OFFICE OF INSPECTOR GENERAL

For the Millennium Challenge Corporation

AUDIT OF THE AGRICULTURAL CREDIT PROGRAM IN GHANA

AUDIT REPORT NO. M-000-09-005-P
SEPTEMBER 30, 2009

WASHINGTON, DC

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 the Inspector General's final report on the Audit of the Agricultural Credit Program in Ghana. In finalizing the report, we considered your written comments to our draft and included those comments in their entirety in Appendix II of this report.

The report contains five audit recommendations for corrective action. We consider that management decision has been made for Recommendations 1, 2, 4, and 5 but final action has not been taken because MCC and implementing partners are in the process of resolving them. In addition, management decision was reached for Recommendation 3 but final action will not be taken until MCC provides additional documentation as support for improvement.

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

Sincerely,

Alvin Brown /s/
Assistant Inspector General/MCC

Millennium Challenge Corporation
1401 H Street N.W.
Suite 770
Washington, DC 20005
www.usaid.gov/oig

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SUMMARY OF RESULTS

On August 1, 2006, the Millennium Challenge Corporation (MCC) and the Government of Ghana signed a 5-year agreement that totaled approximately $547 million and entered into force on February 16, 2007. The goals of the compact are to reduce poverty through economic growth by enhancing the profitability of agricultural production; improve the delivery of business and technical services that support commercial agriculture expansion; reduce transportation costs affecting agricultural commerce; and strengthen rural institutions that provide services to agricultural projects under the compact. The Ghanaian government designated the Millennium Development Authority (MiDA) as the accountable entity that would have the legal authority to oversee the compact during the compact period (see page 3).

MiDA plans to achieve the compact goal by implementing the Agricultural Credit Program (ACP), which began implementation on March 31, 2008 and will end February 16, 2012. The ACP goal is to increase the supply of and access to credit provided by financial institutions operating in intervention zones. Compact funding for the ACP totals approximately $58 million, and of that amount, $40 million was designated to increase access to credit among farmers in 23 districts contained in the Northern, Afram Basin, and Southern Horticultural intervention zones. Subsequently, this amount was reduced to $35 million due to a reallocation of project funds to cover increased costs in infrastructure projects. The remaining project funds will support the expansion of rural financial institution branches, and implementing agreements, contracts, and other costs. As of March 31, 2009, approximately $5 million has been given to 11 of the 45 accredited participating financial institutions (PFIs) for loans (see pages 3, 4, and 6).

The ACP is implemented by several entities. MiDA manages the program and has signed an implementing entity agreement with the Bank of Ghana to implement the program. In addition, MiDA has signed a contract with the ACP Consultant (Consultant) who it hired to provide administrative support to the Bank of Ghana (BoG), conduct periodic reviews of the PFIs, and develop a monitoring and reporting system (see page 4).

The objective of the audit was to determine whether the MCC-funded Agricultural Credit Program in Ghana is achieving its planned results (see page 4).

The audit team found that although the Millennium Development Authority (MiDA) increased supply and access to credit by financial institutions by the third year of the compact, implementation problems could potentially prevent the ACP from achieving its long-term goals. First, seven of the 11 PFIs have not begun repaying their loans to the BoG as required by the ACP manual. Second, BoG has not established borrowing limits to ensure that no PFI receives more loans than it is able to manage. Third, the BoG has not conducted annual reviews of PFIs to ensure that they continue to meet certain criteria for continued eligibility for the program. Fourth, BoG and MiDA have overlooked the business practices of one PFI that approved loans to borrowers with a high credit risk, refinanced and pre-approved loans, and approved inappropriate use of ACP loans. Finally, the MiDA fiscal agent did not provide ACP account bank statements to the BoG ACP unit, which would allow the ACP unit to notify PFIs of loan terms in a timely manner (see pages 5, 6, 8, and 10).

The report includes the following five recommendations to MCC's Vice President of Compact Implementation, requiring MiDA to: (1) revise and implement a procedure to ensure that the PFIs' loan payments are paid into the MiDA repayment account at the BoG; (2) ensure that BoG monitors loan repayments to identify PFIs' missed payments; (3) ensure that the BoG establish borrowing limits for each of the accredited PFIs; (4) develop and implement procedures in order for the BoG to conduct annual reviews of the PFIs before their accreditation expires; and (5) validate, by September 30, 2009, that the BoG is implementing the process by which PFIs will sign a loan agreement before the BoG disburses their loans. (see pages 7 and 8,10, and 12).

Management decisions were made on the five recommendations; however, final action will not be taken because MCC and MCA-Ghana are currently resolving the issues and should provide additional documentation to support their improvement. MCC's management comments are in their entirety in Appendix II of this report.

BACKGROUND

The Millennium Challenge Corporation (MCC) is a U.S. Government corporation that was established in January 2004 by the Millennium Challenge Act of 2003. It is designed to work with some of the world's poorest countries. Based on a country's performance against MCC's 17 policy indicators, it may become eligible to receive a compact, which is a multiyear agreement between MCC and the country to fund specific programs targeted at reducing poverty and stimulating economic growth. One of MCC's goals is to assist eligible countries that have developed well-designed programs with clear objectives, benchmarks to measure progress, and a plan for effectively monitoring and objectively evaluating results.

On August 1, 2006, MCC and Ghana signed a 5-year agreement that totaled approximately $547 million, entered into force[1] on February 16, 2007, and will end February 16, 2012. The goals of the compact are to reduce poverty through economic growth by enhancing the profitability of agricultural production; improve the delivery of business and technical services that support commercial agriculture expansion; reduce transportation costs affecting agricultural commerce; and strengthen rural institutions that provide services to agricultural projects under the compact. The Ghanaian government designated the Millennium Development Authority (MiDA) as the entity responsible for overseeing the compact during the compact period.

MiDA plans to achieve the compact goal by implementing the Agricultural Credit Program (ACP)--a component of the Agriculture Development Project--which totals

OIG photograph of a MiDA sign for the Yilo Krobo District, one of twenty three districts in the intervention zone where beneficiaries can benefit from loans through the Agricultural Credit Program , Ghana, June 11, 2009.

[1] Entry into Force is the date that all conditions precedent have been completed by the compact country's government and compact implementation begins.

approximately $58 million. Of that amount, $40 million was designated to increase access to credit among farmers in 23 districts in the Northern, Afram Basin, and Southern Horticultural intervention zones (see appendix III).

Subsequently, this amount was reduced to $35 million due to a reallocation of project funds to cover increased costs in infrastructure projects. The remaining project funds will support the expansion of rural financial institution branches, and implementing agreements, contracts, and other costs. As of March 31, 2009, approximately $5 million has been given to 11 of the 45 accredited participating financial institutions (PFIs) for loans.

The ACP is implemented by several entities. MiDA manages the program and has signed an implementing entity agreement with the Bank of Ghana (BoG) to implement the program. In addition, MiDA has signed a contract with the ACP Consultant (Consultant) who it hired to provide administrative support to the BoG, conduct periodic reviews of the PFIs, and develop a monitoring and reporting system

Section 609(b)(1)(C) of the Millennium Challenge Act requires the eligible countries to establish regular benchmarks to measure progress toward achieving the objectives. MiDA achieved this requirement by creating a monitoring and evaluation plan that includes project objectives, performance indicators, and targets to efficiently and effectively monitor the compact. In addition, MCC is required to work with the country to ensure that proposed programs are reasonable, measurable, and attainable.

AUDIT OBJECTIVE

The Office of the Inspector General for the Millennium Challenge Corporation conducted this audit as part of its fiscal year 2009 audit plan. The objective of this audit was to answer the following question:

- Is the Millennium Challenge Corporation's funded Agricultural Credit Program in Ghana achieving its intended results?

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

AUDIT FINDINGS

Is the MCC-funded Agricultural Credit Program in Ghana achieving its planned results?

The audit team found that although the Millennium Development Authority (MiDA) achieved its program and compact goals by the third year of the compact, implementation problems could potentially prevent the ACP from achieving its long-term goals. According to the MiDA monitoring and evaluation plan, the ACP goal is to increase the supply of and access to credit provided by financial institutions operating in intervention zones, and the compact goal is to reduce poverty through economic growth led by agricultural transformation. For example, the audit found that as of May 31, 2009, seven of the 11 accredited participating financial institutions (PFIs) have not paid \$577,000 of \$687,000 of ACP loans that were due to MiDA. Furthermore, one of the seven PFIs has made a partial payment of \$54,000 during the same time period. Second, the Bank of Ghana (BoG) is disbursing ACP loans without a borrowing limit. The Millennium Challenge Corporation (MCC) explained that one of the reasons for this problem is that the ACP Consultant (Consultant) that MiDA hired has underperformed, jeopardizing this stage of the program. For example, the Consultant has had difficulty providing deliverables, such as the monitoring and reporting database, to MiDA. However, if loans continue to be disbursed without borrowing limits, small financial institutions could receive more loans than they are able to manage and could default on the loans, thereby decreasing the availability of credit in the intervention zones. Third, during the audit, the OIG found that the fiscal agent was not providing the BoG ACP unit with the disbursement and repayment statements it needs to process and monitor ACP loans. As the result, the BoG disburses loans to PFIs before signing a loan agreement. Although MCC stated that MiDA has now resolved the problem, the BoG continues to disburse loans to PFIs before signing loan agreements, which may result in PFIs misusing the funds.

The audit found some positive results during the audit. As of March 31, 2009, MiDA had disbursed 42 loans totaling approximately \$5 million to 11 PFIs, and it had accredited 45 PFIs, exceeding its annual target of 40 by 12.5 percent. In terms of the beneficiaries, the ACP had increased income to communities and borrowers located in the intervention zones. For example, one borrower stated that the loan he received has enabled his agrochemical business to grow and he could now pay for his son to attend college. In addition, the ACP has enabled farmers and medium-sized businesses to hire more employees.

MCC has also recognized some of the implementation problems that MiDA has encountered and moved to resolve them. For example, it recognized that the BoG lacked the capacity to complete its responsibilities as listed in its Implementing Entity Agreement, such as developing a coding system to track the PFI loans and establishing a borrowing limit. As the result, MiDA transferred some duties to the Consultant. However, within a few months after the Consultant began working, MiDA and MCC recognized that the Consultant was underperforming and attempted to mitigate the risks associated with underperformance by hiring another contractor to assist with some of the responsibilities.

Despite these positive results of the ACP, implementation problems continue to persist, which could prevent the program from achieving its planned results.

These issues will be further discussed below.

ACP Loans Have Not Been Repaid To the Millennium Development Authority Through the Bank of Ghana

Section 4.8.1(c) of the Agricultural Credit Program Policy and Procedure Manual (Manual) requires loans to be repaid into the MiDA repayment account at the BoG. However, as of May 31, 2009, only approximately $54,000 of the $687,000 has been repaid. Although MiDA intended for payments to be automatically transferred from the PFIs' repayment account to the BoG, that process has not been fully implemented. In addition, if the BoG properly monitored the loans and the Consultant completed evaluations of the BoG's compliance with the Manual, this problem would have been identified earlier. As a result, less money may be available for future loans for the remaining period of the compact. In addition, PFIs may lose confidence in the program and may not continue to issue agricultural loans after the compact ends; therefore, the program will not be sustainable. Finally, loans may not be repaid and MiDA will lose interest on loan amounts that should already have been repaid.

According to the Manual, PFIs are required to transfer all payments of the loan (both principal and interest) into the MiDA repayment account at the BoG at the end of each month unless specific arrangements are made between MiDA and the respective PFI.

However, most of the PFIs have not begun to repay their ACP loans to MiDA through the BoG. Specifically, as of March 31, 2009, 11 PFIs received loans totaling approximately $5 million and none of them had begun to repay the loans. Further investigation of the ACP loan bank statements through May 31, 2009, identified that only one PFI made a partial payment of both principal and interest totaling approximately $54,000 on May 5 and 6, 2009. According to a bank reconciliation performed at the end of May 31, 2009, seven PFIs should have repaid approximately $687,000 to the BoG and were as much as 10 months past due. The remaining four PFIs had not repaid since payments were not yet due. By May 31, 2009, MiDA had disbursed approximately $9 million in loans to the PFIs, which have disbursed these loans to eligible borrowers since March 31, 2008.

According to a MiDA official, two circumstances have resulted in the lack of loan repayments.

- First, a MiDA official explained that some PFIs have collected payments from borrowers but have not remitted the payments to the MiDA Repayment Account held at the BoG. Specifically, MCC and MiDA intended for the borrower loan repayments to be deposited into the PFI's repayment account, and the funds in the repayment account would be transferred automatically from that account into the MiDA repayment account once a month. However, the system that would allow this procedure to occur has not been established at each financial institution, and an alternative procedure has not been established. Although a MCC official indicated that repayment procedures are included in the Manual, it does not specifically state how PFIs should repay the loans.

- Second, some PFIs have rescheduled loans with borrowers and thought they did not have to begin to repay the loan until the borrower's payments came due. However, according to MCC and MiDA, rescheduling of loans with borrowers does not defer loan repayments to MiDA through the BoG. Furthermore, the audit team's review of PFI repayment account statements on various days at the end of May and middle of June 2009 revealed that three of the seven accounts contained funds in their repayment account.

Therefore, various scenarios could occur. For example, the PFI may not have collected payments from borrowers, the PFIs may have rescheduled the loans, the payments from borrowers may be comingled with other financial institution funds without detection, or the PFIs have no intention of repaying the loans.

The BoG identified this problem in early June 2009 after the Consultant inquired about the PFI accounts. Thereafter, the BoG notified seven PFIs of their default in letters dated June 5, 2009. However, if the BoG monitored the loan repayments on a monthly basis, it would have identified this problem as soon as the PFI missed a payment. This could have been achieved by comparing the loan payments due to the loan payments received on a monthly basis. MCC explained that the Consultant was hired in September 2008 to provide administrative support the BoG. One of the Consultant's tasks was to perform quarterly evaluations of BoG's compliance with the Manual. However, by December 2008, MiDA and MCC identified performance issues with the Consultant team. Subsequently, the Consultant has worked with MiDA to address the problems and is currently performing at an acceptable level, according to a MiDA director.

Several consequences may occur as a result of the loans not being repaid. First, less money may be available for PFIs to issue additional loans to borrowers before the end of the compact. Second, a lack of confidence in the PFIs may occur and the ACP will not be able to enhance their sustainability. PFIs themselves may lose confidence in the program and will not continue to issue loans for agribusiness purposes, which would prevent the sustainability of the program after the compact ends. Finally, MiDA will lose interest on money held by the PFIs that should have already been repaid.

For these reasons, this audit makes the following recommendations:

Recommendation No. 1: We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation require the Millennium Development Authority to revise and implement a procedure that would ensure that participating financial institutions' loan payments are paid into the Millennium Development Authority repayment account at the Bank of Ghana, as required by the Agricultural Credit Program Policy and Procedure Manual.

Recommendation No. 2: We recommend that the Millennium Challenge Corporation's Vice President of Compact Implementation require the Millennium Development Authority establish and implement a process for the Bank of Ghana to monitor loan repayments which identify participating financial institutions that have missed payments.

Lack of a Borrowing Limit And Delays in the Accreditation of PFIs, May Prevent MiDA From Meeting Its Planned Results

According to Section 4.4.3 of the Manual, the BoG shall develop procedures to establish maximum borrowing limits for each PFI. In addition, the Implementing Entity Agreement between MiDA and the BoG states that the BoG shall conduct an assessment to determine continuous accreditation for each institution at least once each year. However, the BoG does not have borrowing limits for ACP loans, nor has it conducted annual reviews of PFIs whose accreditation had expired. Furthermore, the BoG and MiDA have overlooked the loan practices of one of its PFIs. These problems occurred because the BoG did not have the capacity to establish borrowing limits and MiDA relied on the Consultant to develop a borrowing limit. However, the Consultant's underperformance contributed to the delay in establishing a borrowing limit. In addition, instead of following the Manual requirements to conduct annual reviews of the PFIs, the BoG used its procedures, which may not be consistent with the Manual. Although MCC is aware of the problem and MiDA is in the process of resolving the issue, if loans continue to be disbursed without a borrowing limit, small financial institutions could receive more loans than they are able to manage and could default on the loans, thereby decreasing the availability of credit in the intervention zones.

According to Section 4.4.3 of the Manual, the BoG shall establish procedures to set borrowing limits for each PFI. In addition, the Implementing Entity Agreement between MiDA and the BoG states that the BoG shall conduct an assessment to determine continuous accreditation for each institution at least once each year.

Several program implementation problems have occurred since the implementation of the ACP in March 2008. Specifically, although the BoG disbursed loans for more than a year, it did not have borrowing limits for ACP loans. The borrowing limits are necessary to prevent a PFI from receiving more money for loans than it can manage. Nevertheless, there was no borrowing limit for the PFIs and borrowers even though the BoG had begun disbursing and approving loans—which, as of March 31, 2009, totaled more than $5 million.

In addition, during the time of the audit, the BoG had not conducted annual accreditation reviews of PFIs whose ACP accreditation had expired. The purpose of the review is to ensure that the PFIs are still eligible to participate in the program. For example, the timely and accurate repayment of the PFI's ACP loan to BoG is one criteria for continued eligibility. According to the Consultant monitoring and evaluation report dated May 31, 2009, 21 PFIs have expired accreditation. Of the 21 PFIs, 10 have begun to receive ACP loans from the BoG and disbursed loans to their borrowers.

Another implementation problem is that the BoG overlooked the business practices of one of its PFIs. During the audit, the audit team noted several issues with one PFI, such as refinancing or preapproving of loans, inconclusive assessment of borrower's creditworthiness, and inappropriate use of loans. The BoG rejected a disbursement for a borrower because the PFI had refinanced or preapproved a disbursement before the BoG approved the loan. In addition, a MiDA internal audit found that the PFI had conducted this practice with other borrowers; however, the PFI continues to participate in the program. Second, the PFI has approved three of four of its loans to previous clients who have been delinquent on existing loans with the financial institution. Consequently, these same borrowers have delayed repayment of their ACP loan and are requesting that the PFI reschedule their loan terms. Third, one of the PFI's borrowers used the loan to pay off an existing debt. The PFI paid a portion of the loan that the borrower received from another entity. According to the Manual, the ACP loan was not intended to repay existing loans.

MCC, MiDA and the BoG officials gave several explanations for these implementation problems. First the BoG and MiDA explained that the BoG did not have any procedures in place to establish borrowing limits. MCC explained that in the contract between MiDA and the Consultant, the Consultant would advise the BoG on establishing borrowing limits. However, after the Consultant began working in September 2008, MCC and MiDA noticed the Consultant's underperformance by December 2008, which prevented it from completing some of its implementation responsibility; notably, establishing the borrowing limits. Furthermore, MiDA and BoG explained that they decided to continue to accredit and disburse in the early stages of implementation because the financial institutions and borrowers who applied had received training on improved farming techniques from other donors and as the result became certified by EUREPGAP[2]. The borrowers used their EUREPGAP certification to become eligible for loans and did not need to attend further training that MiDA provided. In addition, MCC also mentioned that the total outstanding loans were a small amount. Second, MiDA explained that the delay of accreditation reviews was due to the BoG's annual scheduling of bank reviews. A MiDA official stated that the BoG conducts its annual reviews of banks on a different schedule than the ACP, and it is using its schedule to review the PFIs. However, the Manual requires that the BoG review the PFIs before their accreditation expires.

Although MCC and MiDA are currently resolving these issues, if these problems continue they could have an adverse effect on the planned results. For example, if borrowing limits are not established as more PFIs continue to request more loans, small PFIs could receive more loans than they are able to manage and could default on their loans. Furthermore, if the BoG does not conduct its annual review of the PFIs on a timely manner, PFIs could be underperforming without the knowledge of MiDA or the BoG. Finally, overlooking the loan approval practices of the PFIs could increase the risk of default by both borrowers and PFIs, and reduce the amount of revolving credit needed to implement the program until the end of the compact.

[2] The document for certification, "EUREPGAP Fruit and Vegetables" has been developed from a European group of representatives from the fruit and vegetables sector with the support from producer organizations outside the European Union (EU). A EUREPGAP certified farmer has mastered proper hygiene and sanitation on all levels of agriculture process such as, soil management, irrigation, harvesting and post-harvesting.

For these reasons, this audit makes the following recommendations:

> *Recommendation No. 3: We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation require the Bank of Ghana and the Millennium Development Authority to establish and implement a borrowing limit for each of the accredited participating financial institutions by September 30, 2009.*

> *Recommendation No. 4: We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation require the Millennium Development Authority to develop and implement procedures in order the for Bank of Ghana to conduct annual reviews of the participating financial institutions before their accreditation expires.*

Lack of Access to Bank Documents Could Inhibit Proper Implementation By the Bank of Ghana

According to Section 4.2.4(d) of the Manual, the MiDA fiscal agent will inform the BoG to disburse funds to the PFI's account and notify the BoG and MiDA, indicating the request application numbers and the amount disbursed in each case. However, the BoG staff that processes the ACP loan applications (ACP unit) does not have access to the disbursement and repayment statements it needs to process and monitor ACP loans, and as a result it disburses loans to PFIs before they sign a loan agreement. According to MiDA, the fiscal agent is responsible for informing the BoG and the Consultant that funds have been disbursed to PFIs and that PFIs have repaid their loans; however, the fiscal agent has not provided this information to the BoG. The fiscal agent's lack of communication prevents the BoG and the Consultant from properly monitoring the loans, and limits their knowledge of which PFIs have defaulted on their loans. PFIs may default on loans before the BoG and Consultant are aware of it. If PFIs default on their loans, this will decrease the amount of revolving credit that is available to continue the program and may decrease the amount of confidence financial institutions have to provide agricultural loans once the compact ends.

According to Section 4.2.4(d) of the Manual, the MiDA fiscal agent will inform the BoG to disburse funds to the PFI's account and notify the BoG and MiDA, indicating the request application numbers and the amount disbursed in each case. Furthermore, the Manual also requires that PFIs be permitted to access ACP facilities once a *PFI On-Lending Drawdown Request Form* has been executed.

However, the BoG staff (ACP unit) that processes the ACP loan applications does not have access to the disbursement and repayment statements it needs to process and monitor ACP loans. As a result, the BoG staff disburses loans to PFIs before they sign a loan agreement. For example, one of the PFIs the audit team visited received its loan from the BoG and disbursed loans to its borrower in January 2009. Yet the PFI received its loan agreement from the BoG on April 27, 2009, but did not provide its borrower with a loan agreement until June 2, 2009, 6 months after receiving the disbursement from the BoG. Only when the farmers signed their loan agreement with the PFI did they learn that the interest rate had increased from 15 percent to 25 percent and the loan term decreased from 5 years to 2 years. Furthermore, although MiDA and the BoG agree that the funds should be in the PFI's bank account before the letter is sent to the PFI—which should take approximately 1 week—MCC stated that this should not be the case. PFIs should receive and sign the loan agreements before the PFIs receive their loan.

In addition, the ACP unit at the BoG does not receive the repayment account statement that will specify which PFIs have repaid their loans. The ACP unit was not aware that seven PFIs had not repaid their ACP loans until early June 2009, after the Consultant inquired about the PFI accounts. As the result of the Consultant's review, the BoG sent a default letter to seven PFIs, informing them of their late payment.

OIG photograph of an ACP loan borrower's warehouse in Ejura, Ghana, taken on June 8, 2009.

According to MiDA, the fiscal agent is responsible for providing the ACP unit and the Consultant the disbursement and repayment statements. However, the audit team noted, that the fiscal agent did not provide either the ACP unit or the Consultant with these documents. When BoG requests that funds are disbursed to the PFIs, it is not informed when the fiscal agent actually makes the disbursements. A MiDA official stated that he has informed the fiscal agent several times to inform all parties involved in the process—BoG, MiDA, and the Consultant—when the BoG disburses the funds to the PFIs and the PFIs repay their loans.

As the result, the BoG was not aware that seven of 11 PFIs have missed their payments—ranging from one to ten months—until it conducted its field visits of selected PFIs. This lack of awareness could cause the BoG to overlook PFIs that have defaulted on their loans or did not adhere to the ACP requirements. If PFIs default on their loans, this will decrease the amount of revolving credit that is available to continue the program, and may decrease the amount of confidence that PFIs have to provide agricultural loans once the compact ends. Furthermore, if PFIs continue to receive their disbursements before signing a loan agreement, they may misuse the funds. To that end, if PFIs lose confidence in providing agricultural loans, the ACP would not meet its intended project goal to increase the supply of and access to credit in Ghana's agriculture sector.

According to MCC, MiDA became aware of the communication problem between the fiscal agent and the BoG in March 2009, and it resolved this issue after the OIG conducted the audit. The fiscal agent is currently providing the BoG with the disbursement and repayment statements it needs to process and monitor the loans.

For this reason, this audit makes the following recommendation:

Recommendation No. 5: We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation require the Millennium Development Authority to validate, by September 30, 2009, that the Bank of Ghana is implementing the process by which participating financial institutions will sign a loan agreement before the Bank of Ghana disburses their loans.

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, MCC agreed with the five recommendations in the draft report.

In response to Recommendation No. 1, MCC agrees with the recommendation and the Millennium Development Authority (MiDA) will ensure that the Agricultural Credit Program Consultant (ACPC) includes participating financial institutions (PFIs) recoveries in their monthly reports to MiDA. In addition, the ACPC will follow-up on the Bank of Ghana's (BoG's) requests that the PFIs comply with the Agricultural Credit Program policies and procedures (Manual). In addition, MCC stressed that the ACPC is responsible for monitoring the loans and their payments, as well as evaluating the Bank of Ghana (BoG) and participating financial institutions' (PFI) compliance with the Manual. However, the OIG believes that because MIDA is the accountable entity and hired the ACPC to perform these tasks, MIDA must ensure that all of the tasks are completed as stated in the Manual and the ACPC contract. The OIG agrees with the action that MCC has taken to resolve this recommendation. Although the OIG considers that MCC has made a management decision on this recommendation, final action was not reached because the ACPC does not plan to begin regular reporting until November 15, 2009.

In response to Recommendation No. 2, MCC agrees with the recommendation and MCC stated that MiDA will ensure that the ACPC reviews the Manual to clarify the program's procedures and acquire software that will improve loan monitoring. As mentioned above, MCC stressed that the ACPC is responsible for monitoring the loans and their payments, as well as evaluating the Bank of Ghana (BoG) and participating financial institutions' (PFI) compliance with the Manual. However, the OIG believes that because MIDA is the accountable entity and hired the ACPC to perform these tasks, MIDA must ensure that all of the tasks are completed as stated in the Manual and the ACPC contract. The OIG agrees with the action that MCC has taken to resolve this recommendation. Although the OIG considers that MCC has made a management decision, final action was not reached on this recommendation because the ACPC does not plan to complete the Manual review and utilize the loan monitoring software until November 15, 2009.

In response to Recommendation No. 3, MCC agrees with the recommendation and the BoG consulted with MiDA and the ACPC to set borrowing limits for all PFIs. These borrowing limits were communicated, in writing, to the PFIs. MCC stressed that the ACPC is responsible for reviewing the loan practices and adherence to the Manual. However, the OIG believes that because MIDA is the accountable entity and hired the ACPC to perform these tasks, MIDA must ensure that all of the tasks are completed as stated in the Manual and the ACPC contract. The OIG agrees with the action that MCC has taken to resolve this recommendation. Although the OIG considers that MCC has made a management decision on this recommendation, final action will require MCC to provide copies of the letters sent to the PFIs.

In response to Recommendation No. 4, MCC agrees with the recommendation and MCC has advised MiDA to inform the BoG to adhere to MiDA's policies and procedures in the Manual. Previously, the BoG used their own policy for conducting annual reviews of the PFIs. The OIG agrees with the action that MCC has taken to resolve this recommendation. Although MCC has made a management decision to resolve this recommendation, final action was not reached because the BoG does not plan to complete the backlog of annual reviews until December 15, 2009.

In response to Recommendation No. 5, MCC agrees with the recommendation and MCC has advised MiDA and the ACPC to verify that the loan disbursement process was followed and whether the Manual reflects the current loan disbursement process being implemented. The OIG agrees with the action that MCC has taken to resolve this recommendation. A management decision was made, but final action was not reached on this recommendation since MiDA and ACPC are in the process of resolving this issue.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General conducted this performance audit of the Millennium Challenge Corporation's (MCC) Agricultural Credit Program (ACP) in Ghana in accordance with generally accepted Government auditing standards. These standards require that the audit team plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit team audited the Agricultural Credit Program (ACP) component of the Agriculture Development Project because of the high risk associated with providing loans to banks and individuals. This audit was conducted at MCC headquarters in Washington, DC, from April 15 to May 30, 2009, and in Accra, Ghana, at the Millennium Development Authority (MiDA) office from June 1 to June 19, 2009. While in Ghana, the audit team visited beneficiaries and participating financial institutions (PFIs) in two of the three intervention zones, Southern Horticultural and Afram Basin.

During the audit, the audit team audited the loans disbursed by the Bank of Ghana and the PFIs from March 31, 2008 (start of project implementation), through March 31, 2009. During this time, there were 42 loans, and 11 PFIs received and disbursed loans totaling approximately $5 million. Of this amount, the audit team judgmentally selected from loans totaling $1.4 million for audit.

The audit examined the internal control environment by identifying and assessing the relevant controls. The audit team tested for various controls, including supporting documentation, verification procedures, and guidance.

Specifically, the audit team:

- Interviewed applicable MCC and MiDA staff, implementing entities, PFIs, beneficiaries, and others to gain an understanding of the overall objective of the program, the program guidelines, and implementing issues and challenges.
- Tested the criteria used by the Bank of Ghana to select the PFIs and tested the criteria used by the PFIs to approve borrowers, in order to ensure that all parties are following the required guidelines.
- Selected the intervention zones that received the highest loan amount from the Bank of Ghana: Afram Basin and the Southern Horticultural zones.
- Selected three PFIs that have received the highest amount of loans from the Bank of Ghana. Two of the PFIs were from the intervention zone with the greatest amount of loans and the third PFI was from the zone with the second highest amount of loans as of March 31, 2009.
- Selected borrowers with the highest loan amounts, and met with them while in Ghana to verify that they are using their loans as intended.

Methodology

To answer the audit objective, audit steps were performed to determine if the ACP is achieving its planned results.

The audit team had a materiality threshold of plus or minus 10 percent of the target goals.

- If at least 90 percent of the selected planned results were achieved, then the ACP achieved its results.
- If at least 80 percent but less than 90 percent of the selected planned results were achieved, then the ACP minimally achieved its results.
- If less than 80 percent of the selected planned results were achieved, then the ACP did not achieve its results.

Auditor judgment was also used when unusual situations occurred that skewed the results.

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
Millennium Challenge Corporation /s/

MCC has received the Office of Inspector General's Report "*Audit of the Agricultural Credit Program in Ghana*". Following please find MCC's Management comments, presented by section and in response to each of the five recommendations for action:

- ***Recommendation No. 1**: We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation require the Millennium Development Authority to revise and implement a procedure that would ensure that participating financial institutions' loan payments are paid into the Millennium Development Authority repayment account at the Bank of Ghana, as required by the Agricultural Credit Program Policy and Procedure Manual.*

MCC Response: MCC concurs with this recommendation. MCC would like to clarify, however, that it is the responsibility of the Agricultural Credit Program Consultant (ACPC) rather than MiDA to monitor the Bank of Ghana (BoG) and participating financial institutions' (PFIs) compliance with the Manual.

Plan of Action: See response for Recommendation No. 2, below.

***Recommendation No. 2:** We recommend that the Millennium Challenge Corporation's Vice President of Compact Implementation require the Millennium Development Authority establish and implement a process for the Bank of Ghana to monitor loan repayments which identify participating financial institutions that have missed payments.*

MCC Response: MCC concurs with this recommendation. Please note, however, that it is the ACPC rather than MiDA that is responsible for monitoring the loans and their repayment, as well as for evaluating the BoG and PFI compliance with the Manual.

For both Recommendation No. 1 and Recommendation No. 2, MiDA will ensure that the ACPC includes PFI recoveries in its monthly reports, and will follow up on recent requests by the BoG that PFIs comply with Manual provisions. The ACPC will lead a review of the Manual to support greater clarity on guidance of the PFIs, and the acquisition of Loan Performer Banking Software will improve monitoring of the ACP portfolio. The target date for demonstrating regular reporting, Manual review and utilization of software is November 15, 2009.

Recommendation No. 3: *We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation require the Bank of Ghana and the Millennium Development Authority to establish and implement a borrowing limit for each of the accredited participating financial institutions by September 30, 2009.*

MCC Response: MCC concurs with this recommendation, and considers it to be already closed. Again, MCC would like to clarify that it is the ACPC rather than MiDA that is responsible for reviewing loan practices and adherence to the Manual.

In consultation with MiDA and ACPC, the Bank of Ghana has set borrowing limits generally at 100% of net worth as well as single obligor limits for both secured and unsecured facilities. This was advised to all PFIs by BoG in letters dated September 7, 2009. All previous disbursements are being treated as exceptions and PFIs involved may not be eligible for further disbursements until ACP borrowing levels come within advised limits.

Recommendation No. 4: *We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation require the Millennium Development Authority to develop and implement procedures in order for the Bank of Ghana to conduct annual reviews of the participating financial institutions before their accreditation expires.*

MCC Response: MCC concurs with this recommendation, and the existing Bank of Ghana's standard bank supervision procedures require annual reviews.

MCC has already asked MiDA to request that the Bank of Ghana adhere more closely to its own procedures. The Policies and Procedures Manual is also being revised to include more detail on this requirement, and the Bank of Ghana is currently on track to clear the backlog of overdue annual review accreditation by December 15.

Recommendation No. 5: *We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation require the Millennium Development Authority to validate, by September 30, 2009, that the Bank of Ghana is implementing the process by which participating financial institutions will sign a loan agreement before the Bank of Ghana disburses their loans.*

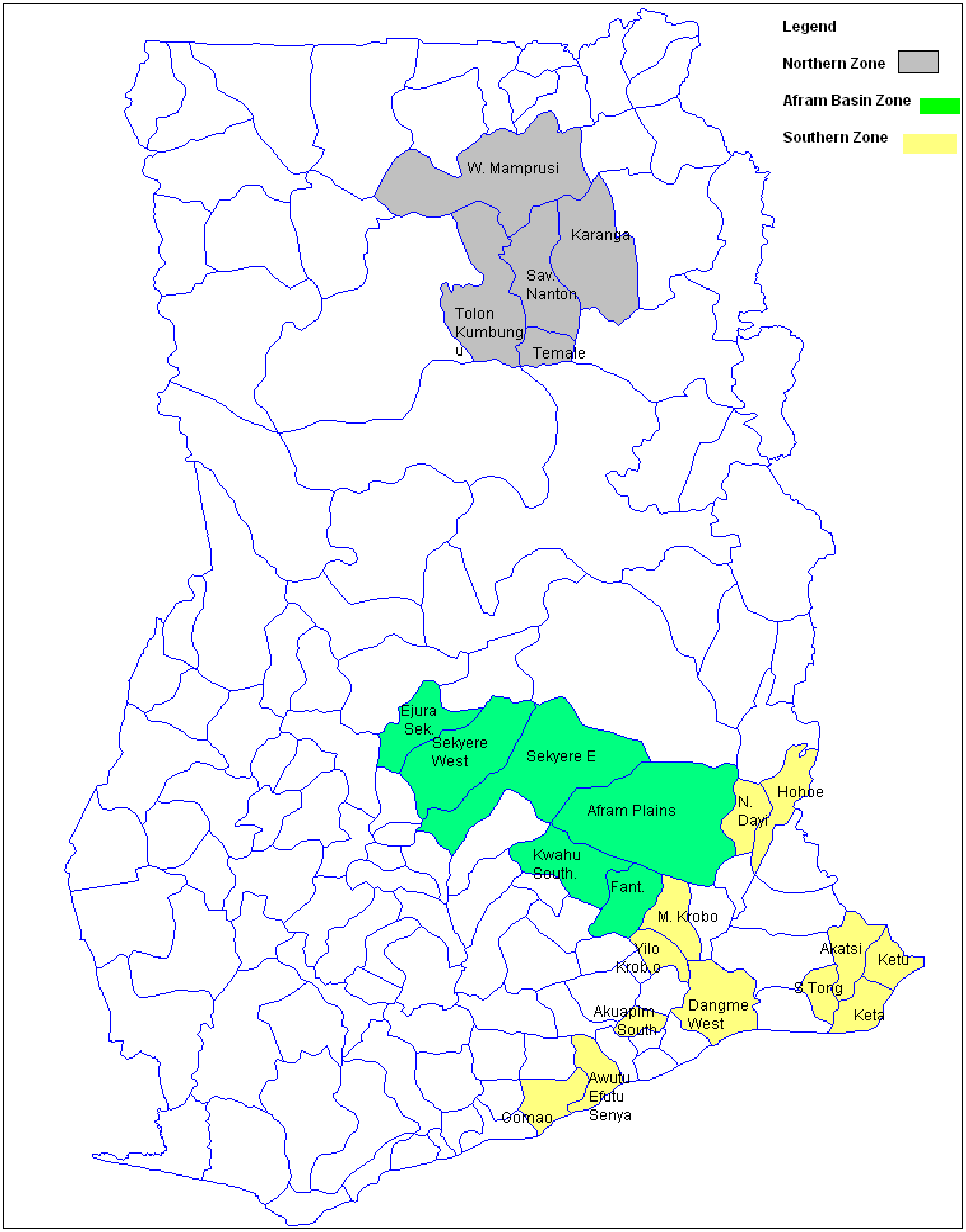
MCC Response: MCC concurs with the recommendation.

MCC will ask MiDA and the ACPC, working with the BoG, to verify that the chain of agreements and notifications of disbursements are synchronized and do not expose MCC to undue risk, and that the Manual appropriately reflects the current method of making loan disbursements.

MiDA Technical and Finance Teams have arranged to engage the FA, BoG and ACPC during the week of September 21 to agree on the most appropriate way to ensure closure of agreements prior to receipt of funds by PFIs. The solutions will be implemented by November 15, 2009.

MCC appreciates the opportunity to present comments on the OIG report.

Map of ACP Intervention Zones



U.S. Agency for International Development
Office of Inspector General
1401 H Street, NW, Suite 770
Washington, DC 20005
Tel: (202) 216-6960
Fax: (202) 216-6984
www.usaid.gov/oig