OFFICE OF INSPECTOR GENERAL
for the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S DUE DILIGENCE REVIEW PROCESS LEADING TO COMPACT AWARDS

AUDIT REPORT NO. M-000-07-001-P
March 2, 2007

WASHINGTON, DC

Office of Inspector General
for the
Millennium Challenge Corporation

March 2, 2007

The Honorable John Danilovich
Chief Executive Officer
Millennium Challenge Corporation
875 Fifteenth Street, N.W.
Washington, DC 20005

Dear Ambassador Danilovich:

This letter transmits our final report on the Audit of the Millennium Challenge Corporation's Due Diligence Review Process Leading to Compact Awards. In finalizing the report, we considered your written comments on our draft report and included those comments in their entirety in Appendix II of this report.

The report contained one audit recommendation for corrective action. Based on your response to our draft report, we consider that a management decision has been reached on the recommendation. Final action for the recommendation must be determined by the MCC, and we ask that we be notified of the MCC's actions.

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

Sincerely,

/s/ Alvin A. Brown, Acting for

John M. Phee
Assistant Inspector General
Millennium Challenge Corporation

CONTENTS

SUMMARY OF RESULTS

The Assistant Inspector General for the Millennium Challenge Corporation conducted the Audit of the Millennium Challenge Corporation's Due Diligence Review Process Leading to Compact Awards as part of its fiscal year 2006 audit plan. The audit was conducted to determine the methodology the Millennium Challenge Corporation (MCC) used to assess countries' proposals to determine if the proposals should be funded and if MCC assessed the proposals in compliance with its policies and procedures. (See page 2.)

MCC assessed countries' proposals through an evaluation process known as the due diligence process that determined whether the proposals met MCC's principles and justified investment by MCC. Specifically, MCC evaluated the countries' commitment to the proposed projects, the projects' feasibility and sustainability, and the economic return of the projects. (See page 3.) The audit found that MCC carried out the assessments of the proposals in compliance with its policies and procedures. (See page 6.)

The following describes areas where MCC could make improvements to its due diligence process. MCC did not provide information pertaining to the proposed projects to one country in a timely manner for its analysis and comment before compact negotiation. (See page 8.) Additionally, we identified an area where MCC employed procedures that if consistently applied could significantly improve the due diligence process. For example, in one country, the use of country counterparts helped the due diligence process to be efficiently executed and completed in a timely manner. (See page 6.)

Also, the audit identified an area that showed that the due diligence process was effective. Specifically, in one country, a sustainability gap in the proposal was identified during the due diligence process and MCC worked to develop a solution to help ensure the success of its investment. (See page 8.) Other issues identified during the audit related to the due diligence budgeting process and country language capacity. (See page 9.)

In its response to our draft report, the MCC agreed with the recommendation and explained its plan for implementing it. Therefore, we considered that a management decision has been reached on the recommendation. (See page 11.)

Management comments are included in their entirety in Appendix II (See page 13).

BACKGROUND

In January 2004, the Millennium Challenge Corporation (MCC) was established by the Millennium Challenge Act of 2003 to provide assistance to selected developing countries that rule justly, invest in their people, and encourage economic freedom. For fiscal year 2006, MCC determined that a total of 23 countries were eligible for assistance. And, as of November 2006, MCC had signed compacts[1] with 11 of the countries.

After an eligible country formally submits a compact proposal, MCC assesses the proposal through a process known as due diligence. The purpose of due diligence is to determine whether the proposal meets MCC criteria for funding. MCC assembles a team of MCC staff and consultants to conduct a preliminary assessment of a country's proposal and report the team's findings in a memorandum to the MCC Investment Committee, an MCC decision-making body. The full due diligence process commences after the Investment Committee approves the memorandum which generally includes a summary of the program, potential problems, and required resources to conduct due diligence among other items.

The due diligence process assesses all aspects of the proposal including consistency with a country's poverty reduction strategy, technical feasibility, and the impact on economic growth among other factors. This process also evaluates the country's capacity to execute the proposal, specifically its capacity in procurement, fiscal accountability, management, and monitoring and evaluation.

AUDIT OBJECTIVES

The Assistant Inspector General for the Millennium Challenge Corporation conducted this audit as part of its fiscal year 2006 audit plan. The objectives of this audit were to answer the following questions:

- How did the Millennium Challenge Corporation assess countries' proposals to determine that the proposals should be funded?
- Did the Millennium Challenge Corporation assess countries' proposals in compliance with its policies and procedures?

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

[1] A compact is an international agreement between MCC and a country that establishes program objectives, related projects, project funding, and a program implementation framework among other things.

AUDIT FINDINGS

How did the Millennium Challenge Corporation assess countries' proposals to determine that the projects should be funded?

The Millennium Challenge Corporation (MCC) assessed countries' proposals through an evaluation process that determined whether the proposals met MCC's principles and justified investment by MCC. The assessment process, known as due diligence, evaluated, for example, the countries' work in identifying the projects, project feasibility, and the countries' ability to sustain the projects. Based upon the results of its due diligence work, MCC determined whether to fund the countries' proposals.

The due diligence work conducted by MCC in Armenia and Benin, the OIG's two sample countries, is discussed below. The discussion details MCC's assessment activities and conclusions made based upon its work.

Overview of MCC's Due Diligence Work in Armenia and Benin

MCC conducted its due diligence work from May 19, 2005, to November 17, 2005 in Armenia and from January 27, 2005, to November 17, 2005, in Benin. The due diligence work was carried out by a country-specific MCC "transaction team" comprised of the transaction team leader and a group of MCC sectoral specialists which included specialists in agriculture, environment, infrastructure, monitoring and evaluation, and legal among others. The sectoral specialists planned and executed due diligence in their areas of expertise with the transaction team functioning as an overall planning organization, clearing house for information, and reporting body. Much of the due diligence work is interdependent so the transaction team was an essential instrument for carrying out the assessments. The due diligence work itself took the form of questions and answers to government officials regarding the proposals, MCC site visits to the country to conduct analyses, and contracted reviews of areas where additional expertise was required. An essential aspect of due diligence was the country counterparts--specialists assigned by the governments to assist MCC with its questions regarding the proposals.

As a means of documenting the results of its work and supporting recommendations in the Investment Memorandum, MCC created country Due Diligence Books. The results of due diligence activities were compiled in question and answer format and each assessment factor by specific project was addressed by the MCC transaction team. Besides functioning as a supporting document, it also functioned as an accountability tool in that the officials responsible for the results of the due diligence were identified and approved the information presented in the document.

Specifically, MCC's due diligence process assessed the (1) consultative process undertaken to identify the countries' investment priorities, (2) level of country commitment to the proposals, (3) impact of the proposed projects on the environment, (4) economic analysis of the projects, (5) donor activities, and (6) countries' capacity to implement the proposals. The following section discusses each assessment in greater detail.

Consultative Process

The consultative process is a requirement of the compact development process and was evaluated as part of MCC's due diligence of Armenia and Benin. The consultative process was a participatory activity and included local input of the poor, including women, private and voluntary organizations, business community and other donors. Input from these parties took many forms, including meetings, focus groups, and presentations. MCC reported that the Government of Armenia (GoA) engaged in a comprehensive consultative process that began with the development of the Poverty Reduction Strategy Plan (PRSP), a broad participatory approach to analyze poverty and develop strategies to address it. Additional consultative meetings were held, including meetings on sustainability which were part of the Water-to-Market Activities development process. For Benin, MCC found that the Government of Benin's (GoB) consultative process included a wide cross-section of private sector and civil society groups in the formulation of priorities. The consultative process included meetings with stakeholder groups as well as radio and television events.

Country Commitment

MCC concluded that the GoA provided a high degree of commitment to the development of the proposals by dedicating 10 professionals to assist MCC in its due diligence process. It also measured commitment by the GoA through the many policy reforms to promote the sustainability of MCC investments and to provide funding for sustainability activities as well. For Benin, MCC measured country commitment in terms of the dedicated GoB funding of nearly $10 million and by the country's commitment to institutional change and policy reform.

Environmental and Societal Impact

MCC's review of environmental and social impacts found no "fatal flaws" that would raise serious questions about the proposed projects. The projects in Armenia focused upon rehabilitation of existing roads and irrigation systems; however, a concern was raised with regard to road reconstruction and potentially adverse environmental impacts on the surrounding areas and with regard to the irrigation projects and the construction of reservoirs, gravity water delivery schemes, and drainage of wetlands. MCC concluded that the proposed projects were unlikely to cause significant environmental, health, or safety hazards and that identified risks could be mitigated. In Benin, two of the four proposed projects, the improvements to the port and the construction of the courthouses, could potentially have a negative impact. MCC concluded that the negative impacts could be mitigated.

Economic Analysis

As part of due diligence, MCC conducts an economic analysis to determine whether the projects represented sound investments and would alleviate constraints to economic growth. Economic analysis entailed calculating the "Economic Rate of Return" (ERR) which is a cost-benefit analysis of the amount of MCC's investment and the benefits as measured by increases in incomes in recipient countries. MCC reported an ERR of 25 percent for Armenia and 24 percent for Benin which MCC concluded exceeded its requirements for investment.

Donor Coordination

MCC met with donors in Armenia and Benin as a means of coordinating its investments in these countries. The OIG independently met with several donors including the United States Department of Agriculture, World Bank, and the Lincy Foundation in Armenia and each reported discussing with MCC their efforts in the country. These organizations had projects in Armenia relating to agriculture, irrigation, or rural roads; areas covered in the proposal to MCC. In Benin, the OIG met with donors, including the European Union (EU) which was funding a legal project, in part, to construct court houses in the country. The EU expressed concerns about potential overlap in the projects to the OIG, and an MCC official responded that MCC coordinated its projects with the GoB and donors to ensure that duplication did not occur.

Implementation Capacity

In anticipation of country project implementation, MCC evaluated the countries' capacity for project management, procurement, and financial management. MCC conducted site visits in Armenia and Benin to determine whether the countries had the capacity to carry out these specific functions. An organization used for project management and procurement was the Project Implementation Unit (PIU), an organization created by the World Bank in donor countries as a means of building capacity. These semi-autonomous governmental bodies were staffed with donor country professionals and the World Bank provided support, such as training and periodic reviews of their operations. MCC conducted interviews of officials in the Armenian PIUs to identify their experience and expertise and concluded that these organizations would be used for project management and procurement. MCC reviewed three PIUs and concluded that two had the capacity to handle the volume of MCC work, but one PIU lacked that capacity and, as such, was not selected. MCC's evaluation of financial management capacity in Armenia led it to conclude that financial capacity was limited and that contracted financial management was necessary. In Benin, MCC recommended, based on the results of its review that contracted third party non-government entities would provide procurement and financial management services because Benin did not have the capacity to carry out these functions.

Did the Millennium Challenge Corporation assess countries' proposals in compliance with its policies and procedures?

MCC assessed countries' proposals in compliance with its policies and procedures with one exception regarding the timeliness of its communication with Benin. At the time of the audit, MCC guidance was found in *Proposal Assessment and Compact Development, Attachment B: Due Diligence Process*, dated May 16, 2005. This guidance provided an outline of the due diligence responsibilities. Specifically, the guidance required, for example, that due diligence be documented in a question and answer format and the findings presented in the Investment Memorandum. The due diligence activities were documented in a question and answer format in the countries' Due Diligence books and the findings were presented in the Investment Memorandums.

MCC's due diligence assessment addressed requirements set out in the Millennium Challenge Act of 2003 including: (1) economic analysis, (2) consultative process, (3) government commitment and effectiveness, (4) sustainability, (5) environmental and social impacts, and (6) donor coordination. MCC also verified that the countries' proposals did not contain any proposed expenditures prohibited by the Act such as military expenditures. MCC documented the results of its work to comply with the Act in the countries' Due Diligence Books.

As discussed below, we identified two areas that demonstrated that the due diligence process was carried out successfully and an issue where MCC did not provide needed information to a country in a timely manner.

Country Counterparts in Armenia Facilitated the Due Diligence Process

The due diligence process in Armenia was aided by the country counterparts' expertise and knowledge of the projects. MCC, as a practice, requested from the country a commitment of human resources that would have skills similar to that of the MCC transaction team which was responsible for conducting due diligence. According to MCC, Armenia understood the high level of commitment required on its part in the due diligence process and provided the required resources. As a result, the MCC transaction team found the process efficiently executed and completed in a timely manner.

The due diligence process in Armenia was aided by the country counterparts' expertise and knowledge of the projects, and the mirroring of the counterparts with MCC due diligence transaction team members. To facilitate the due diligence process, the Government of Armenia (GoA) provided counterpart specialists in irrigation, procurement, roads, law, agriculture, monitoring and evaluation, and environment to cover each area of the compact proposal and to mirror MCC's specialists conducting the due diligence review. These specialists were generally employees of the GoA and had extensive experience in their fields and in developing the initial project proposals. For the most part, the GoA experts as well as the MCC transaction team assigned to the due diligence process participated in the process from onset to completion which again helped the process. Another factor aiding the process was language, as the Armenian team members had a high degree of fluency in English, facilitating communication with the MCC transaction team.

In obtaining counterpart staffing, MCC as a practice requests from the country a commitment of human resources to assist with the due diligence process that would ideally have a skill set similar to that of the MCC transaction team. However, no specific written guidance on staffing country counterpart teams was found in due diligence guidance dated May 16, 2005.

An MCC official stated that MCC transaction team staff explained to the GoA the long-term requirements of due diligence and effort to reach compact. The GoA responded and showed its commitment to the compact process by its assignment of the expert country counterparts.

According to MCC's transaction team, because the GoA provided country counterparts mirroring the expertise and knowledge of MCC's transaction team, the due diligence process was efficiently executed and completed in a timely manner.

Due Diligence Process in Armenia Revealed Sustainability Gap

MCC's due diligence assessment determined that a component needed to be added to the proposal to help ensure the future sustainability of MCC's investment in Armenia. Additional consultative work was done in Armenia to identify the sustainability projects and an additional $33 million was added to the proposal for this component. MCC was required to consider the sustainability of its investments as part of its due diligence work.

As a result of the due diligence process, an additional $33 million was added to the Armenian proposal beyond the requested $175 million for the agriculture infrastructure projects. Due diligence revealed a sustainability gap in the proposal and another initiative, "Water-to-Market Activities," was added to help ensure the success of MCC's infrastructure investment.

GoA submitted a proposal in the amount of $175 million to MCC consisting primarily of two large scale infrastructure projects--irrigation system and rural roads. The plan was to reduce rural poverty by 5 percent through increasing agricultural productivity and improving access to markets and services by the rural population. The irrigation system project, the largest component of the proposal, at $118 million, would rehabilitate 21 target irrigation infrastructure schemes across the country to expand the area under irrigation and to improve the overall efficiency of sourcing and delivery of water to farms. In particular, key elements of the infrastructure improvements included building 7 reservoirs, renovating 68 pumping stations, converting 14 pumps to gravity schemes, and rehabilitating 200 kilometers of main canals and 590 kilometers of tertiary canals. The proposal anticipated that the irrigated agricultural project would benefit 250,000 farmers by increasing net farm income by $1,250 per hectare.

MCA Act Section 609(J) required that a compact contain "the strategy of the eligible country to sustain progress toward achieving such objectives after the expiration of the Compact." The May 16, 2005, Due Diligence Process guidance in effect at the time of

Armenia's due diligence review did not require specific steps to determine sustainability. However, during the pre-Due Diligence phase, MCC identified a potential sustainability risk regarding the country’s proposal. In particular, MCC found that the proposal did not address the impact on production at the farmers’ fields levels, enhancing water use efficiency, and marketing issues.

As part of its due diligence work, MCC determined that the sustainability of the MCC investment in the irrigation infrastructure depended on the ability to increase farm profitability. Armenia conducted a series of focus group meetings with farmers, private firms, non-governmental organizations, and rural community representatives to identify concerns regarding agricultural production and marketing. The resulting program consisted of training 60,000 farmers in on-farm water management for use in promoting high value agriculture products such as vegetables and fruits. Also included in the program was post-harvest processing and a marketing credit scheme that would lead to the development of enterprises to provide storage and transport of the highly perishable agricultural products. MCC believed that the program will help ensure the success of the large scale infrastructure programs and achieve 5 percent rural poverty reduction.

Timeliness of Communication with Benin

Summary: MCC did not provide needed information from a consultant’s study to Benin in a timely manner for compact negotiation. This occurred because MCC had not received the study in time. Ongoing communication with the country is a cornerstone in MCC’s guidelines for proposal assessment and compact development. As such, Benin was not afforded an opportunity to address the consultant’s conclusions. Without this opportunity, the relationship between MCC and Benin could be negatively affected.

MCC did not provide Benin the results of a consultant’s study of the country’s proposal in a timely manner for Benin’s review and comment before compact negotiation. Benin stated that the consultant’s study, which MCC used to base a conclusion on customs inspections, contained inaccurate information. The report stated that port officials inspected only 10 percent of containers; however, Benin stated that the data was inaccurate because customs actually inspected 90 percent of the containers. Furthermore, MCC officials used the consultant’s study to eliminate the proposed purchase of a scanner for inspecting shipping containers. Benin stated that the scanner could enable Benin to reduce the amount of time spent manually inspecting containers and prevent possible arms smuggling. Finally, based on the same consultant’s study, MCC determined that it should not fund the dry port project because of increased costs. However, Benin stated that the construction of the dry port could reduce truck traffic and air pollution in Cotonou. Benin officials stated that without access to the study, they could not correct consultant errors or properly defend their proposals during compact negotiations.

MCC guidelines related to proposal assessment and compact development stated under the heading: “Ongoing Communication with Country” that “the transaction team provides the country with continuing feedback from the due diligence process in order to assist the country in developing further its proposed MCC program."

MCC officials stated that it received the consultant's study a few days before negotiations which prevented the transaction team from discussing the results with Benin. Because of the delay in receiving the study, an MCC official stated that MCC had not concluded before compact negotiations that it would reject any of the projects. However, another MCC official mentioned that although they did not receive the final report until then, MCC had received several draft reports from the consultant which enabled it to develop possible recommendations before reviewing the final report.

The delay in providing the report to Benin prevented the country from understanding the basis of MCC's reasons for concluding that due diligence did not support going forward with the projects. The lack of an opportunity by Benin to make additional arguments to justify its proposed projects may result in ill will, negatively affecting the working relationship between Benin and MCC.

> *Recommendation No. 1: We recommend that the Vice President, Department of Operations, develop and issue guidance to staff for establishing timeframes for receipt of consultant reports and for providing such reports to prospective countries in sufficient time for compact negotiation.*

Other Issues

The OIG identified two other issues during its fieldwork that warrant MCC management's consideration. Specifically, these issues dealt with the MCC due diligence budgeting process and the English language capacity of officials reviewing MCC-related documents.

Due Diligence Budget

At the time of the OIG's audit, the due diligence budget process consisted primarily of estimating costs for a particular country based upon the amount of travel costs for MCC employees and related contractor costs. A system of fully capturing the costs associated with due diligence, monitoring these costs, and reporting on them had not been put in place. The OIG discussed the situation with MCC officials who indicated that MCC will be developing and implementing a cost accounting system for this purpose.

Language Capacity

OIG interviews of country officials in Armenia and Benin revealed concerns with English language capacity with reviewing MCC-related documents. In Armenia, a limited number of members of the Stakeholders' Committee, an organization created by MCC through its governance agreement, could participate in contract evaluations as the contract-related documents were in English. The committee expressed concern over the lack of full participation by its members as the few members with English capacity participated in evaluations repetitively. As a result, the committee believed that the transparency of the process would suffer given this limited participation. In Benin, government officials stated that they signed documents written in English although they did not have a full understanding of them because of their language capacity. This issue was communicated to MCC officials.

EVALUATION OF MANAGEMENT COMMENTS

The MCC provided written comments to our draft report that are included in their entirety in Appendix II. In its response, the MCC agreed with the recommendation in the draft report.

For Recommendation No. 1, the MCC plans to review its internal guidance on due diligence and, where needed, revise it to address the issue of the timing and sharing of consultant reports with country counterparts. Specifically, MCC agreed that where it shares consultant reports with country counterparts that it should make every effort to provide the reports with sufficient lead time for the country to evaluate the reports and address the results. However, MCC also stated that it must retain flexibility in determining whether and when to share due diligence-related consultant reports with parties outside of MCC. MCC stated that in some cases it may be appropriate to share the conclusions of the report, but not all of the details. MCC also pointed out that the consultant report may be only one of a number of factors leading to MCC's decision not to fund a specific proposal.

MCC stated that its internal guidance will address the recommendation, but the guidance will not be a "one size fits all" rule on the timing and sharing of consultant reports. MCC stated that these decisions can only be made on a case-by-case basis.

Based upon MCC's written comments, the OIG considers that a management decision has been reached on the recommendation.

SCOPE AND METHODOLOGY

Scope

The Assistant Inspector General for the Millennium Challenge Corporation (AIG/MCC) audited MCC's due diligence process leading to compact awards in accordance with generally accepted government auditing standards. The audit scope included two countries, namely Armenia and Benin, which signed compacts with MCC during the first quarter of 2006. A review of these two countries' compacts ($544 million) provided audit coverage of 89 percent of the value of the three compacts ($610 million) signed during the first quarter 2006 and 36 percent coverage of the value of the eight ($1.5 billion) compacts signed in total by MCC by that date. A review of the two selected countries provided the OIG a variety of development projects to review as the two combined proposals included: transportation and other infrastructure, agriculture and rural development, land tenure, finance, and justice projects.

Methodology

The audit identified the process undertaken by MCC to assess the two countries' proposals. To address the first audit objective, we obtained relevant documentation such as the Opportunity Memorandum, Investment Memorandum, and Due Diligence Book and interviewed members of the MCC transaction teams responsible for conducting the due diligence work, country counterparts, and stakeholders at the country level. The information obtained allowed the OIG to develop an understanding of the due diligence process and to identify any concerns or successes with it. The audit fieldwork was conducted at MCC Headquarters with site visits to Armenia and Benin from September 25, 2006 to October 27, 2006.

To answer the second audit objective, we identified and reviewed relevant laws, including the Millennium Challenge Act of 2003, and verified that MCC's due diligence work addressed the established requirements. Further, the OIG identified and reviewed due diligence guidelines in effect at the time of the due diligence activities to determine whether MCC followed its internal guidance in carrying out its work.

In planning the audit, we did not set a materiality threshold for the audit objectives as the nature of the audit did not lend itself to the establishment of such a threshold.

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MANAGEMENT COMMENTS

MILLENNIUM CHALLENGE CORPORATION
REDUCING POVERTY THROUGH GROWTH

MEMORANDUM February 23, 2007

TO: John Phee
Assistant Inspector General for the Millennium Challenge Corporation

FROM: Mike Casella /s/
Deputy Vice President for Administration and Finance

SUBJECT: MCC Management Comments on Audit of the Millennium Challenge Corporation's Due Diligence Review Process Leading to Compact Awards

The MCC appreciates the opportunity to respond to the text and results of the draft report on the audit of MCC's due diligence process. MCC generally agrees with the substantive results of the audit, and appreciates the overall positive conclusions. Our response to the specific recommendation follows.

Recommendation No. 1: We recommend that the Vice President, Department of Operations, develop and issue guidance to staff for establishing timeframes for receipt of consultant reports and for providing such reports to prospective countries in sufficient time for compact negotiation.

We agree in principle with the recommendation, and will review and, where needed, revise our internal guidance on due diligence to address the issue of the timing and sharing with country counterparts of consultant reports. In particular, we agree that where we share consultant reports with our country counterparts we should make every effort to provide the reports with sufficient lead time for the country to evaluate the reports and address the results.

However, it is important to recognize that the primary purpose of due diligence is to inform and advise MCC during compact development so that MCC staff can make a well-reasoned recommendation to the Investment Committee as to the viability of proposed compact projects. MCC helps eligible countries develop sound proposals through section 609(g) of the Millennium Challenge Act by providing funds for feasibility studies and other components of compact proposals. Due diligence is meant to help MCC determine whether to fund a specific component of a country proposal, or whether to request modifications to the proposal. Consultant reports contribute to this internal decision-making process, and therefore may need to be treated as internal documents.

As such, MCC must retain flexibility in determining whether and when to share due diligence-funded consultant reports with parties outside of MCC. In some cases, for example, it may be appropriate to share the conclusions of the report but not all of the detailed analysis. MCC must also retain some flexibility in the timing of consultant reports that are shared with partner countries. For example, the consultant report may be only one of a number of factors leading to an MCC decision to not fund a specific proposal. In such a case, while MCC may choose to share the report with country counterparts,

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specific proposal. In such a case, while MCC may choose to share the report with country counterparts, it may not make sense to delay compact negotiations in anticipation of a country response, since such a response in this scenario would be unlikely to change the outcome.

The consultant report on Benin's proposal on port construction is a case in point. This report was just one of a number of factors that MCC weighed in deciding not to fund a scanner for the inspection of shipping containers. For example, MCC also factored into its decision recommendations from the U.S. Coast Guard, which MCC consulted with on this issue. In addition, the Government of Benin provided a feasibility study for the scanner only after the conclusion of due diligence and immediately before compact negotiations.

It is also not entirely accurate to state that "based on the same consultant's study, MCC determined that it should not fund the dry port because of increased costs." As in the case of the scanner, the consultant's report was only one factor in MCC's decision. MCC concluded based on a number of economic and technical factors that the most appropriate solution to port capacity constraints is improved port operations, which is a component of the Benin Compact.

In conclusion, while MCC will address this recommendation in its internal guidance, the result will not be a "one size fits all" rule on the timing and sharing of consultant reports. These decisions can only be made on a case by case basis, and while guidelines can help clarify the factors that go into a decision on how to use consultant reports, they cannot replace the judgment of transaction team leaders and managing directors who are intimately involved in compact negotiations. Such an approach is consistent with the use of internal documents and analyses by any U.S. Government agency that is involved in negotiations with a foreign counterpart.

OVERVIEW OF PROPOSALS

The Armenia proposal evaluated by MCC focused on reducing rural poverty through a sustainable increase in economic performance of the agricultural sector. The specific projects to achieve this goal were investments in the rehabilitation of the irrigation system ($118 million) and rehabilitation of rural roads ($57 million). Shown below is a photograph of an irrigation canal that will be rehabilitated as part of MCC's investment in Armenia.

Photograph of irrigation canal in disrepair and included in the irrigation system rehabilitation project funded by MCC . (Photograph taken by USAID auditor, outside of Yerevan, Armenia, October 2006)

The Benin proposal focused on areas related to trade and policy reform which would contribute to economic growth and poverty reduction. To achieve its goal, Benin received $307 million, of which $169 million was for the Access to Markets project, to improve the Port of Cotonou. The port improvement included a number of components, such as constructing and rehabilitating the port, installing an integrated system of safety, constructing a base of control for the products arriving at the port, and providing technical aid and information.

Photograph of erosion at the Port of Cotonou and included in the Port of Cotonou improvement project. (Photograph taken by USAID auditor, Cotonou, Benin, October 2006)

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