



OFFICE OF INSPECTOR GENERAL

for the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S ACCESS TO MARKETS PROJECT IN BENIN

AUDIT REPORT NO. M-000-10-001-P
March 31, 2010

WASHINGTON, DC



*Office of Inspector General
for the Millennium Challenge Corporation*

March 31, 2010

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

Dear Mr. Yohannes:

This letter transmits the Office of the Inspector General's final report on the *Audit of the Millennium Challenge Corporation's Access to Markets Project in Benin*. In finalizing the report, we considered your written comments to our draft report and included those comments in their entirety in Appendix II of this report.

The report contains five recommendations for corrective action. We consider final action taken on recommendation 4 and management decisions pending on recommendations 1, 2, 3, and 5.

Please provide my office written notice within 30 days of any additional information related to actions planned or taken to implement recommendations 1, 2, 3, and 5.

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

Sincerely,

/s/

Alvin A. Brown
Assistant Inspector General
Millennium Challenge Corporation

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CONTENTS

Summary of Results	1
Background	3
Audit Objective.....	4
Audit Findings	5
Is the Benin Access to Markets Project increasing the efficiency of the Port of Cotonou?	5
Environmental Risk of Radioactive Materials Not Considered.....	8
Customs Computerization and Streamlining May Be at Risk.....	9
Contract Included Purchase of Patrol Boats with Machine Guns.....	10
Frequent Leadership Changes Could Impact Sustainability of Port Improvement.....	12
Evaluation of Management Comments	13
Appendix I – Scope and Methodology	15
Appendix II – Management Comments	17
Appendix III – Photograph of Port of Cotonou	20

SUMMARY OF RESULTS

On February 22, 2006, the Millennium Challenge Corporation (MCC) and the Government of Benin signed a \$307 million compact. The Access to Markets Project is the largest Compact project, at \$169 million (55 percent of the total Compact funds). The project was designed to promote access to markets by improving the Port of Cotonou's performance, security, and capacity (see appendix III for an aerial view of the port). Port performance includes improving the efficiency of the port to reduce transportation costs (see page 3). The success of the Compact will be measured by the success of the Access to Markets Project given its size and importance to Benin's economy. Specifically, the Access to Markets Project includes four project activities:

- (1) feasibility studies and assessments, including port feasibility studies, environmental assessments, and revision of the master plan for the port (\$8 million);
- (2) port institutional and systems improvement activity, including computerizing and streamlining the customs clearance process (\$11 million);
- (3) security and landside improvements, including major improvements to the physical infrastructure such as access gates, access roads, storage areas, fish processing/inspection facility, technical assistance, and training (\$74 million); and,
- (4) waterside improvements, including the construction of a new south wharf to accommodate additional containerized vessels, a dry bulk conveyor system, environmental management improvements, and a sedimentation control scheme for the port (\$76 million).

The objective of the audit was to determine whether the Access to Markets Project in Benin is increasing the efficiency of the Port of Cotonou (see page 4). The audit showed that the Access to Markets Project in Benin is not yet increasing the efficiency of the Port of Cotonou because the interventions taken thus far are in the early stages of implementation and have yet to yield results.¹ MCC has taken steps that should eventually increase the efficiency of the port through two conditions precedent with Millennium Challenge Account-Benin (MCA-Benin). MCA-Benin met both of the conditions precedent, namely (1) port operations must be handled by a private sector port operator through a concession agreement with the Government of Benin and (2) a port advisor must be installed to work with the port authority to improve port performance (see page 5). Nevertheless, the landside and waterside infrastructure improvements—major contributors to port efficiency improvements—have only recently started at the port, so it was too early for the Office of Inspector General (OIG) to determine whether the Access to Markets Project will actually achieve increases in the efficiency of the port's operations. The infrastructure improvements are scheduled to be completed by Compact end of October 2011 (see page 6).

¹ As of the completion of the Office of Inspector General's (OIG) site visit to Benin in November 2009.

The audit team identified problems with the implementation of the program in Benin that will negatively affect the goal of improving port efficiency. Certain projects that were to contribute to increasing the efficiency of the port such as:

- (1) the dry port, dry bulk conveyor system, and seafood processing/inspection facility may not be implemented (see page 6);
- (2) the computerization and streamlining of the customs operations of the port may not improve the port's efficiency (see page 6); and,
- (3) the landside improvements, including the electricity and lighting systems, prevention and protection network, port security and video access, and access gates to the port may not be completed by Compact end (see page 7).

In addition, the audit results showed that radioactive materials were present at the port that was not identified by the Environmental Impact Assessment (see page 8). Also, MCA-Benin included in its technical specifications a requirement that the contractor purchase machine guns and patrol boats for patrolling the harbor with such purchases specifically prohibited by the Compact (see page 10). Finally, frequent leadership changes of the general manager of the port could impact the sustainability of the improvements funded by MCC (see page 12).

This report contains five recommendations to MCC's vice president, Department of Compact Implementation:

- (1) revise the Millennium Challenge Corporation's *Guidelines for Environmental and Social Assessment* to include assessing environmental risks broader than project activity risks, such as the risk presented by radioactive materials (see page 9);
- (2) re-evaluate and document the risks surrounding the customs project activity to determine whether it will feasibly accomplish its objective and that the intervention will be sustainable (see page 10);
- (3) amend the port contract for navigation basin security to remove the purchase of machine guns and patrol boats to ensure that the implementing partner does not purchase these items with Compact money (see page 11);
- (4) revise its internal controls for procurement to include guidelines for preventing items prohibited by the Compact from being solicited (see page 11); and,
- (5) revise the *Guidance for Compact Eligible Countries* to include under Risk Management Assessment a discussion for identifying risks associated with frequent changes in management when it could impact a project or component of a project, and to prepare a risk management plan to minimize the negative impact of such a risk (see page 12).

Appendix II contains the management comments in their entirety. In its response, MCC agreed with three recommendations and disagreed with two of the five recommendations in the draft report. The OIG considers final action taken on Recommendation No. 4 and management decisions pending on Recommendation Nos. 1, 2, 3, and 5.

BACKGROUND

Established in January 2004 by the Millennium Challenge Act of 2003, the Millennium Challenge Corporation (MCC) is a U.S. Government corporation designed to work with some of the poorest countries in the world. Based on its performance against MCC's 16 policy indicators,² a country may become eligible to receive a Compact which is a 5-year agreement between MCC and the country to fund specific programs and targeted at reducing poverty and stimulating economic growth.

On February 22, 2006, the U.S. Government, acting through MCC, and the Government of Benin signed a Compact to establish the Millennium Challenge Account of Benin (MCA-Benin). The Compact is a 5-year, \$307 million agreement that entered into force on October 6, 2006, and will end October 6, 2011. The largest of the four projects in the Compact is the Access to Markets Project and approximately \$169 million, or 55 percent of total Compact funds, has been allocated to the project. Specifically, the Access to Markets Project includes four project activities:



Photograph of the Port of Cotonou, Benin. Taken on November 17, 2009 by an OIG auditor.

- (1) feasibility studies and assessments, including port feasibility studies, environmental assessments, and revision of the master plan for the port (\$8 million);
- (2) port institutional and systems improvement activity, including computerizing and streamlining the customs clearance process (\$11 million);
- (3) security and landside improvements, including major improvements to the physical infrastructure such as access gates, access roads, storage areas, fish processing/inspection facility, technical assistance, and training (\$74 million); and,
- (4) waterside improvements, including the construction of a new south wharf to accommodate additional containerized vessels, a dry bulk conveyor system, environmental management improvements, and a sedimentation control scheme for the port (\$76 million).

² When MCC selected Benin as an eligible country, its decision was based on 16 indicators. In fiscal year 2008, MCC began to use 17 indicators to select eligible countries.

The objective of the Access to Markets Project is to improve the Port of Cotonou by increasing the efficiency at the port and volume of goods flowing through the port and reducing vehicle operating costs. The Compact is in its third year, with 2 years remaining as of October 5, 2009. As of December 31, 2009, MCC has disbursed \$16 million to MCA-Benin for the Access to Markets Project and MCA-Benin has committed \$138 million.

The port plays a vital role in the economy of Benin and is the keystone in the trade corridor of the landlocked countries. As planned in the Compact, improving the efficiency of the port will improve the Beninese economy by reducing production and marketing costs, fostering increased agricultural production, and increasing trade between Benin and other countries.

AUDIT OBJECTIVE

The Office of the Inspector General for the Millennium Challenge Corporation conducted this audit as part of its fiscal year 2010 audit plan. The objective of this audit was to answer the following question:

- Is the Benin Access to Markets Project increasing the efficiency of the Port of Cotonou?

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

AUDIT FINDINGS

The Access to Markets Project in Benin is not yet increasing the efficiency of the Port of Cotonou because the interventions taken thus far are in the early stages of implementation and have yet to yield results.³ The Access to Markets Project is in the fourth year of its 5-year Compact. Nonetheless, MCA-Benin has completed certain activities including extensive feasibility studies of the port, as well as the required Environmental Impact Assessment for the high-risk infrastructure improvements. MCA-Benin has only recently begun to work on the projects that will potentially make a major contribution to increasing the efficiency of the Port of Cotonou.

Discussed below are the completed interventions intended to improve the port's efficiency and the risks that ongoing and planned interventions may not do so. Specifically, Millennium Challenge Account-Benin (MCA-Benin) has completed two conditions precedent and awarded infrastructure contracts that should lead to increasing the efficiency at the port. Nevertheless, certain projects that were to contribute to increasing efficiency at the port may not do so because they may not be properly implemented and/or completed by Compact end.

Completed Conditions Precedent

MCA-Benin has met two conditions precedent established by the Millennium Challenge Corporation (MCC) to increase the efficiency of port operations. One condition precedent required that port operations be handled by a private sector port operator through a concession agreement with the Government of Benin (GOB) rather than being managed by the GOB. The GOB recognized that an efficient port is a driver of economic growth, but lacked the resources to support the port's rehabilitation and modernization. The concession agreement was signed in September 2009 and included a commitment by the concessioner to pay \$200 million in fees during the first 8 years of operation and an investment of \$256 million in operating equipment and civil works over the 25-year life of the agreement. Expected results include increasing GOB revenues by \$200 million to \$300 million, creating 450 jobs, doubling container traffic in the first 8 years, expanding the export corridor with neighboring countries, and reducing transportation costs.

The other condition precedent required a port advisor be installed to work with the port authority to improve port performance. A port advisor has been installed and has worked with the GOB and shipping companies to improve port operational efficiency with the fixed berthing window, a new procedure that established specific time parameters for the berthing and off-loading of ships to reduce the amount of waiting time for incoming ships.

³ As of the completion of the Office of Inspector General's (OIG) site visit to Benin in November 2009.

Awarded Infrastructure Contracts

MCA-Benin awarded three contracts for \$123 million during the fourth quarter of 2009 for infrastructure improvements that are intended to improve efficiency of the port. The contractors were confident that the work will be completed by Compact end and the Office of Inspector General (OIG) saw the ongoing work during its site visit in November 2009. Nevertheless, it is too early to tell the extent to which the construction will improve the port's efficiency and whether it will be completed timely.

These three contracts represent 73 percent of the \$169 million budget for the Access to Markets Project and the bulk of the improvements to the port. The improvements consist of a scheme to reduce the sedimentation at the port entrance, construction of a new south wharf for new terminal operations, electrical and lighting upgrades, and port security and video surveillance. MCC and MCA-Benin have a monitoring and evaluation plan in place and will be monitoring the increased port efficiency by the volume of exports and imports passing through the port among other measures. When the Compact was developed during 2005, MCC had anticipated that the impact of its investments would start yielding results in year 3 of the compact.

Noncontributory Interventions

Certain projects that were to contribute to increasing the efficiency at the port may not do so. These projects are as follows:

- the dry port, dry bulk conveyor system, and seafood inspection/processing facility may not be implemented;
- the computerization and streamlining of the port customs operations may not be implemented successfully; and
- the electricity and lighting systems and security system may not be completed by Compact end.

Three project activities that were originally in the Compact and were to add to the port's efficiency—a dry port, dry bulk conveyor system, and the seafood inspection/processing facility—likely will not be implemented because a feasibility study for the dry port did not support pursuit of the project under the Compact, and limited funding for the remaining term of the Compact may not allow the dry bulk conveyor system and seafood inspection/processing facility to be implemented. The purpose of the dry port was to provide an off-site staging and storage area for container traffic. All customs and container loading and unloading would occur at the dry port. The dry bulk conveyor system was to improve the efficiency of off-loading and handling of dry material such as clinker with the added benefit of reducing airborne contaminants. The seafood inspection/processing facility was to expedite the handling of seafood products and

reduce the turnaround time required by fishing vessels. MCC stated that funding may be available from one of its other projects in Benin for these project activities.⁴

Another activity that was to improve port efficiency was the computerization and streamlining of customs operations at the port. Improving the efficiency of the customs process would benefit shippers by reducing both the time required to process imports/exports and the associated costs. Further, Benin receives a significant portion of its revenue through customs so a well-functioning customs process would help increase collections and reduce corruption. The objectives of the project were to streamline and modernize the customs process, improve the flow of trade and the integrity of the customs process, and to increase revenue collection. The implementing partner planned to accomplish these tasks by proposing new guidelines, policies, and procedures. Our interviews of GOB officials, an official at a shipping company, and others showed that there are significant, longstanding problems within customs involving corruption, human resources, customs procedures, and good governance and that significant change is required. Given the extent of the issues and the political will that is needed for the project to succeed, the OIG is concerned that the project activity may not be able to achieve the changes necessary to improve the efficiency of the customs process (see page 9).

Finally, the audit work also showed that for the project activity involving electricity and lighting systems, and port security and video surveillance equipment, there was concern about the performance of this contractor because of over a month delay in implementation which could result in the project not being completed by Compact end. The supervisory firm was concerned that the contractor had not established a presence in country within the timeframes specified by the contract and sent a letter to remedy the situation. The supervisory firm took further action and assigned additional staff to oversee the contractor.

⁴ The Compact contained a Multi-Year Financial Plan Summary that provided estimated expenditures for the four Access to Markets project activities during the term of the compact. Funding may be reallocated among the projects in a compact for a number of reasons including restructuring project activities because of changing market conditions, cost escalations, or new information resulting from updated feasibility studies.

Environmental Risk of Radioactive Materials Not Considered

Although radioactive materials are present at the Port of Cotonou, the Environmental Impact Assessment did not address the environmental risks of handling them at the port. The Millennium Challenge Corporation's (MCC) *Guidelines for Environment and Social Assessment* states that MCC requires an Environmental Impact Assessment for Category A⁵ projects. Without a procedure for handling radioactive materials, serious environmental consequences can occur. Because the Environmental Impact Assessment focused on project-specific environmental risks, risks affecting the broader port environment were not identified.

In two instances, radioactive materials were found at the Port of Cotonou. First, uranium that is mined in Niger is being exported through the port.⁶ According to a news article, one shipping company at the port intends to increase container traffic in the port by boosting trade for Niger where the port handles the export of uranium. Second, radioactive scrap metal was imported into Benin. Auditors observed the hazardous radioactive materials waiting to be disposed sitting in a small secured room during a tour of the port.

The MCC *Guidelines for Environment and Social Assessment* states that for Category A projects, MCC will require an Environmental Impact Assessment in accordance with these guidelines. An Environmental Impact Assessment should take into account the natural environment (air, water, and land); human health and safety; social aspects (involuntary resettlement, indigenous peoples and cultural property); natural disaster risk and vulnerability assessment; and transboundary and global environmental aspects.

Without a procedure for handling radioactive materials, serious environmental consequences can occur. Exposure to uranium and other radioactive materials can cause kidney disease and increased cancer risks.

Because the Environmental Impact Assessment was focused on project-specific risks to the environment, environmental risks affecting the broader port environment were not identified. Furthermore, MCC's current guidelines did not capture other environmental risks that would impact MCC projects such as radioactive materials. MCC officials acknowledged that the radioactive materials should have been addressed during due diligence or the Environmental Impact Assessment. MCC is currently working with the MCA-Benin to ensure that radioactive materials are handled properly and documented procedures are in place. Therefore, this audit makes the following recommendation.

⁵ Category A MCC projects may have "significant adverse environmental and social impacts that are sensitive, diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works."

⁶ Niger is the third largest producer of uranium and has one of the largest uranium deposits in the world. Most of the uranium is mined, processed and shipped by a French company in Niger. Processed uranium ore produces uranium concentrate, a powder that contains 75 percent uranium. According to the French company's literature, the uranium concentrate is placed in sealed drums before it is transported securely by road and rail to the port.

Recommendation No. 1: We recommend that the Millennium Challenge Corporation's vice president for Compact Implementation revise the Millennium Challenge Corporation's Guidelines for Environmental and Social Assessment to include assessing environmental risks broader than project activity risks, such as the risk presented by radioactive materials.

Customs Computerization and Streamlining May Be at Risk

MCC's guidance requires that its Infrastructure Division conduct sustainability, risk management, and implementation assessments. Significant risk was identified during the audit of the customs modernization project. This occurred because these assessments were not adequately performed for the customs modernization project. As a result, the custom modernization project may not improve efficiency of the customs process as intended.

MCC's *Sector Guidelines for Countries Proposing Infrastructure* requires that MCC Infrastructure Division conduct sustainability, risk management and implementation assessments which involve:

- identifying significant risks to the project, with particular respect to sustainability of the port, trade union issues, local acceptance of benefit, and other factors affecting economic performance and distribution of benefits, and
- preparing a risk management plan to minimize the negative impact of the risks.

Significant risks were identified during the audit which could result in the custom's modernization project not achieving its objective of improving the efficiency of the customs process.⁷ These risks include:

- (1) an environment where widespread corruption is an accepted manner of conducting business within the customs activity, and,
- (2) reluctance by entrenched interests to change the status quo of the current customs operations.

The high level of corruption is generally recognized by the government officials and representatives of the shipping companies at the port. The corruption often entails

⁷ The Compact provides \$11 million for Port Institutional and Systems Improvement at the Port of Cotonou, including the computerization and streamlining of customs clearance procedures for merchandise. The project activity will provide information technology systems, warehouse computer management system, and transit cargo system. The objective of the project activity is to reduce the time required for moving merchandise through the customs procedures and contribute to the overall Access to Markets Project goal of improving the efficiency of the port.

informal payments (bribes) to have the customs paperwork processed so that merchandise will be released. In addition, entrenched interests including customs officials and the unions prefer to continue with the existing arrangements given informal payments and job preservation.

Limited due diligence was conducted by MCC and MCA-Benin on the Customs project activity because the due diligence activity focused on the large dollar/large scale infrastructure improvements. The due diligence that was conducted on the customs activity identified the need for additional study to identify a clearer, comprehensive plan for the reformed customs operation.

Without thoroughly understanding the enabling environment surrounding the customs intervention and identifying risks to the project's success, the project may not achieve its intended objective. Further, the changes made may not be embraced by the stakeholders and thus these changes may not be sustainable. Therefore, this audit makes the following recommendation.

Recommendation No. 2: We recommend that the Vice President, Compact Implementation, re-evaluate and document the risks surrounding the customs project activity to determine whether it will feasibly accomplish its objective and that the intervention will be sustainable.

Contract Included Purchase of Patrol Boats with Machine Guns

MCC approved a contract with a provision for \$1.9 million for navigation basin surveillance, which included specifications for patrol boats equipped with machine guns. The Compact states that MCC funding shall not be used to purchase military equipment. MCC did not provide adequate oversight over the procurement process and MCA-Benin improperly prepared bidding documents that required equipment prohibited in the Compact. The purchase of machine guns and patrol boats violates the Compact.

MCC approved a contract with a provision for \$1.9 million for navigation basin surveillance for the Port of Cotonou which included the purchase of machine guns and patrol boats. The contract between MCA-Benin and the implementing partner stated that machine guns and patrol boats would be purchased for upgrading security around the port. MCA-Benin provided bidders with technical specifications requiring the purchase of patrol boats with machine guns. The technical specification given to the bidders established the work to be executed by the Contractor under the contract. According to section 5.6.2.3 of the technical specification, intervention in the mooring zone requires speed boats. Three patrol boats would cover the needs for patrol and interventions and each boat should be equipped with a machine gun.

Article II, Section 2.3 (c) of the Compact states that the Government of the Republic of Benin shall ensure that MCC funding shall not be used to undertake, fund or otherwise support the purchase or use of goods or services for military purposes, including military

training, or to provide any assistance to the military, police, militia, national guard or other quasi-military organization or unit.

MCC did not provide adequate oversight over the procurement process, resulting in bidding documents that included machine guns and patrol boats, and approving a contract with a provision for \$1.9 million to include the purchase of patrol boats and machine guns.

MCA-Benin poorly prepared bidding documents to ask bidders for equipment prohibited in the Compact. MCA-Benin used a feasibility study prepared by another party as guidance for what should be included in the contract. The feasibility study cited problems with security in port waters and the need for an upgrade in equipment and patrolling around the port. The study recommended solutions that were prohibited in the MCC Compact. However, the MCA and MCC neglected to remove these recommendations when preparing the bidding documents. All the recommendations for the upgrade in port security were taken directly from the feasibility study and included in the technical specifications document given to bidders as a requirement for the works for the contract.

MCC stated these technical specifications were meant only to guide bidders. Yet the technical specifications document given to bidders stated that the purchase of machine guns and patrol boats were “works to be executed by the contractor” and were included in the scope of work for the contract award. As a result, the winning contractor included this information in the contract and allotted \$1.9 million for navigation basin surveillance that included the purchase of machine guns and patrol boats.

The approval of a contract for the purchase of machine guns and patrol boats using MCC funding is a violation of the Compact. In addition, there is potential for damage to MCC’s reputation. Because MCC is a Government agency, one of its most valuable assets is the public’s trust. MCC is known as an agency that is helping to lead the fight against poverty through programs that promote economic growth. Had the purchase of machine guns and patrols boats occurred and became publicly known, it could negatively affect MCC’s reputation as an aid agency fighting poverty. Therefore, this audit makes the following recommendations.

Recommendation No. 3: We recommend that the Millennium Challenge Corporation’s vice president, Department of Compact Implementation, amend the contract to remove the purchase of machine guns and patrol boats to ensure that the implementing partner does not purchase these items with Compact money.

Recommendation No. 4: We recommend that the Millennium Challenge Corporation’s vice president for Compact Implementation, revise its internal controls for procurement to include guidelines for preventing items prohibited by the Compact from being solicited.

Frequent Leadership Changes Could Impact Sustainability of Port Improvement

Management at the Port of Cotonou is unstable. The General Director of the Port and Customs Director serve at the will of the President of Benin. Without stable management, sound management needed for sustainability is compromised and necessary customs reforms are jeopardized. MCC's Guidelines for Compact Eligible Countries did not specifically include as part of its Risk Management Assessment a requirement for identifying risks associated with frequent management changes.

The Port of Cotonou has had four new Port General managers in the past 5 years, and the Customs Director has also changed every year for the past 4 years. A November 2009 report issued by an NGO stated that stability, in terms of these positions being devoid of political consideration, is necessary to facilitate the implementation of reforms and to be effective. One NGO chief executive officer said that people are removed from these positions not because they performed poorly, but because of political considerations. Further, according to a World Bank official, the Beninese presidential elections will take place in March 2011 and the new president will take office in April 2011. Therefore, there is a risk that politics may prevent the success of the project because of the potential for changes in the direction of reform and because the general manager of the port and the customs director serve at the will of the President.

MCC's Guidelines for Compact Eligible Countries did not specifically include as part of its Risk Management Assessment a requirement for identifying risks associated with frequent management changes. Frequent changes in leadership could inhibit the implementation of long-term initiatives or the pursuit of a consistent management strategy. Without a stable governing body at the port and customs, sound management which is very important for sustainability, is compromised and necessary Custom reforms are jeopardized. Further, according to a consultant, the technical proposal section in the request for proposals stated "To accomplish these reform efforts, the customs administration must take command and choose a champion who will drive the Change Management which will work full time to ensure the smooth running of this transitional period."

While the OIG cannot predict the success of the actions currently being undertaken, sustained, effective leadership and diligent, long-term oversight from within an independent agency are the foundations on which lasting management reforms must be based. Therefore, this audit makes the following recommendation.

Recommendation No 5: We recommend that the Vice President of Compact Development, revise the Guidance for Compact Eligible Countries to include under Risk Management Assessment a discussion for identifying risks associated with frequent changes in management when it could impact a project or component of a project, and to prepare a risk management plan to minimize the negative impact of such a risk.

EVALUATION OF MANAGEMENT COMMENTS

The Millennium Challenge Corporation (MCC) provided written comments to our draft report that are included in their entirety in Appendix II. In its response, MCC agreed with three of the recommendations and disagreed with two of the five recommendations in the draft report.

In response to Recommendation No. 1, MCC disagreed with the specific recommendation. MCC acknowledged that the transport of hazardous materials through the Port of Cotonou should have been assessed during MCC's initial due diligence and subsequent environmental studies. However, MCC believes that the MCC Guidelines for Environmental and Social Assessment adequately addresses the issue. The Office of Inspector General (OIG) reviewed the excerpt from the guidelines provided by MCC. The guidelines stated the environmental and social impacts include the effects of a **project** [emphasis added] on the surrounding natural environment The OIG's point is that the environmental assessment should have considered the environment of the port as a whole—above and beyond the specific MCC projects. Radioactive materials present a unique risk which should be specifically recognized in MCC's guidance. Because the OIG did not agree with MCC's proposed corrective action which we believe does not adequately highlight the risk of radioactive materials in its guidance, a management decision has not been reached.

For Recommendation No. 2, MCC agreed with the recommendation. MCC stated that it has evaluated the risks associated with customs during its initial due diligence and will continue to reevaluate and document the risks surrounding the customs port institutional activity as part of compact implementation. The OIG's concern is that corruption at the port and entrenched interests could thwart the success of MCC's planned intervention. The OIG expected that MCC would provide it the results of its re-evaluation of the project activity in light of these risks and a conclusion as to whether the project will accomplish its objective and that the intervention will be sustainable. Because the OIG did not agree with MCC's proposed corrective action, a management decision was not reached.

For Recommendation No. 3, MCC agreed with the recommendation. MCC has asked the Millennium Challenge Account-Benin (MCA-Benin) to modify the contract and notified MCA-Benin that no machine guns or patrol boats could be purchased under this MCC-funded contract. The OIG acknowledges that MCC has taken steps to prevent the purchase of machine guns and patrol boats. However, a copy of the amended contract is necessary so that a management decision can be reached and final action taken.

For Recommendation No. 4, MCC agreed with the recommendation. MCC stated that the "Summary of Limitations on the Use or Treatment of MCC Funding or Other Prohibited Activities" is referenced in all MCA contracts and in MCC Program Procurement Guidelines. The OIG considers that a management decision was made and that final action has been taken on the recommendation.

For Recommendation No. 5, MCC disagreed with the specific recommendation. MCC stated that its current processes adequately address this specific risk of frequent changes in management and that calculating and managing risk is a common element in all development projects. MCC did not agree to modify its guidance to recognize the specific risk of frequent management changes. Because the OIG did not agree with MCC's proposed corrective action, a management decision was not reached.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General conducted this performance audit of the Millennium Challenge Corporation's (MCC) Access to Markets Project in Benin in accordance with generally accepted Government auditing standards. These standards require that we 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.

We conducted an audit of the Benin Access to Markets Project because it is the largest of the four projects contained in the \$307 million Compact with 55 percent of the allocated funds. Given the importance of the port to the economic well-being of Benin, the success of the Compact relies on the success of the project. We conducted this audit at MCC headquarters in Washington, DC, from October 1 to October 30, 2009, and in Cotonou, Benin, at the Millennium Challenge Account (MCA) office and the port from November 2 to November 20, 2009. While in Benin, the audit team met with the MCA staff, consultants, and nongovernmental organizations (NGOs).

We relied on interviews with officials in Benin, contractors, consultants, and NGOs to draw their conclusions about the Access to Markets Project. In addition, we conducted analyses on various areas such as attribution, sustainability, economic impact, and monitoring and evaluation. We conducted these analyses to identify efficiencies, their sustainability, MCC's role in contributing to these efficiencies, and whether the project will be completed by Compact end. Furthermore, the audit team examined supporting documentation from numerous contractors and consultants.

We examined the internal control environment by identifying and assessing the relevant controls. We tested for various controls, including supporting documentation, verification procedures, and guidance. In addition, we reviewed prior audit reports and considered relevant findings.

The audit team relied on certain assertions made by MCC, MCA-Benin, contractors, and consultants, such as disbursement reports and studies.

Methodology

To answer the audit objective, audit steps were established to determine whether the Benin Access to Markets Project is increasing the efficiency of the Port of Cotonou.

Specifically, we performed the following activities:

- Interviewed MCC and MCA-Benin staff to gain an understanding of the Compact objectives as it relates to the Access to Markets Project.
- Conducted a detailed review of supporting documentation for the Access to Markets Project, including contracting documents, monitoring and evaluation plans, and port advisor reports, to verify whether the progress toward port efficiency was being achieved. In addition, visited the construction sites to visually confirm the status of the progress.
- Performed various analyses to identify efficiencies, their sustainability, MCC's role in contributing to these efficiencies, and whether the project will be completed by the end of the Compact.



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Daniel W. Yohannes
Chief Executive Officer

March 26, 2010

Mr. Alvin Brown
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Dear Mr. Brown:

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the Office of Inspector General's (OIG) draft report entitled "Audit of the Millennium Challenge Corporation's Access to Markets Project in Benin."

MCC's specific responses to the five recommendations in the Report are detailed below.

Recommendation No. 1: We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation revise the Millennium Challenge Corporation's Guidelines for Environmental and Social Assessment to include assessing environmental risks broader than project activity risks, such as the risk presented by radioactive materials.

MCC Response: MCC agrees with the principle of assessing environmental risks broader than project activity risks, and acknowledges that the potential health and safety risks associated with the transport of hazardous materials through the port of Cotonou should have been assessed in the context of MCC's initial due diligence and subsequent environmental studies; however, we believe that MCC's Guidelines for Environmental and Social Assessment (ESA Guidelines) adequately address this issue and therefore do not agree with the specific recommendation. MCC's ESA Guidelines state that:

The purpose of these guidelines is to establish a process for the review of environmental and social impacts (...) where (...) "environmental and social impacts" include the effects of a project on the surrounding natural environment and on the humans reliant on that environmental, to include effects on cultural property, indigenous peoples, and involuntary resettlement, as well as the impacts on human health and safety. They may also include significant induced, indirect, and cumulative impacts and

reasonably foreseeable effects that may be associated with, or ancillary to the project.

Recommendation No. 2: We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation re-evaluate and document the risks surrounding the customs project activity to determine whether it will feasibly accomplish its objective and that the intervention will be sustainable.

MCC Response: MCC agrees with this recommendation. Indeed, MCC assessed the risks associated with customs during initial due diligence and incorporated customs reform into the compact program in the "Port Institutional Activity" expressly for the purpose of ensuring that the port infrastructure developments financed under the compact would be accompanied by appropriate reforms. As a result, several conditions precedent to compact funding for the Access to Markets Project activities expressly address different customs system risks that could adversely impact MCC's investments, such as installation of an X-ray scanner. MCC closely tracks both the risks and the actions that the Government takes to resolve them, in accordance with the requirements of the compact. The conditions precedent in the compact and related documents require continued, documented improvements to customs procedures and practices (satisfactory to MCC) as a requirement to further infrastructure investments at the port. Accordingly, MCC will continue to reevaluate and document the risks surrounding the customs Port Institutional Activity as a normal part of compact implementation.

Recommendation No. 3: We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation amend the contract to remove the purchase of machine guns and patrol boats to ensure that the implementing partner does not purchase these items with Compact money.

MCC Response: MCC agrees with this recommendation and has already asked MCA-Benin (the accountable entity implementing Benin's compact) to modify the contract accordingly. (MCA-Benin is party to this contract, not MCC.) On January 22, 2010, MCC instructed MCA-Benin to notify the contractor that no machine guns could be purchased under this MCC-funded contract. In addition, on February 22, 2010, MCC notified MCA-Benin that patrol boats could also not be purchased under the contract, and instructed MCA-Benin to notify the contractor. On February 23, 2010, MCC delivered a letter to the OIG documenting these steps.

Recommendation #4: We recommend that the Millennium Challenge Corporation's Vice President for Compact Implementation revise its internal controls for procurement to include guidelines for preventing items prohibited by the Compact from being solicited.

MCC Response: MCC agrees with this recommendation. The prohibition provisions are currently included in all compacts and the guidance document, "Summary of Limitations on the Use or Treatment of MCC Funding and Other Prohibited Activities," (http://www.mcc.gov/mcc/bm.doc/funding_limitations.pdf) is referenced in all Millennium Challenge Account contracts and in MCC Program Procurement Guidelines.

Recommendation #5: *We recommend that the Millennium Challenge Corporation's Vice President for Compact Development revise the Guidance for Compact Eligible Countries to include under Risk Management Assessment a discussion for identifying risks associated with frequent changes in management when it could impact a project or component of a project, and to prepare a risk management plan to minimize the negative impact of such a risk.*

MCC Response: MCC agrees with the principle of early identification and continuing active management of risks; however, we believe our current processes adequately address this specific risk and therefore do not agree with the specific recommendation. Calculating and managing risk is a common element in all development projects, and project management issues are a challenge for all major infrastructure projects. MCC's oversight model already requires consistent evaluation of project management capacity, identification of risks, and development of mitigation strategies.

Thank you for the opportunity to comment on the Report. Please contact Dennis Nolan, MCC's Deputy Chief Financial Officer, if you have further questions or concerns.

Sincerely,

/ S /

Daniel W. Yohannes
Chief Executive Officer

Port of Cotonou, Benin



Photograph of Port of Cotonou
Courtesy of Port of Cotonou Website

MCC activities include extending the sedimentation control scheme (see top left) and construction of a new south wharf to accommodate additional containerized merchant marine vessels. The left side of the U-shaped harbor will become the new south wharf.

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