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OFFICE OF INSPECTOR GENERAL
for the Millennium Challenge Corporation

**AUDIT OF THE MILLENNIUM
CHALLENGE CORPORATION
PROGRAMS IN MADAGASCAR**

AUDIT REPORT NO. M-000-08-001-P
December 28, 2007

WASHINGTON, DC



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*Office of Inspector General
for the
Millennium Challenge Corporation*

December 28, 2007

The Honorable John J. Danilovich
Chief Executive Officer
Millennium Challenge Corporation
875 Fifteenth Street, N.W.
Washington, DC 20005

Dear Mr. Ambassador:

This letter transmits the Office of the Inspector General's final report on the Audit of the Millennium Challenge Corporation's Programs in Madagascar. 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 four audit recommendations for corrective action. Based on your response to our draft report, we revised recommendation number 1, combining our initial recommendation number 3 with number 1 and renumbered the remaining recommendations. We consider that a management decision has been reached on recommendations 2, 3, and 4. At the time MCC provides a response to the revised recommendation number 1, a management decision can then be made. Final action for the recommendations must be determined by MCC, and we ask that we be notified of the MCC's actions.

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

Sincerely,

John M. Phee /s/
Assistant Inspector General
Millennium Challenge Corporation

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SUMMARY OF RESULTS

On April 15, 2005, Madagascar became the first country to receive a compact¹ when Millennium Challenge Corporation (MCC) and the Republic of Madagascar signed a four-year, \$110 million agreement. The compact entered into force² on July 27, 2005, and Madagascar received its first disbursement from MCC on that same date. The goal of the compact was to increase incomes in rural areas by enhancing land security, increasing competition in the financial sector, and increasing investment in farms and other rural businesses. The Government of Madagascar designated the Millennium Challenge Account-Madagascar (MCA-M) as the accountable entity that would have the legal authority to oversee the implementation of the compact programs during the compact period (see page 3).

The objectives of the audit were to determine whether (1) MCC ensured that the MCA-M established proper performance milestones and targets for its MCC-funded programs; (2) the MCC program in Madagascar achieved its performance milestones and targets in its MCC-funded programs; and (3) MCC's reporting on the program in Madagascar provided stakeholders with complete and accurate information on the progress of the program and the results achieved (see page 4).

The audit team visited 4 of 23 field offices located in other regions of the country and found that MCC provided limited oversight to ensure that MCA-M and those four field offices fully understood the importance of a consistent data collection method and the definition of the project indicators in the Monitoring and Evaluation (M&E) Plan³; constraints threaten MCA-M's programs ability to achieve their performance milestones and targets; and MCA-M's reporting to its stakeholders did not always provide complete and accurate information on the results of the compact programs in Madagascar (see pages 5, 9, and 14).

This report includes four recommendations to MCC's vice president of compact implementation and vice president of congressional and public affairs to (1) issue clarifying guidance to the Millennium Challenge Account-Madagascar and its staff regarding methodologies involving data collection and specific definitions of indicators to its field offices and implementing entities; (2) reassess and revise the targets for the finance project, and document the new targets in a revised M&E Plan by March 31, 2008; (3) issue guidance on the methodology MCA offices should *use to conduct a quality control assessment of* prior data before importing them into a new database system, and how MCC staff should test the accuracy of the data during site visits; and (4) disclose the effective date of the information being used in reports to stakeholders (see pages 8, 10, 18, and 19)

¹ A Compact is a multiyear agreement between MCC and an eligible country to fund specific programs targeted at reducing poverty and stimulating economic growth.

² According to MCC officials, entry into force is the point at which a binding commitment is recognized and compact funds are obligated.

³ Describes the plan to measure and evaluate progress toward achievement of the objectives of the Compact.

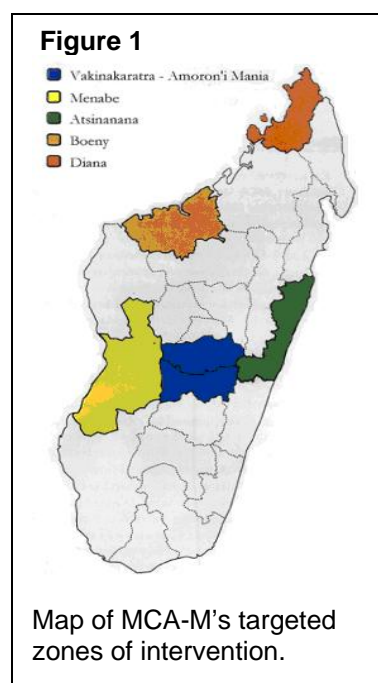
Appendix II contains the management comments in their entirety. In its comments, MCC concurred with all of the recommendations as originally stated but mentioned that they have already performed the required tasks or are in the process of making the changes. For example, MCC mentioned that it has trained its MCA-M staff and will conduct its second annual data quality review in mid-2008. Furthermore, MCC and MCA-M are currently in the process of revising the indicators for the Finance Project, and have begun to reference the data that it includes in its reports to its stakeholders. (See pages 21-22.)

BACKGROUND

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

On April 15, 2005, Madagascar became the first country to receive a compact when MCC and the Republic of Madagascar signed a four-year, \$110 million agreement. The compact entered into force on July 27, 2005, and Madagascar received its first disbursement from MCC on the same date. The goal of the compact was to increase incomes in rural areas by enhancing land security, increasing competition in the financial sector, and increasing investment in farms and other rural businesses. The Government of Madagascar designated the Millennium Challenge Account-Madagascar (MCA-M) as the accountable entity that would have the legal authority to oversee the implementation of the compact programs during the compact period.

Madagascar's compact had three major projects assisting five targeted zones throughout the country (see Figure 1). The \$37.8 million Land Tenure Project was designed to formalize the country's titling and surveying systems, modernize the national land registry, and decentralize services to rural citizens. The \$35.9 million Finance Project was designed to make financial services available to rural areas, improve credit skills, and create a streamlined national payments system to reduce check settlement delays from 45 to 3 days. The \$17.7 million Agricultural Business Investment Project (ABIP) was designed to help farmers and entrepreneurs identify new markets and improve their production and marketing practices.⁴



Section 609(b)(1)(c) of the Millennium Challenge Act requires that each compact include benchmarks to measure progress toward achieving objectives, which is documented in the Countries Monitoring and Evaluation Plan (M&E). In addition, MCC is required to submit an annual report to Congress, which includes an assessment of the progress the country makes during each year toward achieving the objectives in the compact. MCC works with the country to ensure that proposed programs are reasonable, measurable,

⁴ The remaining amount is \$3.4 million for monitoring and evaluation, and \$15 million for project administration.

and attainable, although MCC's compact with the Government of Madagascar states that MCA-M is responsible for the oversight and management of the program's implementation.

AUDIT OBJECTIVES

The Office of the Assistant Inspector General for the Millennium Challenge Corporation (MCC) conducted this audit as part of its fiscal year 2007 audit plan. The objectives of this audit were to answer the following questions:

- Did the Millennium Challenge Corporation ensure that the Millennium Challenge Account-Madagascar established proper performance milestones and targets for its MCC-funded programs?
- Is the Millennium Challenge Corporation program in Madagascar achieving its performance milestones and targets in its MCC-funded programs?
- Did the Millennium Challenge Corporation's reporting on the program in Madagascar provide stakeholders with complete and accurate information on the progress of the program and the results achieved?

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

AUDIT FINDINGS

Did the Millennium Challenge Corporation ensure that the Millennium Challenge Account-Madagascar established proper performance milestones and targets for its MCC-funded programs?

The Millennium Challenge Corporation (MCC) provided limited oversight to ensure that MCA-M and field offices that the audit team visited (2 of 17 land tenure offices and 2 of 6 Agricultural Business Centers) fully understood the importance of a consistent data collection method and the definition of the project indicators in the M&E Plan. Even though, MCC had worked with the Millennium Challenge Account Madagascar (MCA-M) in the initial stages of the compact to develop the Monitoring and Evaluation (M&E) Plan, work plans, and procurement plans to establish proper performance milestones and targets. The four field offices that the audit team visited received little guidance from MCA-M and their respective implementing entities when they first opened, which led them to develop unique methods of collecting their data and interpreting project indicators. Additionally, MCC did not establish proper targets for the compact's Finance Project. Due to the low targets that MCC and MCA-M established for the Finance Project, several of the indicators exceeded their targets even though the project had not reached the implementation phase. This may be attributed in part to other activities that have contributed to Madagascar's economic environment such as the country's growing gross domestic product.

With the initial assistance from MCC, MCA-M had taken many positive steps to improve its ability to further develop its milestones and targets. While the audit team conducted its site visit in Madagascar, MCA-M was completing implementation of a new M&E tracking system (TecPro), which would enable it to monitor and determine if it should maintain or change some aspects of the programs. MCA-M has also taken steps to ensure that field offices received sufficient training to use TecPro. Additionally, the Land Tenure Project's implementing partner had begun to use new standardized forms and was in the process of developing a new data collection system.

MCA-M Staff Needs More Guidance to Understand How to Collect and Evaluate Performance Milestones and Targets

Summary: MCA-M field offices did not have a consistent data collection method, and each office defined the indicators differently. The MCC's Guidance for Compact Eligible Countries, Chapter 29: Guidelines for Monitoring and Evaluation Plans, states that indicators should be clearly identified and defined, including the unit of measurement and data source. Further, that a data collection plan should specify who will collect data, how it will be collected, and the frequency of

collection. Also, that the collection plan should be established prior to beginning activities that will affect beneficiaries. Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government⁵ states that good human capital policies and practices are a critical environmental factor, in order to run and control its operation; an entity must have relevant, reliable, and timely communications. In addition, pertinent information should be identified, captured, and distributed in a form and timeframe that permits people to perform their duties efficiently, and part of good human capital management involves ensuring proper orientation and training. Inconsistent data collection and incorrect interpretation of the indicators persisted because according to field office staff, MCA-M had not provided them with any specific guidance explaining how they should collect and report data. MCC provided little guidance to MCA-M to ensure that the field offices followed a data collection method and understood the indicators in the January 2007 M&E Plan. As a result of the lack of guidance, inconsistency of the data collection process, and misinterpretation of indicators, there is an inherent risk that the data that MCA-M reported to MCC may not be reliable and limits MCC's ability to accurately evaluate the performance of the programs over the life of the compact

The MCA-M field offices that the audit team visited—2 of 17 *guichet fonciers* (land tenure offices) and 2 of 6 Agricultural Business Centers (ABCs)⁶—did not use a consistent data collection method and developed their own interpretations of the indicators when reporting on the milestones and targeted results to MCA-M.

To keep abreast of each office's progress, MCA-M requires that the field offices submit monthly and quarterly reports on the status of their respective projects. However, each field office used different methods of collecting data and reporting data against planned milestones/targets to MCA-M headquarters and there was not a consistent method of collecting data and reporting to MCA-M. For example, the ABC in Antsirabe required the farmers who received assistance to collect their own data and report their results to the ABC. The ABC found that typically only 20 percent of the farmers properly completed the paperwork, though with additional assistance from the service providers and ABC's field representatives, that figure eventually climbed to 80 percent. Some of the farmers may have been unqualified to collect the data, resulting in data error. Conversely, at the ABC office in Vatomandry, the district agents⁷ collected and verified the data.

Agents at the Vatomandry ABC misinterpreted the indicators in the January 2007 M&E Plan. Although they were knowledgeable about the M&E process, they misunderstood the definition of some of the Agricultural Business Investment Project (ABIP) indicators. For example, for the indicator, "number of business plans," the ABC reported business plans only if they had been written, validated, and used to obtain financing. The agent said it was not good enough to simply write a business plan for a beneficiary; the ABC wanted to ensure that the business plan could actually secure funding. However, the

⁵ Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1).

⁶ As the finance project implementation was in its early state, the audit team did not visit any of the field offices.

⁷ Service providers are contractors who work for the field offices, the field representatives are employees of the field offices who work in a particular location or town, and the district agents are responsible for the entire district or region where the ABC is implementing the program.

January 2007 M&E Plan did not require a business plan to be financed before it was reported to MCC. For the indicator, “number of producers utilizing technical assistance provided to them,” the ABC said it counted the number of individuals who had adopted a majority of the techniques taught to them by the ABC. For example, if the ABC taught four technical skills, the beneficiary had to adopt three of them before the ABC could report it. However, the 2007 M&E Plan did not define what percentage of training beneficiaries must adopt from the technical assistance training they received.

The ABC also defined the beneficiaries differently than the January 2007 M&E Plan. The ABC staff stated that when they counted beneficiaries, they counted only the head of the family. The staff stressed that, for cultural reasons, they counted only the head of a family because they knew that if the head of a household adopted what the ABC taught, the rest of the family would follow suit. Refer to Appendix III for more examples.

According to MCC’s Guidance for Compact Eligible Countries, Chapter 29: Guidelines for Monitoring and Evaluation Plans, states that indicators should be clearly identified and defined, including the unit of measurement and data source. Further, that a data collection plan should specify who will collect data, how it will be collected, and the frequency of collection. Also, the collection plan should be established prior to beginning activities that will affect beneficiaries.

MCC explained that in July 2006 MCA-M trained its field staff and implementing entities, on M&E procedures that addressed data collection and indicator definitions, however, despite the training provided by MCA-M, inconsistent data collection and misinterpretation of the project indicators persisted because, according to field office staff, MCA-M and the implementing entities had not provided them with any specific guidance. Notably, the two land offices that the IG visited claimed that they did not receive guidance explaining how they should collect and report data, and two ABCs that the IG visited, claimed that they did not receive training on how to properly collect their data and understand the indicators.

MCC officials stated that MCA-M had prepared a data collection handbook that outlined its procedures for ensuring the quality and effectiveness of data collection. However, at the two land tenure offices that the audit team visited, the staff explained that neither MCA-M nor the implementing entity had provided them with any specific guidance explaining how they should collect and report data. An official with the land tenure office in Faratsiho, the first office to open, stated that when the office opened, MCA-M had not provided staff with any specific guidance on how they should collect data or write their report. For example, an MCA-M official stated that the office had distributed the data collection manuals to the ABCs, land tenure offices, and finance projects; when the audit team visited the field offices in June 2007, two land tenure offices had not received formal guidance from the National Land Tenure Program (PNF) until April 2007, even though the offices opened in February and December 2006.

An MCA-M official agreed that MCA-M provided no guidance to the agents but added that PNF was responsible for monitoring the data. According to the PNF agent working at this office, it was PNF’s responsibility to provide training and equipment to the land tenure offices. However, MCA-M did not provide oversight to ensure that PNF had fulfilled its contracted obligations.

Also, the ABC office in Vatomandry received limited guidance and training from MCA-M when developing its data collection system. Although MCA-M provided some general training to the ABC regarding MCA-M's macro level goals and the general procedures that the ABC should follow, the Vatomandry ABC had to develop its own methodology for implementing the project, identify regional commodities that it could market, and use information from other entities such as the Ministry of Agriculture and other international donors to conduct a diagnostic analysis of the commodities' economic potential.

Lack of guidance and training also resulted in the lack of a concrete understanding of all the indicators, particularly those for ABIP. An MCA-M official explained that because ABIP was not clearly defined in the compact, there was not a clear understanding of who should be counted as a beneficiary (of ABIP) in the quarterly reports. In addition, lack of guidance is likely to cause unreliable data being reported to MCC. As the result, MCC cannot ensure that the results and data for the indicators are in conformance with the January 2007 M&E Plan. This limits MCC's ability to accurately evaluate the performance of the programs over the life of the compact.

Although MCC stated that MCC and MCA-M provided training to MCA's implementing offices and field offices staff in July 2006, we found that the staff in some of the land tenure offices did not fully understand the data collection process and staff in some ABCs misinterpreted the ABIP indicators. Therefore, the Office of Inspector General is making the following recommendation:

Recommendation No. 1: We recommend that the Millennium Challenge Corporation's Vice President of the Compact Implementation Department, issue clarifying guidance to the Millennium Challenge Account-Madagascar staff regarding methodologies involving data collection and specific definitions of indicators to its field offices and implementing entities.

Program Indicators and Targets Should Be Improved

Summary: MCA-M has met and exceeded most of the targets for the Finance Project indicators even though it has yet to begin the project's main implementation phase. MCC's Guidelines for M&E Plans stated that the M&E Plan should help identify when problems are encountered or when adjustments will need to be made in implementation. It also mentions that changes to compact implementation (such as target revisions) should be reflected in the M&E Plan. Nevertheless, targets were set too low based on the projections that the implementing entity provided to MCA-M. Low targets make it difficult for MCC and MCA-M to manage the project toward realistic results, which in turn affects MCC's ability to accurately evaluate the compact's performance.

MCA-M has exceeded most of the targets for the Finance Project indicators even though it had yet to begin the project's main implementation phase. Comparing the actual results to the targets showed that some indicators had surpassed the targets by more than 100 percent. For example, the indicator Outstanding Value of Accounts from MFIs

(microfinance institutions) had results reported that were 157 percent over its target. For the indicator Number of Saving Accounts from CEM (National Savings Bank), the cumulative result from quarter 1 to quarter 7 was 100 percent even though very little work was done. The indicator Value of Outstanding Loans from Primary Banks had exceeded its targets by 138 percent cumulatively from quarter 1 to quarter 7. Table 1 details these findings.

MCC stated that MCA-M has performed significant work with the microfinance institutions (MFIs), which began to appear in the results. However, MCA-M has yet to begin the project's main implementation phase.

Table 1. Analysis of Finance Project Targets

Indicator	Location	Total from Quarters 1 to Quarters 7		
		Target	Actual Achieved	Percent of Target Achieved
Number of Saving Accounts from National Savings Bank (CEM)	Total Five Zones	215,331	216,343	100%
Value of Outstanding Loans from Primary Banks	Total Five Zones	59,032,416	81,337,500	138%
Outstanding Value of Accounts from Microfinance Institutions	Total Five Zones	5,378,490	8,431,410	157%

According to MCC's Guidelines for M&E Plans, "Over the life of the Compact, the M&E Plan should help identify when problems are encountered or when adjustments will need to be made in implementation. At the same time, any changes in implementation should be reflected in the M&E Plan. The M&E Plan should be reviewed periodically and revised when necessary."

The Finance Project had met its targets even before implementation because MCC and MCA-M did not establish proper targets for the project indicators. MCA-M stated the past targets were underestimated based on the projections from the implementing entity.⁸ MCA-M determined its targets based on the fact that the new branches would be built on time, but they have yet to be constructed. In addition, the targets were set based on year-end totals that were expected to fluctuate throughout the year with the cash needs and surpluses of rural farmers. To simplify the calculations, MCA-M evenly divided the yearly targets across four quarters, knowing that the quarterly targets would be imprecise.

⁸ MCA-M has three primary implementing entities: Central Bank of Madagascar, Ministry of Finance and Budget, and National Savings Bank.

An MCA-M official explained that when MCA-M staff prepared the targets for the finance project, they took into consideration the fact that the MFIs were getting help from donors, but in the next few years, assistance will decline and so will the number of MFIs in Madagascar. For this reason, MCA-M lowered the targets for the Finance Project, as they may be difficult to achieve during the next few years. Additionally, he explained that it may be difficult to assess certain indicators at certain times of the year because farmers' savings change considerably during the year. For example, at the end of the harvest farmers had large savings, but during the middle of the growing season their savings were low.

Because targets were set low, they affected MCC's ability to accurately evaluate the Financial Project's performance. Setting the targets low also increases the risk that MCC may not be able to determine whether its activities will realize the most effective use of its limited resources to achieve its planned compact-wide goals. Thus, the indicators should be assessed on a yearly basis. Therefore, the Office of Inspector General is making the following recommendation:

Recommendation No 2: We recommend that the Millennium Challenge Corporation's Vice President of the Compact Implementation Department, reassess and revise the targets for the finance project, and document the new targets in a revised Monitoring and Evaluation Plan by March 31, 2008.

Is the Millennium Challenge Corporation program in Madagascar achieving its performance milestones and targets in its MCC-funded programs?

On the basis of the audit team's analysis, as of March 31, 2007--when the targets should have been met-- the Millennium Challenge Corporation program in Madagascar is not achieving its overall performance milestones and targets. For example, five of nine ABIP milestones and targets that should have been met by March 31, 2007, had not been achieved; Finance Project milestones and targets had been exceeded, even though implementation had not yet begun, which showed that MCC and MCA-M set low targets. It was difficult to assess the Land Tenure Project because its milestones and targets were not scheduled to be met until the third year of the compact. Therefore, based on the progress reviewed, the MCC program in Madagascar may not achieve its individual component programs' performance milestones and targets, due to various constraints that hindered the initial implementation of those programs.

Although MCA-M developed work plans⁹ to complete its projects by the end of the compact in July 2009, there were indications that MCA-M would have some difficulty

⁹ The work plans set forth the details of each activity to be undertaken or funded by MCC as well as the allocation of roles and responsibilities for specific project activities, programmatic guidelines, performance requirements, targets, or other expectations for a project (Madagascar Compact, Annex I-4; Section 3(a)).

completing the projects and consequently achieving its milestones and targets. For example, delays in the procurement process have prevented the Finance and Land Tenure projects from starting on time. In addition, ABIP had not met some of its targets, such as the number of farmers receiving technical assistance, which as of March 31, 2007, was only 78 percent of the targeted 8,450, although it was scheduled to meet 100 percent of its target as of that date. These are examples of some of the constraints that have hindered the implementation of the Madagascar program and consequently delayed implementation of the projects.

Various Constraints Threaten MCA-M's Ability to Achieve Performance Milestones and Targets

Summary: MCA-M developed work plans to complete its projects by the end of the compact in July 2009; according to the compact between MCC and the government of Madagascar, the compact shall remain in force for four years from the date of the entry into force of the compact. As MCA-M went entry into force on July 27, 2005, it has until July 2009 to complete implementation of the three programs. However, there were indications that MCA-M will have some difficulty completing the projects and consequently achieving the milestones and targets in a timely manner. The Agricultural Business Investment Program (ABIP) missed five of its nine targets through March 31, 2007, when it was required to meet the targets, and MCA-M was still in the process of hiring the lead contractor for the project. Moreover, the Finance and Land Tenure projects had yet to begin their major implementation phases. Program delays occurred because the compact started slowly due to various constraints, such as the time needed to establish the MCA office, the failure of the procurement process to meet the MCA-M staff's expectations, and time needed to hire key contractors for each project. As a result of the delays, there is an increased risk that if MCA-M encounters delays in procurement, such as a major contractor not performing adequately, need for resettlement of individuals, and or other project-critical items that are falling behind schedule, MCA-M may not have enough time to meet all its targets by the end of the compact in July 2009.

MCC issued a four-year compact to the Government of Madagascar even though it had the ability to award a compact that would allow the country to complete its projects over a five-year period. According to the compact, it shall remain in force for four years from the date of the entry into force of the compact. As MCA-M went entry into force on July 27, 2005, it has until July 2009 to complete implementation of the three programs. The compact's M&E Plan, revised and issued in January 2007, detailed the various milestones and targets for the ABIP, Land Tenure, and Finance projects. The M&E Plan was designed to help analyze MCA-M's progress toward achieving these goals and allow MCA-M and MCC managers to make adjustments to improve the overall impact of the program. To help ensure that the projects remained on track to achieve their intended goals, MCA-M developed work plans for each project, which set forth the programmatic details of each activity. In general, work plans allocate the roles and responsibilities for specific project activities and can include programmatic guidelines,

performance requirements, targets, or other expectations for a project. Each of MCA-M's work plans was written so that the projects could be completed by the end of July 2009, the scheduled completion date for the compact.

The fact that Madagascar was the first country to receive a compact made it difficult to predict the challenges that MCA-M would face. When MCA-M started its work, MCC staff suggested that they set ambitious expectations, believing that MCA-M could begin implementing activities during the first year. MCC quickly learned that MCA-M did not have the administrative structure to implement its projects during the first year. It took longer than expected for the MCA-M staff to set up its office and begin its procurement process. When the compact entered into force on July 27, 2005, MCA-M did not even have office furniture and had to obtain basic office supplies from other Madagascar government agencies. Additionally, MCA-M staff stated that the initial work plans did not include the six months MCA-M needed to establish its office structure, and the initial schedule did not accurately reflect the time it would take for MCA-M to write its original contractual terms of reference.¹⁰ As a result, as of March 31, 2007, MCC had disbursed only 12 percent of the compact's funds to MCA-M, and MCA-M had redisbursed only 8 percent of the funds.

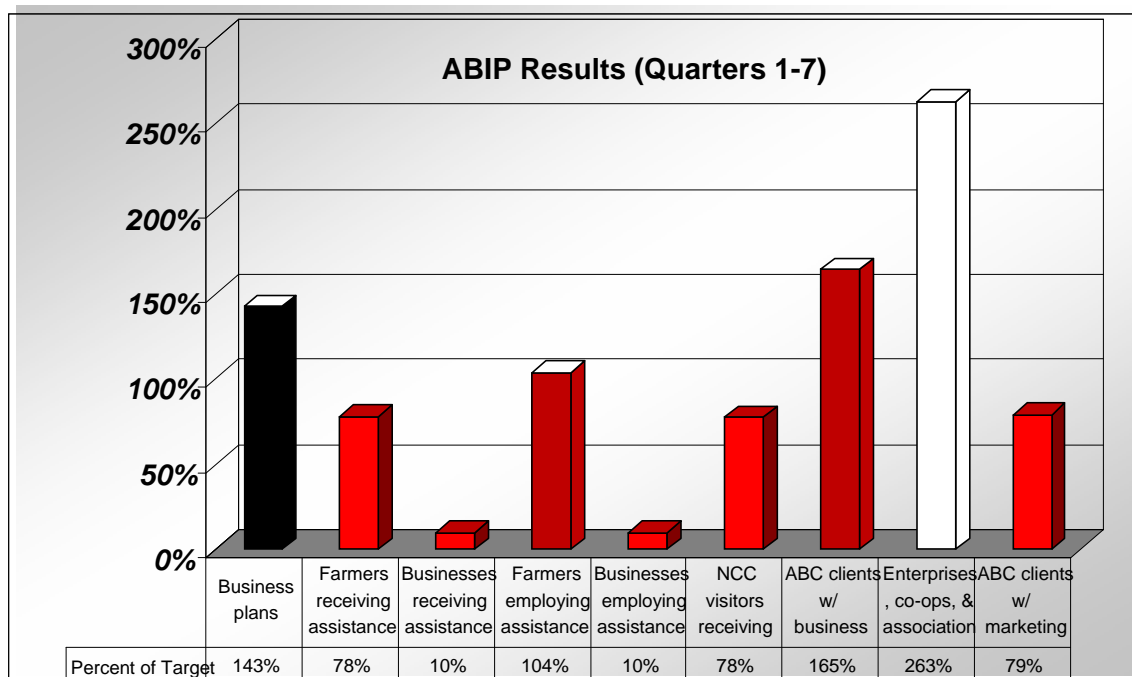
Despite these challenges, progress had been made in each project, and MCC and MCA-M have until July 2009 to achieve the compact's results. Nevertheless, there are indications that MCA-M will have some difficulty achieving the targets in the time remaining. For example, although the compact entered into force on July 27, 2005, the MCA did not have a functioning office until December 2005, which delayed the beginning of the projects' implementation by five months. Further, ABIP had missed four of its nine targets through March 31, 2007, and was still in the process of hiring the lead contractor for the project, and the Land Tenure and Finance projects had yet to begin their major implementation phases. The challenges that face each project are described in detail below.

ABIP – The goal of this project is to help farmers and entrepreneurs identify new markets and improve their production and marketing practices. Although MCA-M's ABIP planned to meet the following targets by March 31, 2007, ABIP had missed five of the nine targets (see Table 2 with the audited data).

- Only 78.0 percent of the targeted 8,450 farmers were receiving technical assistance.
- Only 10.0 percent of the targeted 60 businesses were receiving technical assistance.
- Only 10.0 percent of the targeted 60 businesses were employing technical assistance received from MCA-M.
- Only 77.7 percent of the targeted 300 NCC (National Coordinating Center) visitors were receiving business opportunity information.
- Only 79.3 percent of the targeted 150 ABC clients had marketing contracts.

¹⁰ A term of reference describes the services that the MCA-Entity needs to purchase.

Table 2: Analysis of ABIP Results that MCA-M Planned to Meet by March 31, 2007



The MCC project manager and MCA-M project director explained that the project was behind schedule for various reasons. For example, the MCC sector lead (project manager) stressed that the compact got off to a slow start, and due to the large learning curve associated with the first compact, it took several months to build the internal capacity of the MCA-M staff. Further, because the implementing entities did not have experience preparing contracts according to MCC's process, MCA-M wrote numerous small contracts to learn how to properly write contractual terms of reference. The MCA-M project director also cited procurement-related issues, such as the approval process and in conjunction with the MCC, developing the procurement process to be used by the MCA-M as a factor for the delays; in addition, she explained that MCA-M spent time defining the strategy for the project. Because the compact's description of ABIP was very vague, the MCA-M staff had to identify the type of activities that would be suited for ABIP by issuing various smaller contracts to test different approaches. In May 2007, the MCC sector lead stated that MCA-M had finally reached a major transition point at which it could hire the primary contractor who would implement the project, but the contractor was not expected to begin to implement its activities until September 2007, which leaves less than two years to complete the project. This may not be sufficient time.

Land Tenure – The goal of this project is to formalize Madagascar's land titling and surveying systems, modernize the national land registry, and decentralize services to rural citizens. As of March 31, 2007, the Land Tenure Project had met the two established targets for that quarter—the number of land documents inventoried, and the parliamentary approval of the PNF legislative proposal. However, because the majority of the project's indicators did not have targets until the end of year three, it was difficult to evaluate whether the project was on track to achieve its performance milestones and targets. As of June 2007, MCA-M had not finished the procurement process for the lead

contractors that would implement the major phase of the project, which is to establish 138 land offices and modernize 10 existing land offices. Thus, it is impossible to determine whether the contractors will be able to complete the project by July 2009.

Moreover, the project's implementing entity¹¹ warned that while it was possible to build the expected number of land certificate offices by the end of the compact, the implementing entity doubted MCA-M's ability to secure the projected 250,000 hectares of land by the end of the compact; however, it believed that it could be accomplished if the land tenure offices had more time to issue titles.



Photograph of MCA-M beneficiary holding his land certificate. MCA-M's Land Tenure Project is intended to issue enough certificates to secure 243,000 hectares. Photograph taken by OIG auditor on June 19, 2007.

Finance – The goal of this project is to provide financial services to rural areas, improve credit skills, and create a streamlined national payment system to shorten check clearances. As discussed on pages 8 to 10, it was difficult to assess the status of this project because the targets were set too low. Furthermore, there were indications that the project was not on schedule. For example, MCA-M had not accomplished a number of key tasks related to the project's main implementation phase—the modernization of the payment system and the construction of banks—partly due to delays in the procurement process. Additionally, National Savings Bank (CEM) officials noted that the interdependency of each activity it managed for MCA-M increased the risk that slippages in one activity could affect other activities. For example, the CEM needed the new payment system activity completed to better manage and disburse the funds for a microfinance activity. As of the date the audit team was onsite, this had not been accomplished.

Although MCA-M had made progress on each of the three projects, significant tasks remained to be performed during the implementation phase of the compact. As a result, MCA-M may not have time to make necessary adjustments to meet all its targets by the end of the compact in July 2009. The pressure placed on the projects could force contractors to reduce their level of effort for certain tasks as they struggle to complete the projects within the remaining time. Some of the MCC and MCA-M staff acknowledged these pressures, and MCC staff stated that they had already considered the potential benefits from granting MCA-M additional time to complete the compact.

Since MCC and the MCA-M staff are aware of the potential risk of not completing the compact programs within the compact timeframe, and are considering options to address this problem, the Office of Inspector General is not making a recommendation at this time.

Did the Millennium Challenge Corporation's reporting on the

¹¹ A government entity, usually a ministry or agency that works with the MCA to implement a project.

program in Madagascar provide stakeholders with complete and accurate information on the progress of the program and the results achieved?

MCC's reporting to its stakeholders (Congress, nongovernmental organizations, and the public) did not always provide complete and accurate information on the results of the compact programs in Madagascar. MCC used the quarterly reports and data that MCA-M submitted to provide information to its stakeholders. However, MCA-M and the field offices did not have proper internal controls to provide reasonable assurance that the data were reliable and accurate before submitting their reports to MCC. There were calculation errors in reports the field offices submitted to MCA-M and onward to MCC, and several field offices as well as MCA-M, did not have a proper method to maintain supporting documents for their data collection. Additionally, some of the data that MCC provided in its reports were outdated, resulting in MCC underreporting programs' progress.

Internal Control Weaknesses Could Impact the Reliability of Reported Results

Summary: MCA-M and three of four field offices that the audit team visited had data quality weaknesses, such as duplicate entries and the lack of readily available supporting documents that contributed to inaccurate data being reported to MCC and its stakeholders. According to GAO's Standards for Internal Control in the Federal Government, all transactions and other significant events should be documented. GAO further states that a variety of control activities are used in information processing, including edit checks for entered data, accounting for transactions in numerical sequences, and comparing file totals with control account. The data quality weaknesses were due to the lack of internal control measures at these offices. Even though MCA-M was in the process of transitioning to a stronger data collection system, errors throughout the existing reporting system undermined the reliability of previously reported results and threatened to limit MCC's ability to accurately evaluate the compact's performance.

MCA-M had data quality weaknesses, such as duplicate entries, lack of readily available supporting documentation, and inaccurate calculation of the number of beneficiaries, that limited the accuracy of reported data. Although MCA-M has taken steps to improve its data collection system by hiring a database specialist who assisted in collecting and verifying reported results and creating standardized forms to help eliminate inconsistencies in the data, these improvements did not completely eliminate data errors. An official at MCA-M stated that there were probably some duplicate entries in past data collection, particularly from the ABCs. The ABCs could have duplicate data entries because one beneficiary may participate in several programs. Additionally, a beneficiary's name may appear twice—once with just the first name, and again with first and last.

The audit team noted examples of these types of data duplication at the Vatomandry ABC. The ABC reported that 1,198 people attended training to produce the litchi fruit;

however, it registered several of the attendants twice. The fact that there were fewer attendants than reported—1,192 attendants (0.5 percent error rate)—should have been reported to MCA-M. Although the error rate is below our materiality threshold rate of 10 percent, the ABC did not have controls in place to provide reasonable assurance that attendees were not double counted. The ABC had access to a computer that could have been used to record attendee names and then sort them to identify any duplicate data.

A lack of supporting documentation was evident in the field offices. Three out of the four field offices that the audit team visited did not have readily available supplemental documents to support their data. Staff at one land tenure office admitted that it would be difficult for them to provide supporting documents to reference the results for an indicator—number of land conflicts resolved. The agents who worked there did not have an established and documented methodology to collect and maintain their data and record in their meeting notes the number of land conflicts they resolved. They stressed that it would take several hours to retrieve the supplemental document, as they would need to look through several meeting notes to support the data.

The audit team found similar problems regarding supporting documentation at the Vatomandry ABC office. Staff there reported that they had provided assistance to 154 producers, but they had documents to support that they assisted 141 producers. They could not provide supporting documents for 13 producers because the district agent in Toamasina II (another town in Zone 3) had the remaining supporting documents. The audit team was unable to reach that agent.

Although MCA-M had documentation to support what it reported to MCC, the system for collecting data was ineffective, thereby increasing the risk of incomplete data. For example, due to the lack of clarity in a progress report provided by the Land Tenure Project implementing entity (PNF), MCA-M had to use a secondary report to support the results of one of the three districts listed in the quarter 7 M&E report. Similarly, for ABIP, MCA-M used a combination of spreadsheets provided by the ABCs, contractors' reports and summary reports prepared by the ABIP team to support its data.

Three of the field offices visited (of a total of 23) also made calculation or transcription errors. As instructed by MCA-M, the Vatomandry ABC used Excel spreadsheets to record the number of visitors who requested business opportunity information. Several ABC staff members from multiple locations entered this information onto separate spreadsheets. During the consolidation process, the ABC did not notice that the sequential numbering it used to count the number of visitors was incorrect. As a result, the ABC incorrectly counted the number of visitors. As of March 2007, the reported number of visitors was 317, while the actual number was 292 (a difference of 8 percent). This error was within the materiality threshold of 10 percent.

Due to minor addition errors, the Faratsiho land tenure office's supporting documents differed slightly from the reported results. For example, when preparing its progress reports, the staff reviewed the names included in the database and manually counted the number of unique names. This manual process was particularly challenging because for some of the entries, the database did not have the beneficiaries' full names, and there was a chance that a name could be in the database twice. For quarters 1 to 6, the office reported 218 beneficiaries, but had supporting document for only 205 (a difference of 6 percent). Although this was within the materiality threshold, the land tenure office lacked internal controls, such as a regular verification process of the data, to provide

reasonable assurance that the database information was correct. Refer to Appendix IV for more examples.

According to GAO's Standards for Internal Control in the Federal Government, internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. Furthermore, a variety of control activities are used in information processing, including edit checks for entered data, accounting for transactions in numerical sequences, and comparing file totals with control accounts. Additionally, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

A lack of internal control measures contributed to data inaccuracy in the reports that were received from 3 of the 23 ABC and land tenure MCA-M field offices, and submitted to MCC. Although the agents at the MCA-M field offices demonstrated that they were knowledgeable about their work, they also explained that they did not practice certain internal control standards, such as a standard methodology and data verification. For example, the ABC in Vatomandry had problems with the number of producers receiving technical assistance. One of the district agents did not consistently use the same methodology for certifying the numbers he reported, which increased the likelihood that certain producers (beneficiaries) may have been erroneously reported or excluded. Similarly, an agent at the Ambatofinandrahana land tenure office stated that no one had ever verified the data that his office reported to MCA-M. The regional PNF representative collected the forms held by the CRIF (computerized land tenure offices) agent and forwarded them to the National Land Administration Office so the data could be consolidated and reported to MCA-M.

Not only the field offices but the MCA-M office demonstrated weaknesses in the internal control process. MCA-M staff had very few internal controls to provide reasonable assurance that the data they received were accurate. For example, one of the ABIP managers stated that he was unable to validate the information that the ABCs submitted for quarters 6 and 7 and could only hope that the offices verified the data before sending them to MCA-M. Several MCA-M officials believed that the implementation of its new M&E software (TecPro) would greatly reduce the risk of duplicate entries; however, the possibility of data duplication still existed. For example, even though Vatomandry ABC staff transferred its prior data into TecPro, it did not review the data to ensure their accuracy before entering them into TecPro. Further, MCA-M did not have a plan to validate old data before importing them into TecPro.

MCC relied heavily upon its staff's professional opinions to evaluate the reliability of the data presented in MCA-M's quarterly M&E reports. According to MCC officials, the sector leads (MCC project manager) were responsible for evaluating the reasonableness of the reported results. In addition, although the sector leads had detailed understanding of the projects' status, communicated with their MCA counterparts almost daily, and read reports from contractors and the implementing partners, they did not conduct sufficient field visits to verify the results reported by MCA-M.

Even though MCA-M was in the process of transitioning to a stronger data collection system, errors throughout the existing report system undermined the reliability of previously reported results and threatened to limit MCC's ability to accurately evaluate

the compact's performance. Because these sources did not use standardized documents, there is a significant risk that the MCA-M M&E staff could misinterpret these documents. For example, they were using Excel spreadsheets with lists of farmers, but from the documentation it was not clear whether the lists supported the number of people who attended the workshops or the number of people who adopted what was taught. Additionally, there was a significant risk that certain results were overlooked and not reported due to the non-standardized method for collecting data, resulting in the potential that MCC could use inaccurate data in its reports to Congress and the public. Therefore, the Office of Inspector General is making the following recommendation:

Recommendation No. 3: We recommend that the Millennium Challenge Corporation's Vice President of the Compact Implementation Department, issue guidance on the methodology that the Millennium Challenge Account-Madagascar office should use to conduct a quality control check of prior data before importing the data into a new database system, and how Millennium Challenge Corporation staff should test the accuracy of the data during site visits.

Reported Data to MCC Stakeholders Did Not Accurately Reflect the Compact Projects' Current Progress in Madagascar

Summary: Although most of the information that MCC provided to its stakeholders reflected the reports that MCA-M submitted, some of the data in its 2006 Annual Report did not accurately reflect the progress of the projects in Madagascar. For example, MCC reported that 361 land certificates were issued, when in fact only 353 were issued as of December 2006. According to the Millennium Challenge Act of 2003, MCC should provide to the public a detailed description of the objectives and measures for results of the program or project. The audit team was told that this was a result of timing differences between when MCA-M was scheduled to report the information and when MCC is required to issue its annual report. The quarterly progress report schedule is based on when the compact country goes entry into force, and is therefore not on the same calendar as MCC's fiscal year. The timing differences in the reporting schedule may cause MCC to underreport on the projects' progress since the compact's entry into force.

MCC provides information to Congress and the public, through its Web site, about the amount of funding and project progress in each compact country. It posts Country Status Reports on its Web site, provides a quarterly report in the Federal Quarterly, and reports to Congress and the public in its Annual Reports and Budget Justification. Although most of the information that MCC provided to its stakeholders reflected the reports that MCA-M submitted, some of the data in its 2006 Annual Report did not accurately reflect the progress of the projects in Madagascar. According to a press release about the 2006 Annual Report and an MCC official, the data reflected the status of projects as of December 2006. However, some of the data MCC reported in the 2006 Annual Report were based on October 2006 information. For example, in one section of the report, MCC stated that "the local land management office in Faratsiho had issued 361 land certificates as of December 31, 2006." MCC received this information via an e-mail communication from MCA-M in October 2006, when in fact, supporting documents

reviewed indicated that only 353 land certificates were issued as of December 2006. Further, the 2006 Annual Report indicated that ABCs reported receiving 1,822 visitors, on the basis of information from the M&E Quarterly Report for July–September 2006. The M&E Quarterly Report for October–December 2006 stated that actually there were 2,589 visitors. Furthermore, the 2006 Annual Report stated that 1,800 farmers had received technical assistance from local ABCs, while the M&E Quarterly Report for October–December 2006 reported 4,502 farmers had received technical assistance.

According to Section 612 (A)(1)(C)(ii) of the Millennium Challenge Act of 2003, the MCC shall make available to the public on at least a quarterly basis the following information: For assistance provided under section 605, a description of the program or project, including a detailed description of the objectives and measures for results of the program or project. Furthermore, section 613 of the act states that not later than March 31, 2005, and each March 31 thereafter, the President shall submit to Congress a report on the assistance provided under section 605 during the prior fiscal year¹². The report shall include the progress made during each year by the country toward achieving the objectives set out in the compact entered into by the country and the extent to which assistance provided under section 605 has been effective in helping the country to achieve such objectives.

MCC's Implementation Working Group has defined a process that includes submission of a preliminary, informal Quarterly Progress Report (QPR) 30 days after the close of the quarter and formal submission of a finalized QPR on or about 70 days after the close of the quarter. This would mean that the final quarter 6 report (October–December) would be due to MCC by the second week of March, potentially limiting its use in the Annual Report, which is due no later than March 31 each year.

As a result of the due dates for the QPR and the Annual Report, the data MCC reported to its stakeholders did not accurately reflect the projects' progress, and in some cases actually underreported the progress that MCA-M had made since entry into force. Therefore, to provide stakeholders with an accurate picture of program accomplishments, given that there are often timing differences in reporting information, the Office of Inspector General is making the following recommendation.

Recommendation No. 4: We recommend that the Millennium Challenge Corporation's Vice President of Congressional and Public Affairs disclose the effective date of the information being used in reports to stakeholders.

¹² MCC reports the progress of its compact programs on the calendar year (i.e. January through December) while its fiscal year for accounting purposes is October through September.

EVALUATION OF MANAGEMENT COMMENTS

The MCC provided written comments to our draft report that are included in their entirety in Appendix II. In its response, the MCC agreed with the recommendations in the draft report.

In response to Recommendation No. 1, MCC agreed with the recommendation and mentioned that the MCA-M office has hired consultants to develop a monitoring and evaluation procedures manual which they used to train the field staff and implementing entities. MCA-M updated the manual in January 2007 based on revisions made on data collection plans for the Agricultural Business Investment Project (ABIP). MCC also mentioned that in June 2007, each Agricultural Business Center had a staff trained in a new database system, TECHPRO, in which all the centers will use the same data collection forms.

In regards to the Land Tenure Project, MCC stated that the implementing entity, PNF, required each land office to use a standard data collection format and established a monitoring and evaluation unit called Observatoire Foncier in March 2007. Furthermore, MCC reported that MCA-M has hired two consulting firms to reinforce the land offices' data collection and reporting capacity.

In addition, MCC reported that it required its implementing entities to perform data collection and use common definition for all indicators that they report to MCC. It also mentioned that MCA-M conducted regular data quality reviews to ensure that the implementing entities who are responsible for collecting data meet the required standards and stressed that MCA-M will continue to provide training to its staff and contractors. Furthermore, MCC believed that the steps mentioned above will ensure that the staff are properly trained, thereby precluding the need for a new memorandum.

The IG has revised the recommendation and now requires MCC to provide clarifying guidance to the Millennium Challenge Account – Madagascar and its field support staff, regarding methodologies involving data collection and specific definitions of the indicators.

For Recommendation No. 2, MCC agreed with the recommendation and stated that MCA-M has already begun to revise the Finance Project targets with guidance from MCC technical staff. The revisions will be reflected in the finalized Monitoring and Evaluation Plan scheduled for March 31, 2008.

For Recommendation No. 3, MCC concurred with the recommendation and stated that it has already issued monitoring and evaluation guidelines to its MCA offices that address indicator definitions, and data collection and reporting, which were first published in May 2006 and revised in January 2007. The guidelines also required that MCA offices conduct an independent data quality review that was conducted in Madagascar in mid-2007 and a second review planned for mid-2008.

Furthermore, MCC explained that it convened a one-week training exercise, in April 2007, that covered indicator definition and data collection and reporting, which the MCA-M staff attended; and an M&E specialist visited Madagascar in September 2006 to provide guidance on process and information system support. However, MCC stated that it is the MCA offices responsibility to develop a specific data collection system and to issue guidance on data collection and reporting.

The IG dropped its Recommendation No. 3, instead we revised Recommendation No. 1 to include the issues dealing with clarifying specific guidelines to the implementing entities and field offices staff.

For Recommendation No. 4, renumbered 3, MCC agreed with the recommendations and explained that its Monitoring and Evaluation Guidelines required a data quality review. According to MCC, after the IG's field visit, MCA-M implemented a database with internal quality controls that assigned unique beneficiary codes to each entry, and believes this action addresses the IG's recommendation.

For Recommendation No. 5, renumbered 4, MCC agreed with the recommendation and has already begun to provide the effective date of the information that it uses in its reports, and mentioned that all data referenced will be dated in the 2007 Annual Report.

Based upon MCC's written comments, the OIG considers that a management decision has been reached on the recommendations, 2, 3 and 4. At the time MCC provides a response to the revised recommendation number 1, a final management decision can then be made.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General audited the Millennium Change Corporation's (MCC) program in Madagascar in accordance with generally accepted government auditing standards. The audit reviewed milestones and targets from entry into force until March 31, 2007, and was augmented by more current data when available. The \$110 million compact entered into force on July 27, 2005. Through March 31, 2007, MCC had disbursed \$13.5 million of the compact's funds to Millennium Challenge Account-Madagascar (MCA-M).

The audit was conducted in Washington, DC, and in Madagascar during the audit team's site visit in June 2007. In addition, the audit team visited MCA-M offices and beneficiaries in or near the following cities in Madagascar: Antananarivo, Antsirabe, Ambatofinandrahana, Faratsiho, and Vatomandry. Auditors also met with various implementing entities tasked with helping MCA-M implement its projects, and the team interviewed MCA-Madagascar's procurement agent, Gesellschaft für Technische Zusammenarbeit.

To reach its conclusions regarding MCA-M's three projects, the audit team relied on interviews with MCC staff, MCA-M personnel, and implementing partners. The auditors used these interviews to help assess the program's work plans, financial reports, quarterly progress reports, Monitoring and Evaluation (M&E) Plan, and information shared with Congress and the public. The audit team also requested and examined supporting documentation for the quarterly progress reports.

The audit team examined the internal control environment. Auditors identified and assessed the relevant internal controls. Auditors tested for various controls, including supporting documentation, calculation errors, reverification procedures, guidance, and training. In addition, the auditors reviewed prior audit reports regarding MCC's program in Madagascar and considered the relevant findings.

Methodology

To answer the three audit objectives, audit steps were established to determine the following:

- Whether MCA-Madagascar had established plans and milestones to monitor and implement the compact's projects;
- Whether the program was on schedule according to the established plan and milestones and whether the overall program was having an impact; and
- Whether data reported by MCC, MCA-M, and the implementing partners to Congress and the public reflected the program's progress.

Specifically, the audit team did the following:

- Interviewed MCC personnel, MCA-M staff, and implementing partners to gain an understanding of the overall objectives of the program and its challenges.
- Conducted a detailed examination of supporting documentation for the three projects to verify that the intended results were being achieved. The examination consisted of reviewing relevant documentation, conducting interviews, and making site visits.
- By assessing whether the program was on schedule according to the established work plans and M&E Plans, determined a materiality threshold of 10 percent of the intended targets.
- Interviewed beneficiaries to determine how MCC-funded programs had affected or improved their lives.
- Determined the potential impact of achieving or not achieving selected milestones and targets by the planned target dates.
- Evaluated the budgets for the three projects.

MANAGEMENT COMMENTS



MEMORANDUM

December 14, 2007

To: John Phee, Assistant Inspector General, Millennium Challenge Corporation

From: Michael Casella /s/
 Deputy Vice President, Millennium Challenge Corporation

Regarding: Response to the Draft Report on the Audit of the Millennium Challenge Corporation Programs in Madagascar

This memo serves as MCC's management response to the *Draft Report on the Audit of the Millennium Challenge Corporation Programs in Madagascar*. We also consider this response to be the management decision for the recommendations in the draft audit.

MCC appreciates the opportunity to comment on this audit of our Madagascar program.

MCC vests in Madagascar implementation responsibility for the country's Compact program. Country ownership of Compact implementation is a key principle of MCC, and consistent with this principle, MCC believes that the best way to implement the recommendations in this report is to ensure that we provide clear and consistent guidance to all of our Compact countries, and to provide any technical assistance as our partner countries undertake their management responsibilities. Our detailed response describes how we are following this approach to address the findings and recommendations in the audit report

Recommendation 1: We recommend that the MCC Vice President of the Compact Implementation Department issue a memorandum to the MCA-Madagascar staff that requires training on data collection, and clearly defines indicators to its field offices and implementing entities.

MCC Response 1:

MCC concurs with the recommendation that MCA staff be trained in collecting data and defining indicators, and that indicators be clearly and consistently defined. For that reason, MCA hired consultants to develop an M&E procedures manual that addresses data collection and indicator definitions, and in July 2006, field staff and implementing

entities were trained in the manual. The manual was updated in January 2007 based on revised data collection plans for the Agricultural Business Investment Project (ABIP). An abbreviated version of the manual was presented to all Agricultural Business Centers (ABCs) in January 2007, and all staff received training in the manual. Additionally, all ABCs now have staff dedicated to information management; in June 2007, these staff were trained in a new database system (TECHPRO). All ABCs use the same data collection forms for data entry into this system.

For the land project, a standard data collection format is imposed by the Implementing Entity (PNF) across all land offices. The PNF also established a monitoring and evaluation unit called the Observatoire Foncier, which began its activities in March 2007 and developed a new data collection format that all local land offices are now using. Additionally, MCA has hired two consulting firms responsible for reinforcing land offices' capacity, *inter alia*, for data collection and reporting.

MCC already requires that implementing entities are capable of performing data collection and use a common definition for all indicators reported to MCC. Regular data quality reviews are also carried out to ensure that entities responsible for data collection meet these standards. MCA-Madagascar will continue to provide the required training to its staff and contractors as implementation of the projects progresses.

We believe that these steps will ensure mandatory training on data collection and clear definition of indicators across field offices and implementing entities, and obviate the need for a new memorandum from the Vice President of Compact Implementation on this issue. The use of the reporting system described above, combined with periodic visits by MCC technical staff, will also ensure that the data problems noted in the IG report are being addressed.

Recommendation 2: We recommend that the MCC's Vice President of the Compact Implementation Department reassess and revise the targets for the finance project, and document the new targets in a revised M&E Plan by March 31, 2008.

MCC Response 2:

MCC concurs with the recommendation to reassess and revise the Finance Project targets. This work has already been undertaken by MCA-Madagascar with guidance from MCC. These new targets will be reflected in the revised Monitoring and Evaluation Plan, which will be finalized by March 31, 2008.

Both MCC and MCA-Madagascar have been aware of the issue raised by this recommendation, namely that the targets are conservative due to external projects supporting microfinance institutions at the national level and increases in inflation increasing the total value of loans. In order to address this issue, MCA-Madagascar is shifting the focus from national and regional level indicators to the specific activity area, allowing MCA-Madagascar access to data gathered directly by implementing partners.

MCC would also like to note that M&E Plans include indicators that are a function of things other than solely implementation progress. For the Finance Project in particular, MCA and MCC consider it important to track indicators related to the financial environment—i.e., external conditions necessary for the project’s success. These data were intended to shed light on key market and institutional conditions leading up to the launch of the project in each of the five zones.

Recommendation 3: We recommend that the MCC Vice President of the Compact Implementation Department issue guidelines that would describe how the MCA-Madagascar and field offices should document the collection of data, report the data, and define project indicators to its field staff before they reach the project implementation phase.

MCC Response 3:

MCC concurs with the recommendation to provide MCA Madagascar, and all Accountable Entities, with guidance on MCC’s requirements for data collection, reporting and indicator definitions. Monitoring and evaluation guidelines have already been issued to all Accountable Entities. These guidelines address, *inter alia*, indicator definitions, data collection and reporting; they were first published on MCC’s website in May 2006, and revised and expanded in January 2007. The guidelines also require regular independent data quality reviews. Such a review was completed for Madagascar in mid-2006 and a second is planned for mid-2008.

Following up on these guidelines, an MCC M&E specialist traveled to Madagascar in September 2006, focused on providing guidance on country-specific processes and information systems that support reporting. In April 2007, MCC convened a one-week “M&E College” in Washington, DC which MCA-Madagascar attended. The week’s agenda covered, *inter alia*, indicator definition and data collection and reporting.

Under the MCC implementation structure, developing specific data collection systems for each activity is the responsibility of the MCA Accountable Entity. Further, the MCAs are tasked with issuing guidance on an activity-by-activity basis for the documentation and reporting of data. MCC will continue to work with MCA Madagascar to ensure that the monitoring and evaluation guidelines are followed, and will use the upcoming data quality review to identify and address any remaining issues in this area.

Recommendation 4: We recommend that the MCC Vice President of the Compact Implementation Department issue guidance on the methodology that the MCA-Madagascar office should use to conduct a quality control check of prior data before importing the data into a new database system, and how MCC staff should test the accuracy of the data during site visits.

MCC Response 4:

MCC concurs with the recommendation to provide guidance on data quality. Such guidance is included in our Monitoring and Evaluation Guidelines, including a requirement for data quality reviews. MCC appreciates the IG raising this issue during their June 2007 mission. Following the IG mission, a database was put in place by MCA-Madagascar with internal quality controls that assign unique beneficiary codes to each entry. MCC believes that this action addresses the data quality control issue raised in the recommendation, and that additional guidance, beyond that contained in the Monitoring and Evaluation Guidelines, is no longer necessary.

MCC relies on the data quality audit for an independent assessment of the accuracy of the data; therefore, MCC staff does not directly test the accuracy of the data during site visits. MCC approves the Terms of Reference for these data quality audits to ensure that the methodology is consistent with our guidelines. As mentioned above, a data quality review was completed in mid-2006 and a second is planned for mid-2008.

Recommendation 5: We recommend that the Vice President of Congressional and Public Affairs disclose the effective date of the information being used in reports to stakeholders.

MCC Response 5:

MCC concurs with this recommendation, and has already put it into effect. All data references will be dated in this year's Annual Report. At a time when only a few countries had begun implementation, MCC relied on individual information requests to the MCA units, which led to the inconsistencies (albeit below the materiality threshold of ten percent) cited in the IG report. Today, with a greater number of countries in implementation, we have a regular, systematic reporting system to generate data for reports to stakeholders. Because we rely on reported data, there will necessarily be a time lag in reporting results, which will lead, in turn, to the under-reporting of results cited in the section of the audit report entitled "Reported Data to MCC Stakeholders Did Not Accurately Reflect the Compact Projects' Current Progress in Madagascar."

Explanation of Vatomandry ABC's Interpretation of the ABIP Indicators Compared to the Correct Interpretation Based on the 2007 M&E Plan

Indicator	Vatomandry ABC's Interpretation	2007 M&E Plan Requirements
Number of business plans.	The business plans were reported only if they had been written, validated, and used to obtain financing. The staff said it was not enough to simply write a business plan for a beneficiary; they wanted to ensure that it was good enough to actually secure funding.	Did not require a business plan to be financed before it was reported to MCC.
Number of producers or enterprises receiving technical assistance.	The ABC stated that it counted any producer or enterprise that was adopting technical assistance, regardless of who provided the technical assistance. For example, if a producer received technical assistance from an international donor, the ABC included that producer in its total. Additionally, the ABC staff stressed that it counted only individuals and companies that adopted the technical assistance taught to them. The ABC believed that merely providing technical assistance was not enough to ensure that meaningful assistance had been provided.	Takes into consideration the "spillover" effect of the ABIP on the other farmers copying from ABC clients; does not mention counting individuals and business helped by other donors. Calls for capturing the number of beneficiaries <i>and</i> the number of beneficiaries adopting the techniques taught to them.
Number of associations, cooperatives, and enterprises benefiting from the technical assistance.	Because the ABC wanted to do more than simply count organizations that had been contacted, it counted only organizations that also had written a business plan, followed the business plan, and provided good managerial services to their members.	Calls for capturing the number of organizations assisted by the ABCs <i>and</i> the number of organizations adopting the techniques taught to them.
Number of producers utilizing technical assistance provided to them.	The ABC said it counted the number of individuals who had adopted a majority of the techniques taught to them by the ABC. For example, if the ABC taught four skills, the beneficiary had to use three of the four skills before being reported.	Does not define what percentage of a beneficiary's instruction must be "adopted."
Number of enterprises utilizing technical assistance provided to them.	The ABC said it counted the number of enterprises that had adopted a majority of the techniques taught to them by the ABC.	Does not define what percentage of a beneficiary's instruction must be "adopted."
Number of individuals registered with a cooperation or association.	The ABC staff decided that each cooperative it established not only had to file its administrative paperwork but also complete other tasks such as creating business plans and budgets. The ABC added these additional criteria because it wanted to ensure that the cooperatives were self-sufficient and could actually function on their own without additional support.	Requires the ABC only to count the number of registered cooperatives.

**Analysis of Whether the Faratsiho Land Tenure
Office Had Supporting Documents for the Data
Results It Reported to MCA-M
(Audited)**

Data Element	Quarters 1 to 7		Percent of Data Supported
	Reported	Supported	
Number of Demands	419	419	100
Number of Land Certificates Issued	374	374	100
Number of Beneficiaries	233	219	94%
Number of Oppositions	9	3	33%
Number of Resolved Cases	4	0	0%
Number of Area Secured	121	121	100%

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