



Office of Inspector General

March 18, 2013

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

Dear Mr. Fine:

This letter transmits the Office of Inspector General's report on the MCC-funded program in Senegal (Report No. M-000-13-001-S). 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 one recommendation. We consider that final action has been reached on the recommendation.

We appreciate the cooperation and courtesy extended to our staff during this audit.

Sincerely,

/s/

Richard J. Taylor
Deputy Assistant Inspector General for Audit
Millennium Challenge Corporation

SUMMARY

The Millennium Challenge Corporation (MCC) signed a 5-year, \$540 million compact with the Government of Senegal in September 2009. The compact aims to reduce poverty and stimulate economic growth through two major infrastructure projects:

- The Roads Rehabilitation Project (\$324 million) will rehabilitate segments of two national roads, totaling nearly 400 kilometers.
- The Irrigation and Water Resources Management Project (\$170 million)¹ will extend and improve the quality of the irrigation system in northern Senegal.

The Millennium Challenge Account-Senegal (MCA-Senegal) is the host-government entity charged with implementing the terms of the compact. The compact entered into force in September 2010 and will end in September 2015. As of September 2012, MCA-Senegal had committed approximately \$48 million of the compact.

The objective of this audit was to determine whether the MCC-funded projects in Senegal were achieving their compact goals. However, because the projects were behind schedule and minimal construction work had begun, the Office of Inspector General (OIG) opted to prepare this nonaudit report based solely on our work at MCC headquarters in Washington, D.C.

OIG found that:

- The projects were behind schedule, due primarily to delays in obtaining acceptable project designs (page 2). MCC officials said there is still sufficient time to complete the projects before the compact ends.
- The projects involve extensive resettlement, which could cause further delays if not implemented properly (page 2).
- The projects' long-term maintenance and sustainability rests with the Government of Senegal (page 3).

To address our concern with resettlement, OIG recommends that:

1. MCC determine that MCA-Senegal has identified viable options for compensating those affected by resettlement in Senegal and developed a written plan to timely implement the resettlement activities (page 3).

Detailed findings appear in the following section. Appendix I describes the audit scope and methodology. Appendix II presents MCC's comments, and our evaluation of them is on page 4.

¹ The remaining compact funds are primarily for program administration.

REVIEW RESULTS

Projects Behind Schedule

The MCC-funded roads and irrigation projects in Senegal must be completed by September 2015, when the compact ends.

However, both projects are behind schedule due primarily to delays in obtaining acceptable project designs. MCC officials said the design contractors were either late or provided designs that required refinement, which delayed awarding the construction contracts. Also, more time was needed to address resettlement issues.

The officials said sufficient time remains within the compact to complete the projects as intended, but there is very little slack in the schedule. Senegal has pledged at least \$12 million in additional funds if budget shortfalls occur as the projects move forward.

Although MCA-Senegal intends to award all remaining major contracts by April 2013, if more delays occur, the projects might not achieve their goals. To help maximize the projects' success within the limited time remaining, MCC officials said they have:

- Helped strengthen MCA-Senegal's process for selecting technically competent contractors with the greatest chance of completing the projects.
- Helped strengthen MCA-Senegal staff's contract management skills to manage the road and irrigation projects effectively.
- Suggested that MCA-Senegal add staff to help manage the road and irrigation projects.

Because MCC has taken these actions, OIG is not making any recommendations at this time.

Projects Involve Extensive Resettlement

As outlined in MCC's resettlement guidance, MCA-Senegal must compensate people who lose land, assets, or access to resources due to an MCC-funded project. The affected people must be compensated and their property moved or acquired before construction can proceed.

MCA-Senegal had planned to provide land as in-kind compensation to many of those affected by the projects, but the land originally identified was not suitable, so MCA-Senegal is reconsidering its options. Nearly 3,900 people will be affected by resettlement on the road project and nearly 1,800 people on the irrigation project.

Implementing resettlement properly is crucial to the success of MCC-funded projects. In our December 2012 report on MCC's resettlement activities,² OIG found problems with the implementation and documentation of resettlement activities in a selected country. Twenty percent of those affected by resettlement had not received full, timely compensation,

² "Audit of the Millennium Challenge Corporation's Resettlement Activities" (Report No. M-000-13-002-P), December 6, 2012.

and because of inadequate documentation, OIG could not confirm that proper compensation payments were made.

The OIG report made several recommendations to improve oversight of resettlement and clarify processes for making and documenting proper resettlement transactions. MCC agreed with the recommendations and will take actions to respond. Many of these actions, however, will not be completed until late 2013.

To help ensure that MCA-Senegal successfully implements resettlement and avoids problems similar to those OIG identified elsewhere, we make the following recommendation.

Recommendation 1. *We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, determine that Millennium Challenge Account-Senegal has identified viable options for compensating those affected by resettlement in Senegal and developed a written plan to timely implement the resettlement activities.*

Sustainability Rests With the Government Of Senegal

The MCC-funded infrastructure projects in Senegal must be maintained properly once they are completed so they are sustainable for many years after the compact ends. Long-term maintenance of the improved roads and irrigation works will be provided and funded by the Government of Senegal. MCC required the government to take actions to minimize the risk of inadequate maintenance funding.

For the roads maintenance, MCC required the government to develop a schedule for eliminating the gap between the needed annual maintenance funding and the available annual funds. The government projects that by 2015, the gap will be zero. MCC will continue to monitor the government's progress in closing this gap.

For the irrigation maintenance, MCC required the government to develop an action plan for ensuring that maintenance services were improved and that maintenance funding—a combination of government funds and user fees—was adequate. MCC will review the government's efforts to ensure that appropriate funding levels continue.

Because MCC has taken action to ensure that funding is available for maintenance, OIG is not making any recommendations at this time.

EVALUATION OF MANAGEMENT COMMENTS

MCC provided written comments on the draft report that are included in their entirety in Appendix II of this report. MCC agreed with Recommendation 1, to determine that MCA-Senegal has identified viable options for compensating those affected by resettlement in Senegal and developed a written plan to timely implement the resettlement activities.

MCC confirmed that MCA-Senegal has identified viable options for compensating all persons affected by the project in Senegal. MCC reports that MCA-Senegal has taken the following steps:

- Finalized all resettlement action plans and developed a realistic schedule to implement all resettlement tasks.
- Found replacement land for those who have large losses of land or who will not accept cash compensation.

MCC also has approved contracts with a financial institution to ensure timely, secure and verifiable delivery of compensation. MCC has determined that MCA-Senegal has developed two written resettlement implementation plans and a dashboard to ensure timely implementation of its resettlement activities. OIG acknowledges MCC's management decision and final action on this recommendation.

SCOPE AND METHODOLOGY

Scope

OIG conducted this audit of the MCC-funded program in Senegal 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 in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

MCC signed a compact with the Government of Senegal for \$540 million that entered into force in September 2010. We reviewed both projects being funded by the compact: the Roads Rehabilitation Project and the Irrigation and Water Resource Management Project. We conducted our fieldwork from November 28, 2012, to February 7, 2013, at MCC headquarters in Washington, D.C. Because the projects were behind schedule and minimal construction work had begun, OIG prepared this nonaudit report based solely on our work at MCC headquarters.

Methodology

To answer the audit objective, the audit team met with MCC officials to gain an understanding of compact activities. We analyzed documents and reports to identify concerns. Specifically, we performed the following:

- Interviewed MCC officials to gain an understanding of the project activities.
- Reviewed documents supporting the project activities, including the compact, due diligence documents, the monitoring and evaluation plan, and progress reports.
- Met with officials of other donor organizations to gain an understanding of the working environment in Senegal.

MANAGEMENT COMMENTS



DATE: February 25, 2013

TO: Richard J. Taylor
Deputy Assistant Inspector General for Audit
Office of Inspector General
Millennium Challenge Corporation
/s/

FROM: Patrick Fine
Vice President
Department of Compact Operations
Millennium Challenge Corporation

SUBJECT: MCC's Response to the Office of Inspector General's (OIG) Draft Report "Audit of the Millennium Challenge Corporation's Funded Program in Senegal".

Dear Mr. Taylor:

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the OIG draft report entitled "Audit of the Millennium Challenge Corporation's Funded Program in Senegal". MCC's specific response to the recommendation noted in the draft report is detailed below.

***Recommendation 1:** We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, determine that Millennium Challenge Account-Senegal has identified viable options for compensating those affected by resettlement in Senegal and developed a written plan to timely implement the resettlement activities.*

MCC's Response: MCC agrees with this recommendation and confirms that the Millennium Challenge Account-Senegal (MCA-Senegal) has identified viable options for compensating all persons affected by the project (PAPs) in Senegal. MCC is actively monitoring (and will continue to monitor) MCA-Senegal's implementation of its resettlement compensation strategy.

MCC has reached this determination based on the steps undertaken to date to ensure effective and timely PAP compensation. Specifically, MCA-Senegal (with MCC's assistance and oversight) has taken the following steps: (i) finalized all resettlement action plans (RAPs) and

developed a realistic timetable of all resettlement tasks to be implemented; and (ii) found replacement land for PAP cases that have larger losses of land or who will not accept cash compensation in the Delta. MCC has also approved contracts with a financial institution to ensure timely, secure and verifiable delivery of compensation to PAPs. MCA-Senegal shall execute this agreement shortly.

MCC has furthermore determined that MCA-Senegal has developed (i) two written resettlement implementation plans; and (ii) a dashboard to ensure timely implementation of its resettlement activities.

This constitutes MCC's formal response to the draft report as well as Management Decision and Final Action for the above recommendation. If you have any questions or require any additional information, please contact Pat McDonald, Compliance Officer at 202-521-7260.

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