the end date had not been established.

± As explained on page 9, the compact was terminated and the funding has not yet been reduced.