



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/MOROCCO'S ECONOMIC COMPETITIVENESS PROJECT

AUDIT REPORT NO. 7-608-12-002-P
DECEMBER 15, 2011

DAKAR, SENEGAL



Office of Inspector General

December 15, 2011

MEMORANDUM

TO: USAID/Morocco Mission Director, John Groarke

FROM: Acting Regional Inspector General, Benjamin Owusu /s/

SUBJECT: Audit of USAID/Morocco's Economic Competitiveness Project (Report Number 7-608-12-002-P)

This memorandum transmits our report on the subject audit. In finalizing the report, we carefully considered your comments on the draft and have included your comments in Appendix II.

The report includes 12 recommendations. On the basis of actions taken by the mission and supporting documentation provided, we determined that final action has been taken on Recommendations 3, 5, 6, 7, 8, and 9, and that management decisions have been reached on Recommendations 1, 2, 4, 10, 11, and 12.

Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

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

CONTENTS

- Summary of Results** 1
- Audit Findings**..... 5
 - Task Order Was Poorly Designed..... 5
 - Pottery Training Was Ineffective, and Women and Youth Were Not Included..... 6
 - USAID and Partner Communication Was Inadequate 8
 - Performance Indicators Were Not Clearly Established or Approved..... 11
- Evaluation of Management Comments** 14
- Appendix I – Scope and Methodology** 16
- Appendix II – Management Comments** 18
- Appendix III – Fiscal Year 2011 Standard Economic Growth Indicators** 23

Abbreviations

The following abbreviations appear in this report:

- ADS Automated Directives System
- COTR contracting officer’s technical representative
- DQA data quality assessment
- EG economic growth
- FY fiscal year
- PMP performance management plan

SUMMARY OF RESULTS

Morocco has a diverse and fairly stable economy, with real gross domestic product projected to increase by at least 4.1 percent annually through 2015.¹ The Government of Morocco seeks to increase competitiveness in its leading sectors—energy, fisheries, industry, commerce, agriculture, tourism—to continue growth and reduce unemployment, especially among young Moroccans.²

As of September 30, 2011, under the current strategy (2009–2013), the USAID/Morocco economic growth (EG) portfolio included five projects with total estimated funding of approximately \$30 million. In fiscal years (FYs) 2010 and 2011, the mission obligated \$14.4 million and expended \$7.7 million for EG activities. Of these activities, the Morocco Economic Competitiveness Project was selected for the audit as it represents about 90 percent of the EG portfolio.

According to the project task order, the Morocco Economic Competitiveness Project provides technical assistance to improve Morocco's economic enabling environment, primarily in the Oriental and Doukkala-Abda Regions. Economic growth in Morocco, and improved youth employment in particular, depends on the nation's ability to be competitive in the global economy, which in turn requires that the barriers to productivity improvements as well as to trade and investment be reduced. Achieving this objective requires that the economic enabling environment in Morocco be improved, that scarce water resources be sustainably used for agriculture, and that the workforce have the skills required by a modern economy. The project runs from December 3, 2009, to September 30, 2013, with a contract ceiling of about \$27 million. The task order provides an optional \$7 million, 1-year extension, but because of anticipated budget cuts, a change in mission strategy, complications with the task order, and poor implementation of some activities, it is unlikely the project will be extended. As of September 30, 2011, \$11.0 million had been obligated and \$7.4 million had been expended under the project.

This audit was conducted to determine whether the Morocco Economic Competitiveness Project was achieving its main economic growth goals of improving the business enabling environment, using water sustainably for agricultural growth, and strengthening workforce development.

Even though the majority of activities were still in their early stages of development, the audit determined that the mission was not on track to achieve its goals, for the following reasons.

Although 63 percent of activities listed in the task order had started at the time of the audit (the project's midpoint), 30 percent of activities likely will not achieve their expected results by the end of the project. In particular, progress has been limited under the project's component to improve the economic enabling environment because of a lack of support by USAID and the Government of Morocco. Seven of the ten tasks listed in the task order under this component had not started, and it is unlikely that DAI/Nathan Group (referred to in this report as DAI, the project's main implementing partner) will be able to achieve these activities' anticipated results. Inadequate communication led to project delays and continued disagreement between USAID and DAI about which tasks to implement and when and how they should be implemented.

¹ Business Monitor International Ltd., *North Africa Business Forecast Report, Q4 2011*, August 11, 2011.

² U.S. Department of State, Bureau of Near Eastern Affairs, "Background Note: Morocco," April 20, 2011.

With regard to results achieved, the mission's performance management plan (PMP) had not been updated, and the partner's PMP had not yet been approved, even though the project started in early December 2009. Since performance indicators were not clearly established, it was not meaningful to measure progress by comparing actual results with targets. Furthermore, no results were reported for FY 2010, and final FY 2011 results were not yet available at the time of this audit.

The audit team also identified other areas for improvement, as summarized below:

- The task order was poorly designed (page 5).
- Pottery training was ineffective, and women and youth were not included (page 6).
- USAID and partner communication was inadequate (page 8).
- Performance indicators were not clearly established or approved (page 11).

Despite these problems, the mission and DAI reported that other tasks have been making progress and that project management has improved, as in the following examples:

- USAID and DAI have developed good relationships with their partners. This is essential because the Morocco Economic Competitiveness Project requires collaboration from many national, regional, and local partners. For example, one Ministry of Agriculture official commented that she enjoyed working with USAID and that USAID was easier to work with than some other donors.
- For the sustainable water use for agriculture component, activities generally have been proceeding smoothly, and strong results are expected soon. For example, many grants have been approved recently, and grant recipients expressed a great deal of gratitude and optimism. Beneficiaries will benefit by increasing production or by diversifying or improving the quality of their products through grants that will allow them to obtain technical assistance, equipment, water-efficient drip irrigation systems, and the like.
- A new individual has been named as EG office director and as the contracting officer's technical representative (COTR) for the project award. USAID and DAI staff members noted that morale has improved, and they are optimistic that communication and project management will be much improved.

Nevertheless, to address the identified weaknesses, the Regional Inspector General/Dakar recommends that USAID/Morocco:

1. Develop a plan to address the concerns with the task order, and revise the task order accordingly (page 6).



A Moroccan farmer shows that he is using a more water-efficient drip irrigation system. (Photo by Office of Inspector General, September 2011)

2. Work with DAI/Nathan Group to develop a mutually agreed-upon schedule of activities to be completed for the remainder of the project, and revise the work plan accordingly (page 6).
3. Work with DAI/Nathan Group to establish a plan to ensure that relevant, effective, and high-quality training sessions are provided to beneficiaries (page 8).
4. Work with DAI/Nathan Group to establish and implement a plan with concrete actions and deadlines to include women and youth in project activities as intended in the Morocco Economic Competitiveness Project, or remove this focus from the task order (page 8).
5. Work with DAI/Nathan Group to develop and implement a plan to improve cooperation in a way that more closely reflects the intent of the project (page 11).
6. Approve DAI/Nathan Group's work plans and quarterly reports, and document site visits using the standard reporting template (page 11).
7. Establish a plan to communicate activity approvals or disapprovals to DAI/Nathan Group in writing, and if applicable, explain the reasons for disapproving activities (page 11).

8. Require DAI/Nathan Group to document problems and challenges in its monthly and quarterly reports (page 11).
9. Require DAI/Nathan Group to develop a plan to involve regional coordinators in and inform them of all activities in the regions (page 11).
10. Develop and approve indicators and revise targets in its performance management plan (page 13).
11. With DAI/Nathan Group, establish an approved set of indicators and update targets in the Morocco Economic Competitiveness Project's performance management plan and verify that it aligns with USAID's performance management plan (page 13).
12. Reperform and document data quality assessments for economic growth indicators (page 13).

Detailed findings appear in the following section. Appendix I contains a description of the audit scope and methodology. Our evaluation of management comments is on page 14, and the full text of management comments appears in Appendix II.

AUDIT FINDINGS

Task Order Was Poorly Designed

On December 3, 2009, USAID/Morocco entered into a 4-year, \$27 million task order (with the option of a \$7 million, 1-year extension) with DAI to implement the Morocco Economic Competitiveness Project. The objective of the project is to provide technical assistance to improve Morocco's economic enabling environment by (1) improving the business climate, (2) using water sustainably for agricultural growth, and (3) strengthening workforce development. However, the task order was poorly designed.

The task order proposed activities that did not harmonize with the EG office's results framework, which lists as the primary objective reducing barriers to trade and investment. Given that the project makes up about 90 percent of USAID's EG portfolio, it is the mission's primary mechanism for achieving its assistance objective. According to the task order, the project's overall objective is to improve the economic enabling environment, but only one of three components (business climate improvement) directly addresses this area. It is even more problematic that only 1 of the 27 project tasks directly deals with the promotion of trade, and only a few other activities identify market opportunities for high-value, water-efficient local products. Furthermore, because the business climate improvement component of the project suffers from a lack of support by USAID and the Government of Morocco, it has experienced significant delays. After 2 years of implementation, seven of the ten activities listed in the task order under this component had not started, and it is unlikely that DAI will be able to achieve these activities' anticipated results.

Furthermore, the task order did not synchronize its three components to form an integrated project that addressed (1) business climate improvement, (2) sustainable water use for agriculture, and (3) workforce development. Despite attempts by USAID and DAI to create an integrated project, the three components have not worked well together and have not received equal attention. According to a USAID staff member, some funds intended for Component 1 were used for activities that overlapped with the scope of work for Component 2.

Further, under Component 1, the task order lists activities such as the reform of the commercial registry and bankruptcy law; promotion of alternative dispute resolution; implementation of the common business identifier (to facilitate the exchange of business information between public administrations); and facilitation of property transfers, construction permits, and business registration. However, because of the shifting priorities of USAID and the Government of Morocco, many of these tasks no longer have the support of key stakeholders and may not be implemented. Limiting DAI's scope of work to these activities hampers its ability to respond to shifting stakeholder priorities and achieve the end result of improving the business climate.

Both USAID and DAI agree that the task order is overly prescriptive and should be modified. It focuses on specific tasks and activities instead of on the results that the tasks are to achieve. The mission was aware of the problems with the task order, but no action had been taken at the time of the audit, mainly because of the lack of communication within USAID, the partners, and others (discussed in more detail later in the report) and because of disagreements among the parties in prioritizing the tasks. The key individuals responsible for designing the task order are no longer at the mission, and the problems were passed on to the next COTR without

resolution. DAI agreed and recognized the problems with the task order, but continued to focus on completing the tasks.

As a result, many activities have been delayed. As of October 2011, DAI reported that it had started to implement about 63 percent of the activities (some of which have deviated slightly from the task order) and that about 30 percent of its activities (mainly Component 1) would not likely achieve the expected results by the end of the project. As discussed previously, this is mainly because of the lack of support from USAID and the Government of Morocco. Furthermore, disagreement between USAID and the partner and confusion over the project's third-year work plan continue and will likely hinder the project's ability to meet its overall goal of improving Morocco's economic enabling environment or the EG assistance objective of reducing barriers to trade and investment. Given these problems with the task order, as well as anticipated budget reductions, it is unlikely that the project will achieve its overall goals.

To address these problems, this audit makes the following recommendations.

Recommendation 1. *We recommend that USAID/Morocco develop a plan to address the concerns with the task order and revise the task order accordingly.*

Recommendation 2. *We recommend that USAID/Morocco work with DAI/Nathan Group to develop a mutually agreed-upon schedule of activities to be completed for the remainder of the project and revise the work plan accordingly.*

Pottery Training Was Ineffective, and Women and Youth Were Not Included

USAID's Automated Directives System (ADS) 201.3.8 states that USAID missions should devise foreign assistance programs and activities to have the greatest possible development impact, given available resources, including those of their development partners. However, a pottery training activity was poorly implemented and had limited impact. The project's intention to focus on women and youth also was not fulfilled.

Pottery Training Was Poorly Implemented. The purpose of the project's pottery sector activities is to support the commercialization of pottery products in domestic and international markets. To accomplish this goal, DAI contracted a U.S.-based pottery trainer to provide local potters with several weeks of training. However, according to four out of six training attendees interviewed, the training was ineffective. Specifically, the potters noted that the translation provided was inadequate, the training materials used were not relevant to the class, and the trainer was not prepared for class. These weaknesses are discussed below:

- **Translation Services Were Inadequate.** Even though DAI hired a translator for the training sessions, participants were unable to understand much of the training. The instructor spoke only English, and participants primarily spoke Arabic. The translator admitted that he is not fluent in English and did not always understand the instructor. DAI's regional coordinator attempted to act as translator during certain periods of the training, but his English was even more limited than the translator's. DAI officials conceded that better preparation should have been made for a translator but added that this would have significantly increased the training costs. As a result of the language barrier, participants interviewed said they lost

interest because they could not understand the course, and the trainer and translator became frustrated at participants' lack of understanding.

- **Training Materials and Tools Used Were Not Available Locally.** Participants expressed frustration over the training materials and tools used by the trainer. They noted that the clays and dyes used by the trainer were unavailable for local purchase. Therefore, the techniques demonstrated during the training could not be replicated in Morocco. This situation occurred because of lack of planning by DAI officials to ensure that tools used during the training could be purchased locally by the participants.
- **Trainer Quality Could Be Improved.** Participants were frustrated by the forgetfulness of the trainer. They claimed that he forgot to bring materials needed for class and proceeded with a new lesson before completing the previous one.

Two DAI employees attended parts of the training session, yet each had a different assessment of the training provided. DAI's component manager disagreed with the observations above and believed that the quality of the training was adequate. He claimed that he could provide positive feedback received from training participants. He also added that USAID, not DAI, initially chose to assist the pottery sector. The regional coordinator, however, agreed with the negative feedback and also concluded that the training was ineffective. He discussed his concerns with the component manager but did not have the authority to challenge the manager's viewpoint. USAID officials did not attend the training and were unaware of the extent of the problem.

As a result of the training deficiencies, several potters stopped attending the sessions. One trainee estimated that about one-third of the participants in her class stopped attending; of those who continued to attend, several arrived only to sign the participant list in the morning and enjoy the free lunch provided for participants. They were absent for most of the session even though their names appeared on the attendance lists. DAI reported training 56 people in two different classes, yet the trainee estimated that only 10 individuals attended her class intermittently.

Although DAI stated in its quarterly report that it had assisted 82 people in the pottery sector, the true number of beneficiaries was lower for the reasons described above. Overall, the events that the beneficiaries described were not what was intended by the program, and approximately \$111,000 of USAID assistance to the pottery sector was being used to assist a small number of individuals.

Focus on Women and Youth Was Limited. The project was designed to focus on women and youth, yet little has been done to benefit these targeted groups. According to the project task order, only 29 percent of women, compared with 86 percent of men, participate in Morocco's urban labor market. Youth unemployment is a national concern given the recent political instability in the region.

A gender report determined that gender was largely unexamined by the Moroccan Government and that women worked as their husbands dictated. A DAI report listed 41 types of project-funded training activities, yet women accounted for only 25 percent of trainees. Without a specific focus on women and youth, it has been merely coincidental that some of DAI's work has improved the lives of some women and youth. The project could include these targeted groups by implementing the plan laid out by the author of the gender report. For example, the author suggested that gender be integrated into the design and implementation of grant activities and that training activities be planned to ensure women's access to the events. The

project could also choose to focus specifically on industries that employ more women and youth, such as textiles.

The mission explained that, “for historical and cultural reasons, many of the areas the project was designed to address have been and continue to be dominated by men.” Mission officials are aware of this challenge, but the mission relied on DAI to implement the activities and did not adequately ensure that they were being well implemented. Without improved monitoring, activities including those described above may continue to underperform, and the project likely will not achieve its objective of improving Morocco’s economic enabling environment or achieve the overall EG assistance objective of reducing barriers to trade and investment. Furthermore, poor project implementation may tarnish USAID’s reputation and discourage participation in other USAID-funded activities.

To improve performance, this audit makes the following recommendations.

Recommendation 3. *We recommend that USAID/Morocco work with DAI/Nathan Group to establish a plan to ensure that relevant, effective, and high-quality training sessions are provided to beneficiaries.*

Recommendation 4. *We recommend that USAID/Morocco work with DAI/Nathan Group to establish and implement a plan with concrete actions and deadlines to include women and youth in project activities as intended in the Morocco Economic Competitiveness Project, or remove this focus from the task order.*

USAID and Partner Communication Was Inadequate

ADS 200 explains that “the primary responsibility of an assistance objective team is to make decisions in designing and implementing activities and projects related to accomplishing the result. Another essential function is to ensure open communication and collaboration across organizational boundaries at all phases of the development process.” ADS 200.3.2.3 specifies that “USAID believes that teamwork and participation increase the effectiveness of its work by drawing in, on a collaborative basis, those who have expertise or interest in the outcome of its work, including members beyond USAID staff.”

However, communication within and between USAID and its partners was inadequate, as described below.

Communication Within USAID. During the first 2 years of project implementation, the Morocco Economic Competitiveness Project was managed directly and indirectly by five people: an Office Director, a COTR (who managed the contract and also oversaw technical implementation of Component 2), two activity managers (who oversaw technical implementation of Components 1 and 3), and a newly assigned private enterprise officer who provided indirect assistance. Given the large number of individuals involved with managing this task order, communication and collaboration among team members was essential for ensuring an integrated project. However, there was an overall lack of communication. Information was not shared among team members, and they did not discuss suggestions regarding implementation of the project with one another.

Several activities, ideas, and suggestions for improving the implementation of the project were not shared among the team members, causing delays, disagreements, and confusion over the task order. For example, during this period of implementation, the activity manager informed the previous COTR that it would be difficult to implement some parts of Component 3 that deal with employment law because officials at the Ministry of Employment had expressed their concern that these activities would not be supported by the government. Despite the warnings, the COTR had not taken any actions to address the issue, and the activities remain in the task order. In addition, according to the current COTR, the previous COTR did not share with the team DAI's FY 2011 work plan for 2 to 3 months; when an activity manager finally provided comments on the work plan, the comments were not considered.

The previous COTR also maintained very little documentation during the first 2 years of implementation supporting his disapproval of many of DAI's proposed activities. Furthermore, even though the mission had developed a standard site visit reporting template, the EG team was not using it. Some visits were not documented, and those that were documented were documented inconsistently. The EG team was unable to locate any trip reports from the prior office director or COTR. The EG office admitted that its file-keeping system was inadequate. The lack of documentation has caused significant difficulty for the transition of the new COTR.

In addition, communication essential to managing the agreement was difficult because there was no controller, legal advisor, or contracting officer at the mission; USAID/Egypt provided these services. A controller arrived in September 2011.

Communication Between USAID and DAI. DAI staff were often frustrated with USAID's poor communication about the project. During the first 2 years of implementation, USAID disapproved numerous activities proposed by DAI without properly communicating its reasons, except by sometimes stating that the activities were "not a priority" even though they were included in the task order's scope of work. DAI asked to meet with USAID to discuss the disapprovals further, but the previous COTR refused until shortly before he left USAID. The COTR's disapprovals of the activities were made by telephone to DAI and were never formally documented in a letter.

Furthermore, USAID was unresponsive on certain important matters while it micromanaged others. For example, DAI was not to communicate directly with any government officials, including a ministry's Secretary General, Minister, and in some cases even the Department Director, without the involvement of the COTR. This requirement delayed project activities because meetings had to be held when the COTR was available. For example, the wastewater pilot project in Meknes has been delayed because it took about a year for USAID to meet with the King's regional representative to initiate the project. USAID agreed that this requirement has hindered project implementation and has lifted the requirement since the arrival of the new COTR, requiring only that the COTR be notified of the meetings.

Also, because USAID had not approved the FY 2010 work plan, even after four revisions, DAI had to obtain approval for every activity prior to implementation, and the process was burdened with negotiation and disagreement. USAID approved the FY 2011 work plan 5 months into FY 2011, and the FY 2012 work plan had not yet been approved as of October 2011, even though it was submitted in August. In addition, USAID had still not approved DAI's PMP. DAI officials are eager to finalize the PMP, but stated that there has been no formal communication from USAID about changes that need to be made. Both the work plan and the PMP are important project management tools to help ensure that the project is on track to meeting its goals.

DAI viewed USAID's unresponsiveness as a great challenge in implementing the project. DAI has had to wait several months for USAID to respond to an activity request, and one activity request was never addressed. USAID has failed to provide prompt approval of key project monitoring tools, including work plans, quarterly reports, and the PMP, and approvals for project consultants were delayed. The project's grants manual was approved almost 7 months after the date it was initially submitted, and the branding and marking plan approval took 6 months.

According to DAI, USAID also failed to inform DAI of an important event that would have helped the project advance. USAID never notified DAI that the Ministry of General and Economic Affairs requested DAI's participation in a national committee meeting on improving Morocco's economic enabling environment. This meeting was to discuss implementation of the Common Business Identifier, one of the activities listed under Component 1 in the task order. As of October 2011, the project had not accomplished anything for this activity, even though the Ministry has repeatedly asked USAID for its assistance.

Nonetheless, DAI is also responsible for not communicating adequately with USAID. DAI failed to inform USAID of problems encountered while procuring project vehicles through customs. For almost 18 months, the project was using rental cars and taxis to conduct activities because the procurement of three vehicles was delayed, costing the project over \$50,000 in vehicle rentals alone. Some of these expenses would have been unavoidable even under ideal circumstances, as some rentals are needed during the first few months to get the project started, but 18 months of rentals in addition to the use of taxis and trains was excessive. DAI also incurred approximately \$23,000 in port storage and demurrage fees because of delays in getting the vehicles out of the port. A DAI official reported notifying the previous COTR of the situation by phone, but did not document the issue in its weekly, monthly, or quarterly reports. Because a proper handover was not performed when the previous COTR left the mission, USAID learned of the situation only when Moroccan authorities threatened to confiscate the vehicles. Within 5 days of this threat, the mission was able to clear the vehicles from port. Had DAI better communicated its problems and challenges, USAID could have provided assistance, and the project could have avoided up to \$73,000 in excess fees. USAID is working with the Regional Legal Advisor and the Contracting Office to contest the \$23,000 in port storage and demurrage fees.

Communication Within DAI. Communication between DAI's regional and central offices was insufficient. The two regional coordinators were not properly informed of project activities that were taking place in their region, even though they were the primary point of contact for beneficiaries and regional partners. According to DAI, the role of the regional coordinator is to be familiar with all activities, to provide day-to-day contact with key partners in the region, and to communicate project specifics. However, the regional coordinators sometimes were made aware of project activities through partners, rather than through DAI itself. The regional coordinators were not always informed of or included in meetings that DAI's Rabat office had with regional stakeholders, and sometimes felt as though they were contacted only when the Rabat office encountered problems. Regional coordinators also expressed frustration with their lack of decision-making authority and input into activities that were implemented in their regions.

The problems with communication occurred mainly because of the difficult management style of the previous COTR, who has since left USAID. Under his management, open communication was not encouraged, either within his team or with the partner. Additionally, lack of coordination and collaboration within DAI has contributed to the poor communication between the central and regional offices. As a result, the project has experienced delays and unnecessary costs and

risks not achieving overall project goals. Communication among the parties has improved under the new office director; however, this audit makes the following recommendations.

Recommendation 5. *We recommend that USAID/Morocco work with DAI/Nathan Group to develop and implement a plan to improve cooperation in a way that more closely reflects the intent of the project.*

Recommendation 6. *We recommend that USAID/Morocco approve DAI/Nathan Group's work plans and quarterly reports, and document site visits using the standard reporting template.*

Recommendation 7. *We recommend that USAID/Morocco establish a plan to formally communicate activity approvals or disapprovals to DAI/Nathan Group in writing, and if applicable, explain reasons for disapproving activities.*

Recommendation 8. *We recommend that USAID/Morocco require DAI/Nathan Group to formally document problems and challenges in its monthly and quarterly reports.*

Recommendation 9. *We recommend that USAID/Morocco require DAI/Nathan Group to develop a plan to involve regional coordinators in and inform them of all activities in the regions.*

Performance Indicators Were Not Clearly Established or Approved

According to ADS 203.3.2.2.b, USAID missions/offices should use performance information to assess progress in achieving results and to make management decisions. ADS 203.3.5 states that performance data should be of sufficiently high quality to support the appropriate level of management decisions and should be as "complete and consistent as management needs and resources permit." A PMP is the tool to plan and manage the process of monitoring, evaluating, and reporting progress toward achieving a development objective. However, the office did not have a formally updated PMP and has not approved the project's PMP, even though the project began in early December 2009.

The PMP that the EG office developed in June 2010 was already outdated; neither current USAID staff nor DAI staff considered the indicators to be relevant. Further, the PMP did not include the ten indicators chosen to be reported in the next performance plan and report (Appendix III). The current office director, who is also the COTR, did not participate in developing the PMP and believed that it should be completely revised. The program officer also agreed that it could be improved.

In the absence of an updated PMP, the EG team has been using an informal tracking sheet. This tracking sheet has been informally updated and currently includes ten indicators that will be used for USAID reporting plus five custom indicators. However, this tracking sheet was also inadequate because it had not been formally approved and did not include targets from the mission's four other EG projects. For example, the Agricultural Water Management Project is expected to contribute significant results to three required indicators.

There were also problems with the project PMP. It did not align with the EG office's PMP, as it included several additional indicators that were not considered useful to USAID. USAID officials

were concerned about the cost of tracking too many indicators, while DAI officials believed that each indicator was useful for their management team. The two PMPs also had indicators that were similar but not the same, and the differences may cause confusion in reporting results. Additionally, USAID should have approved the project PMP by February 28, 2010, but at the time of this audit, 19 months later, the PMP was still unapproved.

The audit also noted the following issues concerning indicators and their corresponding targets and results:

- ADS 203.3.4.5 explains that performance targets should be ambitious but realistically achievable within the stated time frame and with the available resources. DAI officials explained that two targets need to be increased drastically, because they will easily be surpassed (Number of hectares under natural resources management and Number of people with increased economic benefits derived from sustainable natural resource management and conservation). In contrast, DAI officials believed that another target is too ambitious and should be lowered (New businesses formed by youths).
- By not reporting any FY 2010 results at all, USAID reported at least two indicators incorrectly. DAI conducted two training sessions that should have been captured by two different indicators at the end of FY 2010.
- ADS 203.3.5.2 notes that the purpose of a data quality assessment (DQA) is to ensure that USAID is aware of the strengths and weaknesses of the data and of the extent to which the data integrity can be trusted to influence management decisions. DQAs were prepared for each of the ten EG indicators that will appear in the mission's upcoming annual performance plan and report, as required by ADS. However, the comments were only hypothetical, as most results had not yet been collected when the assessments were conducted in November 2010. Redoing these assessments after a year of actual results would be much more helpful. The program officer added that it would be beneficial to perform DQAs for other indicators as well.
- Although ten DQAs were completed in late 2010, USAID and DAI disagreed about when and how to report results in FY 2011. USAID and DAI agreed that a discussion was needed to determine exactly which accomplishments should be counted when. Furthermore, DAI's monitoring and evaluation specialist admitted that he was not familiar with three of the five custom indicators. With the fiscal year already ended, not knowing how to report these may be problematic.

The issues described above indicated a lack of emphasis on results tracking by the mission. The prior office director and prior COTR were primarily responsible for the office's PMP, but both have departed from the mission. Regarding the project PMP, as mentioned previously it has not been approved, only partly because of the disagreement over exactly which tasks will be performed. Poor communication within USAID and between USAID and DAI is another contributing reason.

Without an updated PMP and a common understanding with the partners as to what the goals are—such as work plan tasks, indicators, targets, and results—the mission is unable to adequately monitor and evaluate its activities. In addition, DAI is uncertain which indicators to track and report on for USAID purposes. Unreliable data can weaken managers' abilities to evaluate the effectiveness and efficiency of their projects and undermine the appropriateness of management decisions. To ensure that USAID/Morocco reports accurate and reliable data and

to improve the integrity of the reporting process, this audit makes the following recommendations.

Recommendation 10. *We recommend that USAID/Morocco develop and approve indicators and revise targets in its performance management plan.*

Recommendation 11. *We recommend that USAID/Morocco, in conjunction with DAI/Nathan Group, establish an approved set of indicators and update targets in the Morocco Economic Competitiveness Project's performance management plan and verify that it aligns with USAID's performance management plan.*

Recommendation 12. *We recommend that USAID/Morocco reperform and document data quality assessments for economic growth indicators.*

EVALUATION OF MANAGEMENT COMMENTS

USAID agreed with all 12 recommendations in the draft report. Having reviewed the actions taken by the mission and the supporting documentation provided, we have determined that final action has been taken on Recommendations 3, 5, 6, 7, 8, and 9, and management decisions have been reached on Recommendations 1, 2, 4, 10, 11, and 12. Our evaluation of management comments is shown below.

Recommendation 1. The mission agreed with this recommendation and has initiated the process of modifying the task order. The EG team, the contracting officer, and DAI are working closely to revise the task order by February 28, 2012. Accordingly, a management decision has been reached on this recommendation.

Recommendation 2. The mission agreed with this recommendation and is discussing with DAI the tasks and activities that will be implemented during the remainder of the contract period. The revised task order will constitute mutual and formal agreement on the updated schedule of activities and is expected to be completed by February 28, 2012. Accordingly, a management decision has been reached on this recommendation.

Recommendation 3. The mission agreed with this recommendation and has formally requested that DAI submit a training plan for USAID's review 10 days before any training occurs. The plan will include the training schedule, content, list of beneficiaries, language and translation needs, and a list of training materials. These actions constitute final action on this recommendation.

Recommendation 4. The mission agreed with this recommendation and will continue to ensure that it adheres to its gender and youth strategy. The women and youth focus will be reevaluated in revising the task order by February 28, 2012. Accordingly, a management decision has been reached on this recommendation.

Recommendation 5. The mission agreed with this recommendation and noted that most, if not all, of the lapses in communication have been corrected with the designation of a new COTR for the project as of mid-March 2011. Standards addressing the timeliness of responses and the frequency and manner of communication between USAID and the project have been established. These actions constitute final action on this recommendation.

Recommendation 6. The mission agreed with this recommendation and noted that internal standards for approving deliverables (including work plans and quarterly reports) were established. As of November 2011, the EG office adopted a standard format for all trip reports. These actions constitute final action on this recommendation.

Recommendation 7. The mission agreed with this recommendation and on November 28, 2011, approved the 2012 work plan, which spells out the activities for the current fiscal year. To approve project documents, the COTR will continue to use the project's information management system, a tool for tracking and sharing information concerning scopes of work and key deliverables. These actions constitute final action on this recommendation.

Recommendation 8. The mission agreed with this recommendation. On November 29, 2011, USAID formally requested that DAI include a section on problems and challenges in the project's monthly and quarterly reports. The reporting section in the task order will also be modified to reflect this requirement. These actions constitute final action on this recommendation.

Recommendation 9. The mission agreed with this recommendation and noted that information must flow smoothly from and to the head office in Rabat. On November 29, 2011, USAID formally requested that DAI communicate regularly with the regional coordinators and that a regional management plan be shared with all relevant parties. This action constitutes final action on this recommendation.

Recommendation 10. The mission agreed with this recommendation and explained that revisions to the mission's performance management plan are ongoing and will be finalized shortly after the project task order is modified by February 28, 2012. Accordingly, a management decision has been reached on this recommendation.

Recommendation 11. The mission agreed with this recommendation and explained that revisions to both the USAID performance management plan and the project performance management plan are under way. The revised versions of both plans will be completed by February 28, 2012. Accordingly, a management decision has been reached on this recommendation.

Recommendation 12. The mission agreed with this recommendation and intends to conduct a data quality assessment by March 31, 2012. Accordingly, a management decision has been reached on this recommendation.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Dakar conducted this performance audit in accordance with generally accepted government auditing standards.³ Those 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 the audit objective. We believe that the evidence obtained provides that reasonable basis.

The objective of our audit was to determine whether the mission's Morocco Economic Competitiveness Project was achieving its main EG goals of improving the business enabling environment, using water sustainably for agricultural growth, and strengthening workforce development. The audit focused on results for FYs 2010 and 2011.

While an audit of Morocco's EG portfolio was part of our audit plan, the mission also proactively requested an audit of the Morocco Economic Competitiveness Project once the EG office identified a set of problems that hindered the implementer's performance as well as the overall achievement of the EG portfolio's strategic objective. As of September 30, 2011, under the current strategy (2009–2013), the USAID/Morocco EG portfolio included five projects with total estimated funding of approximately \$30 million. The Morocco Economic Competitiveness Project was implemented by DAI/Nathan Group and runs from December 3, 2009, to September 30, 2013, with a contract ceiling of \$27,019,737, which represents about 90 percent of the EG portfolio. As of September 30, 2011, USAID/Morocco had obligated \$11,017,000 and expended \$7,416,330 under the project.

In planning and performing the audit, the audit team assessed relevant controls used by the mission to manage the project and ensure that its implementing partner was providing adequate oversight of project activities. The team assessed controls related to USAID's (1) approval of key project monitoring tools, (2) review of progress reports submitted by the implementing partner, (3) request for periodic meetings with the partner, and (4) performance of documented visits to the activity sites. In addition, we obtained an understanding of and evaluated the (1) partner agreement; (2) mission's and the partner's performance management plans, including performance indicators, targets, and results; (3) the partner's work plans; (4) project evaluations; (5) site visit reports; (6) progress reports; and (7) project obligations and expenditures.

Audit fieldwork was performed from September 19 to October 7, 2011, at USAID/Morocco in Rabat and at the activity sites in 2 of Morocco's 16 regions (Oriental and Doukkala-Abda). We reviewed activities for business climate improvement, agricultural water management, and workforce development. We interviewed key USAID/Morocco personnel, project staff from the central and regional offices, five beneficiaries in the pottery sector, two dairy manufacturers receiving technical assistance, five agricultural associations receiving grants under contract, and ten Moroccan government officials from different ministries at the national and regional levels.

³ *Government Auditing Standards*, July 2007 Revision (GAO-07-731G).

Methodology

To answer the audit objective, we reviewed activities implemented under the project. We also reviewed project documentation, including the award agreement, progress reports, work plans, and project evaluations. We reviewed applicable USAID policies and procedures pertaining to USAID/Morocco, including the mission's certification required by the Federal Managers' Financial Integrity Act of 1982⁴ and ADS Chapters 200, 201, 202, and 203.

Additionally, we interviewed staff from USAID/Morocco's EG office as well as from the implementing partner to assess the design and implementation of the project and the reported achievements. We conducted interviews, documentation reviews, and site visits to determine how activities were being implemented, how this implementation was being documented, and whether reported results were accurate.

We met with staff members at the project's central office in Rabat as well as in the two regions where activities were being implemented: Oriental and Doukkala-Abda. We selected a sample of project implementation sites to visit. In all, we travelled to the two targeted regions in Morocco and visited activities for all three components of the project, including pottery, dairy, and agricultural activities. At these sites, we interviewed government officials, training participants, and beneficiaries of the grants based on their level of involvement in the project and their availability at the time of our visit. We selected activity sites based on time constraints and the need to cover all component areas. Accordingly, the results from the sample cannot be projected to the universe of all activities on a statistical basis. However, we believe that our work provides a reasonable basis for our conclusions because the sample consisted of sites that (1) were located in Oriental and Doukkala-Abda Regions, the two geographic focal points for the project, (2) included a representative sample of the wide variety of activities being implemented, and (3) covered all three project component areas.

⁴ Public Law 97-225, as codified in 31 U.S.C. 3512.

MANAGEMENT COMMENTS



Management Response

DATE: 30 November 2011

TO: Gerard Custer, Regional Inspector General, Dakar, Senegal

FROM: John Groarke, Mission Director, USAID/Morocco

SUBJECT: Management response to the draft audit report of USAID/Morocco's Economic Competitiveness Project (Report 7- 608-12-00X-P)

This memorandum transmits USAID/Morocco's management response to the above referenced audit report. The Mission wishes to extend its gratitude to the RIG Audit Team for their professionalism and for their open communication during and after the audit. USAID/Morocco concurs in principle with the report's twelve recommendations.

It should be noted that the Mission requested the audit as a means for correcting several deficiencies in regard to project management and implementation. At the request of USAID/Morocco, the audit was scheduled for mid-September to coincide with the change in leadership within the Economic Growth and Trade Office. While the Mission agrees with the recommendations, the report contains several findings based on erroneous, incomplete, or misinterpreted pieces of information. In other instances, the report draws overarching conclusions from one or two minor activities. For example:

- The Mission agrees with the report in that the pottery training was ineffective and poorly implemented. While it is unfortunate that the training did not assist the beneficiaries as intended, the training in question represents only one part of the project's engagement in the pottery sector. Support to the pottery sector falls under the Workforce Development component of the project. In FY 2011, this component comprised 8% of the project's annual budget expenditures. Furthermore, the quality of the pottery training is not indicative of the MEC Project's past performance in designing, conducting, and evaluating training courses. Had the audit team examined other training offered under the MEC Project, a more complete and balanced picture would have emerged.

- The MEC task order places an emphasis on incorporating women and youth into project activities to enhance their employment opportunities and participation in the Moroccan economy writ large. The project, however, was not designed to focus solely on youth and women nor marginalized urban populations. For historical and cultural reasons, many of the areas the project was designed to address have been and continue to be dominated by men, often in rural areas. USAID is keenly aware of this challenge and has been closely monitoring project implementation to ensure women and youth are not excluded as beneficiaries. When initial results suggested that a significantly higher proportion of men were being trained than women, the Mission requested the project to hire a gender expert to develop a strategy and toolkit. This gender strategy was approved in August 2011 and is now being incorporated into activity design and implementation. It is precisely because of USAID's ongoing monitoring that measures have been taken to correct this deficiency.
- The Mission agrees that communication has at times been inadequate between USAID and DAI. The draft audit report, however, fails to mention that USAID's responsiveness has drastically improved as of mid-March 2011, when a new COTR for the project was designated. Since this time, key project deliverables, consultant scopes of work, and general clearances have been handled in a timely manner. The flow of information and degree of cooperation between the two parties has also greatly improved.
- In FY 2010, roughly 75 percent of the project's funding fell under Component 2 (Agricultural Water Management). The draft audit report, however, is silent on the management and implementation of the activities under this component. Some of the report's recommendations, namely recommendation 1 and 2, are not particularly relevant to this component.

Despite these shortcomings, the Mission is firmly committed to addressing and closing the twelve recommendations. The recommendations will guide USAID/Morocco and DAI/Nathan in rectifying implementation and strengthening the monitoring and evaluation of the project. The remainder of this memorandum outlines the Mission's proposed actions to address the recommendations included in the above referenced Draft Audit Report. USAID/Morocco requests RIG/Dakar concurrence with our management decisions described below:

Recommendation 1 *We recommend that USAID/Morocco develop a plan to address the concerns with the task order and revise the task order accordingly.*

Response: The Mission concurs with the recommendation. The process for a task order modification has been initiated by the Economic Growth and Trade Office. The Contracting Officer has provided a preliminary approval for the substantive change to the scope of work and discussions are ongoing with DAI. We anticipate that a revised task order will be finalized by mid-February.

Recommendation 2 *We recommend that USAID/Morocco work with the implementing partner to develop a mutually agreed upon schedule of activities to be completed for the remainder of the project and revise the work plan accordingly.*

Response: We agree with the recommendation. Discussions are ongoing with DAI to reach consensus on the tasks and activities that will be implemented during the remainder of the contract period. The revised task order will

constitute the mutual and formal agreement on the updated schedule of activities.

Recommendation 3 *We recommend that USAID/Morocco work with DAI/Nathan Group to establish a plan to ensure that relevant, effective, quality training sessions are provided to beneficiaries.*

Response: The Mission agrees with the recommendation. USAID has formally requested DAI to submit a training plan for USAID's review 10 days before any MEC training occurs. The plan will include the training schedule, content, list of beneficiaries, language and translation needs, and a list of training materials. (**See attachment 1.**) Additionally, the staff of the EGT Office will continue to conduct site visits to actively monitor the quality of the training.

Recommendation 4 *We recommend that USAID/Morocco work with DAI/Nathan Group to establish and implement a plan with concrete actions and deadlines to ensure that women and youth participate in project activities as intended in the Morocco Economic Competitiveness Project or remove this focus from the task order.*

Response: We concur with the recommendation. The Mission will continue to monitor the project to ensure it adheres to its gender and youth strategy. As a result of this strategy, we expect to see a more even split between the genders benefitting from MEC training. The women and youth focus will be re-evaluated in the MEC re-scope process. Should this focus be maintained, DAI will be formally requested to submit an action plan in which the MEC objectives and milestones for the integration of women and youth are clearly stated. The implementation of this action plan will be closely monitored by the project COTR through quarterly reports, meetings with the implementer, and field visits.

Recommendation 5 *We recommend that USAID/Morocco work with the partner to develop and implement a plan to improve cooperation in a way that more closely reflects the intent of the project.*

Response: The Mission agrees with this recommendation. Most if not all of the lapses in communication have been corrected with the designation of a new COTR for the project as of mid-March 2011. The Mission has recently established internal standards for the EGT Office in terms of the acceptable time in processing requests from DAI/Nathan Group. These standards also apply to the frequency and manner of communication between the project and the COTR. (**See attachment 2.**)

Recommendation 6 *We recommend that USAID/Morocco approve DAI's work plans and quarterly reports, and document site visits using the standard reporting template.*

Response: The Mission agrees with the recommendation. Per the response for recommendation 5, the EGT Office will continue to provide efficient clearance for key contract deliverables, including work plans and

quarterly reports. This process has started back in March 2011 and will continue in accordance with the newly established internal performance standards. (**See attachment 2.**) As of November 2011, the EGT Office has adopted a standard format for all trip reports. (**See attachment 3.**)

Recommendation 7 *We recommend that USAID/Morocco establish a plan to formally communicate activity approvals or disapprovals to the partner in writing and, if applicable explain reasons for disapproving activities.*

Response: We concur with the recommendation. The 2012 Work Plan, which spells out the activities for the current fiscal year, was formally approved on November 28, 2011. The COTR will continue to use the DAI/MEC information management system (IMS) to approve project documents. The IMS is an effective tool for tracking and sharing information concerning scopes of work and key deliverables. In the event that a scope of work is disapproved, the rationale is communicated in writing to the institutional contractor. This practice was initiated in March 2011 to avoid any potential confusion between USAID and DAI/Nathan Group.

Recommendation 8 *We recommend that USAID/Morocco require DAI to formally document problems and challenges in their monthly and quarterly reports.*

Response: The Mission agrees with the recommendation. On November 29, 2011 USAID formally requested the MEC Project to include a section on problems and challenges in the project's monthly and quarterly reports. (**See attachment 4.**) While this section has been featured in some of the project's past reports, it has not been a permanent feature until now. The reporting section in the Task Order will be modified to reflect this requirement.

Recommendation 9 *We recommend that USAID/Morocco require DAI to develop a plan to ensure regional coordinators are properly involved in and informed of all activities in the region.*

Response: We agree with the recommendation. In order for the coordinators to discharge their duties effectively, information must flow smoothly from and to the head office in Rabat. On November 29, 2011 USAID formally requested that DAI/Nathan Group regularly communicate with the regional coordinators and that a regional management plan be shared with all relevant parties (**See attachment 4.**)

Recommendation 10 *We recommend that USAID/Morocco develop and approve indicators and revise targets in its performance management plan.*

Response: The Mission concurs with the recommendation. The revisions to the performance management plan (PMP) are ongoing and will be finalized shortly after the MEC task order is modified.

Recommendation 11 *We recommend that USAID/Morocco, in conjunction with DAI/Nathan Group, establish an approved set of indicators and update targets in the*

Morocco Economic Competitiveness Project's performance management plan.

Response: We agree with the recommendation. It is no doubt critical for the project's PMP to align with the USAID PMP. Revisions to both documents are currently underway. The revised versions of the two PMPs will be finalized in February 2012.

Recommendation 12 *We recommend that USAID/Morocco re-perform data quality assessments for its economic growth indicators.*

Response: The Mission agrees with the recommendation. Data Quality Assessments (DQAs) are useful for verifying the integrity of project data. Although the EGT Office conducted DQAs for its ten standard indicators in November 2010, the exercise should be repeated now that the project has generated significant data. This exercise will be conducted in March 2012.

Fiscal Year 2011 Standard Economic Growth Indicators*

1. Number of participants in USG [U.S. Government] supported trade and investment capacity building training.
2. Number of trade and investment capacity building diagnostics conducted.
3. Number of institutions with improved management information systems, as a result of USG assistance.
4. Number of public-private dialogue mechanisms utilized as a result of USG assistance.
5. Number of institutions/organizations undertaking capacity/competency strengthening as a result of USG assistance.
6. Number of persons participating in USG-funded workforce development programs.
7. Number of people gaining employment or better employment as a result of participation in USG funded workforce development programs.
8. Number of hectares under improved natural resource management as a result of USG assistance.
9. Number of policies, laws, agreements and regulations promoting sustainable natural resource management and conservation that are implemented as a result of USG assistance.
10. Number of people with increased economic benefits derived from sustainable natural resource management and conservation as a result of USG assistance.

*** Final results were not yet available at the end of audit field work.**

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