OFFICE OF INSPECTOR GENERAL
for the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S HEALTH SECTOR PROJECT IN LESOTHO

AUDIT REPORT NO. M-000-11-001-P
January 25, 2011

WASHINGTON, DC

Office of Inspector General
for the Millennium Challenge Corporation

January 25, 2011

Mr. Daniel Yohannes
Chief Executive Officer
Millennium Challenge Corporation
875 15th Street, NW
Washington, DC 20005

Dear Mr. Yohannes:

This letter transmits the Office of Inspector General's final report on the Audit of the Millennium Challenge Corporation's Health Sector Project in Lesotho. In finalizing the report, we considered your written comments on our draft report and included those comments in their entirety in appendix II of this report.

The report contains 11 recommendations to reduce the costs of the Health Sector Project and to improve project implementation. We consider that management decisions have been reached on Recommendations 3, 5, 6, 7, and 11 and final action taken on Recommendations 1, 2, 4, 8, 9, and 10. Final action will not be reached on Recommendations 3, 5, 6, 7, and 11 until MCC provides additional documentation.

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

Sincerely,

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

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

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SUMMARY OF RESULTS

About 24 percent of adults in Lesotho are HIV-positive, giving the country the third highest prevalence rate in the world. To mitigate the negative economic effects of HIV/AIDS and tuberculosis by strengthening the country's health care system, the Millennium Challenge Corporation[1] (MCC) designed a $122 million Health Sector Project as part of its compact with Lesotho.[2] The project supports the Government's efforts to significantly increase access to antiretroviral therapy and other essential health services by providing a sustainable delivery platform—that is, health care infrastructure.

The primary activities of the Health Sector Project include rehabilitating health care infrastructure and strengthening the health care system. MCC funding will support the Government's efforts by providing:

- Renovated health centers
- Hospital outpatient departments to support the delivery of antiretroviral therapy
- A central laboratory
- A central blood collection facility
- Dormitories for the National Health Training College
- Health systems strengthening activities, including medical waste management and decentralization of health service delivery

The compact entered into force[3] on September 17, 2008. The compact is being implemented by the Millennium Challenge Account-Lesotho (MCA-Lesotho).[4] As of the third quarter 2010, MCA-Lesotho had committed $19 million for the Health Sector Project.

The objective of the audit was to determine whether MCC's Health Sector Project was structured[5] to achieve its objective of increasing access to antiretroviral therapy and essential health services by providing a sustainable delivery platform?

The audit found that MCC's Health Sector Project was structured to contribute to

[1] Established in 2004, MCC is based on the principle that aid is most effective when it reinforces good governance, economic freedom, and investments in people. MCC's mission is to reduce global poverty through the promotion of sustainable economic growth.

[2] A compact is a multiyear agreement to provide assistance to an eligible country to achieve shared development objectives. On July 23, 2007, MCC signed a 5-year, $363 million compact with Lesotho.

[3] The date of entry into force is the point in time when a compact comes into full force and takes effect and its term begins.

[4] The Millennium Challenge Account-Lesotho is the host government entity charged with implementing some or all of the terms of the compact.

[5] OIG reviewed the structuring of the Health Sector Project primarily for duplications and gaps in the project and for sustainability of the MCC investment.

achieving the compact objective which is to increase access to antiretroviral therapy and essential health services. The project will primarily improve the infrastructure of the health care system to create a platform from which health care can be delivered. Nevertheless, the audit identified certain risks that could impact the successful implementation of the project activities and the achievement of the compact goal.

MCC's Health Sector Project does not provide the antiretroviral therapy or essential health services; this is the responsibility of the Government of Lesotho and others. MCC recognized the important role of others in the success of its project and established specific project activities and measures in an effort to mitigate the risks of (1) inadequate health center management, (2) incomplete delivery of all essential health services, and (3) insufficient health care staffing. On these mitigation measures, the audit found the following concerns:

Health Center Management – MCC project activities and measures focusing upon improving decentralized management of the health centers may not achieve their objectives. Without strong decentralized health center management, the ability of the health centers to deliver services and drugs may be compromised (pages 7 and 13).

Delivery of Essential Health Services – To receive MCC funding, the Government of Lesotho was required to update its agreements with the health center operators to ensure that they would provide antiretroviral therapy and essential health services. The audit found that not all health centers were providing all essential health services, which is detrimental to the health of the people of Lesotho and in conflict with MCC's compact objective (page 10).

Health Care Staffing – Lesotho has a significant shortage of health care professionals, negatively affecting the delivery of health care services. While MCC's Health Sector Project included dormitories at the National Health Training College to provide increased and quality housing to attract more students, the audit found that the project also funded the renovations of underused health centers or those that provide duplicate services of nearby health centers. Had the health centers been decommissioned, staffing could have been reallocated to other centers helping to alleviate staffing shortages (page 5).

The audit also found other Health Sector Project related-risks, including (1) funding shortages for the health center renovations, (2) difficulties in overseeing the project works given the large number of health centers being renovated and their locations, (3) indicators and projected number of beneficiaries that overstate the direct results of the project, and (4) poor communication during project implementation with stakeholders and donors.

Specifically, the audit team found that:

- MCC did not sufficiently evaluate the need for each of the health centers during the compact development process (page 5).

- MCC did not design outcome-based conditions precedent[6] to mitigate risk in health center management decentralization (page 7).

[6] Conditions precedent are MCC requirements that typically have to be met before MCC funding is disbursed.

- MCC did not accurately identify required funding for the health center renovations during due diligence[7] (page 8).

- MCC-Lesotho and MCA-Lesotho will not be able to directly oversee the renovations of all health centers (page 9).

- MCC did not verify compliance with a condition precedent requiring that all health centers agree to provide all essential health services in order to receive MCC funding (page 10).

- MCC indicators overstate the direct results of the project and the number of project beneficiaries (page 11).

- MCA-Lesotho's contractor for health systems strengthening activity was not performing as required (page 13).

- MCC did not apprise stakeholders of project status (page 13).

The report recommends that MCC:

1. Eliminate from the project the nine health centers recommended for decommissioning during due diligence totaling an estimated $8 million unless MCC can substantiate their continued inclusion in the project (page 6).

2. Determine whether to renovate 20 health centers that did not meet the *Health Center Rationalization Study* retention criteria, and document the analysis and the decision (page 6).

3. Determine whether District Health Management Teams will be functional upon health center completion; document the assessment; and implement additional mitigation measures, if necessary, to manage the risk to sustainability (page 8).

4. Develop a policy requiring conditions precedent to focus on outcomes, where appropriate, rather than prescribing specific activities (page 8).

5. Ensure that the Government of Lesotho allocates sufficient amounts in its annual budget to cover the cost of the health center renovations, and documents its review (page 9).

6. Develop and implement a strategy to coordinate oversight during renovation of all health centers in the project (page 10).

7. Review health center policies and practices to determine whether they comply with the memorandum of understanding establishing that centers must provide all essential health services, and document its review. If health centers are not

[7] Due diligence is a process for determining whether an eligible country's proposal meets MCC's criteria for funding. Due diligence includes assessing all aspects of the proposal, including technical feasibility, consistency with the country's poverty reduction strategy, and the effects on economic growth.

complying, MCC needs to take appropriate action and document its rationale (page 10).

8. Review and document the role of private sector providers in compact implementation and establish a written policy for compliance with service delivery requirements to receive MCC funding (page 11).

9. Revise its Health Sector Project monitoring and evaluation plan to properly attribute the comprehensive efforts being provided by other donors (page 12).

10. Review its strategy for health systems strengthening and determine and document whether it will achieve its intended purpose. If it will not achieve its purpose, MCC needs to take appropriate action (page 13).

11. Verify that Millennium Challenge Account-Lesotho develops a comprehensive, documented communications strategy to increase the transparency of its project activities and provide adequate and timely information to other donors and stakeholders for use in coordinating efforts (page 14).

Detailed findings appear in the following section. Appendix I presents the audit scope and methodology. Appendix II presents MCC's management comments. MCC agreed with nine recommendations, agreed in part with one recommendation, and disagreed with one recommendation. Management decisions have been reached on Recommendations 3, 5, 6, 7, and 11. Final action has been taken on Recommendations 1, 2, 4, 8, 9, and 10, but MCC will need to provide additional documentation before final actions can be taken on Recommendations 3, 5, 6, 7, and 11.

AUDIT FINDINGS

MCC Did Not Sufficiently Evaluate Health Centers

MCC did not sufficiently evaluate the need for each of the health centers during due diligence. MCC reviewed a published study entitled *Health Center Rationalization Study* in its due diligence effort.[8] The study examined health centers in Lesotho to determine whether they were strategically located, adequately staffed, and set up to provide the services prescribed by the Ministry of Health and Social Welfare. The study found excess capacity in the health center system and recommended closing certain health centers.[9] The audit compared the study's recommendations with MCC's decisions about structuring the project and noted the differences described below.

The study recommended that 15 health centers be decommissioned. However, the audit found that 9 of the 15 health centers recommended for decommissioning (shown below) are to be renovated as part of the MCC project, at an estimated cost of $8 million. When asked about including health centers recommended for decommissioning, an MCC official responded that those centers should not be included in MCC's project.

Health Centers Recommended for Decommissioning That Were Included in MCC's Health Sector Project

Health Center	Included in MCC's Project?
1. Koro-Koro	No
2. Thaba Bosiu[10]	**Yes**
3. Mount Carmel	No
4. St. Leonard	**Yes**
5. Bethel	No
6. Mafa	No
7. St. Peters (Mokhotlong)	No
8. St. Magdalena	**Yes**
9. Louis Gerard	No
10. Pontmain	**Yes**
11. Mahobong Clinic	**Yes**
12. Peka	**Yes**
13. St. Monica's	**Yes**
14. Holy Family	**Yes**
15. Good Shepherd	**Yes**

The *Health Center Rationalization Study* found that decommissioning the Domiciliary Health Center would have virtually no impact on coverage because of the health center's

[8] Medical Care Development International, *Health Center Rationalization Study*, September 2002.
[9] OIG did not independently evaluate the study's methodology or results.
[10] In addition, the OIG audit team visited two health centers near Maseru, St. Leo and Thaba Bosiu, which were part of the study analysis. Thaba Bosiu staff reported that because the center lacked necessary medications, it had not had any patients for more than 2 months and patients were using nearby health centers instead. The Thaba Bosiu health center had been renovated recently by the Red Cross, but is still scheduled to be renovated under the MCC Health Sector Project.

location in a large urban area with numerous alternative service providers located nearby. Nonetheless, the Domiciliary Health Center was being rebuilt as part of the MCC project.

The Health Center Rationalization Study identified 20 additional health centers that did not meet the criteria for retaining them as ongoing health centers, but the study did not recommend decommissioning them. However, retaining health centers when there is doubt as to their necessity calls into question MCC's due diligence on the health centers.

MCC Sector Guidelines for Countries Proposing Health Programs establishes expectations for specific health sector activities that would be considered by MCC for funding. These activities include those that would improve the cost-effectiveness of a country's health system, such as the rationalization of the health care infrastructure. In addition, *MCC Project Development Guidelines* requires a clear justification for the proposed activities, including analysis of project activities, quantified wherever possible. The justification for public funding should include a discussion of the chosen operation being the least-cost alternative and of alternatives in terms of choice of project, technology, design, construction, and location.

The due diligence process during compact development and compact implementation focused on the infrastructure deficiencies of the health centers and not on rightsizing to produce an efficient and effective health center system. OIG believes that further integration of the study's results in the compact development process by MCC, updated with any changes in the health sector, would have been valuable in helping to assess the health centers and to support MCC's investment decision of nearly $73 million in the health centers.

MCC cannot be assured that its project to renovate 138 health centers was necessary to provide essential health service coverage to the people of Lesotho and is likely expending more funds than necessary. Further, too many health centers compound existing issues such as staffing shortages, drug distribution, and medical waste management. To address these deficiencies, this audit makes the following recommendations:

> ***Recommendation 1.*** *We recommend that the Millennium Challenge Corporation eliminate from the project the nine health centers that Medical Care Development International recommended decommissioning, whose renovation will cost an estimated $8 million, or justify in writing their continued inclusion in the project.*
>
> ***Recommendation 2.*** *We recommend that the Millennium Challenge Corporation follow-up on the Medical Care Development International report to determine whether the inclusion by default of the 20 health centers within the MCC project is warranted, and document its analysis and decision.*

MCC Conditions Precedent Did Not Mitigate Risk in Health Center Management Decentralization

MCC established two conditions precedent that were to promote sustainability of its investment in the health sector. These conditions precedent were to speed the decentralization of health center management by strengthening the District Health Management Teams.[11] These conditions precedent required:

> Government will provide evidence (1) that a broad-based working group is undertaking actions to further effective management of health services at the decentralized level, including roles and responsibilities of the working group and minutes of monthly meetings for at least 3 months; and (2) a plan, agreed cross-ministerially as appropriate, detailing the role and functions of the central ministries and the local government structures, with clear lines of authority, fiscal responsibility, logistical management and accountability for outcomes with regard to health services.
>
> In addition, the Government will have provided (1) the name and contact of the senior MoHSW official [Ministry of Health and Social Welfare] responsible for decentralization of health services to the district level, including liaison with MoLG [Ministry of Local Government] and MOF [Ministry of Finance]; (2) the roles of the MOHSW, the DHMT [District Health Management Team] and hospitals and health centers (including CHAL) [Christian Health Alliance of Lesotho] in providing each of the 11 essential health services, and (3) a proposal for developing a professional DHMT/community health staff, including a proposed outline for career progressions for decentralized district staff, with a plan for consultations with and buy-in from nurses, health center and DHMT, and health sector management to be undertaken.

Although the Government of Lesotho mostly achieved the MCC's conditions precedent for decentralization, the conditions precedent likely will not produce the intended results. The audit team's interviews with four international stakeholders expressed significant concern with the Government of Lesotho's ability to decentralize health services, noting that decentralization has been a long-term initiative with few tangible results. Stakeholders also identified significant problems with the District Health Management Teams' management capacity and the inadequate support being provided to the health centers in terms of drug management, waste management, and facilities management.

MCC's *Guidance for Compact Eligible Countries* requires that MCC assess a proposed project's sustainability and use the assessment to determine whether a project is a worthwhile investment.

MCC designed measures to address identified risks to sustainability, but these measures were not sufficiently robust to ensure that desired outcomes would be achieved. MCC's conditions precedent were prescriptive in nature rather than outcome-oriented, requiring the establishment of working groups and plans rather than fully functional and empowered District Health Management Teams as a prerequisite for

[11] The District Health Management Teams are responsible for planning, budgeting, managing, and coordinating all district health services, including the health centers.

further funding. MCC stated that conditions precedents are only one tool that it has available to manage project implementation. Further, MCC did not have a specific policy for developing conditions precedent and, in particular, for conditions precedent that would help ensure the sustainability of its investment.

Unmitigated sustainability risks remain in the Health Sector Project despite MCC's efforts to lessen them through the use of conditions precedent for the District Health Management Teams. These risks jeopardize the long-term success of the project. Without proper management of their operations, the health centers may be underused and their benefits to the people of Lesotho unrealized. To address these deficiencies, this audit makes the following recommendations:

> ***Recommendation 3.*** *We recommend that the Millennium Challenge Corporation reassess the decentralization efforts to determine whether the District Health Management Teams will be functional upon health center completion; document its efforts; and implement additional mitigation measures, if necessary, to manage the risk to sustainability.*
>
> ***Recommendation 4.*** *We recommend that the Millennium Challenge Corporation develop a policy requiring conditions precedent to focus on outcomes, where appropriate, rather than prescribing specific activities.*

Additional Funding Needed To Complete Health Center Project

The compact between MCC and the Government of Lesotho designated $72.9 million for renovating 138 health centers. However, during project implementation in 2009, MCA-Lesotho and MCC determined that this level of funding was insufficient and that MCC needed an additional $50 to $60 million to complete the health center renovations.

According to MCC's *Guidance for Compact Eligible Countries*, due diligence should include a review of the project design and costs. The due diligence guidelines require an examination of the methodology for cost estimation and an evaluation of contingencies.

Several factors contributed to MCC's inability to fund the renovation of all the health centers:

- The devaluation of the U.S. dollar caused a funding shortfall for some activities, according to MCA-Lesotho.

- MCC's due diligence was inadequate. The firm MCC hired to do due diligence was not required to visit all of the health centers. The firm visited 26 of the 150 health centers and conducted a needs assessment for all the centers based on these 26 site visits. MCC and MCA-Lesotho did not find this information to be sufficient or accurate. Therefore, MCA-Lesotho spent 3 months surveying and conducting a needs assessment for each center and reestimated the costs and confirmed the budget proposed for health centers was too low.

- Although MCC knew during due diligence of the Government of Lesotho's future

strategy of introducing free health care, MCC did not factor this change into the potential increased utilization rates of the health centers. Between the signing of the compact and entry into force, the Government of Lesotho introduced free access to health care. Because they expected health center use to increase in response, MCC and MCA-Lesotho increased the number of large health centers that had to be built and increased the cost of the project.

MCC is no longer able to fulfill its commitment to renovate 138 health centers. Therefore, the Government of Lesotho has agreed to fund the shortage. However, an official from the Government of Lesotho and other donors have noted that the Government of Lesotho is experiencing its own funding shortages and has been unable to fulfill some of its own commitments. The Government of Lesotho relies on revenues from the Southern African Customs Union for a significant portion of its income; because of decreased customs revenue, the Government of Lesotho has made major cutbacks in its budget. Consequently, the Government of Lesotho may be unable to fully fund the renovations of the health centers as agreed. To address these deficiencies, this audit makes the following recommendation:

Recommendation 5. *We recommend that the Millennium Challenge Corporation review the annual budget of the Government of Lesotho to determine whether sufficient amounts were budgeted to cover its share of the cost of the health center renovations and document its review.*

Challenges To Overseeing Project Work

MCC-Lesotho and MCA-Lesotho will not be able to oversee the renovations of all health centers and thus will not be able to directly monitor the quality of work. MCA-Lesotho engaged a supervisory engineer to oversee project implementation. Many of the health centers are in rural areas where access is limited to helicopter. Further, other large MCC infrastructure projects will also be going on simultaneously in Lesotho, putting an additional strain on oversight capacity.

According to the *MCC Oversight Model* for infrastructure projects, MCA teams should oversee the work of contractors to monitor the quality of works. During site visits, MCA staff is responsible for verifying that MCC's *Environmental Guidelines*, local laws, and terms of the contract are being followed to safeguard the well-being of the community and MCC's investment.

The inability to oversee the renovations occurred because MCC decided to include essentially all of the health centers in Lesotho, without taking into account the capacity of MCC-Lesotho (in-country MCC officials) and MCA-Lesotho. According to the Government of Lesotho's country proposal, initially the Government of Lesotho selected 96 health centers for renovation, but MCC's due diligence report recommended that all health centers be given equal opportunity to receive assistance. As a result, MCC decided to include all health centers based on parity and did not assess its own resource capabilities and limitations.

Without MCC-Lesotho and MCA-Lesotho's direct oversight of the renovations, project completion and sustainability are at risk. Experience from other donors renovating

health centers in Lesotho has shown that inadequate oversight leads to cost overruns and delays in completion. To address these deficiencies, this audit makes the following recommendation:

> ***Recommendation 6.*** *We recommend that the Millennium Challenge Corporation develop and implement a strategy with the Millennium Challenge Corporation, Millennium Challenge Account-Lesotho, and the supervisory engineer to coordinate oversight during renovation of all health centers in the project.*

Not All Health Centers Were Providing All Essential Health Services

The *Health Center Rationalization Study* reported that 46 health centers did not provide family planning services. Thirty-nine of these health centers or 85 percent were included as part of the MCC project. Staff at one health center visited by the OIG audit team said that the center did not provide family planning or condom distribution.

The objective of MCC funding is to support the Government's efforts to significantly increase access to antiretroviral therapy and essential health services. The Government's Essential Health Services Package has five components, including control of communicable diseases such as HIV/AIDS, and sexual and reproductive health, including family planning. In addition, MCC established a conditions precedent that required an updated agreement between the Ministry of Health and Social Welfare and a health center operator regarding the improvements in the operator's facilities. The conditions precedent stated that an updated agreement should require the operator to maintain minimum service levels for a specified period or return equipment or refund MCA-Lesotho, unless otherwise agreed by MCC. The agreement will be documented in an updated memorandum of understanding. Compliance with the conditions precedent is required prior to initial disbursement for construction or rehabilitation for each project activity.

Family planning services and condom distribution were not always provided because, according to an OIG interview of a health center operator, faith-based policies did not permit the operator to offer all essential health services.

MCC has a vested interest in ensuring that the health center operators comply with the memorandum of understanding on the provision of essential health services by health center operators. Otherwise, MCC's objective of increasing access to essential health services will not be met. To address these deficiencies, this audit makes the following recommendations:

> ***Recommendation 7.*** *We recommend that the Millennium Challenge Corporation determine whether the health centers included in its project are complying with the memorandum of understanding establishing that all of the essential health services must be provided, and document its review. If centers are not complying, MCC needs to take appropriate action and document its rationale.*

Recommendation 8. *We recommend that the Millennium Challenge Corporation review and document the role of private sector providers in compact implementation and establish a written policy for compliance with service delivery requirements to receive Millennium Challenge Corporation funding.*

Indicators Overstate Expected Results

MCC's Health Sector Project indicators and the projected number of project beneficiaries overstate the direct results of the project. MCC's project is providing health center renovation, including improvements such as water, power, equipment, and training of staff. These activities are meant to provide a sustainable platform for the delivery of antiretroviral therapy and other essential health services. Although MCC is not directly providing antiretroviral therapy, essential health services, or drugs, the results of these activities are included in MCC's indicators. For example:

- The project impact indicators include the number of individuals still alive and on antiretroviral therapy 12 months after initiating treatment. However, MCC is not providing antiretroviral therapy or case management to patients, only the facility in which case management may occur and antiretroviral therapy may be distributed. As a result, this indicator is indirectly related to MCC's project.

- One indicator measures the portion of health centers with access to a three-bin medical waste disposal system. The bins are not being provided by MCC, but were part of a World Bank project. The World Bank introduced the system to help health practitioners manage medical waste in their facilities. The MCC indicator has a baseline of 0 percent, and the target is 100 percent. However, according to the MCC contractor for the medical waste project activity, the three-bin system is already in place at the health centers. The results measured by this indicator could be misleading. The results do not acknowledge that the 2006 World Bank project provided the three-bin system to the health centers.

MCC also has an indicator that overstates the expected number of project beneficiaries. MCC expects the Health Sector Project to improve the health status of the entire Basotho people countrywide; however, the *Health Center Rationalization Study* showed that only about a quarter of the population uses the health centers. According to the study, health centers cover an average of 28 percent of the population, with the remaining people using alternative providers such as traditional healers, village health posts, or hospitals. In addition, other donors operate health centers in the country and provide services to the Basotho, so MCC alone is not improving the health of all of the people.

MCC's *Policy for Monitoring and Evaluation of Compacts and Threshold Programs* states that indicators should be direct, unambiguous, adequate, practical, and useful. Indicators should measure as closely as possible the result they are intended to measure. Indicators should also be useful for oversight of the compact.

Another source of guidance on direct indicators is the U.S. President's Emergency Plan for AIDS Relief (PEPFAR). PEPFAR guidelines recognize the comprehensive efforts of other donors and distinguish them by reporting direct and indirect indicators. According

to PEPFAR guidelines, direct indicators measure the number of individuals receiving prevention, care, or treatment through service delivery providers directly supported by a U.S. Government project at the point of service delivery. Indirect indicators estimate the number of individuals served as a result of the U.S. Government's contribution to system strengthening beyond those counted as receiving direct U.S. Government support.

Regarding MCC investments in public services, *MCC Guidelines for Economic and Beneficiary Analysis* states that an analysis should begin by showing data reflecting the composition of existing users of this infrastructure. The beneficiary analysis should show whether the poor are more or less likely to use newly built, expanded, or upgraded infrastructure.

The MCC Health Sector Project program logic[12] uses inputs from other donors in its results without giving proper attribution. The program logic includes under MCC's outputs (1) infrastructure equipped with water and power and (2) trained health care workers. It also includes the provision of vaccinations in the Health Sector Project results.

In addition, MCC did not adequately perform a beneficiary analysis of the Health Sector Project. MCC guidance on conducting a beneficiary analysis stated that the analysis should show data on existing users and document forecasting techniques used to derive the number of new users. However, MCC's analysis incorrectly assumed the entire population of Lesotho would be affected by MCC's project.

In followup discussions with MCC, MCC indicated that it had reduced the number of expected beneficiaries from 1.8 million to 752,000. MCC changed its beneficiary policy to estimate more conservatively the number of people who experience better standards of living as a result of the project through higher real incomes. MCC made these changes in its amended Monitoring and Evaluation Plan for Lesotho, May 2010.

Although the number of beneficiaries has been reduced, the intended results from the performance indicators are still overstated. The results inaccurately depict the project's impact and may result in criticism of MCC. To address this deficiency, this audit makes the following recommendation:

> ***Recommendation 9.*** *We recommend that Millennium Challenge Corporation revise its Health Sector Project monitoring and evaluation plan to properly attribute the comprehensive efforts being provided by other donors.*

[12] MCC's monitoring and evaluation methodology uses program logic to show how each project activity's outputs lead to the expected outcomes, objectives, and goal of the compact.

Contractor for Health System Strengthening Was Underperforming

MCC-Lesotho and MCA-Lesotho have raised concerns about the performance of the contractor responsible for building human resource capacity and decentralizing the Health Management Information System. MCA-Lesotho critiqued the inception report, the contractor's first deliverable, and found it very thin on the consultative process and lacking in clarity on the contractor's approach regarding the human resources and decentralization activities. According to MCA-Lesotho, the quality assurance plan was highly inadequate, did not address all the requirements, and fell short of international standards.

According to the contract between MCA-Lesotho and the contractor, the inception report should contain a situational analysis, among other required deliverables acceptable to the MCA.

The inadequate work occurred because the activities in the health system strengthening component are too disparate and the contractor did not have a clear strategy for achieving these activities. The contractor is responsible for strengthening District Health Management Teams, decentralizing the health management information system, strengthening human resource capacity, and strengthening the capacity of a research unit at the Ministry of Health and Social Welfare.

The experience of other donors in Lesotho has shown that repairing infrastructure alone is not sufficient to improve the health care system. For example, another donor's infrastructure investments in health facilities have shown poor impact. According to the donor's staff, after these facilities were renovated, utilization rates did not increase because staff and drugs were not in place. Consequently, if decentralization is not well managed, health service delivery could be disrupted, and the benefits of the Health Sector Project will not be fully realized. Improvements in infrastructure alone will not guarantee demand and quality health services. The success of the Health Sector Project depends heavily on the health system strengthening activity. To address these deficiencies, this audit makes the following recommendation:

> ***Recommendation 10.*** *We recommend that the Millennium Challenge Corporation review its strategy for health systems strengthening, determine and document whether it will achieve its intended purpose, and take appropriate action and document its rationale if it will not.*

MCC Did Not Adequately Apprise Stakeholders of Project Status

Stakeholders reported instances of poor communication during the design and implementation of the Health Sector Project. For the most part, the donors had been contacted by and worked with MCC during the initial design phases of the project. However, donors and stakeholders were not kept current on health sector implementation activities. Stakeholders expressed the following concerns regarding communications from MCC:

- No explanation was given of the MCC methodology for excluding certain health facilities from the Health Sector Project.

- Communications were better when MCC had an outreach coordinator.

- Confusion occurred as to which organization to approach—MCC-Lesotho or MCA-Lesotho.

- MCC made undelivered promises on the health center renovations and did not communicate why it could not fulfill its promises.

MCC's *Guidelines for Donor Coordination* requires that coordination should occur to the extent possible to help ensure the most effective use of MCA grants. MCC cites the importance of donor coordination because consulting with other donors provides feedback on country proposals, reduces the cost of programs by avoiding duplication, creates synergies, and avoids approaches that have been unsuccessful in the past. It also facilitates cofinancing, common or supportive programs, and use of joint structures; and informs other donors of MCC approaches and methods of operation. Specifically, the guidelines stress MCA's responsibility for maintaining active donor coordination throughout the implementation of the compact. MCC also plays a role during compact development and implementation.

MCA-Lesotho explained that the underperformance of its outreach official resulted in the inadequate and untimely sharing of information with other donors and stakeholders. It also explained that a Ministry of Health and Social Welfare communications official visited the health centers without the accompaniment of MCA-Lesotho infrastructure personnel to ensure the accuracy of the information being presented.

Donor confusion and disappointment have occurred as a result of not managing expectations and information on the design and implementation of the Health Sector Project. MCC and MCA-Lesotho are missing a valuable opportunity to showcase the project and the generosity of the American people in helping improve the lives of the people of Lesotho.

During its site visit, the OIG audit team discussed the communications issue with MCA-Lesotho. MCA-Lesotho explained actions it had taken or planned to take, including hiring a new communications official and developing and implementing a communications strategy. Nevertheless, to address this deficiency, this audit makes the following recommendation:

> ***Recommendation 11.*** *We recommend that the Millennium Challenge Corporation require that the Millennium Challenge Account-Lesotho develop a comprehensive, documented communications strategy to increase the transparency of its project activities and provide adequate and timely information to other donors and stakeholders for use in coordinating efforts.*

EVALUATION OF MANAGEMENT COMMENTS

The Millennium Challenge Corporation (MCC) provided written comments on our draft report that are included in their entirety in appendix II of this report. In its comments, MCC agreed with nine recommendations, agreed in part with one recommendation, and disagreed with one recommendation.

MCC agreed with Recommendation 1 and reviewed the nine health centers that Medical Care Development International recommended for decommissioning to determine whether their continued inclusion in the Health Sector Project was justified. MCC found that there was appropriate and sufficient substantiation for the continued inclusion of each of the nine health centers in the project. MCC's findings were based on the Ministry of Health and Social Welfare determination that the nine facilities warranted continued operation based on redistricting of health services to align with administrative decentralization of 2004, and increased health center utilization as a result of expanded programs on HIV prevention and treatment and tuberculosis control. On the basis of its actions to review the health centers and to justify continued inclusion of the nine health centers in the Health Sector Project, OIG considers that a management decision has been reached and that final action has been taken.

MCC agreed with Recommendation 2 and reviewed the Medical Care Development International report that identified 20 health centers that did not meet the criteria for retaining them as ongoing health centers, though the study did not recommend decommissioning them. MCC found that the health centers were determined not to have extensive overlapping coverage, and therefore were recommended for retention. In addition, MCC found that utilization rates for all health centers have expanded rapidly over the past few years, reflecting the Government's commitment to free essential health care, thus supporting the inclusion of these health centers in MCC's Health Sector Project. On the basis of its actions to review the 20 health centers to justify their continued inclusion in the MCC Health Sector Project, OIG considers that a management decision has been reached and that final action has been taken.

MCC agreed with Recommendation 3, to determine whether the District Health Management Teams will be functional upon health center completion to manage the risk to sustainability. MCC provided examples of its efforts to ensure functionality of the District Health Management Teams, including a capacity building contract as part of the Health Sector Project, participation in a donor working group, and a planned formal MCC review in September 2011 of the decentralization efforts. On the basis of its actions to manage the risk to sustainability, OIG considers that a management decision has been reached. However, final action will not take place until MCC provides the results of its September 2011 review to OIG.

MCC disagreed with Recommendation 4, to develop a policy requiring conditions precedent focusing on outcomes, where appropriate, rather than prescribing specific activities. MCC explained that it uses various types of conditions precedent, including outcome conditions precedent. OIG's concern is that, absent a policy, a process would not be in place to encourage the use of outcome conditions precedent. Continued risk

exists that a prescriptive conditions precedent may not achieve the desired outcome. Nevertheless, MCC asserted that the conditions precedent in place for the Lesotho Health Sector Project provide pragmatic steps and processes to ensure that the Government of Lesotho moves forward successfully. Thus, OIG considers that a management decision has been reached and that final action has been taken.

MCC agreed with Recommendation 5, to review the Government of Lesotho annual budget to ensure that sufficient funds are allocated to cover the cost of the health center renovations. MCC stated that it has in place procedures for estimating costs, reviewing the Government's budgets, and documenting funds to ensure the availability of proposed commitments for health infrastructure. OIG considers that a management decision has been reached. However, final action will not take place until MCC provides evidence of its reviews on the sufficiency of Government funds.

MCC agreed with Recommendation 6, to develop and implement a strategy to coordinate oversight during renovation of all health centers in the project. MCC has already started to implement a detailed MCC/MCA-Lesotho Infrastructure Oversight and Monitoring Plan. The plan delineates roles for quality assurance, communication protocols, document controls, resource requirements, regular and unannounced site visit schedules to monitor construction, and environmental, social, and safety risks and mitigants. Staffing gaps were identified at MCA-Lesotho, the supervising engineer, and MCC-Lesotho, and are being addressed. OIG considers that a management decision has been reached. However, final action will not take place until MCC provides documentation on its infrastructure oversight and monitoring plan and hiring of staff to address the staffing gaps.

MCC agreed with Recommendation 7, to review health center compliance with the memorandum of understanding on the provision of essential health services. MCC found that the Ministry of Health and Social Welfare is successfully revitalizing community-based and private sector-based distribution of family planning services even though some Christian Health Association of Lesotho centers do not provide these services. The Ministry of Health and Social Welfare deemed that the Christian Health Association of Lesotho provides an adequate minimum set of services for retention as required by the memorandum of understanding between the two organizations. As part of its oversight process, MCC will review facility-based surveys to assess the services delivered by health centers. OIG considers that a management decision has been reached. However, final action will not take place until MCC provides evidence that the Ministry of Health and Social Welfare has successfully revitalized community-based and private sector-based distribution of family planning services.

MCC agreed in part with Recommendation 8, to review the role of the private sector providers in compact implementation, but did not agree to establish a written policy for compliance with service delivery requirements to receive MCC funding. MCC reviewed the role of the private sector in providing health services. In its response, MCC stated that the service delivery requirements are elaborated in the memorandum of understanding between the Government of Lesotho and the private sector health care providers, and MCC has no direct agreements with the private sector under the Health Sector Project. OIG's concern was that MCC funding is being provided to health care providers that do not provide all essential health services, including family planning and condom distribution. However, MCC found that the Ministry of Health and Social Services is successfully revitalizing community-based and private sector-based

distribution of family planning to fill the gap in essential services. Although MCC did not fully agree with the OIG's recommendation, OIG believes that management decision has been reached because its concern over the availability of essential health services has been addressed in an alternative manner; that is, others are filling the gap in essential health services. OIG considers that final action has been taken.

MCC agreed with Recommendation 9, to properly attribute the efforts of other donors in the health sector. MCC responded that attribution of its efforts and those of other donors in the health sector will be determined through the MCC impact evaluation, which is required as part of the monitoring and evaluation plan. OIG considers that a management decision has been reached and that final action has been taken.

MCC agreed with Recommendation 10, to review its strategy for health systems strengthening and determine and document whether it will achieve its intended purpose. MCC reviewed and mitigated the risks with this contract and the contractor is back on track and performing well and on time. MCC believes that the contract outputs also will be met and that the health systems strengthening activity will meet its intended purpose. OIG considers that a management decision has been made and that final action has been taken.

MCC agreed with Recommendation 11, to develop a communications strategy to increase the transparency of project activities and to provide adequate and timely information to other donors and stakeholders. MCA-Lesotho restructured and strengthened its Outreach Department and established and implemented a comprehensive multimedia communications and outreach strategy with the Ministry of Health and Social Welfare. OIG considers that a management decision has been made. However, final action will not be achieved until MCA-Lesotho provides documentation on its communications strategy.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General conducted this audit of the Millennium Challenge Corporation's (MCC) Health Sector Project 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 Health Sector Project in Lesotho because it was MCC's first large-scale health sector project and is important to improving the health and economic well-being of the Basotho. We audited all seven project activities carried out under the $122 million Health Sector Project. We conducted our fieldwork from April 8 to July 12, 2010, at MCC headquarters in Washington, DC, making a site visit to the Millennium Challenge Account (MCA)-Lesotho in Maseru from April 26 to May 14, 2010.

We interviewed officials in MCC's headquarters and at MCA-Lesotho, contractors, implementing entities, and other donors to draw their conclusions about the Health Sector Project. We also obtained and analyzed MCC documentation supporting MCC's due diligence process and the conclusions reached. In addition, we analyzed various aspects of the project, including duplication of services with other donors, attribution of the project's impact to MCC, plans for sustainability, and compliance with MCC guidelines, including those for donor coordination and environmental and social assessment. We conducted these analyses to identify any inefficiencies in the structure of the project and to determine whether the project will continue to provide value over time. We also conducted site visits to five health centers—Domiciliary, Lesotho Defence Force, St. Leo, Thaba Bosiu, and Pilot—and one outpatient department (Berea), and interviewed health care professionals to further our understanding of the challenges facing MCC and to obtain baselines for the project activities.

We examined the internal control environment by identifying and assessing the relevant controls. Controls we tested included supporting documentation for the due diligence process and supervisory controls surrounding the renovation activities.

Methodology

To answer the audit objective, we established audit steps to determine whether the Health Sector Project was structured to increase access to antiretroviral therapy and essential health services by providing a sustainable delivery platform.

Specifically, we performed the following activities:

- Interviewed MCC and MCA-Lesotho officials to gain an understanding of the status of each of the seven Health Sector Project activities and challenges to their successful completion.

- Interviewed other donors to gain an understanding of their programs and to identify any duplication or gaps or concerns with MCC's Health Sector Project.

- Reviewed MCC documents supporting the structuring of the project and its implementation, including the compact, due diligence documents, the monitoring and evaluation plan, and contracts.

- Judgmentally selected health centers and an outpatient department for our site visits.

- Reviewed documents and interviewed officials to analyze the structuring of the project in terms of duplications or gaps, sequencing, timing, accessibility, prioritization, and sustainability.

MANAGEMENT COMMENTS

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

DATE: January 4, 2011

TO: Mr. Alvin Brown, Assistant Inspector General
Millennium Challenge Corporation

FROM: Mr. Patrick C. Fine, Vice President - Department of Compact Operations /s/
Millennium Challenge Corporation

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 Health Sector Project in Lesotho."

MCC's specific responses to the eleven recommendations in the draft report are detailed below.

Recommendation No. 1: Eliminate from the project the nine health centers recommended for decommissioning during due diligence totaling an estimated $8 million unless MCC can substantiate their continued inclusion in the project.

MCC Response: MCC agrees with this recommendation and provides the following substantiation for inclusion of the nine health centers in the Compact. MCC reviewed the original decision to include the nine facilities and found that fifteen facilities were recommended for decommissioning in the Irish Aid funded 2002 Health Center Rationalization Study. Irish Aid's recommendation was based on mapping clients to facilities using geographical distances. The Ministry of Health and Social Welfare (MOHSW) determined that nine of these facilities warranted continued operation based on redistricting of health services to align with the administrative decentralization in 2004, and increased utilization as a result of expanded programs on HIV prevention and treatment and TB control supported by PEPFAR and Global Fund (GFATM). Eight of these were included as priorities for expansion in the original proposal from the MOHSW to MCC, and were visited and assessed in 2006. A ninth facility, Good Shepherd, continues to receive operational support from the MOHSW due to the convenient services it provides to a large catchment population, including special HIV, Prevention of Mother-to-Child Transmission (PMTCT) and health and educational services for young mothers (unwed girls who became pregnant during schooling).

In 2007, the MCC conducted due diligence which included a review of the MOHSW proposal and associated data, visits to three of the eight facilities included in the MOHSW request for enlargement, and the Good Shepherd Health Center. The review recommended that two of the facilities be enlarged based on current facility size that serve more than 75 clients per day, given

the nationwide rollout of expanded HIV and TB services. The review also recommended that the remaining facilities be renovated to attain minimal standards.

All proposed facilities were visited and assessed by the Millennium Challenge Account-Lesotho (MCA-L) between March and June 2009. MCC agreed to include these nine health centers in the MCC funded project based on four factors: (i) the MOHSW decision to maintain services at these facilities, (ii) 2006 MOHSW consultant assessment, (iii) 2007 MCC due diligence assessment, and (iv) MCA-L 2009 assessment of the facilities. Of the nine facilities, six will be renovated under MCC funding, and three will be funded by the GOL. Five of the six MCC funded facilities have been randomly selected as control or treatment facilities under the project's impact evaluation design.

Utilization rates gathered by MCA-L for the nine facilities are provided below.

Center	Patients per day	Renovation funder/contract	Comments
Thaba Bosiu	50	MCC/Lot 1 – Control	Renovate
St. Leonard	70 – 90	MCC/Lot 2	Renovate. St. Leonard overlaps Semonkong HC catchment area. Semonkong HC is not included in the project.
St. Magdalena	100	MCC/Lot 1 – Control	Renovate
Pontmain	70	MCC/Lot 1 – Control	Renovate
Mahobong Clinic	100	GOL/Lot 3	Expand based on current facility size and more than 75 patients per day
Peka	100+	MCC/Lot 1 – Treatment	Relocate and expand based on current facility size and more than 75 patients per day
St. Monicas	60	MCC/Lot 1 – Control	Renovate
Holy Family	80	GOL/Lot 4	Renovate
Good Shepherd	150	GOL/Lot 4	Renovate. General clinic and special services facility catering to young mothers (PMTCT, ANC, ART).

Based on the aforementioned review, MCC finds that there is appropriate and sufficient substantiation for the inclusion of the nine health centers in the project. The remaining six centers identified by Irish Aid have not been included.

Recommendation No. 2: Determine whether to renovate 20 health centers that did not meet the Health Center Rationalization Study's retention criteria, and document the analysis and the decision.

MCC Response: MCC agrees with this recommendation. MCC reviewed the source documents and the min-max algorithm used to assess clinics in the 2002 Irish Aid financed Health Center Rationalization Study. The algorithm was designed to identify clinics that were outliers for coverage – where they either provided redundant coverage or were in areas with no other coverage. The twenty health centers were determined not to have extensive overlapping coverage, and therefore were recommended for retention. These clinics were not identified by name in the report, and we have been able to specifically identify only a few of them based on the available evidence. All clinics in the Health Sector Project have been visited and reviewed by MCA-L (March – June 2009) and confirmed by the MOHSW. In addition, utilization rates have expanded rapidly in the past few years at all clinics, reflecting the Government's commitment to free provision of essential health services at both GoL and Christian Health Alliance health centers. This expanded usage is evident in the improved health statistics, including the 52 percent (2009) of persons living with AIDS currently receiving antiretroviral drug therapy (ART).

Recommendation No. 3: Determine whether the District Health Management Teams will be functional upon health center completion; document the assessment; and implement additional mitigation measures, if necessary, to manage the risk to sustainability.

MCC Response: MCC agrees with the need for this determination. To manage the sustainability risk, the Compact currently supports capacity building of District Health Management Teams (DHMTs) through the Health Systems Strengthening contract. In addition, MCC supports other health donor funded activities in this area, including close collaboration and support of the US PEPFAR AID support of capacity building of DHMTs. MCC participates in a joint donor working group, quarterly oversight of accomplishments, and a joint annual review of the health sector, including decentralization indicators. As a result, the MOHSW is decentralizing the first three of ten essential services from April 2011. MCC will formally review these efforts again in September 2011 and determine if additional measures are needed to reduce sustainability risks.

Recommendation No. 4: Develop a policy requiring conditions precedent to focus on outcomes, where appropriate, rather than prescribing specific activities.

MCC Response: MCC agrees with the importance of establishing appropriate conditions precedent specified to achieve program outcomes and objectives. MCC, in developing a Compact, utilizes various types of conditions precedent for multiple uses based on specific need, including but not limited to enforcing compliance on process milestones and demonstrating progress on outcomes. Therefore, MCC appreciates the importance of outcome conditions precedent as one tool in ensuring program and policy reforms.

With respect to the Lesotho health project, the conditions precedent were specifically designed to mitigate the risk that the GoL would not provide sufficient oversight to health services, given changes in governance expected outside of the health sector, as a result of the 1997 decentralization law. The associated conditions precedent provide pragmatic steps and processes to ensure that the GoL is successfully moving forward on resolving governance issues.

Recommendation No. 5: Ensure that the Government of Lesotho allocates sufficient amounts in their annual budget to cover the cost of the health center renovations and documents its review.

MCC Response: MCC agrees with this recommendation. MCC and MCA-L have in place procedures for estimating costs, reviewing GoL budgets, and documenting funds to ensure availability of GoL's proposed commitments for health infrastructure. This includes input to ministry budget planning, review of the annual government budget approved by Parliament in April of each fiscal year, and yearly review by an MCC hired external consultant of the MOHSW annual budget and recurrent costs.

Recommendation No. 6: Develop and implement a strategy to coordinate oversight during renovation of all health centers in the project.

MCC Response: MCC agrees with this recommendation and has already started to implement a detailed MCC/MCA-L Infrastructure Oversight and Monitoring Plan developed in collaboration with MCA-L. This plan clearly delineates respective roles in program quality assurance and quality control monitoring and oversight of stakeholders including, MCA-L works contractors, the MCA-L supervising engineer (PMCS), MCA-L infrastructure staff, MCC Resident Country Mission (RCM), MCC DC staff and the MCC Independent Engineer. The plan also defines communication protocols, information sharing protocols, quality control/quality assurance, document controls, resource requirements, and regular and unannounced site visit schedules to continually monitor construction, environmental, social and safety risks and mitigants. Implementation of this plan has led to identification of staffing gaps in the MCA-L, the PMCS and the MCC RCM which are currently being addressed. MCA-L has identified the need to hire an additional 4 junior level infrastructure staff, as well as an additional environmental, safety and social specialist to assist with monitoring. Likewise, MCA-L has required the PMCS to increase Human Resources to address its capacity to appropriately monitor all health infrastructure contracts. Finally, the MCC RCM has hired an additional engineer to strengthen its oversight capacity.

Recommendation No. 7: Review health center policies and practices to determine whether they comply with the memorandum of understanding establishing that health center must provide all essential health services, and document its review. If health centers are not complying, MCC needs to take appropriate action and document its rationale.

MCC Response: MCC agrees with this recommendation. The memorandum of understanding (MOU) requires the MOHSW to deliver a minimum package of services at primary care facilities. MCC has reviewed the issue and accepts the MOHSW position on family planning services. The MOHSW negotiates individually with facilities that choose not to provide family planning services and is attempting to ensure that family planning services are provided at alternate sites. The MOHSW is successfully revitalizing community based and private sector based distribution of family planning services despite some Christian Health Association of Lesotho (CHAL) centers not providing these services. The CHAL clinics do provide other critical health

services, including pre and post natal care, newborn care, delivery and PMTCT. Therefore, the MOHSW deems that these facilities provide an adequate "minimum" set of services for retention in the MOHSW-CHAL MOU. As part of MCC oversight process, it will review the 2010 facility-based survey and following surveys carried out in collaboration with MOHSW and the Bureau of Statistics (BOS) as part of the MCA-L M&E Plan as stipulated in the Implementing Entity Agreements with MOHSW and BOS. These surveys will provide an assessment of services delivered by health centers, among other data, on a regular basis.

Recommendation No. 8: Review and document the role of the private sector providers in compact implementation and establish a written policy for compliance with service delivery requirements to receive MCC funding.

MCC Response: MCC agrees with this recommendation and under the Lesotho Health Sector Project, the MOHSW has established a service based agreement with each CHAL institution and the Lesotho Red Cross/Red Crescent Society, which requires compliance with the free provision of minimal essential services. As noted under recommendation 7, above, CHAL facilities are able to opt out of family planning services on a case by case basis but can still be deemed to meet the minimum requirements. MOHSW ensures compliance through documented routine accreditation surveys. Facilities not providing minimum set of requirements, including child health, antenatal, and HIV services, are subject to additional oversight, management intervention and/or loss of funding from the MOHSW. To date, provision of public financing has been a strong incentive to adoption of consistent service standards across CHAL and MOHSW facilities. Based on its structuring of the Compact, MCC has no direct agreements with the private sector under the Health Sector Project. Compliance with service delivery requirements is elaborated within the aforementioned service based agreements.

Recommendation No. 9: Revise its Health Sector Project monitoring and evaluation plan to properly attribute the comprehensive efforts being provided by other donors.

MCC Response: MCC agrees with this recommendation and already has plans, built on international best practice, to evaluate the impacts of the MCC activities. A rigorous impact evaluation, based on randomized case-control methodologies, has been developed and will be conducted by independent third party evaluators as specified in the impact evaluation section of the project's M&E plan. Separate attribution of MCC efforts will be determined through this impact evaluation.

Recommendation No. 10: Review its strategy for health systems strengthening and determine and document whether it will achieve its intended purpose. If not, MCC needs to take appropriate action.

MCC Response: MCC agrees with this recommendation. Contract management has been improved by MCA-L, MOHSW and the contracted firm. The health systems strengthening (HSS) contractor is back on track, currently performing well and on time, and contract outputs are expected to be met. MCA-L has analyzed and mitigated risks identified with this contract at the time of the June 2010 OIG field visit. Concerted efforts by MCC, MCA-L, MOHSW and the HSS contractor have led to improved strategic plans and input quality for the three key areas of health systems strengthening (decentralization, human resources, and health information

services). Revitalization of multi-donor working groups in all three areas has improved coordination and responsibilities for outcomes. Currently, based on this review and these recent positive indications, MCC believes that its strategy for health systems strengthening will meet its intended purpose. Contractor performance is reviewed annually at the 2011 Annual Joint Review by all health development partners.

Recommendation No. 11: Verify that MCA-L develops a comprehensive, documented communications strategy to increase the transparency of its project activities and provide adequate and timely information to other donors and stakeholders for use in coordinating efforts.

MCC Response: MCC agrees with this recommendation. With support from MCC, in 2009 MCA-L restructured and significantly strengthened its Outreach Department. As a result, MCA-L has established and implemented a comprehensive multi-media communications and outreach strategy with MOHSW to ensure transparency of information regarding the health activities in the Compact. These include quarterly publications of progress and news reports, participation in town and community outreach activities across all 10 districts, regular radio messaging, TV messaging, public ground-breaking ceremonies and participation in MOHSW technical working groups with MOHSW and other health partners. Likewise, the MCC RCM participates in regular donor meetings and technical working groups to assure information sharing within the donor community and to assure coordination of strategic planning with the MOHSW.

Thank you for the opportunity to provide our comments on the draft report.

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