OFFICE OF INSPECTOR GENERAL

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S RESETTLEMENT ACTIVITIES

AUDIT REPORT NO. M-000-13-002-P
DECEMBER 6, 2012

WASHINGTON, D.C.

Office of Inspector General

December 6, 2012

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

Dear Mr. Fine:

This letter transmits the Office of Inspector General's report on the "Audit of the Millennium Challenge Corporation's Resettlement Activities." 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 five recommendations to strengthen the Millennium Challenge Corporation's policies and procedures. We consider that management decisions have been reached on all five.

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

Sincerely,

/s/

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

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SUMMARY OF RESULTS

Many projects that the Millennium Challenge Corporation (MCC) funds involve resettlement, moving people or acquiring their property to make way for a project. MCC follows the World Bank's Operational Policy 4.12 on Involuntary Resettlement and has issued *Guidance on the Implementation of Resettlement Activities* to help the Millennium Challenge Accounts (MCAs) implement resettlement activities. MCC requires MCAs to provide appropriate compensation to people who lose land, assets, or access to resources due to an MCC-funded project. A fundamental principle of MCC's resettlement approach is that the compensation must restore and preferably improve the livelihoods of those affected by resettlement. MCC estimates that as of June 2012, approximately $120 million in compact funding was spent on or allocated for resettlement activities in 20 of 24 compact countries.

The objective of this audit was to determine whether MCC's resettlement activities restored or improved the livelihoods of people who have lost land, assets, or access to resources due to an MCC-funded project. However, the Office of Inspector General (OIG) could not determine this because MCC does not always gather this information. MCC officials said the approach they take for assessing livelihood restoration varies, depending on the complexity and risks of the resettlement activity. In some cases, MCC conducts post-resettlement reviews. In others, MCC officials conclude that livelihoods have been restored by, for example, confirming that the MCAs provided appropriate compensation packages, conducting spot-checks of individual cases, reviewing formal complaints, and confirming that projects were completed with no outstanding resettlement issues.

OIG found the following problems with resettlement activities associated with an MCC-funded road construction project in Ghana, one of two countries visited for this audit, and therefore questions whether the livelihoods of some affected by resettlement there have been restored. The project improved a 14-kilometer stretch of highway in a crowded urban area where approximately 6,000 people were involved with resettlement.

- MCC did not assess livelihood restoration properly in Ghana (page 3). Most of the people OIG met in Ghana were unfamiliar with the complaint process and were dissatisfied with the compensation they received. Many said they took what was offered because they did not think they had any other options.

- Because of shortcomings with MCA-Ghana's documentation of payments, OIG could not confirm that it made proper resettlement compensation payments and reported accurate information to MCC (page 4).

- Twenty percent of the people affected by the project had not received full compensation at the time of OIG's visit, which was 5 months after the compact closed and, in some cases, more than 1 year after land or assets were taken (page 5).

In contrast, in El Salvador—the second country OIG visited—people affected by resettlement generally were satisfied with the process and their compensation, and said their livelihoods had been restored or improved. MCC funds improved a 223-kilometer road in El Salvador, and the resettlement activities affected about 2,500 people.

The audit also found that MCC was not fully alerting its staff to lessons learned about resettlement activities (page 5). Therefore, mistakes could be repeated and successes might not be replicated.

To address these concerns, OIG recommends that MCC's Vice President, Department of Compact Operations:

1. Revise the *Guidance on the Implementation of Resettlement Activities* to strengthen the Millennium Challenge Corporation's oversight of Millennium Challenge Accounts' livelihood restoration (page 4).

2. Review resettlement implementation in other compact countries to confirm that applicable Millennium Challenge Corporation policies are being complied with, and if not, take corrective action (page 4).

3. Update the Millennium Challenge Corporation's fiscal accountability and resettlement guidance to clarify processes for making and documenting proper resettlement transactions (page 4).

4. Request that the Government of Ghana document its progress in making the outstanding payments to the affected persons to confirm that they are paid (page 5).

5. Develop methods for effectively sharing information on resettlement activities among headquarters and Millennium Challenge Account staff (page 6).

Detailed findings appear in the following section. Appendix I describes the audit scope and methodology. Appendix II presents MCC's comments. Our evaluation of management comments is on page 7.

AUDIT FINDINGS

MCC Did Not Assess Livelihood Restoration Properly in Ghana

Based on the World Bank's Operational Policy 4.12, MCC's *Guidance on the Implementation of Resettlement Activities* states that a fundamental requirement of resettlement activities is to:

> Restore, at least, standards of living and preferably improve the livelihoods of those households, families, extended families and individuals who are losing land, assets or access to resources due to the implementation of a project.

MCC officials told OIG they determine whether livelihoods have been restored in a variety of ways, depending on the complexity and risks of the resettlement activity. They said they might conduct specific post-resettlement evaluations, or they might conclude that livelihoods have been restored by confirming that MCAs provided appropriate compensation packages, spot-checking individual cases, reviewing formal complaints, and confirming that projects were completed with no outstanding resettlement problems. The officials said MCC does not always conduct post-resettlement evaluations because (1) the nature of the activity might not warrant this level of analysis, (2) the 5-year compacts are relatively short, and (3) numerous factors could influence livelihoods after resettlement occurs. MCC does conduct impact evaluations on select projects years after termination to assess their economic impact, but these evaluations do not always address resettlement.

The MCC compact with Ghana, which ended in February 2012**,** included a road improvement project that affected approximately 6,000 people with resettlement. OIG randomly selected and met with 34 of them. Most said their livelihoods were hurt, and many told OIG that the compensation they received did not cover the damages they incurred. For example, two people who owned businesses said they went into business with others after resettlement because their compensation was not sufficient to allow them to reestablish their businesses.

The people OIG met said they did not know about the complaint process that MCA-Ghana established for those dissatisfied with resettlement or the amount of compensation they received. Several people told OIG they accepted the compensation offered only because they did not think they had a choice.

As reported in the following sections, OIG could not verify that proper compensation payments were made and that accurate information was reported to MCC. Further, 20 percent of those affected had not received full compensation payments at the time OIG visited, which was 5 months after the compact ended and, in some cases, more than 1 year after land or assets were taken.

MCC officials said they did not assess livelihood restoration in Ghana well in part because MCC's oversight of resettlement in Ghana was weak and the officials did not know the extent of the problems until the compact was ending. As a result, the livelihoods of some people affected by the road project might not have been fully restored. To prevent this from occurring elsewhere, this audit makes the following recommendations.

Recommendation 1. *We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, revise the* Guidance on the Implementation of Resettlement Activities *to strengthen the Millennium Challenge Corporation's oversight of Millennium Challenge Accounts' livelihood restoration.*

Recommendation 2. *We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, review resettlement implementation in other compact countries to confirm that applicable Millennium Challenge Corporation policies are being complied with, and if not, take corrective action.*

OIG Could Not Verify Payments Made in Ghana

As stated on page 15 of the Government Accountability Office's *Standards for Internal Controls 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. All documentation and records should be properly managed and maintained.

Because payments made to people affected by the road project in Ghana were not clearly documented and available for examination, OIG could not confirm that those affected received the proper compensation.

Following discussions with MCA-Ghana representatives, people affected by resettlement signed agreements outlining the amount of compensation to be provided and the property involved. They later received the payments and signed receipts for them. However, the agreements and receipts were filed separately and were not linked easily by name or identification number. This made it difficult to confirm that the affected people actually received the compensation they were expecting.

MCC officials recognized that the MCA-Ghana's systems did not link easily, but they expressed confidence in each of the two separate systems and were therefore confident that MCA-Ghana had made proper payments.

Because MCA-Ghana did not establish proper internal controls for documenting payments, OIG could not confirm that proper payments were made and accurate information was reported to MCC. If these controls are lacking in other MCC countries, improper payments could be made and MCC could draw incorrect conclusions about livelihood restoration. To address this concern, this audit makes the following recommendation.

Recommendation 3. *We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, update the Millennium Challenge Corporation's fiscal accountability and resettlement*

guidance to clarify processes for making and documenting proper resettlement transactions.

Twenty Percent of People Affected in Ghana Did Not Receive Timely Compensation

MCC's *Guidance on the Implementation of Resettlement Activities* and the World Bank's Operation Policy 4.12 state that people affected should be compensated promptly.

When OIG visited in July 2012—5 months after the compact closed—about 1,300 people affected by the road project had not received full resettlement compensation. Representing roughly 20 percent of all of those affected, this group included nearly 1,200 traders. The traders received training in how to improve their business skills in July 2011, and they were to receive 100 Ghanaian *cedi* (approximately $50) each as start-up capital. Yet as of July 2012, the traders had not received these funds. An additional 122 people who lost their land due to the road project had not received compensation by July 2012; for some of them, more than 1 year had elapsed since their land was expropriated.

MCA-Ghana officials said the traders did not receive the start-up capital when they were trained because all of the compact's resettlement funds had been spent by that time. The initial budget estimates for resettlement activities were significantly low, and the Ghanaian Government agreed to provide about $10 million in funding outside of the compact to support resettlement activities. Payments to the traders, however, were not included in this $10 million.

Regarding the 122 landowners, MCA-Ghana officials said they had not received payment because determining land ownership in Ghana is very difficult and confirming the ownership of the land in question could last into 2013.

MCC officials said any future payments for resettlement would come directly from the Ghanaian Government because the compact closed. As such, MCC may have limited ability to influence the government's actions at this time.

Because the payments were not made at the time of resettlement, 20 percent of those affected by the Ghanaian road project have been delayed in restoring their livelihoods. To address this concern, this audit makes the following recommendation.

> ***Recommendation 4.*** *We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, request that the Government of Ghana document its progress in making the outstanding payments to the affected persons to confirm that they are paid.*

MCC Did Not Communicate Lessons Learned Throughout Organization

Sharing knowledge can strengthen the effectiveness of MCC's programs by preventing mistakes from recurring and by promoting best practices.

However, MCC has not assessed its resettlement activities systematically and does not effectively share information about past experiences throughout the organization. For example, until OIG requested information about resettlement MCC-wide, this information had not been readily available. Yet, MCC-funded resettlement activities have occurred in nearly all compact countries, at an estimated value of $120 million. While MCC officials said they discuss resettlement issues when they arise, they do not have a formal process in place for tracking and reporting resettlement data and sharing lessons learned throughout the organization. The officials said that until recently the magnitude of resettlement activities was not appreciated throughout MCC.

MCC officials said they are in the process of updating their best practices for addressing resettlement, and they plan to revise the *Guidance on the Implementation of Resettlement Activities*. They also said that some MCC countries or regions do share information on resettlement activities.

Still, unless lessons are shared throughout the organization systematically, mistakes could be repeated. Gathering and analyzing resettlement data to identify both risks and solutions, and formally sharing this information should help MCC maximize the potential for resettlement's success. To address this concern, this audit makes the following recommendation.

> ***Recommendation 5****. We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, develop methods for effectively sharing information on resettlement activities among headquarters and Millennium Challenge Account staff.*

EVALUATION OF MANAGEMENT COMMENTS

MCC provided written comments on the draft report that are included in their entirety in Appendix II of this report. MCC agreed with all five recommendations. Management decisions have been reached on all five recommendations.

MCC agreed with Recommendation 1, to revise the *Guidance on the Implementation of Resettlement Activities* to strengthen MCC's oversight of MCAs' livelihood restoration. MCC is updating the guidance and anticipates completing it by September 30, 2013. Revisions will include measures to strengthen MCC's oversight of livelihood restoration as part of resettlement planning and implementation. OIG considers that a management decision has been reached on this recommendation. Final action will occur when MCC completes the guidance update.

MCC agreed with Recommendation 2, to review current resettlement implementation throughout its portfolio to confirm compliance with applicable resettlement policies. MCC will take a risk-based approach that (1) takes stock of all resettlement implementation activities under way, (2) applies a compliance checklist to identify any specific situations that warrant further review and investigation, (3) conducts targeted investigations as appropriate, and (4) identifies and executes corrective actions as appropriate. MCC plans to complete this review by September 30, 2013. OIG considers that a management decision has been reached on this recommendation. Final action will occur when MCC completes the review.

MCC agreed with Recommendation 3, to update MCC's fiscal accountability and resettlement guidance to clarify processes for making and documenting proper resettlement transactions. In addition to updating the resettlement guidance noted in Recommendation 1, MCC plans to update its fiscal accountability guidance to better clarify processes for making and documenting proper resettlement transactions. MCC anticipates completing these guidance updates by September 30, 2013. OIG considers that a management decision has been reached on this recommendation. Final action will occur when MCC completes the guidance updates.

MCC agreed with Recommendation 4, to ask the Ghanaian Government to document its progress in making the outstanding payments to people affected by resettlement to confirm that they are paid. MCC plans to continue working with MCA-Ghana to track and complete outstanding resettlement compensation payments. MCC plans also to ask Ghana by January 31, 2013, to document its progress in making outstanding resettlement payments. OIG considers that a management decision has been reached on this recommendation. Final action will occur when MCC presents the formal request to Ghana.

MCC agreed with Recommendation 5, to develop methods for effectively sharing information on resettlement activities among headquarters and MCA staff. MCC will take steps to track resettlement-related information and share lessons learned among MCC and MCA staff more systematically. This will include sessions on resettlement implementation as part of MCC's "Environmental and Social Performance College" during which MCC and MCA staff will discuss and share challenges, lessons learned, and MCC's expectations related to resettlement planning and implementation (scheduled for spring 2013). MCC is also developing a set of training materials that will address resettlement planning and implementation, among other

subjects, for MCAs. MCC's Environmental and Social Performance division has started developing a risk management system to strengthen and improve MCC's oversight of the environmental and social performance of compact activities, including resettlement. MCC plans to test this system in the spring 2013 and to have it be operational by the end of December 2013. OIG considers that a management decision has been reached on this recommendation. Final action will occur when MCC completes the actions listed above.

SCOPE AND METHODOLOGY

Scope

OIG conducted this audit of MCC's resettlement activities in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

MCC estimated that as of June 2012, about $120 million in compact funding was spent on or allocated for resettlement activities in 20 of 24 compact countries. OIG reviewed resettlement in Ghana, where approximately $15 million was spent on resettlement (roughly $5 million in compact funding and $10 million directly from the Ghanaian Government), and El Salvador, where approximately $6 million in compact funding was spent. The audit team tested internal controls over approximately $508,000 resettlement expenditures in Ghana (roughly 3 percent of total resettlement costs) and $600,000 in El Salvador (roughly 10 percent of costs).

We conducted our fieldwork from May 23 to September 25, 2012, at MCC headquarters in Washington, D.C., MCA-Ghana in Accra from July 9 to 20, 2012, and MCA-El Salvador in San Salvador from August 13 to 24, 2012. In Ghana we visited sections of National Highway 1 that were improved under the compact. In El Salvador we visited sections of the Northern Transnational Highway.

To answer the audit objective, we met with MCC officials to gain an understanding of resettlement activities. We visited Ghana and El Salvador to interview MCA staff and to observe the implementation and documentation of resettlement activities. In both countries we met with people who had been affected by the MCC-funded road projects and were involved with resettlement. We analyzed documents and reports to identify concerns.

We examined the internal control environment by testing controls in place to ensure proper resettlement payments had been made. In particular, we compared negotiation forms (signed to indicate agreement on compensation amounts) with payment receipts and reviewed the documents to confirm the relevant parties had signed them. We met with people who had been affected by resettlement to confirm that the information contained on the documents was accurate. We could not perform this review in Ghana, as noted on page 4.

Methodology

The audit team met with MCC staff in Washington, D.C., and El Salvador (the Ghana compact closed in February 2012 so no MCC employees were assigned there when we visited). We met with MCA staff and people affected by resettlement in Ghana and El Salvador and performed the following:

- Interviewed MCC and MCA staff to gain an understanding of resettlement activities.
- Interviewed other donors to get their perspectives on resettlement activities.

- Reviewed documentation associated with the National Highway 1 project in Ghana and the Northern Transnational Highway project in El Salvador, including the compacts, contractor reports, and resettlement action plans.

- Selected a sample of 100 resettlement files in each country to review supporting documentation to confirm that proper resettlement payments had been made. In El Salvador, we selected a statistically random sample of 100 files of 2,577 affected people (organized by parcels) and compared negotiation forms (signed to indicate agreement on compensation amounts) with payment receipts. We reviewed the documents to confirm they were signed by the relevant parties. We chose a statistically random sample to allow us to project our results to the universe of 2,577 people.

  In Ghana, we attempted to select a statistically random sample of 100 files out of 6,065 affected people (MCC subsequently revised this number to 6,185) but the files were not organized in a manner that allowed this. Instead, we randomly selected 100 files from the binders in which they were contained. We were unable to confirm the total number of files contained in the binders, and therefore we were unable to project our results to the universe. We were also unable to compare the negotiation forms with payment receipts, as noted on page 4.

- From the random samples of 100 files in each country, we met with 34 people in Ghana and 21 in El Salvador. We discussed their experiences with resettlement, and in El Salvador we confirmed that the information contained in their files regarding property and compensation amounts was accurate. Although we were able to discuss resettlement with the people in Ghana, we could not confirm that the information in their files was accurate, as noted on page 4.

MANAGEMENT COMMENTS

DATE: November 16, 2012

TO: Richard Taylor
Deputy Assistant Inspector General
Office of Inspector General
Millennium Challenge Corporation

FROM: Jonathan O. Bloom, Deputy Vice President, acting for Patrick Fine /s/
Department of Compact Operations
Millennium Challenge Corporation

SUBJECT: MCC's Response to the Office of Inspector General's (OIG) Draft Report "Audit of the Millennium Challenge Corporation's Resettlement Activities"

Dear Mr. Taylor,

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the OIG draft report entitled "Audit of the Millennium Challenge Corporation's Resettlement Activities".

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

Recommendation 1: *We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, revise the Guidance on the Implementation of Resettlement Activities to strengthen the Millennium Challenge Corporation's oversight of Millennium Challenge Accounts' livelihood restoration.*

MCC Response: MCC agrees with this recommendation, with the following clarifications. MCC has already commenced its planning for an update of the 2008 *Guidance on the Implementation of Resettlement Activities* and anticipates completing the guidance by September 30, 2013. Revisions to the guidance will include measures to strengthen MCC's oversight of livelihood restoration as part of resettlement planning and implementation. It is important to understand, however, that this document is purely guidance and in no way constitutes binding policy. Instead, it offers general guidance to both MCC and MCA staff on the proper application of MCC's actual policy requirements with respect to resettlement activities (notably the MCC Environmental Guidelines, World Bank OP4.12, and, in the case

of newer compacts, the International Finance Corporation's Performance Standard 5) and identifies good practices to improve resettlement outcomes.

***Recommendation 2**: We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, review resettlement implementation in other compact countries to confirm that applicable Millennium Challenge Corporation policies are being complied with, and if not, take corrective action.*

MCC Response: MCC agrees with this recommendation. MCC will review current resettlement implementation across its portfolio to confirm compliance with applicable resettlement policies. In view of resource and time constraints, MCC will take a risk-based approach to this review that 1) takes stock of all resettlement implementation activities underway; 2) applies a compliance checklist in order to identify any specific situations that warrant further review and investigation; 3) conducts targeted investigations as appropriate; and, 4) identifies and executes corrective actions as appropriate. MCC will complete this review by September 30, 2013.

***Recommendation 3:** We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, update the Millennium Challenge Corporation's fiscal accountability and resettlement guidance to clarify processes for making and documenting proper resettlement transactions.*

MCC Response: MCC agrees with this recommendation. As noted above, MCC has already commenced its planning for an update of the 2008 *Guidance on the Implementation of Resettlement Activities*. In addition, and in coordination with the updating of MCC's resettlement guidance, MCC will also update its fiscal accountability guidance to better clarify processes for making and documenting proper resettlement transactions. MCC anticipates completing these guidance updates by September 30, 2013.

***Recommendation 4:** We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, request that the Government of Ghana document its progress in making the outstanding payments to the affected persons to confirm that they are paid.*

MCC Response: MCC agrees with this recommendation. Although the compact has closed and most of MiDA's staff, including those working on resettlement issues, have left their employment, MCC has been and will continue to work with MiDA to the extent practicable to track and complete outstanding resettlement compensation payments to affected persons. In addition, MCC will request documentation from the Government of Ghana as to its progress in making outstanding resettlement payments. The Millennium Challenge Corporation's Vice President, Department of Compact Operations, will formally communicate this request to the Government of Ghana by January 31, 2013.

***Recommendation 5:** We recommend that the Millennium Challenge Corporation's Vice President, Department of Compact Operations, develop methods for effectively sharing information on resettlement activities among headquarters and Millennium Challenge Account staff.*

MCC Response: MCC agrees with this recommendation. In addition to updating MCC's 2008 *Guidance on the Implementation of Resettlement Activities,* and continuing our support for targeted actions to share resettlement information, best practices, and build MCC and MCA capacity (such as workshops, lessons learned documents, and targeted training etc.), MCC will take steps to more systematically track resettlement-related information and share lessons learned among MCC and MCA staff. This will

include sessions on resettlement implementation as part of MCC's "Environmental and Social Performance College" during which MCC and MCA staff will discuss and share challenges, lessons learned and MCC's expectations related to resettlement planning and implementation (scheduled for spring 2013), and sharing additional resettlement guidance, tools and resources with MCAs as part of our adoption of the IFC Performance Standards for new compacts. MCC is also developing a set of training materials that will address resettlement planning and implementation (among other subjects) and will be used to help build the capacity of MCAs and implementing organizations to plan and implement resettlement. MCC intends to have these training materials available for use by November 30, 2013 and will prioritize training materials related to resettlement.

Further, MCC's Environmental and Social Performance division has commenced the development of a risk management system to strengthen and improve MCC's oversight of the environmental and social performance of compact activities, including resettlement. This system will include operational procedures to be followed by MCC ESP staff, a document and data management system for key environmental and social documents and data (including resettlement-related documents and data), and a tool to benchmark and track project compliance with MCC's environmental and social requirements over time. MCC plans to be piloting this system in the spring of 2013 and to have the system operational by the end of December 2013.

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

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