



Enabling poor rural people
to overcome poverty

Republic of Uganda

Project for Financial Inclusion in Rural Areas

Design report

Main report and appendices

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Currency equivalents

Currency Unit	=	Uganda Shilling (UGX)
US\$1.0	=	UGX 2.650
SDR 1	=	US\$1.52

Weights and measures

1 kilogram	=	1000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 hectare	=	2.47 acres

Abbreviations and acronyms

AfDB	Africa Development Bank
AMFIU	Association of Microfinance Institutions in Uganda
AWPB	Annual work plan and budget
BoU	Bank of Uganda
CCA	Canadian Co-operative Association
CEO	Chief Executive Officer
COSOP	Country Strategic Opportunity Programme of IFAD
CSCG	Community savings and credit group
DCO	District Commercial Officer
DfID	Department for International Development
DMF	Department of Microfinance
DSIP	Development Strategy and Investment Plan
EIRR	Economic internal rate of return
FEW	Financial Extension Worker
GDP	Gross Domestic Product
GIZ	German Society for International Cooperation
GTZ	German Technical Cooperation
IRR	Financial internal rate of return
KfW	German Technical Support Agency
M&E	Monitoring and evaluation
MDG	Millennium Development Goals
MDI	Microfinance deposit-taking institution
MFF	Microfinance Forum
MFI	Microfinance institution
MFPEd	Ministry of Finance, Planning and Economic Development
MNO	Mobile network operator
MOP	Microfinance Outreach Plan
MSC	Microfinance Support Centre
MTIC	Ministry of Trade, Industry, and Cooperatives
NDP	National Development Plan
PEAP	Poverty Eradication Action Plan
PIM	Project implementation manual
PMU	Project management unit
RFSP	Rural Financial Services Programme
RFSS	Rural Financial Services Strategy
RIMS	Results, impact and monitoring system
SACCO	Savings and credit cooperative
SSA	Sub-Saharan Africa
UCA	Uganda Cooperative Alliance
UCSCU	Uganda Cooperative Savings and Credit Union
UWESO	Uganda Womens Effort to Save Orphans
VSLA	Village Savings and Loan Association
WOCCU	World Council of Credit Unions

Maps

Uganda

Project for Financial Inclusion in Rural Areas (PROFIRA)

Location of Savings and Credit Cooperative Organizations (SACCOs)

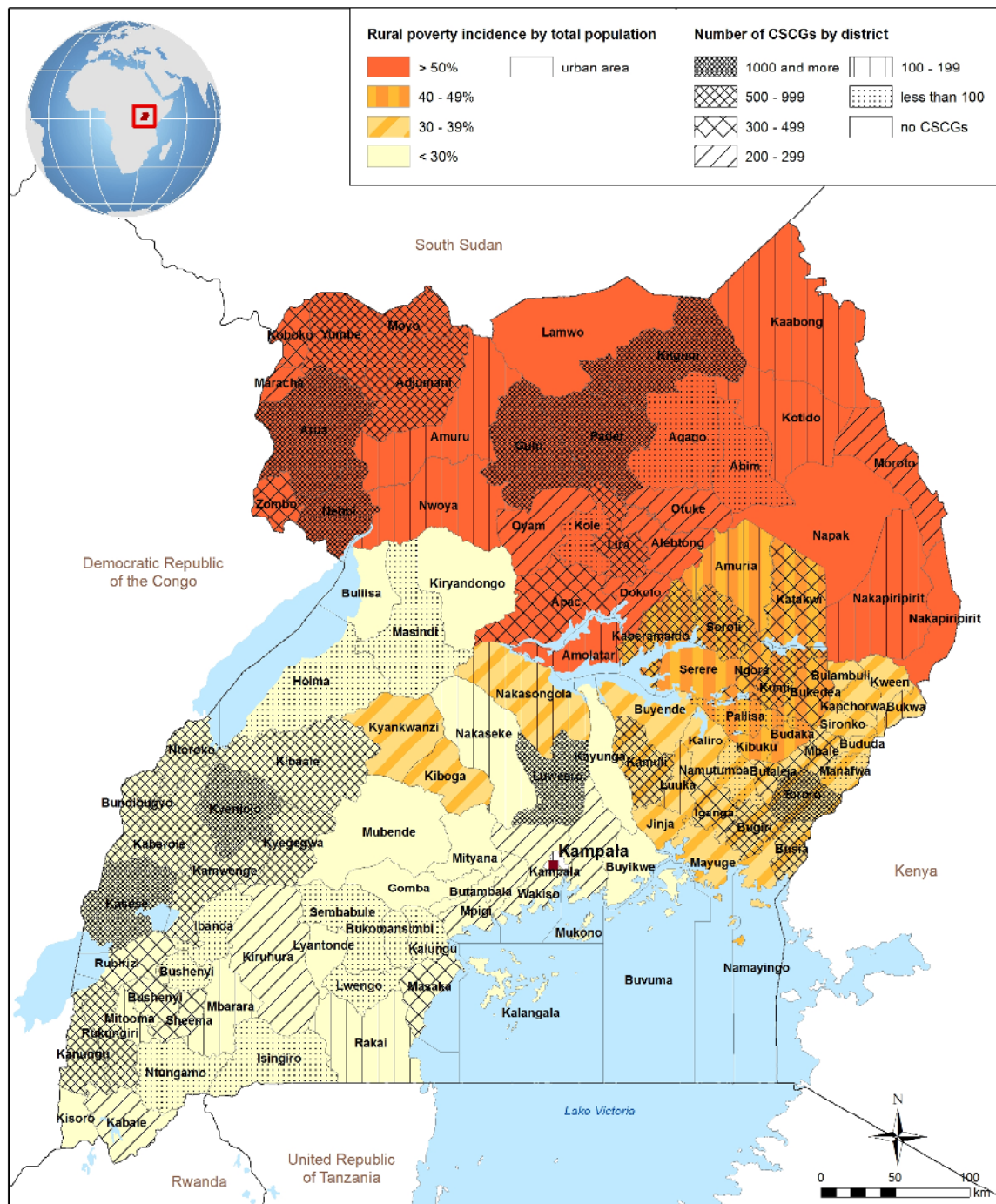


The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD Map compiled by IFAD | 05-11-2012

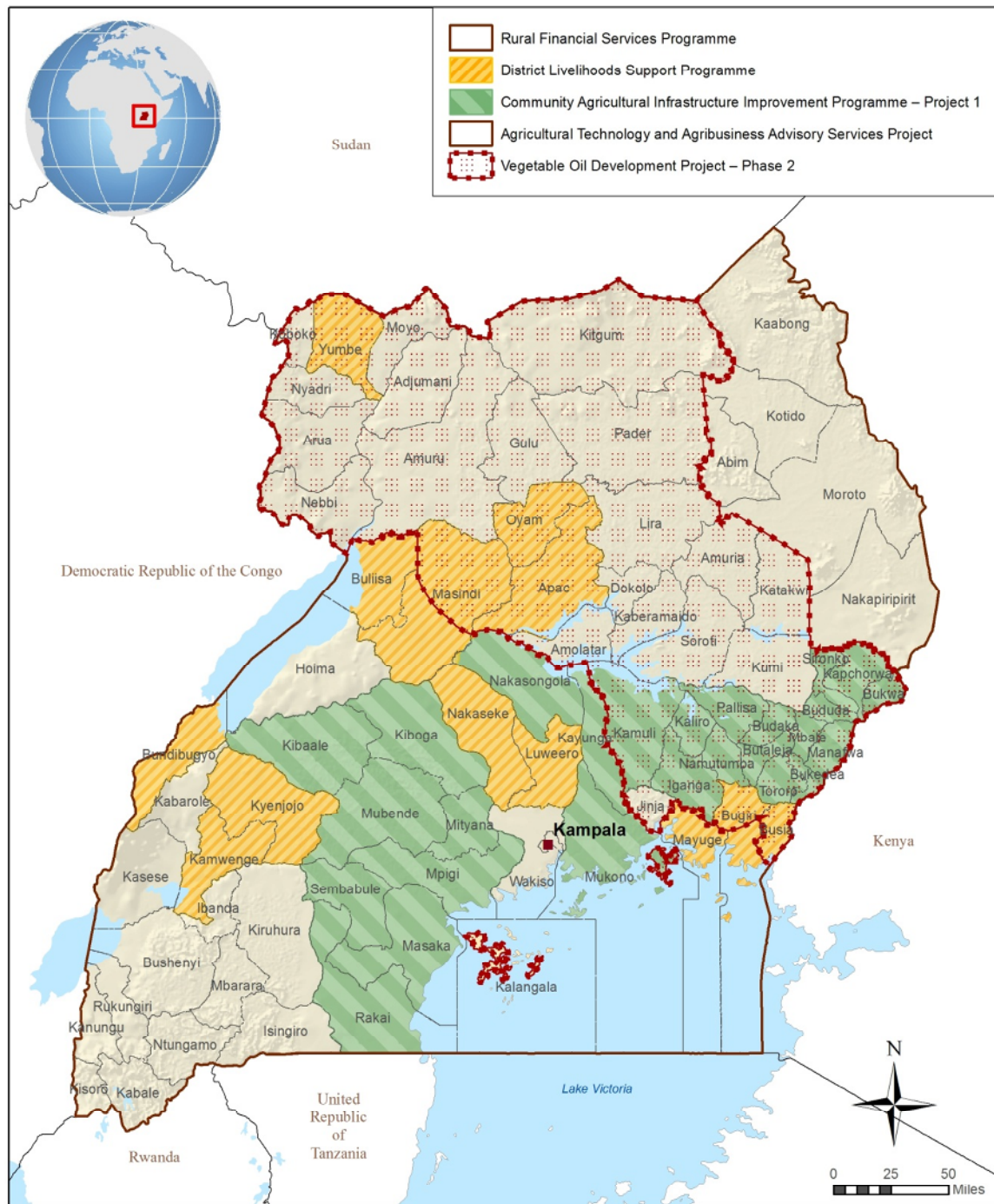
Project for Financial Inclusion in Rural Areas (PROFIRA)

Rural poverty incidence and number of Community Savings and Credit Groups (CSCGs)



Uganda

Ongoing IFAD-funded operations



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 30-11-2012

Executive Summary

A. Overall project summary and objectives

1. The project focuses on the large portion of the rural population that has little or no access to financial services and on two rural institutions that have successfully demonstrated that sound and appropriate financial services can be provided to even the poorest members of rural communities: savings and credit cooperatives (SACCOs) and community savings and credit groups (CSCGs). The project will build on the successes of the IFAD-financed Rural Finance Services Programme (RFSP) and facilitate the strengthening of some 500 SACCOs to enable them to become sound and financially sustainable organizations that can provide their communities with a range of services; some 225 000 households will directly benefit. This initiative will be complemented by support to transform the union of SACCOs, UCSCU (Uganda Cooperative Savings and Credit Union), into a financially sustainable body and by policy initiatives to create a conducive environment for SACCOs. The support for the establishment of 15 000 CSCGs, and strengthening of a further 3 000, involving some 375 000 people in total, will focus on the poorest areas of the country where few savings and credit groups have been established, thus providing households in these areas with the first important step into the rural economy and a means to finance micro-business initiative and meet pressing household expenses.

B. Strategic context and rationale

2. There is a broad consensus between government and IFAD regarding the development of the rural financial sector. Both recognize the continuing need to promote rural finance and both see the focus on financial inclusion as one of the key pillars of Uganda's efforts to eradicate poverty. IFAD's country strategy (COSOP) is fully consistent with this position. IFAD involvement in the rural financial sector through the RFSP has built up a strong body of experience in the sector and has created a strong core of member and savings-based rural financial cooperative institutions. While a portion of these SACCOs have now become strong and sustainable institutions, many need additional support to fully achieve operational and financial sustainability. While the SACCOs now cover a large part of the country, studies have highlighted the limited coverage in rural areas by other community based financial institutions. However, strong potential has been found to expand the number of community savings and credit groups particularly in some of the poorer districts in the country.

3. There are a number of opportunities in the Ugandan financial sector that justify and shape IFAD investment, including: (i) policy initiatives that provide a conducive environment for an IFAD intervention in support of rural finance; (ii) the active involvement of government in creating a sound regulatory framework for rural finance; (iii) the interest of the Bank of Uganda in financial inclusion; (iv) commercial banks and other financial institutions which are showing interest in developing rural finance products; (v) increased utilisation of community-based savings and credit mechanisms; and (vi) substantial donor operations which are planned for the sector and which will be complementary to the support proposed under PROFIRA.

C. Project area and target groups

4. The project will be implemented nationwide; however, there will be specific areas of concentration, particularly for the implementation of the community savings and credit group activities. The specific sub-regions in which the project will focus and districts targeted have not been selected as part of the design process, but rather a set of rigorous criteria have been prepared that will provide the basis for selecting participating SACCOs and the locations for establishment community savings and credit groups.

5. The project's poverty targeting strategy focuses operationally on two main elements: geographic targeting and social inclusion. *Geographical targeting* will apply particularly to the implementation of the project's activities in support of the establishment of new CSCGs. The support will focus on outreach and be targeted exclusively to the poorer areas of the country. As the SACCO programme will be nation-wide in scope, there will be no explicit geographical targeting.

6. *Social inclusion* will be employed to ensure that the project is effectively focusing on the poor, with a particularly focus on women and youth and the application of mechanisms to facilitate their

involvement in project interventions. The strategy will also facilitate the inclusion of HIV/AIDS-affected households, caretakers of orphans and vulnerable children and the disabled. Social inclusion will also be a key element for both the CSCGs and the SACCOs. Establishment of CSCGs will dramatically increase the numbers of poor accessing rural finance, and the SACCO activities will increase the numbers of poor households, and the participation of women and youth, that become members of SACCOs.

7. The project *target groups* have been defined in terms of degrees of financial exclusion or inclusion with three broad target groups defined:

the financially excluded, defined as rural women, men and youth who earn money but do not use any financial services – formal or informal.

members of mature CSCGs who have successfully saved and borrowed within their informal group for at least three years, but do not use formal financial institutions.

women and men who belong to rural SACCOs that are not yet operationally self-sustaining but have the potential to become sustainable.

8. The project will have a specific focus on both gender and youth. The *gender mainstreaming strategy* has three areas of concentration: SACCOs, community-based savings and credit groups, and project management. The gender strategy for SACCOs aims at expanding female membership and women's participation as active savers and borrowers and as members of SACCO Boards and Supervisory Committees. It will require a SACCO to demonstrate that it has at least 20% individual female membership to be eligible for project support. PROFIRA will also establish a target to achieve a minimum of 33% women as individual members and 50% women when including members of groups. It will also aim to increase the portion of female members who are active savers and target rural women for basic financial literacy. Gender targeting of CSCGs will be handled as an integral part of the responsibilities to be contracted to service providers. Bids will require all prospective contractors to develop a gender mainstreaming and gender empowerment strategy with a minimum target of at least 70% women in CSCG groups. In mature CSCGs, women will be empowered through advanced financial literacy training, business development services, access to mobile money and agency banking, and linkage to outside financial services. Within the PMU, the Project Coordinator will take responsibility for ensuring effective gender mainstreaming in the project, with the M&E officer designated as the gender focal point. Furthermore, the Community-based Financial Services Manager and SACCO Development Manager will be accountable for ensuring gender mainstreaming in their components.

9. The project will also implement a *strategy to promote active involvement of youth*. Under the SACCO component, a target for new individual members of 10% will be applied and 15% when including youths who join through group membership. Under the second component, a minimum target of 15% youths in new CSCGs will be applied with the project management team monitoring the actual participation of youths as a basis for learning lessons about what attracts, and constrains, youths from joining the savings and credit groups. Furthermore, the project will invite the NGOs/service providers to present proposals for targeting of young adults and select the best proposals for financing.

D. Project objectives and investment components

10. The design of the project and of the investment components is linked to two key principles – *outreach* and *sustainability* – which are seen as critical to developing sound financial institutions capable of serving rural communities and thereby enabling rural households, even in the poorer more remote areas, to improve their economic activities and livelihoods.

11. The *project development objective* is: to sustainably increase the access to and use of financial services by the rural population. The *overall goal* to which the project will contribute is: to increase income, improve food security and reduce vulnerability in rural areas.

12. **Component 1 – SACCO strengthening and sustainability.** The component comprises two sub-components which together aim to provide a dynamic and financially sound savings and credit cooperative system in Uganda.

13. **Sub-Component 1.1 – SACCO Strengthening.** The sub-component will work with stronger and intermediate SACCOs that have the potential to establish sustainable operations. In order to improve management, governance, accountability and performance, and in the process expand

membership, the sub-component will focus on: (i) management and staff training/technical support; (ii) board members training; and (iii) training for SACCO members. The support includes a range of training with the types, intensity and length of the courses reflecting the needs and demands of the specific SACCOs – those that are stronger, estimated to total about 350, will need less but more sophisticated support and the intermediate ones, estimated at about 150, will need a broader range of support over a longer period of time.

14. In investment terms, the sub-component comprises two sets of activities:

Preparatory and Support Activities. This initial intervention will involve the Project Management Unit (PMU) surveying about 2 200 SACCOs nation-wide, thereby identifying about 700-800 SACCOs that potentially qualify for support, eliminating those that do not meet a set of agreed criteria, focusing through a prioritization process on SACCOs that are located in poorer and underserved parts of the country, and thereby selecting the 500 for support under the project.

Training and Capacity Building. The training programmes and capacity development are designed to consolidate the achievements of RFSP-supported SACCOs, work with those supported by other institutions, and also strengthen other SACCOs that have not yet benefitted from external project support. The capacity building will concentrate on the following eight areas, with the exact mix of training linked to the needs and demands for training identified in working sessions with the individual SACCOs: financial literacy, SACCO governance, business development skills, savings and other product development/refinement, financial management, strategic planning, credit/default management, and SACCO automation.

15. **Sub-Component 1.2 – Developing a sustainable SACCO Union.** The sub-component will work with Uganda Cooperative Savings and Credit Union (UCSCU) to enable it to develop into a strong institution that is able to fulfil the role of a financially sustainable, member-based organization – a prerequisite to having healthy, sustainable SACCOs and a healthy SACCO sector. This necessitates reorganizing its internal structures, creating a lean and dynamic organization through rationalizing staffing and cutting unnecessary expenses while strengthening its ability to provide services to members (increasingly on a cost plus basis), and developing complementary income generating activities, with the key being to instil a business ethic and have UCSCU become a sustainable organization within five years – sustainability defined in terms of profitability. To achieve these goals, the project will fund a management and technical consulting package focusing *inter alia* on: board governance; executive professional development and mentoring; enterprise risk management system development; government and media relations; and development of the central financing facility. The foundation for the support will detail business plans based on the five-year Strategic Plan for UCSCU, including establishing minimum baseline thresholds for key operational indicators. Acceptance of the Strategic Plan and an initial two-year business plan will be a pre-condition to loan/grant negotiations.

16. In investment terms, the sub-component comprises two investments:

A Management/Technical Consultancy. The consultancy will involve a long-term expert for 3.5 years to work with the Board, CEO and management team, supported by a team of short-term experts, who will concentrate on: developing a change management plan, institutional re-engineering, management support and training, piloting new business-focused initiatives, development of income generating activities, and strengthening the management information system and data base.

Performance-based incentives. The performance incentives will fund the annual operating loss as specified in the UCSCU Strategic Plan, which forecasts decreasing losses till breakeven is reached in five years. The annual release of the performance-based incentives will be linked to the achievement of annual performance benchmarks, including progress toward profitability. The performance incentives will be structured in such a way to encourage UCSCU to accelerate the transition targets laid out in the Strategic Plan, with any increase in profitability above the target figures shared between the organization to offset past losses and the staff as an incentive payment.

17. **Component 2. Community Based Financial Services.** The aim of the second component is to alleviate rural poverty by facilitating the establishment of community based inclusive financial services in the poorer areas of the country, which are generally those where coverage is limited. The main thrust of the component is the expansion of what is commonly referred to as the Village Savings and Loan Association (VSLA) methodology – a well-structured, disciplined and successful approach

involving poor rural communities with a high participation by women. The project will encourage variations on the approach to respond to local conditions and opportunities for what will be referred generically to as community savings and credit groups (CSCGs). The following core VSLA principles will be adhered to:

Focus on the poorer sub-regions of Uganda

Promote strong participation of women and the involvement of youth

Include among the CSCGs to be supported already functional community groups

Use experienced private sector service providers

Use the savings-based, systematic VSLA model as the general approach for sub-component implementation, but allow flexibility

Use a comprehensive, performance-based approach with clear implementation targets

Include no external injections of funds to new CSCGs from government or other sources.

18. **Sub-Component 2.1 – Establishment of new CSCGs.** It is anticipated that some 15 000 groups will be established in a phased manner over the seven years of the project. Each group will bring together some 25-30 people, many of whom will be poorer members of the community. The approach used will combine the forming of new groups within a community and work with existing self-help groups which do not have a structured savings and credit system and through training and support will enable them to adopt the a more rigorous CSCG approach and methodology.

19. The *targeting of the support* to ensure the highest impact on the poor will involve a three-step approach:

the activity will take place in four of the poorest sub-regions in the country

poorer sub-counties, and those with fewer CSCGs, will be chosen within each of the selected four sub-regions

within the selected sub-counties particular attention will be assigned to: (i) women, who will constitute a minimum of 70% of the groups' memberships, (ii) youth (18-30 years), who will constitute a minimum of 15%, and (iii) ensuring that contracted service providers facilitate the inclusion of the poorer, more vulnerable and often risk averse.

20. The process used by the contracted service providers will include the following specific activities and steps:

Self-selection – members select each other to form their group

Training – to help members define the CSCG's purpose, elect officials, set terms for savings and loans and start their own micro-businesses

Governance – support in group management, procedures and governance

Financial services – weekly savings accumulation, loan disbursements/repayments, insurance fund

Action audit – after 9-12 months, group pays out savings and earnings from interest and fees, closes its books, disbands, and subsequently reforms again.

21. In investment terms, the sub-component will comprise contracts with service providers experienced in CSCG development. It will involve all-in performance-based contracts linked to the processes, principles and targets set out in the design document and Project Implementation Manual.

22. **Sub-Component 2.2 – CSCG Strengthening, Innovations and Partnerships.** The sub-component will complement the previous sub-component and open up opportunities for more mature and dynamic CSCGs, which have established a sound and stable membership, to develop ways to expand their operations within the microfinance arena. The sub-component will involve support for some 3 000 mature groups with the support including: (i) advanced business development training, (ii) advanced financial literacy training, (iii) development of the CSCG model to encourage the accumulation/carry-over of group savings, (iv) support to register the mature CSCGs under local government; (v) focused and pro-active linkage support with financial institutions; and (vi) partnership building between the CSCGs and other economic operators.

23. Through the contracting process, experienced service providers will be invited to present project proposals on how to further develop the VSLA model, how to increase the business capacities

of the group members to be able to get engaged in larger-scale income generating activities, and how to raise funds needed by the members in their more developed business activities.

24. **Component 3. Policy and Institutional Support and Project Management** The third component involves the support to the policy and institutional environment for community-based financial institutions as well as the resources for the management of the project.

25. **Sub-component 3.1 - Policy, Regulatory and Institutional Environment.** The sub-component will help provide a conducive policy and institutional environment for community-based financial institutions combined with. To achieve this, the sub-component will improve financial literacy, coordination and information flow within the rural finance sector and more effective regulation for SACCOs by working with the three main institutions responsible: (i) the Microfinance Department of MFPED, supporting the overall strategic and coordination framework as well as furthering and operationalizing the Tier 4 regulation; (ii) the Department of Cooperative Development of MTIC, by strengthening application of non-prudential and prudential regulations for SACCOs; and (iii) the Bank of Uganda, by facilitating implementation of its financial literacy strategy.

26. The main investments involved are the following:

Policy and institutional environment. Support for MFPED to support a conducive framework for rural finance (new strategy, coordination among stakeholders, etc.) and in particular to facilitate the passage and subsequent implementation of the new Tier 4 legislation through: stakeholder workshops, consultations and study tours; and specialist assistance in developing and applying legislation and establishing the Microfinance Regulatory Authority. In conjunction with this initiative, the project will support the reviving of the Microfinance Forum.

Monitoring and non-prudential regulation. The capacity of the Department of Cooperative Development will be strengthened to carry out its mandate for registering and monitoring SACCOs and enforcing their compliance by: (i) funding upgrading of its computer systems; (ii) facilitating the updating of the SACCO registry; and (iii) initiating 60 local and regional SACCO forums.

Implementing National Financial Literacy Strategy. Support to help operationalize the Strategy by developing, translating and printing posters, brochures and materials, and preparing training manuals to tailor national messages to SACCOs and CSCGs.

27. **Sub-component 3.2 – Project management.** This sub-component will support the staffing and operations of the Project Management Unit (PMU), including the provision for monitoring and evaluation, and organizing knowledge management and communication. The PMU will have its offices in Kampala and have a similar institutional setup to that of RFSP. It will come under the responsibility of MFPED but have its own management and staff structure.

E. Benefits

28. It is estimated that there will be approximately 750 000 members of SACCOs and CSCGs participating in the project; however, only about 576 000 households, as only 90% of the supported SACCOs will become fully sustainable institutions and 20% of members of SACCOs and CSCGs are assumed to come from the same households.

29. While the direct benefit will come in terms of greatly expanded and improved access to financial services, the most important impact will be in terms of how the funds will be used, predominantly on agriculture, in terms of: increased use of improved inputs and other means of production for agriculture; increased ability for households and enterprises to enter into primary processing of agricultural products; and increased trade and commerce based on agricultural commodities and goods, both crops and livestock derived. These benefits will lead to higher incomes, increased crop and livestock production, improved food security and reduced vulnerability. There will also be significant benefits from consumption smoothing.

30. The results of the financial and economic analysis are positive. The production and trade models analysed show attractive incremental returns to labour and financial rates of return. The economic rate of return (ERR) for the whole project is 15% and it is robust to changes in key variables, such as a 20% decrease in or a delay in benefit by two years.

F. Implementation arrangements

31. The government agency responsible for PROFIRA will be the *Ministry of Finance, Planning and Economic Development* (MFPED), which will provide policy direction, coordinate with other ministries and agencies, and chair the Project Oversight Committee. MFPED will also be responsible for counterpart funds. The *Ministry of Trade, Industry and Cooperatives* (MTIC) will play an important supporting role.

32. A national *Project Oversight Committee* will be established to guide project planning and implementation, provide high level advice, review and approve annual work plans and budgets, review implementation progress and impact, and address key issues.

G. Costs and financing

33. Project cost, over seven years, is US\$ 36.6 million (UGX 105.8 billion), with IFAD's share being US\$ 30.0 million, including a US\$ 1 million grant to CCA/WOCCU to finance the technical assistance to UCSCU. Co-financing is from Government, US\$ 4.9 million equivalent for taxes and duties, CCA/WOCCU partnership contribution of USD 250 000 and the SACCOs beneficiaries cost-sharing of training activities with an estimated US\$ 1.4 million.

H. Risks

34. Three risks are cited, but mitigating actions will minimize the risks that are linked to: UCSCU's long term sustainability, SACCO sustainability, and a conducive policy framework for project activities.

I. Environment

35. The project will have no discernible impact on the environment. In line with IFAD Guidelines on Environmental Assessment, the project is classified as Category B.

J. Knowledge management, innovation and scaling up

36. Knowledge management forms an important and integrated part of project implementation and is built into project management at each level. Innovation and scaling up have been discussed under other headings above.

Logical Framework

Results Hierarchy	Indicators	Means for Verification	Risks (R) & Assumptions (A)
Goal. Increase income, improve food security and reduce vulnerability in rural areas	1. 20% of the rural poor in the selected project intervention areas with improvements in assets ownership index at project completion 2. 20% reduction in the prevalence of child malnutrition in rural households, by gender	RIMS baseline and impact study	
Development Objective. To sustainably increase the access to and use of financial services by the rural poor	3. 750 000 men, women and youth are active members of project supported SACCOs and CSCGs	M&E data Progress out of poverty studies	(A) Dynamic economy creates opportunities for investment in enterprises and other income generating activities
Component 1. SACCO strengthening and sustainability			
Outcome 1. SACCOs provide enhanced levels of services to more members	4. 300 000 members of project supported SACCOs (of which 150,000 new - 30% women [non-youth], 15% youth) actively save increasing amounts (min. 50% average increase per SACCO by PY5) and repay SACCO loans 5. At least 80% of project supported SACCOs offer at least 2 savings and 3 loan products to their members	M&E data; service provider reports	(A) Conducive Tier 4 regulation passed (R) MITC not able to provide effective regulation /support to SACCOs
Output 1.1 Sustainable SACCOs providing financial services in rural areas	6. At least 90% of project supported SACCOs attain operational sustainability (OSS 100%) by project end	M&E data; service provider reports	(R) Project supported SACCOs not able to attain financial sustainability
Output 1.2 UCSCU provides sustainable services to members	7. UCSCU has sustainability of operating income, covering 100% of operating expenses by PY5.	UCSCU annual report	(R) Failure of UCSCU to attain operational sustainability after five years undermines conducive environment for SACCOs
Component 2. Community based financial services			
Outcome 2. Increased outreach of sustainable and dynamic community based financial services in poor and underserved areas	8. 375 000 members of newly created CSCGs actively save in the groups (70% women; 15% youth), with increasing amounts of weekly savings and annual pay-outs in each annual cycle 9. 75,000 members of mature CSCGs have access to improved financial services and have availed themselves of at least one such service (credit, savings or insurance)	M&E data; service provider reports	(R) Self-help group policy paper allows injection of external government financing into community savings and credit groups (A) Targeting poor and underserved areas will ensure inclusion of poor rural people.
Output 2.1 New CSCGs with trained and cohesive membership operational	10. 15 000 new CSCGs established by end of project 11. 90% of CSCGs formed are operational after 3 years	M&E data; service provider reports	(R) Lack of willingness of formal financial service institutions to make services and loan financing available to CSCGs and their members
Output 2.2 Mature CSCGs with advanced methods and linkages developed	12. 3 000 mature CSCGs (75 000 members) have improved skills and are exposed to more advanced financial services		
Component 3. Policy and Institutional Support and Project Management			
Output 3.1 Strengthened regulatory framework for SACCOs	13. At least 90% of project supported SACCOs are audited annually by qualified auditors.	SACCO audited accounts & progress	

Intervention Logic

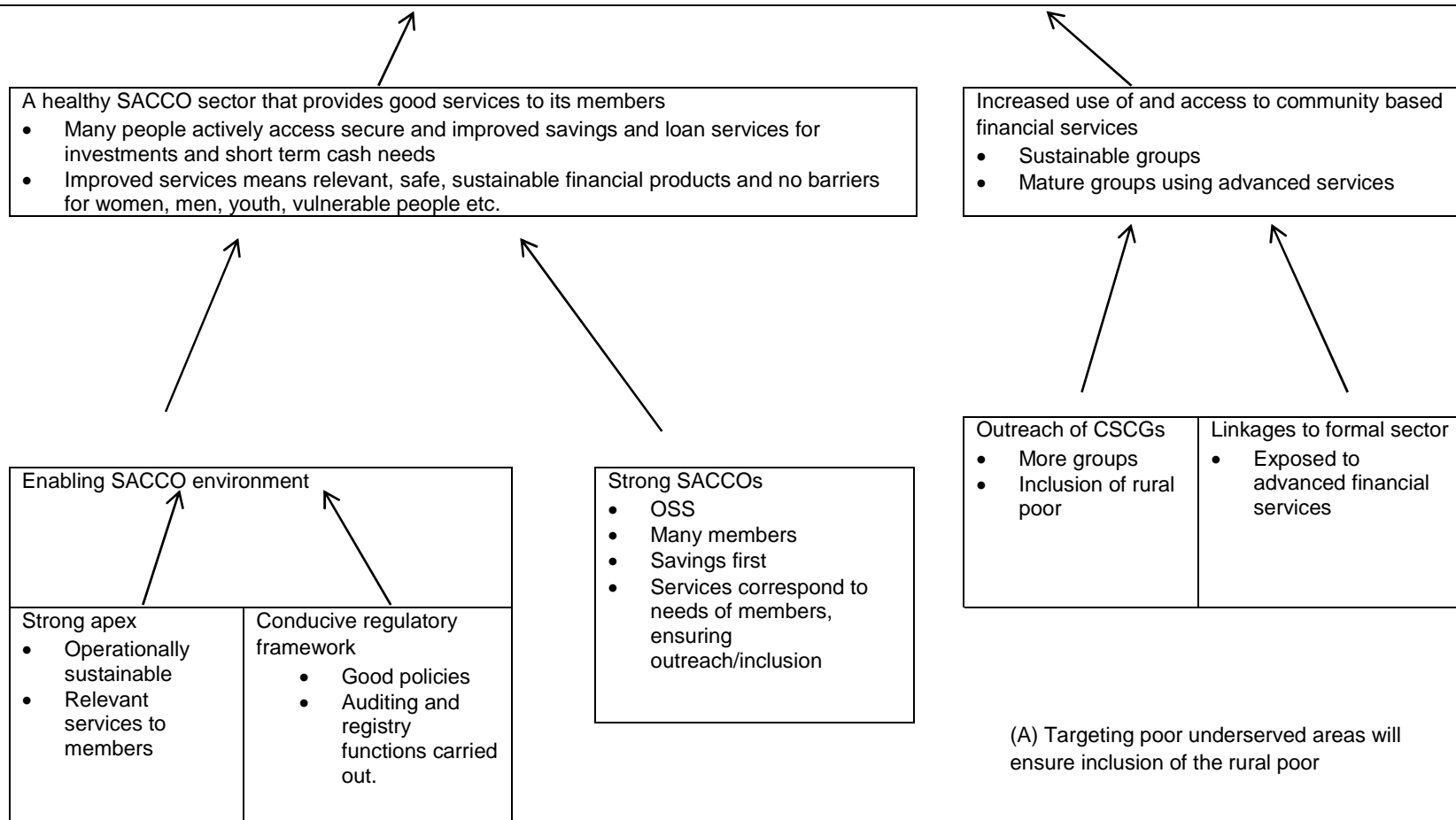
Goal: Increase income, improve food security and reduce vulnerability for men and women in rural areas <ul style="list-style-type: none"> Measured by more assets and more well-nourished children, which will be possible if households have higher incomes and are more resilient to shocks
Development objective: To sustainably increase the access to and use of financial services by the rural poor <ul style="list-style-type: none"> Savings increased (best practice for economic development, i.e. opportunity to consumption smooth to be less vulnerable to shocks) Through increased access and use of financial services, removes constraints faced by the rural poor to undertake economic activities, enabling them to increase their incomes.

(A): enabling economic environment in Uganda

Outcome:

(A): “we can’t have a strong SACCO sector w/out strong SACCOs, but we can’t get strong SACCOs without a strong sector”. Hence two-pronged approach

Outputs:



I. Strategic context and rationale

A. Country and rural development context

1. Uganda's development experience over the past two decades has been characterized by high growth and significant decline in poverty. Growth accelerated from 6.3% in the 1990s to an annual average of 7.0% during the 2000s, implying that Uganda has sustained one of the highest growth rates in the world over the past two decades.¹

2. Uganda has a population of about 34.1 million in 2012 with about 86% living in rural areas. It has one of the highest population densities in the region and is a land-locked country with over 1 000 km from the nearest seaport in Mombasa in Kenya. This is both a constraint and an asset for Uganda. It raises the cost of imports by about 20% and of exports by about 25% relative to Tanzania and Kenya. However, domestic industries have an advantage relative to its inland neighbours, which are even more distant from the ocean and regional trade accounts for about half of exports, with accelerating trade to South Sudan and Democratic Republic of Congo providing opportunities for rural growth in northern Uganda. Exports account for about 16% of Gross Domestic Product (GDP) and imports about 21%.

3. Since 1986 Uganda has made substantial economic and social gains. Annual economic growth has averaged about 7% per year for the past decade, with wide disparities between regions. With the global recession and elections in 2011, inflation reached 25% per annum in September 2011 but has now dropped to 4.9%². Government's revenue raising capacity is low at about 13% of GDP, with about 30% of the government budget financed by development partners. International debt is about 25% of GDP. However, substantial oil reserves were discovered in the Lake Albert Rift Basin in 2006 and oil production is expected to start in 2016/17. The future challenge will be to use oil revenue to reduce poverty and rural-urban inequalities and ensure sustainable and inclusive growth for a rapidly increasing population in the post-oil economy.

4. The agricultural sector accounts for about 15% of GDP and is the primary source of livelihood for over 75% of labour force. About 40% of the land area of the country is considered arable and about 30% is currently being cropped. While most of the country has two crop seasons, production in the north is limited to one. Agriculture provides 53% of Uganda's export earnings over 2007-2011 and a large share of the raw materials for industry. Food crops dominate, followed by cash crops, while non-traditional export crops are also important. Yields remain at subsistence level for most food crops and are generally poor for cash crops. Uganda has applied little of the 'green revolution technology' to-date. About three quarters of agricultural households derive their livelihoods from subsistence rainfed agriculture, with holdings averaging less than 1.5 ha. In spite of problems of fertility and high soil nutrient loss, use of fertilizers is among the lowest in the region.

5. Uganda is one of three countries bordering Lake Victoria. The topography varies from mountain ranges to hilly terrain, with extensive grasslands and flatter areas in the north. The country has seen an increase in the variability of rainfall over the past ten years, and a rise in extreme climate events, which have included both drought and flooding. Climate change analysis for the past ten years shows a decrease in rainfall of about 8% and an increase in temperature of 0.7-1.5o C. These changes are a result of human activities which have reduced the resilience of the ecosystem, which are compounded by poor soil fertility, land degradation and land tenure patterns.

6. Based on the 2009/10 survey data, it was estimated that about 8.3 million Ugandans were poor. Another 13 million can be described as low-income insecure and vulnerable people who face the risk of falling into absolute poverty. However, Uganda has already achieved its 2015 target of halving the proportion of the population living on less than one dollar a day, from 53% in 1993 to 24.5% in 2011. This represents a 6.6% decrease in the proportion of people living in absolute poverty. While the proportion of people living in poverty significantly declined, the reduction in the number of poor persons – in absolute terms – was not significant and inequality of income increased. Regionally, rural poverty levels are highest in the Northern Region (65%) and the Eastern Region (40%).

¹ Uganda, Promoting Inclusive Growth – World Bank, February 2012

² Headline inflation rate, January 2013. Bank of Uganda

7. **Rural finance.** As of 2009 only 15% of the population in rural areas used banking services, while some 7% were served by other formal institutions. Nearly half of the population was relying on informal financial arrangements (mostly from friends and relatives), while 31% were totally unserved. On the supply side, the institutions providing financial services include: 23 commercial banks (Tier 1), only two of which are involved in microfinance and rural finance; three credit and finance companies (Tier 2), two of which have a predominantly rural/microfinance-based portfolio; four microfinance deposit-taking institutions (MDIs) (Tier 3); plus some 60-80 credit-only microfinance institutions (MFIs) and 3,500 savings and credit cooperatives (SACCOs), but a much smaller number of active ones. At the lower end of the market, thousands of community-based savings and credit groups (CSCGs) operate at the village level all over the country.

8. While it is evident that there is a broad range of financial intermediaries in Uganda, the supply of financial services to rural areas is still limited and is far from meeting the demand. The country, in spite of having a large number of commercial banks, is characterized by a low intermediation banking system – all key ratios such as deposits to GDP, credit to deposits and private credit to GDP are at significantly lower level than in most SSA countries. Furthermore, lending-deposit interest spreads are high, financing for long maturities is rare, and the share of credit to agriculture is very low at around 6%. Like the banks, other formal financial institutions that make up Tier 2 and Tier 3 provide few services to most rural communities.

9. It is thus the SACCOs and community savings and credit groups that are the only real financial intermediaries that are currently responding to the demand for financial services in most rural communities. It is these two types of organizations that represent the best opportunity to expand access to finance for the large majority of rural households. There is however one recent encouraging development that will enable the banks and other formal financial intermediaries to better serve rural areas and equally importantly will help create linkages with lower level institutions such as SACCOs and CSCGs and make them more versatile and stronger organizations: new technologies and approaches such as mobile banking, mobile cash, agent banking, etc. This is a very dynamic and new element in rural finance in the country and one that is growing rapidly.

10. **Strategic and policy framework.** There are a series of strategies and policies, in existence and under review, that provide the framework for rural finance programmes. In 2006, the government introduced a Rural Financial Services Strategy (RFSS) aimed at establishing savings and credit cooperatives (SACCOs) in every sub-county in order to accelerate access to financial services in rural areas. While the emphasis was on savings mobilization, as a source of loans for investment in rural enterprises, the supply-driven approach and provision of government-financed start-up capital fostered challenges in terms of repayment discipline and oversight, and resulted in a focus on loans rather than savings that continues to undermine the financial sustainability of the SACCOs. The Department of Microfinance (DMF) is currently engaged in a comprehensive evaluation of the RFSS, which will lead to the formulation of a new strategy by end of 2014. The new orientation and on-going debate indicate a return to a more market-oriented approach. Meanwhile, learning from this experience and recognizing the importance of healthy institutions at grassroots level, the government is finalizing a revised policy framework and new legislation for regulation of Tier 4 microfinance institutions, including SACCOs and informal microfinance institutions.

11. Furthermore, the Bank of Uganda has developed a Financial Inclusion Project (2012-15) to respond to emerging issues related to financial innovations, financial literacy and education, consumer protection and financial deepening. In parallel, government is considering support to community savings and credit groups, which represent a dynamic and growing movement involving some of the poorer segments of the rural community. A recent element in the rural economy, with important implications for rural finance, is the rapid spread of mobile phones and with it the appearance of a number of new technology-driven financial services including mobile banking, mobile cash, agent banking and branchless banking. The Bank of Uganda is taking a light approach to regulating these initiatives, thus allowing it to gain experience with the new technologies before determining what regulation is needed.

12. Complementary to the rural finance policies are the agricultural policies contained in the Development Sector Investment Programme for 2009/10-2013/4. The vision is 'a competitive, profitable and sustainable agricultural sector' with the aim of 'transforming subsistence farming to commercial agriculture'. Suitable and well-targeted access to rural finance will be an important element in realizing this vision.

13. In terms of donor harmonization, the development partners and the government signed partnership principles in 2003 which have since guided coordination and alignment with government policies and plans. The Local Development Partners Group is the overarching body of 15 development partners for coordinating positions, which are mirrored by sector working groups with the relevant government ministries and stakeholders. IFAD regularly participates in the sector working groups for agriculture, decentralisation and private sector, and is engaged in dialogue with Ministry of Finance, Planning and Economic Development (MFPED) about the rural finance sector framework.

14. In designing the project, IFAD has worked closely with a number of donors active in the financial sector, in particular: GIZ and KfW, with PROFIRA being closely aligned with GIZ's Financial Systems Development Programme and with KfW's Rural Finance Enhancement Programme; DfID and its Uganda Financial Services Inclusion Programme, which is currently under design with the aim of ensuring synergies and complementarities with PROFIRA³; and Bill and Melinda Gates Foundation, which has been active in developing mobile network technology to enhance provision of financial services and agricultural/market information, with elements of mobile banking and mobile cash having been integrated into the design of the project.

B. Rationale

15. There is a broad consensus between government and IFAD regarding the development of the rural financial sector. Both recognize the continuing need to promote rural finance and both see the focus on financial inclusion as one of the key pillars of Uganda's efforts to eradicate poverty and provide the means to facilitate agricultural development and vitalize economic activity in rural areas. A new strategic framework, currently being elaborated by the government, is expected to be oriented towards a market-driven development of the sector. The Bank of Uganda's growing interest in the microfinance sector for financial inclusion provides important investment and partnership opportunities in critical areas for IFAD such as financial literacy and financial innovation. Furthermore, the government has realized the importance of fostering the development of community-level financial institutions, such as savings and credit groups and SACCOs, and of developing appropriate regulation for the lower end of financial service supply. Accordingly MFPED has recently presented to the Cabinet a paper on Tier 4 regulation. IFAD's country strategy (COSOP, 2013-2018) is fully consistent with this position and identifies increased access of the rural population to sustainable financial services as a key strategic objective.

16. A number of studies, including the last FinScope survey in 2009 which assessed the demand and use of financial services, have highlighted the limited coverage by financial institutions in certain areas of the country, especially in the north which until recently suffered from an ongoing conflict, but also in other areas such as the centre with its high population densities. Formal financial service providers still reach less than 25% of the rural population of Uganda; while almost 50% use informal financial arrangements and more than 30% remain unbanked. Furthermore, the coverage is very uneven. In those areas where CSCGs have been established and in the areas where SACCOs are functioning well, rural communities are able to access the basic financial services that they need – essentially safe savings and small, short term loans for both production and consumption needs. But, there are large parts of the country where rural communities, and especially the rural poor, have no access to financial services – there are no CSCGs and the SACCOs if they exist are not able to provide the services required. This is a major constraint to developing the economy in these areas and to improving the productivity of agriculture, which is the mainstay of most households. In this situation, a really meaningful strategy of financial inclusion, supported by well-focused investment initiatives, is a vital element in reducing poverty. The growing level of business and economic activity in some of these areas further reinforces the need for well-functioning, community-level financial service institutions.

17. IFAD involvement in the rural financial sector through the Rural Financial Services Programme (RFSP) has developed a close working relationship with government, both as a financier and adviser, and has managed to create a strong core of member and savings-based rural financial institutions – SACCOs. In spite of a delayed start and constraints linked to delivering kits and a package of support to the SACCOs, the adoption of an approach that was tailored to the needs of individual SACCOs,

³ DfID and GIZ are members of the Task Force overseeing the design and subsequently the implementation of PROFIRA

supported by a system of mentoring and coaching, has resulted in substantial progress in SACCO management and operations. However, while substantial progress has been made, many of the SACCOs are still vulnerable and have yet to attain full financial sustainability. PROFIRA will build on RFSP's successes and the lessons learned, enabling it to consolidate the gains made and bring a core of these SACCOs to the level of sustainability. Without such support there is the risk that a portion of the RSFP-assisted SACCOs will struggle to become viable organizations that continue to provide the full range of services needed by their rural communities.

18. As noted above, there has been a close collaboration with the donors operating in the sector to ensure complementarity and promote synergies. The assessment of the strengths of the current and planned donor interventions indicated that there is strong support on the policy and legislative framework for the financial sector, especially through GIZ's support for the Bank of Uganda, and for a range of higher level initiatives through flexible funding facilities such as the Rural Challenge Fund and Refinancing facility to be supported by KfW. Similarly, there is a range of support for new technological innovations involving mobile and agent banking and other approaches that will facilitate the emergence of a more dynamic sector. While these areas are well covered, very limited support is planned for the lower end of the spectrum: for rural households, and especially for poorer more risk averse households. Similarly there is little focus on women and youth, apart from the individual initiatives of the NGOs involved in promoting the CSCGs methodologies, but they are constrained by limited budgets and the availability of external funding. Therefore, there is a clear niche for IFAD to focus its investment on CSCGs and SACCOs, as well as clear opportunities for synergies in with other ongoing or planned initiatives. Furthermore, partnerships with key donors will help facilitate a conducive environment for sustainable CSCG/SACCO development and the introduction of new technologies such as those emerging through the Gates' and similar initiatives. Also, the planned partnering with banks and other financial service institutions, which have demonstrated a strong interest in the rural sector, will be important to success of the project in making available the most appropriate and response services to poor rural households.

19. In parallel with the development of the SACCOs, there have been a series of initiatives that have supported the establishment of the lowest level of rural financial services. This has been led by a number of NGOs, including some with international experience, that have been forming community-based savings and credit groups – these are often referred to in Uganda as Village Savings and Loan Associations (VSLAs), but can be called more generically community savings and credit groups (CSCGs). One of the more successful of these NGOs, Ugandan Women's Effort to Save Orphans (UWESO), which is supported by IFAD, has been particularly effective in creating strong community level organizations focusing on savings generation and micro-loans. It has achieved this for one of the most vulnerable groups in the country and showed that the CSCG approach can work even for the poorest people in a village. Initiatives by CARE, Catholic Relief Services and a number of other NGOs have also been successful, with the result that there are now about 30 000 of these groups in the country, formed by some ten different NGOs. Because of their success and the large number of communities that still are not served by such programmes, the demand to establish more CSCGs is high.

20. What is evident from both these types of institutions – SACCOs and CSCGs – is their ability to generate savings, and on that foundation make loans available to their members. They are an essential element in invigorating the rural economy and in particular in making financing available right at the grassroots level to those involved directly in farming activities and in the trading and commercial activities that are based predominantly on agricultural products. These groups are rarely reached by higher level institutions and community-based service providers such as SACCOs and CSCGs represent for them the primary and often only entry-point to financial systems. To make sure that such funding is available at the right level, at the appropriate time to match seasonal demands, and in a form that is attuned to the needs and the risk profiles of the farmers and other rural economic players, so as to facilitate agricultural production and primary processing, is a challenge, one that the project's focus on the SACCOs and CSCGs, the two most important financial institutions in rural areas, will meet. Support under the project for both SACCOs and CSCGs will be complementary as each caters to a different, though overlapping, set of clients. The CSCGs are particularly appropriate to the poorest households with little or no experience with financial services and enables them to begin to save and borrow on a very limited scale with minimal risk; the SACCOs appeal to households which already have some experience with savings and need to be able to access the greater range of services and larger loans available through membership in the SACCOs. The project will provide the

opportunity to help develop synergies between these two types of organizations and facilitate increased awareness among CSCG members of the advantages and possibilities on offer and the obligations inherent in joining a SACCO. These two complementary community-based institutions represent the first steps for financial inclusion for a large section of the rural population that is currently not reached by the financial systems.

21. There are thus a number of opportunities in the Ugandan financial sector that justify and shape IFAD investment: (i) ongoing policy initiatives that are expected to provide a conducive environment for an IFAD intervention in support of rural finance; (ii) the active involvement of government in creating a sound regulatory framework for rural finance, including pursuance of Tier 4 regulation; (iii) the interest of the Bank of Uganda in financial inclusion that provides attractive investment opportunities in financial literacy, financial customer protection and financial innovation; (iv) commercial banks and other financial services institutions which are showing greater interest in rural finance, increasingly facilitated by new technology and approaches; (v) increased utilisation of community-based savings and credit mechanisms (SACCOs and community savings and credit groups) which has had a positive impact on financial inclusion, even for poorer more remote rural communities, and offers substantial opportunities for scaling up; and (vi) substantial complementary donor operations which are planned for the rural and microfinance finance sector over the next five to ten years.

II. Project description⁴

A. Project area and target group

22. *Target Group.* Rather than defining target groups as 'poor smallholders, women and youth', it has been decided, since PROFIRA is a financial inclusion project, to define the target groups in terms of degrees of financial exclusion or inclusion. The project therefore targets two broad categories of rural population: (i) the financially excluded – the share of population not using formal or informal financial institutions; and (ii) financially included, those who are members of informal financial institutions such as CSCGs and/or SACCOs. With these distinctions in mind, the target group has been defined as follows:

- the financially excluded, defined as rural women, men and youth who earn money but do not use any financial services – formal or informal
- members of mature community savings and credit groups (CSCGs) who have successfully saved and borrowed within their informal group for at least three years, but do not yet make use of formal financial institutions
- women and men who belong to rural SACCOs that are not yet operationally self-sustaining but have the potential to become sustainable.

23. Within these three broad categories of target groups, explicit targets have been set for inclusion of women (50% and 70% in SACCOs and CSCGs respectively) and youth (15%).

24. *Project Area.* The project will be implemented nationwide; however, there will be specific areas of concentration, particularly for the implementation of the community savings and credit group activities. The specific sub-regions in which the project will focus and the districts targeted have not been selected as part of the design process. Rather, a set of rigorous criteria have been prepared that will provide the basis for selecting participating SACCOs and the locations for establishment and

⁴ The project design process was steered by a national Task Force, chaired by the Commissioner for Microfinance, which included representatives of Government institutions (MFPED, MTIC and BoU); private sector stakeholders (UCSCU, UCA and AMFIU) and some development partners' representatives (GIZ and DfID). The RFSP team (Lance Kashugyera, Project Coordinator; Colin Agabalinda, Operations Manager; Jackie Naggayi, M&E Officer and Ambrose Ayesigwe, Financial Manager) contributed extensively. IFAD staff from both headquarters (Alessandro Marini, Country Programme Manager; and Jonathan Agwe, Lead Technical Advisor) and the Uganda Country Office (Carole Idriss-Kanago, Associate Country Programme Manager; Line Kaspersen, Associate Programme Officer; and Ann Turinayo, Communications and Knowledge Management Consultant) were also heavily involved in the process. Several experts contributed at different stages, including: Howard Johnson, design team leader; Jorma Ruotsi, rural finance specialist; Rauno Zander, SACCO specialist; William Steel, rural finance and policy/institutions specialist; Paul Duncan, SACCO and apex organizations specialist; Alice Carloni, socio-economist and targeting specialist; Lisa Paglietti, economist; Maliha Hussein, rural finance and targeting specialist; Andrew Obara, rural finance and SACCO specialist; and Davis Atugonza, financial management specialist.

strengthening of the CSCGs to be supported under the project. These criteria are detailed in Appendices II and IV and in the draft Project Implementation Manual (Appendix 11). They will enable the project team to identify the areas of concentration for CSCGs, and the focus of support for the SACCOs which will be selected from the full body of SACCOs, located throughout the country. The project team will aim to cluster SACCOs and CSCGs to facilitate synergies and efficiencies in managing the interventions.

25. *Targeting.* While the targeting approach will be different for each of the two components, linked to the intervention modalities of each, both will have the level of poverty as a key consideration. The poverty targeting strategy focuses operationally on two main elements: geographic targeting and social inclusion. The geographical targeting is linked directly to the above conceptualization of the project area and involves distinct processes for each of the two components. It has important implications for how the project will meet the technical requirements for successful implementation of the activities under each component and how it will ensure reaching and involving the poor, which is the overriding criterion in structuring project implementation.

26. *Geographical targeting* will apply particularly to the implementation of the project's activities in support for the establishment of new CSCGs under PROFIRA and linked to this the selection of mature CSCGs to participate in the project. This support will focus on outreach and be targeted exclusively to the poorer areas of the country. The choice of the project's geographic locations for the CSCGs will be done by the PROFIRA Project Management Unit (PMU) and based on the following step-wise process: Step 1, selection of four priority sub-regions on the basis of poverty; Step 2, selection of priority districts and sub-counties within the four poorest sub-regions, taking into account three factors: poverty incidence, poverty headcount and financially excluded population; Step 3, selection of service providers for implementation of CSCG activities through competitive bidding; Step 4, selection of poor and underserved parishes and communities; and Step 5, socially inclusive community mobilization process for establishment/ strengthening of savings and credit groups. This process will involve in total some 18 000 groups over the project. While the SACCO programme will be nation-wide in scope, with no explicit geographical targeting, there will be a priority assigned to SACCOs on poorer areas..

27. *Social inclusion* will be employed to ensure that PROFIRA is effectively focusing on the poor and thus on poverty alleviation. Social inclusion means particularly the active inclusion of women and youth and the applications of mechanisms to facilitate their involvement in project interventions. Not only will this strategy be aimed at women and youth, it will also facilitate the inclusion of HIV/AIDS-affected households, caretakers of orphans and vulnerable children and the disabled, as has already been demonstrated successfully by NGOs operating in the country. The CSCG strategy is especially well adapted to the poor given its focus on small weekly savings and on-lending of accumulated savings within the members of the group. Furthermore, it is self-targeting because it is highly accessible to the poor, even the very poor, and of limited interest to the richer members of the community. A recent review of the current membership of community based organizations shows that 74% of the members of these organizations have an income of less than US\$ 2 per day.

28. Social inclusion will also be a key strategy in the support for SACCOs. While they are a different type of institution from CSCGs, involving a more formal structure and means of managing financial services, SACCOs are also very much a community level institution with a sizeable portion of poor members, who join both as individuals and through groups, some of which are also CSCGs. The project will aim to increase the numbers of poor households that become members of SACCOs and are able to access SACCO services.

29. A key element of social inclusion and a definite targeting strategy is the promotion and *targeting of women and youth* in the two project organizations. Already the proportion of women in the CSCGs is high, at over 70% on average, and the involvement of youth⁵ is good – close to the proportion that youth represent of the population, about 15%. While the project strategy for CSCGs will be to reinforce their focus on women, and remove potential constraints that will allow more youth to participate, a more proactive strategy will be employed with the SACCOs to increase the portion of women, not just as members but also in SACCO management and on the SACCOs Boards. The project will require a SACCO to demonstrate that it has at least 20% individual female membership (or 30% female membership including women who join as members of groups) to be eligible for project

⁵ Youth defined as being 18-30.

support. A number of methods will be used to facilitate this, including: financing gender audits as a basis for developing gender mainstreaming strategies, targeting at least one third for women's representation on SACCO Boards and Supervisory Committees, encouraging SACCOs to develop financial products targeted at female clients, and tailor training in financial literacy to the needs of rural women. Again, the SACCOs will be the major focus to increase the involvement of youth, to increase the portion of youth to 10% for individual members and 15% when including youth who join through group membership. The project will target information to youth/youth adults engaged in business, to encourage them to join a SACCO individually or in groups. For CSCGs, the key will be to facilitate adjustments in the group approaches to make them attractive to youth and provide them with opportunities to not only save but better start up micro-enterprises. As part of the package of support aimed specially at youth will be the provision of business development training. The involvement of youth, both female and male, is particularly important for the sustainability and growth of the CSCGs, as it is also for the SACCOs.

30. The effectiveness of targeting under the project will be monitored using *inter alia*: standardized formats for recording and reporting of gender-disaggregated performance indicators; reporting on changes in membership of women and youths as a condition for receiving project support; completion of gender audits on a sample of project SACCOs; contractors/service providers required to report semi-annually on the percentage of women and youth and the achievement of targets; synthesizing information on women and youth's participation across components, sub-regions and contractors; in-depth analysis of data relevant to gender, youth and targeting; and socio-economic impact assessments plus thematic workshops.

B. Development objective and impact indicators

31. The development objective is: *Sustainably increase the access to and use of financial services by the rural population*, the same as one of the key strategic objectives in the recent COSOP. The impact indicator linked to the development objective is: 750 000 men, women and youth are active members of project supported SACCOs and CSCGs. The indicators linked to the project goal – *increase income, improve food security and reduce vulnerability in rural areas* – are: 20% of the rural poor in the selected project intervention areas with improvements in assets ownership index at project completion; and 20% reduction in the prevalence of child malnutrition, by gender.

32. Six principles underlie the design and implementation of the project:

- Targeting the poorer rural areas and inclusion of the poor and extremely poor rural households as an overriding determinant for project interventions;
- Structuring project support to enable SACCOs and CSCGs to make available financing that is better attuned to the needs of farmers, agricultural production and local trade and commercial enterprises most of which are based on agricultural products;
- Facilitating access by underserved and unserved rural communities to financial services;
- Building on successes, experience and lessons learned by government, NGOs and projects in extending and strengthening community-based financial institutions;
- Promoting savings first as a prerequisite for community-based financial institutions;
- Having financial sustainability as the focus for institutions supported by the project – CSCGs, SACCOs and SACCO unions.

C. Outcomes/Components

33. The project comprises three investment components, which together will facilitate the expansion and strengthening of community-based financial services - savings and credit cooperatives (SACCOs) and community savings and credit groups (CSCGs):

- Component 1 – SACCO strengthening and sustainability
SACCO strengthening.
Developing a sustainable SACCO union.
- Component 2 – Community Based Financial Services
Establishment of new community savings and credit groups.

CSCG strengthening, innovations and partnerships.

- **Component 3 – Policy and Institutional Support and Project Management**
Policy, regulatory and institutional environment.
Project management.

Component 1 – SACCO strengthening and sustainability

34. The component will focus on SACCOs that are not yet sustainable but have demonstrated the potential to become financially strong and sustainable institutions. It will consolidate and complement the support provided by RFSP, building on the work it did in strengthening SACCOs. As a strong and financially sustainable SACCO union is critical to developing a healthy and vibrant SACCO movement, the component will also provide performance-linked support to help strengthen UCSCU and develop it into a sustainable member-based, business-focused organization capable of providing professional support and representing SACCOs. The expected outcome of Component 1 is: *Enhanced level of service provision by SACCOs and increased membership results in improved services to members.*

35. **Sub-Component 1.1 – SACCO Strengthening.** The sub-component will work with 500 stronger and intermediate SACCOs that have the potential to establish sustainable operations. In order to improve management, governance, accountability and performance, and in the process expand membership, the sub-component will provide capacity building for: (i) management and staff; (ii) board members; and (iii) SACCO members. The support includes a range of training with the types, intensity and length of the courses reflecting the needs and demands of the specific SACCOs – those that are stronger, estimated to total about 350, will need less but more sophisticated support and the intermediate ones, estimated at about 150, will need a broader range of support over a longer period of time. Within the stronger group of SACCOs, there will be a portion of more advanced ones which will receive specially tailored training to match their needs, with a particular focus on automation and improved credit management.

36. In investment terms, the sub-component comprises two sets of activities:

- **Preparatory and Support Activities.** This initial intervention involves the PMU surveying about 2 200 SACCOs nation-wide, eliminating those that do not meet a set of agreed criteria⁶, and identifying about 700 SACCOs that potentially qualify for support, focusing through a prioritization process on SACCOs that are located in poorer and underserved parts of the country, and thereby selecting 500 for support under the project. The criteria will include how well the SACCOs score in terms of: (i) establishment – AGMs held annually; (ii) outreach – at least 150 members in financially underserved regions and no less than 250 members in regions that are less poor; and (iii) operations – active loans and savings functions, portfolio at risk. In addition, financial criteria will be taken into account and commitment to improve the SACCO and achieve sustainability. The selection process will combine use of a comprehensive SACCO data base maintained by the Department of Cooperative Development and follow-up field sessions with those SACCOs that are included in a long list of those considered for support.
- **Training and Capacity Building.** The training programmes and capacity development are designed to consolidate the achievements of RFSP-supported SACCOs, work with those supported by other institutions, and also strengthen other SACCOs that have not yet benefitted from external project support. The capacity building will concentrate on the following eight areas, with the exact mix of training linked to the needs and demands for training identified in working sessions with the individual SACCOs:
 - *Financial literacy* – which emphasizes the importance of a ‘savings first’ approach and responsible financial management;
 - *SACCO governance* – with emphasis on operational, technical and financial controls linked with good record keeping;
 - *Business development skills* – including general business and marketing skills with a specific focus on farming and processing in locally important agricultural value chains;

⁶ Detailed in Appendix 11

- *Savings and other product development/refinement* – for expanding the range of savings, loan and other products;
- *Financial management* – with a focus on accounting, control and financial management aspects;
- *Strategic planning* – with a concentration of development of simple SACCO business plans and setting operational and financial targets;
- *Credit and default management* – to focus on loan portfolio deterioration and how to address it;
- *SACCO automation* – primarily for the more advanced, stronger SACCOs.

37. The support, which will involve a range of institutions in cooperative development including cooperative apex bodies, will extend over three to four years for each individual SACCO with project support for the 500 SACCOs phased over seven years.

38. **Sub-Component 1.2 – Developing a sustainable SACCO Union.** The sub-component will work with the Uganda Cooperative Savings and Credit Union (UCSCU) to enable it to develop into a strong institution that is able to fulfil the role of a financially sustainable, member-based organization for the SACCO sector. This necessitates reorganizing its internal structures, creating a lean and dynamic organization through rationalizing staffing and cutting unnecessary expenses while strengthening its ability to provide services to members (increasingly on a cost plus basis), and developing complementary income generating activities. The objective is to have UCSCU become a sustainable organization within five years – sustainability defined in terms of profitability in the short term. In the longer term, capital adequacy and liquidity will also be key elements in sustainability.

39. The key principles that underlie the proposed support are to:

- Build the confidence of the public and SACCOs in both SACCOs and UCSCU as a 'brand';
- Facilitate a process of cultural change in UCSCU's management and staff;
- Foster UCSCU's ability to provide professional support that is specialized, flexible and sustainable;
- Develop core services where there are economies of scale that are most efficiently delivered by a single supplier, while engaging in other elective services when UCSCU can deliver them competitively with other suppliers;
- Steadily overcome the current constraints on the willingness and ability of the SACCOs to pay for UCSCU services that used to be free.

40. Ongoing support by the project will depend on UCSCU successfully meeting agreed annual benchmarks and targets set out in the approved business plans – directly linked to the UCSCU Strategic Plan⁷.

41. To achieve these principles, the sub-component will fund a management and technical support package focusing *inter alia* on: board governance; executive professional development and mentoring; enterprise risk management system development; government and media relations; and development of the central financing facility. The foundation for the support will be detailed business plans that elaborate on the five-year Strategic Plan for UCSCU, including establishing minimum baseline thresholds for key operational indicators. Acceptance of the Strategic Plan and accompanying initial two-year business plan will be a pre-condition to the delivery.

42. In investment terms, the sub-component comprises two investments:

- **Management/Technical Support.** This will involve a long-term expert (CEO/Board Mentor) for 3.5 years to work with the Board, CEO and management team, reporting to the Board, supported by a team of short term experts, who will concentrate on: developing a change management plan, institutional re-engineering, management support and training, piloting new business-focused initiatives, development of income generating activities, and strengthening the management information system and data base. It is foreseen that the Mentor and short-term specialists will concentrate on the following areas: Board governance,

⁷ The detailed arrangements for applying this condition are found in Appendix 4.

executive professional development, ERM framework and development, external relations, marketing and business development, supplier relations, and SACCO system and monitoring. This support will be provided in partnership with two reputable international cooperative organizations, the Canadian Cooperative Association (CCA), which has a long experience in supporting SACCO apex organizations in Uganda and an established presence in the country, and the World Council of Credit Unions (WOCCU), which has a wide international network and experience in providing this type of technical assistance services to national credit unions, including in the East Africa region.

- *Performance-based incentives.* The performance incentives will fund the annual operating loss as specified in the UCSCU Strategic Plan, which forecasts decreasing losses till breakeven is reached in five years. The annual release of the performance-based incentive will be linked to the achievement of annual performance benchmarks, including progress toward profitability, adjusting its service offerings and pricing for maximum progress toward cost recovery and sustainability. The performance incentive will be structured in such a way to encourage UCSCU to accelerate the transition targets laid out in the strategic plan. If operating losses are reduced faster than projected, half of the gains achieved in that year will be allocated to offsetting past UCSCU deficits (or adding to reserves), and half will be distributed as a performance incentives to staff proportionate to their salaries and staff performance. If the annual loss is greater than the figure established in the Strategic Plan, UCSCU will be required to prepare a detailed action plan explaining why the loss had exceeded the projected level and proposing actions to be taken to rectify the problems incurred in that year.

Component 2. Community Based Financial Services

43. The aim of the second component is to alleviate rural poverty by facilitating the establishment of community based inclusive financial services in the poorer areas of the country, which are generally those areas where coverage is limited. The main thrust of the component is the expansion of what is commonly referred to as the Village Savings and Loan Association (VSLA) methodology – a well-structured, disciplined and successful approach involving poor rural communities with a high participation by women. This approach will form the basis of the methodology to be adopted by the project; however, the project will encourage variations on the approach to respond to local conditions and opportunities. The variations in approach will apply generally to community savings and credit groups (CSCGs), which will maintain the core features and principles that make VSLAs successful and the associations formed sustainable. The core principles underlying the approach, which will be adhered to by the project, are the following:

- Focus the sub-component operations on the poorer sub-regions of Uganda (Appendix 2, Poverty, Targeting and Gender, provides details);
- Promote strong participation of women in the groups and the involvement of youth;
- Include among the CSCGs to be formed already functional community groups such as traditional rotating savings and credit groups and lift their operational standards to the level in the systematic approach promoted by the project;
- Use experienced private sector service providers to mobilise and support the CSCGs;
- Use the savings-based, systematic VSLA model as the general approach for sub-component implementation, but allow flexibility and respect modifications in the operational methods based on proven practices of each service provider;
- Use a comprehensive, performance-based approach with clear implementation targets when contracting the service providers;
- No external injections of funds, including revolving loan funds, to the new CSCGs from the government or other sources.

44. To complement this main strategy, the project will under a second sub-component provide support to mature groups to facilitate a further development of the approach to accommodate the larger amount of savings generated annually and the expanded loan requirements of the more mature groups and its members. This necessitates modifications to the methodology, carrying over funds, linkages with higher level financial institutions, and accessing innovations and improved technology.

The expected outcome of Component 2 is: *increased outreach of sustainable and dynamic community based financial services in poor and underserved areas.*

45. **Sub-Component 2.1 – Establishment of new CSCGs.** It is anticipated that some 15 000 groups will be established in a phased manner over the seven years of the project. Most will be newly formed during the first five years with the final two years mainly for follow-up support and consolidation. Each group will bring together some 25-30 people, many of whom will be poorer members of the community. In total these CSCGs are expected to cover a membership of around 375 000 people. The approach used will combine the forming of new groups within a community and work with existing self-help groups which do not have a structured savings and credit system and through training and support will enable them to adopt a more rigorous CSCG/VSLA approach and methodology.

46. The targeting of the support to ensure the highest impact on the poor will involve a three-step approach:

- first, the activity will take place in four sub-regions, with selection based on the following criteria: the share of rural poor within the total population, and the proportion of people in the lowest wealth quintile
- second, poorer sub-counties, and those with fewer CSCGs, will be chosen within each of the selected four sub-regions; clustering will be promoted to facilitate management efficiency and synergies among groups
- third, while self-selection of the members to the groups is an integral part of the CSCG/VSLA approach, within the selected sub-counties particular attention will be assigned to the following targets: (i) women will constitute a minimum of 70% of the groups' memberships, (ii) youth (18-30 years) will constitute a minimum of 15% of the groups' membership, and (iii) service providers will encourage the inclusion of the poorer, more vulnerable and often risk averse, including the handicapped and the caregivers of orphans to CSCGs.

47. The approach adopted in establishing the CSCGs is critical to their success – this is the reason for following closely the successful methods used in the VSLA approach. The contracting of the service providers will require that they adhere to the following basic elements in this approach: (i) focusing on the poor and vulnerable, (ii) self-selecting groups, (iii) regular weekly or bi-weekly meetings, (iv) accountability, security and transparency through clearly defined accounting and savings and credit procedures, (v) savings-first approach, and (vi) annual share-out to distribute savings and profits. Based on this approach, the process used by the contracted service providers will include the following specific activities and steps:

- **Self-selection.** The PROFIRA-contracted service provider introduces the concept of savings and loan services to the community and then facilitates the formation of CSCGs. Because trust is fundamental to the effective functioning of a CSCG, members select each other to form their group.
- **Training.** Training is provided over a number of months to help members define the CSCG's purpose, elect members to serve as officials, and set terms for savings and loans, including interest rates, repayment schedules and penalties for late payments or missed meetings. The group is also trained in a system to collect savings and make loans, record transactions, and run weekly meetings. This training is complemented by training in developing and managing micro-businesses, a key element in the CSCG strategy. The methodology is suitable for both literate and illiterate people.
- **Governance.** Each CSCG elects a chairperson, secretary, treasurer, and two money-counters who form its executive committee. In addition, members select three others and entrust each with a key to one of the three locks on the cashbox where the group's funds are kept. All transactions are carried out at weekly meetings in front of all members, ensuring transparency and accountability.
- **Financial services.** CSCGs begin by collecting weekly savings from members. Savings are accumulated in the form of shares, with a low price agreed upon by the group for one share to allow the poorest members of the community to participate. Once sufficient savings have accumulated, loans are offered to members. Early loans typically range from US\$ 10 to US\$ 20, but gradually become higher. The group sets the interest rate for loans, normally at

around 5% to 10% per month. CSCGs often set up an insurance fund to enable members to access money in emergencies or vulnerable times.

- *Action audit.* Some nine to twelve months after the CSCG is formed, the group conducts what is termed as an 'Action Audit' whereby it pays out savings and earnings from interest and fees, closes its books, and disbands, and subsequently reforms again. When the funds are shared at the end of the cycle, members receive a return on their savings ranging from 30 to 60% annually generated from interest and fees collected throughout the year. These funds are generally returned to the members at the end of the cycle; in a few cases a portion is maintained for the next cycle.
- *End of direct service provider facilitation.* From the start of the CSCG's operations to the time of the first action audit, the PROFIRA-contracted service provider observes the group's meetings and supports the executive committee as needed to ensure that procedures and systems are working well. If there are no issues, the group functions independently thereafter. To reach this stage takes between 12 and 18 months.

48. The funding package to be agreed on between PROFIRA and each service provider will cover all the expenditures that are required to take the new groups through the above-described formation process. The investments included in the project cost tables for carrying out the work and establishing the CSCGs are subsumed within one cost line – 'Formation of New Community Savings and Credit Groups' – which will be disbursed in the form of all inclusive service provider contracts. The investment cost is based on a unit cost of US\$ 20 per member of an established CSCG, assuming on average 25 members per group and 15 000 groups in total formed over the project period.

49. **Sub-Component 2.2 – CSCG Strengthening, Innovations and Partnerships.** This sub-component is intended to complement the previous sub-component and open up opportunities for more mature and dynamic CSCGs, which have established a sound and stable membership, to develop ways to expand their operations, both as groups and as individuals, within the microfinance arena. To guide the design and implementation of the sub-component, a number of principles were established:

- Allow service providers substantial discretion when designing their implementation approaches and activities, as long as the proposals contribute to the overall objective of the sub-component in an effective and innovative manner and meet the criteria and principles set out in the tender documents (model tender documents are provided in the draft PIM)
- Maintain the savings first-approach when considering modifications in the CSCG model and when encouraging linkages with other financial institutions
- Include modules of both advanced financial literacy and advanced business development to create a basis for sustainable development of members' small enterprises
- Partner, when developing linkage operations, with mature MFIs and development-oriented institutions regulated by the Bank of Uganda
- Maintain the gender and youth focus when selecting mature groups for further support activities
- Focus the sub-component activities in the four poorest sub-regions.

50. Following these principles, contracted service providers will work with about 3 000 already existing, mature CSCGs, with a membership of about 75 000, to increase the level of financial intermediation in these groups and for their members. Each selected group will receive PROFIRA support for a period of two full cycles, corresponding in most cases to two years.

51. As with Sub-Component 2.2, targeting is important. It will be carried out in three stages. First, the activities will take place in the same four sub-regions as for Sub-Component 2.1. Second, the selection of the sub-counties will be chosen from among those for Sub-Component 2.1; however, in addition to poverty, a key criterion will be the number of mature CSCGs that operate within each sub-county. These mature CSCGs will not have to be selected only from among the groups formed under Sub-component 2.1 but could be any CSCGs that fulfil the criteria defined for a mature CSCG. Finally, within the selected sub-counties, the following criteria will apply in screening CSCGs for inclusion: (i) at least two CSCG cycles have been successfully completed; (ii) savings volumes and lending performance justify their need for further development and linkages; (iii) good governance and management practices are being used, based on assessment to be carried out by the service

provider; (iv) record keeping is up to date; (v) the participation rate of women is 70% of total membership; and (vi) the group has expressed a clear interest and provided a sound justification for support, with clear achievable targets for participating in the sub-component operations. In addition, priority will be given to parishes and villages in which the number of eligible groups is adequate for the effective clustering of groups.

52. Under the sub-component, experienced service providers will be invited to present project proposals on how to further develop the VSLA model, how to increase the business capacities of the group members to be able to get engaged in larger-scale income generating activities, and how to raise funds needed by the members in their more developed business activities. While the approaches of service providers are likely to differ, each contract is expected to use PROFIRA resources to cover most or all of the following type of activities with mature CSCGs and their members:

- Advanced business development training;
- Advanced financial literacy training;
- Development of the CSCG model to encourage the accumulation/carry-over of group savings to different cycles, to make room for larger and longer loans from the CSCGs' own funds;
- Support to register the mature CSCGs under local government, to make linkages with banks and other financial institutions and other economic partnerships possible;
- Focused and pro-active linkage support with financial institutions, including IT based solutions;
- Partnership building between the CSCGs and their members and other economic operators in the rural communities.

53. The funding package between PROFIRA and each service provider will cover all expenditures required to implement the above activities, to be described by the service provider in a comprehensive project proposal submitted as a part of the competitive bidding process. As with the contracting of service providers under Sub-component 2.1, the investments included in the project cost tables for carrying out the work with mature CSCGs are all subsumed within one cost line – 'CSCG Strengthening, Innovation and Partnerships' – which will be disbursed in the form of all inclusive service provider contracts. The investment cost is based on a unit cost of US\$ 40 per member of participating mature CSCG, assuming on average 25 members per group and 3 000 groups in total supported over the project period. The assigned unit cost is based on a survey of the unit costs of undertaking this type of advanced CSCG work in Uganda and in the region for a two-cycle period for each selected group.

Component 3. Policy and Institutional Support and Project Management

54. **Sub-component 3.1 - Policy, Regulatory and Institutional Environment.** The aim of the sub-component is to assist in creating a conducive environment for the development of inclusive financial services in the rural areas, with a particular focus on community-based financial institutions. To achieve this, this sub-component will support the three main institutions responsible for the overall policy and institutional framework in the sector: (i) the Microfinance Department of MFPED, regarding its overall role of coordination and strategic guidance for the sector; (ii) the Department of Cooperative Development of MTIC, by strengthening application of non-prudential and prudential regulations for SACCOs; and (iii) the Bank of Uganda, by facilitating implementation of its financial literacy strategy.

55. The main investments involved are the following:

- *Policy and institutional environment.* The main focus of the intervention will be support for MFPED to facilitate its role of overall coordination for the sector. This will include support for the overall process of review and elaboration of the financial services strategy, including consultation of national stakeholders, study tours, trainings and technical assistance; the revitalization of an active consultative mechanism with stakeholders in the sector, such as the Microfinance Forum that used to play an important role in this respect; and the operationalization of the Tier 4 regulation through stakeholder workshops and consultations to build awareness and consensus around the new legislation, capacity building to facilitate its implementation, as well as specialized assistance in developing and applying the legislation and establishing the Microfinance Regulatory Authority.

- *Monitoring and non-prudential regulation.* The capacity of the Department of Cooperative Development will be strengthened to carry out its mandate for registering and monitoring SACCOs and enforcing their compliance by: (i) funding upgrading of its computer systems used to maintain the SACCO registry and database; (ii) facilitating the updating of the SACCO registry including field based verification of the status of SACCOs, whether active or dormant, and based on the information organize support for those in difficulty and liquidation of moribund ones; and (iii) initiating 60 local and regional SACCO forums to provide information on new regulations and stimulate exchange of knowledge and good practices.
- *Implementing National Financial Literacy Strategy.* Support to help operationalize the National Literacy Strategy by developing, translating and printing posters, brochures and materials, and preparing training manuals to tailor national messages to SACCOs and CSCGs. Also included will be sensitization campaigns in relatively poor communities in catchment areas of SACCOs being supported under the project.

56. **Sub-component 3.2 – Project Management.** This sub-component involves the staffing and operations of the Project Management Unit (PMU), including the provision for carrying out monitoring and evaluation, and organizing knowledge management and communication. The PMU will have its offices in Kampala and will come under the responsibility of the MFPED but have its own management and staff structure. The details about the implementation responsibilities of project management and the oversight structures are presented in Section III.

D. Lessons learned and adherence to IFAD policies

57. There have been a number of lessons that have emerged from past IFAD and donor-supported programmes and projects and from experience implementing similar interventions in Uganda. Lessons emerging from the recent IFAD Country Programme Evaluation and from the Rural Financial Services Programme (RFSP) are particularly relevant.

Experience specific to RFSP:

- Injection of capital into community level savings and credit institutions, particularly public funds, can disrupt social cohesion, distort their nature of savings-based institution, result in elite capture and political interference, and ultimately undermine such institutions;
- Experience with SACCOs showed that, while promoting outreach, attention shall be paid to sustainability; in this respect, support to existing institutions to strengthen and accompany them in their organic expansion is a more cost-effective approach than the creation of externally driven start-up institutions to meet short-term outreach targets;
- As highlighted in a recent evaluation study of RFSP by MFPED⁸, growth in SACCO membership is not reflected in growth of savings, with most SACCOs experiencing a poor savings culture, which undermines the financial strength and viability of the SACCOs;
- the MFPED study also noted that the very low deposit rates offered by the SACCOs, the major contributor to the low levels of savings, has resulted in many SACCOs having insufficient funds to lend and not being able to meet the demand for loans from its members;
- Publicity surrounding government's support for SACCOs as a primary means of expanding access to financial services throughout the country led to a strong increase in public awareness of SACCOs as a member-based approach to savings and credit that is rooted in the community, albeit with a negative awareness in those communities with dormant or compromised SACCOs;
- A clear communication and knowledge management strategy, introduced at the start of projects, is essential to ensure common understanding of project goals and the best practices and, in particular in the context of a rural finance project, to promote a savings culture, sound institution development and counter negative political interference;
- Switching from hand-outs and prescriptive training to a more demand-driven approach embodied in mentoring and tailored training was more efficient and more effective in getting

⁸ 'Evaluation Study of the Rural Financial Services Programme and the Uganda Cooperative Savings and Credit Union – Formulation and Strengthening of SACCOs', November 2012, Budget Monitoring and Accountability Unit, MFPED, Kampala.

the SACCOs to assume greater responsibility for their own operations and financial sustainability;

- Striking the right balance between direct implementation by project management and outsourcing implementation to service providers is important for effective project management.

General lessons applicable to design of rural finance projects in Uganda⁹:

- The protection of community savings and credit groups from external sources of funding in their initial years combined with small loan size has kept debt incurred by such groups within the capacity of the members to repay and has meant that rate of default has been negligible, in fact in most groups zero;
- In planning new interventions, it is important to realize that in most parts of Uganda rural populations commonly expect free hand-outs from government for development which undermines transparency, accountability, ownership and sustainability;
- A strong focus on sustainability, with clear communication about expectations at project start-up and about exit strategies, needs to be instilled in new development initiatives; and, as highlighted in the IFAD COSOP, sustainability requires a solid institutional framework, longer time periods to build capacity and long-term investment in strengthening key local institutions, both public and private;
- As noted in the MFPED study, growth and sustainability of SACCOs is being constrained by the lack of an appropriate legal and regulatory framework;
- Active participation of women has been shown to be a critical element in developing disciplined, responsible and sustainable microfinance institutions;
- Projects and programmes should, to the extent possible, invest in contiguous geographical areas and focus on a few strategic interventions in order to maximize impact and avoid spreading financial resources too thinly, both geographically and thematically;
- Community-based financial institutions, such as SACCOs and savings and credit groups, are an extremely effective entry point to financial services for a large segment of the rural population that will otherwise remain excluded; solid member ownership and saving mobilization are key principles for the sustainability of these institutions.

58. The project is consistent with and supportive of the key IFAD policies and strategies that concern a project such as PROFIRA that focuses on rural finance, specifically: Policy on Gender Equality and Women's Empowerment, Partnership Strategy, Innovation Strategy, Strategy for Knowledge Management, Targeting Policy: Reaching the Rural Poor, and Rural Finance Policy.

III. Project implementation

A. Approach

59. There are a series of elements that will underlie the approach taken in implementing the project and that will guide project management in ensuring that the goals and expectations of the design will be met:

- *Poverty targeting*, will be the foremost concern in the implementation of all project interventions and will involve: (i) geographical dimensions in the prioritization of poorer areas of the country both in the selection of areas for CSCG establishment/development and the prioritization of the SACCOs to be supported; (ii) inclusion strategies that focus on tailoring approaches to meet the needs and possibilities of poorer more risk averse households, especially in specific strategies to reduce risk for vulnerable households wanting to join CSCGs; (iii) innovation dimensions in helping to adapt innovative technologies to make them more suitable and accessible to poorer members of SACCOs and CSCGs; (iv) self-targeting and tracking of CSCG members' evolving status in terms of their level of poverty.
- *Outreach and sustainability*, are the two themes that run through project design and shape the interventions, with the former being the key factor that drives the CSCG component – to

⁹ Including lessons from IFAD's COSOP, 2013-2018.

enable large numbers of currently unserved poor communities to access basic financial services – and the latter being the cornerstone of the SACCO development – for SACCOs themselves, for UCSCU, and for the overall health and viability of the SACCO System as a whole.

- *Gender and youth focus*, will be incorporated in: the criteria and commitments specified in the tendering for CSCGs support (youth and women already feature strongly in the approaches employed by many service providers); the structuring of the training programmes for the SACCOs to gear the training to the needs of youth and women; and the promotion of increased portion of women and youth in the SACCO expansion strategies.
- Facilitating agricultural production/commercialization, with agriculture financing being the foundation of the rural economy and of the communities included in the project; implementation will focus on ensuring that the financial products available from the SACCOs and CSCGs are tailored to needs of the farmers and the traders dealing in agricultural products, thereby providing a critical and often missing element in facilitating increases in farm production and marketing of agricultural commodities.
- Competition and performance, will be a central principle in tendering for project services and in finding the best service providers; competitive tendering will be used in all project contracting with the contracts issued being performance-linked and benchmarked to hold the service providers accountable for delivery of the stipulated outputs but also for the agreed impact, as specified in the contracts.
- Synergies among activities and programmes, will be pursued in a number of different ways, for example: through sessions that bring together SACCOs and CSCGs to develop better understanding of complementarities and scope for mutually beneficial initiatives; by helping the SACCO apex bodies work more in harmony through exploring overlaps, addressing issues and sharing information; by holding members' fora among SACCO members and also among CSCG members to exchange ideas and explore opportunities; by facilitating joint planning and coordination with complementary IFAD projects to promote exchange and synergies and explore lessons arising from their implementation.
- *Dealing with governance and corruption risks*, by confronting corruption and patronage through transparency of project procedures, clear accountability in implementation of project activities, communication strategies that identify clearly selection criteria and how they are applied, and openness in decision making.

B. Organizational framework

60. **Institutional responsibility.** The government agency responsible for PROFIRA will be the *Ministry of Finance, Planning and Economic Development* (MFPED), with its Microfinance Department as key agency. Through its strategic guidance, oversight and supervisory roles, MFPED will be responsible for the performance of the project and ensuring that it meets its goals and targets. In pursuance of this mandate and to ensure efficient project implementation and optimum utilization of staff and management resources, MFPED will delegate project operational responsibilities to a Project Management Unit (PMU). This delegation of authority to the PMU for day-to-day management of project implementation will ensure efficient decision making and timely implementation of project activities. It will necessitate direct communications between the PMU (delegated by MFPED) and IFAD on day-to-day operational matters, while communication on strategic/policy issues will be made through and by MFPED. This division of responsibilities between the PMU and the Ministry will optimize the time spent by high level ministry staff and the use of professionally hired PMU staff to deal with detailed technical, financial and procurement aspects. The execution of these aspects by the PMU will be stipulated in the annual work plans and budgets and annual procurement plans as approved by MFPED. In addition to its oversight and supervisory responsibilities for project operations, MFPED will provide general policy direction for the implementation of the project, coordinate with other relevant ministries and agencies, and chair the Project Oversight Committee. MFPED will also be responsible for ensuring that counterpart funds and agreed contributions from government are adequately budgeted and provided in a timely fashion. MFPED also plays a critical role in overseeing, reforming and improving the overall policy and regulatory framework and in ensuring a conducive environment for financial inclusion through supporting sustainable access to and use of rural financial services.

61. The exact involvement and responsibilities of *Ministry of Trade, Industry and Cooperatives* (MTIC) will depend on the mandate, regulations and responsibilities of the new Microfinance Regulatory Authority (MRA) which is planned to be established in the near future, as it is possible that a number of the current roles and responsibility of MTIC could be subsumed by the MRA. However, at present, since the responsibilities of the MRA are still to be decided, it is assumed that MTIC will be involved in project implementation, with direct responsibility for implementing part of Component 1, in particular activities involving prudential regulation, registration and monitoring SACCOs, and enforcing their compliance with the minimum requirements including annual external audit and AGM, with the Cooperatives Department being the main counterpart for the PMU.

62. The *Bank of Uganda* (BoU) will have a limited direct role in project implementation, primarily linked to its responsibility for ensuring a sound policy and regulatory framework for rural finance and its lead role in financial inclusion, including the policy on financial literacy. Besides licensing and supervising some of the largest SACCOs as MDIs, BoU is expected to be a key driver of the reformed regulatory framework for Tier 4 financial institutions.

63. **Project oversight and coordination.** A national *Project Oversight Committee*, to be chaired by MFPED, will be established prior to project start-up. This high level, strategic committee will guide project planning and implementation, review implementation progress and impact, review and approve annual work plans and budgets (AWPBs), procurement plans and training plans, and provide high level advice to project management and address key issues, in particular of policy nature. It will meet two times in a year and on an ad hoc basis as and when necessary. The committee will have a balanced membership involving both government and civil society and will draw on the members of the PROFIRA Task Force that guided project design to ensure continuity. The members will include: MFPED, MTIC, BoU, Microfinance Support Centre, representatives from the Uganda Cooperative Alliance (UCA), the Association of Microfinance Institutions of Uganda (AMFIU), the Uganda Cooperative Savings and Credit Union (UCSCU) and one representative of the development partners engaged in rural finance and microfinance (e.g. the chair of the rural finance/private sector donors working group or a delegated member).

64. While not currently active, consideration will be given to reviving the *Microfinance Forum*, which was a useful mechanism for wide consultation with a broad range of stakeholders on policies, programmes and issues affecting rural and micro finance and financial inclusion. It helped to obtain feedback and build consensus on key policies and issues, such as regulation, as well as for promoting consistency among on-going programmes.

65. **Project Management.** A major part of the work of the project management team will be to manage a series of contracts with service providers, from those for the formation and training of CSCGs, to the contracts for capacity building and training of SACCOs, to the technical and management contract to assist UCSCU to become a financially sound SACCO union. From a technical perspective, the contracts will be managed by the two PMU experts charged with the implementation of the SACCO component and the CSCG component. Administrative, financial and legal aspects pertaining to the project contracts will be the responsibility of the Procurement and Contracts Manager. The members of the PMU (job responsibilities and TORs are contained in Appendix 5) comprise the following:

- Project Coordinator
- SACCO team: SACCO Development Manager and SACCO Development Specialist
- Community Based Financial Services Manager
- Financial management team: Financial Controller, Procurement/Contract Manager and two accountants
- M&E and knowledge management team: Monitoring and Evaluation Officer, M&E Assistant and Knowledge Management and Communications Officer
- Support staff

66. The project management team will work as a self-contained unit under the responsibility of the Microfinance Department of MFPED. The Project Coordinator, who will have direct responsibility for members and performance of the project team, will report to the Permanent Secretary/Secretary to the Treasury of MFPED or any other delegated person. Project monitoring and reporting and knowledge management activities will complement those of the Department. The Project Coordinator,

working under the responsibility of the Ministry, will be charged with the efficient implementation of project activities and budgets in accordance the AWPBs and procurement plans as approved annually by MFPED. Operational aspects including the submission of requests for IFAD 'No Objection' will be submitted by the PMU directly to IFAD, as long as they conform to the AWPBs and annual procurement plans, as approved by the Project Oversight committee chaired by MFPED.

67. In order to take full advantage of the relevant experience and expertise accumulated under RFSP, for the selection of the PROFIRA PMU priority will be given to those RFSP staff which are assessed to be suitable for the PROFIRA tasks and positions. The following process is therefore envisaged, managed by the HR department of MFPED: performance assessment of RFSP staff by end-July; assessment of suitability of RFSP staff for PROFIRA position and submission of a no objection request to IFAD by end-September; advertisement for unfilled PROFIRA positions for recruitment from the market by mid-October (even if the project has not yet been approved in Parliament); and job offers and contracting by end-December (or later depending on Parliament's approval).

C. Planning, M&E, learning and knowledge management

68. Project *planning* will be an ongoing process with annual work plans and budgets (AWPBs) forming the backbone of the planning. The AWPBs, together with the Logframe's quantified results-based indicators, will also be the primary basis for monitoring the project. The project's planning, M&E and KM system will encompass both the IFAD Loan and Grant resources. An integral part of the planning will be feedback that comes from ongoing generation of lessons learned, best practices, beneficiary stories and other feedback coming from stakeholders and project partners.

69. The project *Logframe and intervention logic* provide a complete set of indicators for monitoring project progress against key targets, both in terms of results and impact. The Development Objective is the same as stated in the COSOP and forms part of the overall monitoring of the IFAD country programme in Uganda.

70. The PMU will establish a *monitoring and evaluation (M&E) system*, satisfactory to IFAD, prior to the project implementation, building on the existing RFSP system and database. The M&E system will be connected and inter-linked at all levels and will consider the effects/impacts of project investments on project beneficiaries and key stakeholders. The M&E system will include financial and physical reporting, the government's reporting requirements, and IFAD's reporting requirements, including the Results, Impact and Monitoring System (RIMS). A key output of the monitoring will be data on the numbers of people taken out of poverty over the project period, disaggregated whenever possible by gender and youth. It will also include progress and impact/outcome monitoring. A particular feature of the M&E system for PROFIRA will be the key role played by service providers that will be contracted to implement the CSCG programmes and most of the training/capacity building for the SACCOs. It will be the service providers that will carry a major portion of the weight of project monitoring – they will be provided with guidance and training on how this is to be done and held accountable for delivering results. In monitoring the SACCOs, the monitoring and reporting to be done by the institutions contracted to provide the training and capacity building will be supplemented by monitoring of the participating SACCOs by UCSCU field staff and MTIC District Commercial Officers.

71. An 'M&E and KM Team' will be created in the PMU to take *responsibility for M&E, knowledge management, communication and targeting*. It will comprise: an M&E officer, who will head the team, and take responsibility for special studies, planning and reporting, relations with service providers, and gender and targeting. The Knowledge Management and Communications Officer's responsibilities will include cross-component learning and organisation of workshops, stakeholder relations and other events. An M&E assistant will be the third member of the team and have prime responsibility for data collection, management and analysis, in support of, and supported by, the Component Managers, who have overall responsibility for implementation within each component. While the primary function of the Team will be to support the Component Managers, as well as ensuring consistency and coherence between the two components of the project, the Team will also be responsible for delivering information and analyses to project management to facilitate decision making.

72. In order to *monitor outcome, impacts and targeting* success of the project, a number of studies will be undertaken:

- Establishing baseline sector performance levels. Following the selection of project areas and project SACCOs, a mapping exercise will establish the baseline levels of all SACCO performance indicators and performance of existing CSCGs. This will include updated SACCO statistics (number of members, number of SACCOs with operational self-sustainability) and information on the selected groups to be strengthened. Data will be collected through PMU staff and service providers, and is thus the production of a report rather than the commissioning of an external study as such.
- RIMS baseline and impact surveys. In reporting on anchor impact indicators, the standardized tools developed by IFAD will be applied. Some 900 households, selected at random throughout the project implementation areas, will be surveyed to measure overall livelihood improvements in project implementation areas.
- Measurement of poverty reduction. For the CSCG component, panel surveys of direct project beneficiaries to measure their movement out of poverty will be done for baseline, mid-term and project completion. For the SACCO component, a smaller number of SACCOs will be selected for monitoring of clients to understand the poverty dynamics and the ability of SACCOs to achieve outreach and inclusion of the rural poor. Due to the large geographical outreach of SACCOs and dynamic membership structures, panel studies and establishment of databases at individual membership level are not considered cost-effective. The studies will facilitate measuring the projects efficiency and effectiveness in lifting the poorest of the poor above the poverty line.
- Socio-economic impact assessments. As access to finance is likely to create other impacts on society than measured by the RIMS anchor impact indicators, studies will be undertaken for each component capturing for example cultural and behavioural changes, as well as village and production dynamics, including diverse impacts on, household structures or levels of conflict and beneficiary participation in a village,
- Analysis of gender and targeting performance. A gender and targeting strategy will be developed in the initial year of the project, and monitored through specific analyses, with focus on approaches and successes of each component in attracting and mobilizing target groups. To monitor gender mainstreaming and success in attracting both genders by the SACCOs, a gender audit will also be undertaken.
- Mid-term review. The mid-term review will serve as a reflection on the implementation efficiency and progress in achieving the targets, outcomes and development objectives. It will include an assessment of the performance of the service providers and contain lessons and recommendations which will feed into adjustments needed in project design for the remaining project period.
- Project completion report. Between project completion and closure, the PMU will be responsible for developing a project completion report, following the IFAD guidelines.

73. *Progress monitoring* will be used as a starting point to monitor progress at activity level with the AWPB and Logframe indicators being the two key reference points. The contracts with each of the service providers will be performance based and include milestones linked to implementation of the project activities for which they are responsible and to the results and timing agreed.

74. *Knowledge management* will play an important role in the project, helping to inform piloting, replication and scaling up. Knowledge management will serve as a foundation for replication of project successes, provide the analytical basis to resolve challenges to the project, and help to adapt project activities to changing social and economic circumstances in the project areas. Data and quantitative information collected will be transformed into knowledge and learning products linked to organising, reflecting and using information gained. Structured visits between districts and interaction with service providers and beneficiaries will be incorporated as an input for knowledge management and facilitate improving project performance, beneficiary involvement and sharing of best practice.

75. *Communication* has been shown to be increasingly important in the rural finance arena. Misinformation and incorrect understanding of programmes and initiatives have often been a constraint in the implementation of projects and are among the lessons learned in RFSP. To facilitate implementation, a communications strategy will be developed at the start of PY1. Three main types of communication will be supported in the strategy: (i) external communication to manage expectations and create an enabling implementation environment for the project; (ii) disseminating project

knowledge internally and externally, including service providers and beneficiaries, and (iii) providing knowledge based products to inform policy making and political messages.

76. *Project implementation readiness.* To facilitate an effective and timely start-up of PROFIRA, a number of preparatory activities will take place starting from the second half of 2013 into the first half of 2014. These include: communication activities for parliamentarians to facilitate PROFIRA approval in the parliament; update of the MTIC SACCO data base/registry and compilation of the long-list of SACCOs for future support by PROFIRA; any necessary preparations for the presentation of the Tier 4 regulation legislation to Parliament; UCSCU assessment against agreed benchmarks prior to activation of PROFIRA support; assessment of adequacy of RFSP PAU staff for PROFIRA tasks and tendering for recruitment of new staff as needed; stakeholder workshops on PROFIRA approach and activities; appointment of the PROFIRA contract committee; securing of existing RFSP assets and equipment for PROFIRA; launching of the tender processes for the SACCOs' field assessment, the selection of the CSCG service providers and the carrying out of baseline surveys; review and update of the draft PIM by the new PMU; salaries and operating costs for the PROFIRA PMU before fulfilment of all withdrawal conditions. There are three, non-mutually exclusive, options to finance these preparatory activities: the use of RFSP funds by including them in the RFSP Annual Work Plan and Budget FY 2013/2014 and ensuring their completion by 31 December 2013 (closure date of RFSP Loan); retroactive financing, i.e. pre-financing by government with subsequent reimbursement from the loan; use of IFAD start-up funds to finance activities between loan entry into force and the fulfilment of withdrawal applications.

D. Financial management, procurement and governance

77. **Financial management.** The design of the financial management system has been based on the experience of RFSP and other IFAD-financed projects in Uganda. The proposed project financial management arrangements are consistent with the government systems and reflect IFAD's rules and regulations in relation to disbursement, and audit. They are briefly discussed here below, while full details are provided in Appendix 7 and the relevant sections of the PIM (Appendix 11).

78. *Financial management assessment.* In terms of country risk, Uganda's annual Corruption Perceptions Index, as published by Transparency International, still falls in the high risk category, although it has improved from 2.4 in 2011 to 2.9 in 2012. The assessment of the GoU Integrated Financial Management System (IFMS) shows that it has strong control features, including segregation of duties and budget control. A project-specific assessment has been made (see Appendix 7, Attachment 1) and the overall PROFIRA fiduciary risk is rated as medium. A number of gaps were identified and appropriate mitigation measures suggested for PROFIRA; these are summarised in Appendix 7 and detailed in the draft PIM.

79. *Organization and staffing.* A fully-fledged finance section of the PMU will be set up to be staffed by one Financial Controller and two Accountants competitively recruited and paid for from project funds. The full team will be recruited on performance based contracts by the project.

80. *Flow of funds.* The project will open a Designated Account in US dollars to receive IFAD Loan proceeds and a Project Account in Ugandan Shillings (UGX), both in the Bank of Uganda. In addition, the project will open a SACCO Contributions Bank Account in a commercial bank with a wide networked branch system to collect SACCO contributions towards training activities. GoU counterpart funds will not be comingled in the same operational bank account with IFAD loan funds, thus justifying a counterpart funds bank account in UGX also in the Bank of Uganda.

81. Payments to contracted service providers shall be performance based. Upon achievement of a pre-set milestone by a service provider, as included in the payment schedules in the respective contracts, the service provider will submit to PMU a standard commercial invoice. Supporting documentation to show that a milestone has been achieved will include, but not limited to, certification from beneficiaries that a service has been delivered and quality control report from the line manager that the service was delivered satisfactorily, among others. These measures will be supplemented by sample field visits.

82. *Disbursement.* Standard International Financing Institution (IFI) disbursement methods will be used, including: (i) direct payment method for bigger payments over USD 50,000; (ii) use of designated account; and (iii) reimbursement if GoU has pre-financed any transactions. As PROFIRA has very few physical goods to procure, the use of the special commitment procedure is unlikely. The

SOE ceiling will be set at low levels initially given the high inherent risk. USD 20,000 is suggested as the initial SOE threshold and to be reviewed after supervision mission assessment of fiduciary risk.

83. *Accounting system.* The IFMS chart of accounts is not very suitable for project financial management. The Pastel accounting package will thus be used alongside with IFMS, as it has been the case for RFSP, taking care to ensure the consistency of the coding of activities is consistent between the two systems.

84. *Audit.* The Auditor General is in charge of auditing all Government funds including loans from development partners as approved by Parliament. However, because of the human resource constraints, a private auditor can be contracted for specific projects with the consent and under the supervision of the Auditor General. This was the practice followed in RFSP with good results in terms of quality and compliance with both IFAD and GOU requirements and the same will be applied in PROFIRA. In consideration of the financial fiduciary risk assessment, a private audit firm will also be contracted to provide internal audit services in addition to the annual statutory external audits.

85. *Management of IFAD grant funds.* The PROFIRA PMU will not have any fiduciary responsibility on the IFAD grant to CCA/WOCCU. The funds will flow directly from IFAD to the grant beneficiaries on the basis of a separate grant agreement. Annual audits on the grant funds will be separate from the Loan's and paid out of the grant proceeds.

86. **Procurement.** The procurement arrangements proposed for PROFIRA are based on an assessment of country and project-specific procurement systems. They are fully aligned with national systems and consistent with IFAD guidelines, as briefly discussed here below, while full details are provided in Appendix 8 and the relevant sections of the PIM (Appendix 11).

87. *Procurement assessment.* The design mission has based much of its work on the findings of a recent IFAD-financed study of National Procurement Systems of Uganda by Crown Agents (January 2013), supplemented by sessions with the RFSP procurement team to assess how the national systems are actually used in an IFAD-financed project with a very similar management set up as PROFIRA. The overall finding is that the legal framework for public procurement in Uganda is strong and provides clear guidance for the procurement practitioners and providers. Thus, for PROFIRA, the national systems for procurement will be used, as established in the Public Procurement and Disposal of Public Assets (PPDA) Act and related regulations. The project specific assessment produced a partially satisfactory result, with a number of gaps identified and appropriate mitigation measures suggested (see Appendix 8 for full details).

88. *Proposed procurement arrangements.* Given the considerable amount of contracts to be procured and managed, PROFIRA will recruit a full time Procurement and Contracts Officer throughout the duration of the project. In addition, the PMU will be able to access short-term expertise to assist in periods when the intensity of procurements is high. Appropriate tools for procurement and contract management (i.e. procurement plan, contract register and contract monitoring forms) will be used, as detailed in the draft PIM. IFAD prior review thresholds will be set at US\$ 50 000 for services and US\$ 100 000 for supplies. No works are foreseen. The World Bank procedures and standard bidding documents will be used for the procurement of services and supplies through International Competitive Bidding, although none is foreseen at this stage. Quality Cost Based Selection (QCBS) will be the predominant selection method for services, although other methods, as allowed by the PPDA, could be selected during implementation depending on the specific nature of the services. A PROFIRA specific Contracts Committee should be constituted as has been standard practice for IFAD-funded projects to avoid the long protracted procurement delays that are experienced by other projects that rely on the line ministry main contracts committees. IFAD will be provided with the profiles of the members to the committee before fully constituting it

89. **Contract Management.** The two investment components will be implemented by competitively selected service providers under performance-based contracts. In the first three years, around 45 service contracts will be running in parallel. This will impose a high procurement and contract administration burden on the PMU; thus the need for a dedicated full time Procurement and Contracts Officer to manage the contracts, evaluate performance and reports, and deal with fiduciary aspects. For each contract, the PMU will designate a contract management team to manage the day-to-day liaison with the service providers, assess performance and ensure that targets are being met; such teams will involve the Procurement and Contracts Officer, who will deal with all administrative aspects, and the SACCO or SCSG managers, who will deal with the technical aspects of the

submitted proposals; the Financial Controller will be responsible for reviewing the financial aspects of the proposals. Short-term capacity might be recruited as needed to support the verification of reports and performance based invoices.

90. **Governance and anti-corruption.** Specific measures to mitigate the main risks identified during design have been spelled out in the appendices 7 and 8 and further detailed in the draft PIM (Appendix 11). These include: (i) the project operations, financial management and procurement manuals, articulating the type of controls and systems to be established to guarantee transparency and accountability; (ii) the computerized accounting system, parallel to the IFMS, which will substantially reduce the scope for human error; (iii) the internal audit function that will be established through the recruitment of a specialized firm; (iv) the annual external audits that will be undertaken, including the procurement-specific ones; (v) the back-up procedures kept on the PMU's computer server to avoid the loss or damage of financial data; (vi) the segregation of procurement and financial management functions within the PMU; (vii) the checks and balances foreseen in contract management through sharing of responsibilities between various units of the PMU as well as through certification of service delivery by final recipients. The risk profile of the project will be reviewed regularly during supervision using the IFAD standard tools for risk-based project financial management reviews.

E. Supervision

91. PROFIRA will be directly supervised by IFAD. One full supervision mission and a shorter follow-up mission will take place each year. The missions will focus on: (i) development impact based on progress against agreed indicators; (ii) joint identification of problems and solutions with recipients and implementers, and agreement on actions to achieve the project's objectives; and (iii) ensuring compliance with loan covenants, procurement, disbursement and the end-use of funds.

F. Risk identification and mitigation

92. A number of risks have come up during the project design process, most of which have been addressed. There are nevertheless three risks that are relevant for the implementation of the project:

- **UCSCU's long term sustainability.** There might be insufficient commitment by UCSCU to develop a real business-focused institution and attain financial sustainability. *Response: The risk is real, but it is recognized that a viable and sustainable apex body is a key element of a healthy and structured SACCO sector, which will be an important factor in enabling SACCOs to maintain financial sustainability. UCSCU commitment will be measured in terms of their strategic and business plans that are currently being finalized and whose soundness and realism will represent a pre-condition for project support. Furthermore, with strong and capable management support, as proposed by the project, based on business/market principles and discipline, there is a very strong possibility that UCSCU management could be reoriented, the institution rationalized and restructured, and a solid income generating base for the organization created. However, it is important to note that failure by UCSCU to reach long-term sustainability, will not totally undermine the achievement of project outcomes in terms of individual SACCOs' sustainability.*
- **SACCO sustainability.** In spite of project training, mentoring and support, a high portion of project supported SACCOs might not be able to attain financial sustainability and become dynamic and viable savings and credit institutions capable of sustainably providing financial services to rural clients. *Response: It is expected that a portion of the SACCOs supported will not attain financial sustainability by the end of the project period – in fact, the project target assumes an ambitious 90% success rate; while there is a risk that a larger portion of the SACCOs could have trouble reaching sustainability, experience in RFSP indicates that with a careful selection of the beneficiary SACCOs from the potentially sustainable ones and with a proper tailoring of capacity building to the actual needs, the likelihood of success with this category of should be high, and therefore the target of 90% looks achievable.*
- **Conducive policy framework for project activities.** There are two policy related risks: (i) the fact that the Tier 4 regulatory framework is not yet approved leaves a legislative vacuum with respect to regulation of SACCOs, which poses a risk for the sustainability of the project investment in capacity building; and (ii) the success of community savings and credit groups,

and their broad coverage in rural communities, could result in politically-motivated ‘generosity’ – injection of funds – resulting in loss of social cohesion and internal trust and dissolution of groups. *Response:* At negotiations, the senior officers in MFPED responsible for policy initiatives in the rural financial sector have confirmed that the paper setting the principals for the new Tier 4 regulatory framework, has been approved by the Cabinet for subsequent presentation to the Parliament. Similarly, regarding CSCGs, close dialogue at the ministerial level during the design process, highlighting the inherent risks involved in external injection of funds, has been fruitful and the current position of MFPED is supportive of the development of CSCGs, while excluding any external government injection of funds. The above provides a conducive environment for PROFIRA investment in SACCOs and CSCGs, thus a pre-condition for presentation of PROFIRA to the IFAD Board. Furthermore, appropriate covenants have been included in the financing agreement in order to protect the envisaged investment from possible policy changes during project implementation.

IV. Project costs, financing, benefits and sustainability

A. Project costs

93. The total project investment and incremental recurrent costs, including physical and price contingencies, are estimated at US\$ 36.6 million (UGX 105.8 billion). The foreign exchange component is estimated at US\$ 11.9 million (32%). Taxes make up approximately US\$ 4.9 million or 13.5% of total project costs. The total baseline costs are US\$ 31.3 million, while price contingencies account for US\$ 5.3 million, or 17% of base costs. Summaries of the project costs by component and expenditure category are presented in the tables below.

Table 1: Project Cost Summary by Component

Components Project Cost Summary	(Local Million)					(USD '000)				
	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. SACCO Strengthening and Sustainability										
SACCO Strengthening	18 721	6 600	25 321	26	32	7 488	2 640	10 129	26	32
Developing a Sustainable SACCO Union	5 615	956	6 571	15	8	2 246	383	2 628	15	8
Subtotal	24 336	7 557	31 892	24	41	9 734	3 023	12 757	24	41
B. Community Based Financial Services										
Establishment of new community savings and credit groups	13 997	5 738	19 735	29	25	5 599	2 295	7 894	29	25
CSCG Strengthening, Innovations and Partnerships	6 252	2 563	8 815	29	11	2 501	1 025	3 526	29	11
Subtotal	20 249	8 300	28 550	29	37	8 100	3 320	11 420	29	37
C. Policy and Institutional Support and Project Management										
Policy, Regulatory and Institutional Environment	3 271	1 342	4 612	29	6	1 308	537	1 845	29	6
Project Management	3 141	10 009	13 150	76	17	1 256	4 004	5 260	76	17
Subtotal	6 412	11 351	17 763	64	23	2 565	4 540	7 105	64	23
Total BASELINE COSTS	50 997	27 208	78 204	35	100	20 399	10 883	31 282	35	100
Physical Contingencies	-	-	-	-	-	-	-	-	-	-
Price Contingencies	20 406	7 190	27 597	26	35	4 354	993	5 347	19	17
Total PROJECT COSTS	71 403	34 398	105 801	33	135	24 753	11 876	36 629	32	117

Table 2: Project Cost Summary by Expenditure Category

Expenditure Accounts Project Cost Summary	(Local Million)					(USD '000)				
	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
I. Investment Costs										
A. Vehicles	309	466	775	60	1	124	186	310	60	1
B. Equipment and Materials	261	109	370	29	-	105	43	148	29	-
C. Training, studies, and workshops	3 941	1 635	5 576	29	7	1 576	654	2 230	29	7
D. Technical Assistance, Contracted Service Providers	45 721	16 338	62 059	26	79	18 288	6 535	24 823	26	79
Total Investment Costs	50 232	18 547	68 779	27	88	20 093	7 419	27 512	27	88
II. Recurrent Costs										
A. Salaries and allowances	565	7 861	8 426	93	11	226	3 145	3 371	93	11
B. Other operating cost	200	799	999	80	1	80	320	400	80	1
Total Recurrent Costs	765	8 660	9 425	92	12	306	3 464	3 770	92	12
Total BASELINE COSTS	50 997	27 208	78 204	35	100	20 399	10 883	31 282	35	100
Physical Contingencies	-	-	-	-	-	-	-	-	-	-
Price Contingencies	20 406	7 190	27 597	26	35	4 354	993	5 347	19	17
Total PROJECT COSTS	71 403	34 398	105 801	33	135	24 753	11 876	36 629	32	117

B. Project financing

94. The project costs are proposed to be financed by an IFAD loan of US\$ 29.0 million, an IFAD grant of US\$ 1.0 million, a government contribution of US\$ 4.9 million equivalent, exclusively in taxes and duties, beneficiaries' participation of US\$ 1.4 million equivalent and a contribution by CCA/WOCCU of about US\$ 250,000.

95. The IFAD grant is justified to allow the project to enter into a financial partnership with a consortium of experienced international cooperative associations (CCA and WOCCU) to provide the necessary qualified managerial and technical expertise to support UCSCU under Sub-component 1.2. The Government will not be willing to use loan resources to pay for such relatively expensive international technical assistance, although this input is considered essential to support UCSCU in positioning itself as a reliable and sustainable apex SACCO organization in Uganda. As its contribution to the partnership, the consortium will share about 20% of the total costs of the technical assistance support package.

Table 3: Components by Financier

Components by Financiers (USD '000)											Local		
	GoU		IFAD Loan		IFAD Grant		CCA/WOCCU		Beneficiaries		Total		For.
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exch. Taxes)
A. SACCO Strengthening and Sustainability													
SACCO Strengthening	1 774	14.4	9 110	73.9	-	-	-	-	1 443	11.7	12 327	33.7	2 932
Developing a Sustainable SACCO Union	208	7.7	1 258	46.3	1 000	36.8	250	9.2	-	-	2 717	7.4	407
Subtotal	1 982	13.2	10 368	68.9	1 000	6.6	250	1.7	1 443	9.6	15 044	41.1	3 338
B. Community Based Financial Services													
Establishment of new community savings and credit groups	1 346	14.2	8 132	85.8	-	-	-	-	-	-	9 478	25.9	2 513
CSCG Strengthening, Innovations and Partnerships	633	14.2	3 823	85.8	-	-	-	-	-	-	4 456	12.2	1 141
Subtotal	1 979	14.2	11 955	85.8	-	-	-	-	-	-	13 934	38.0	3 654
C. Policy and Institutional Support and Project Management													
Policy, Regulatory and Institutional Environment	372	17.2	1 787	82.8	-	-	-	-	-	-	2 158	5.9	580
Project Management	602	11.0	4 891	89.0	-	-	-	-	-	-	5 493	15.0	4 304
Subtotal	974	12.7	6 677	87.3	-	-	-	-	-	-	7 651	20.9	4 884
Total PROJECT COSTS	4 935	13.5	29 000	79.2	1 000	2.7	250	0.7	1 443	3.9	36 629	100.0	11 876

C. Summary benefits and economic analysis

96. In assessing the number of *project beneficiaries*, it is estimated that there will be some 750 000 members of SACCOs and CSCGs participating in the project; however, the number of actual beneficiary households is reduced when taking into account that: of the total SACCOs supported¹⁰, 90% will become fully sustainable institutions, thus 225 000 out of 300 000 households will benefit fully; and 20% of members of SACCOs and CSCGs are assumed to come from the same households. Thus, it is estimated that in total, for both the SACCO and CSCG interventions, about 576 000 households¹¹ will benefit fully from the project¹². The total numbers of beneficiaries by component and disaggregated by gender are summarized in the table below.

¹⁰ Total of 500 SACCOs with an average membership of 300 existing clients and 300 new ones.

¹¹ 18 000 CSCGs x 25 members/CSCG x 80% = 360 000. 500 SACCOs x 90% x 600 members/SACCO x 80% = 216 000. Thus, in total = 576 000

Table 4: Project beneficiaries by component

Project component/sub-component	Individuals reached		Beneficiary households
	Total	Women	
<i>Component 1:</i>			
1.1 SACCO Strengthening & Sustainability			
- Existing SACCO members	150 000	45 000	108 000
- New SACCO members	150 000	75 000	108 000
<i>Component 2:</i>			
2.1 Establishment of new CSCGs	375 000	262 500	300 000
2.2 CSCG Strengthening, innovation and partnership	75 000	52 500	60 000
Total coverage by PROFIRA	750 000	435 000	576 000

97. The main *project benefits* will go to rural communities and individuals within the areas where the two main project interventions will operate. While the direct benefit will come in terms of greatly expanded and improved access to financial services, the most important impact will be in terms of how the funds from the increased availability of loan and savings resources will be used. As the economy in the project areas is based predominantly on agriculture, the concrete impact of the project will be in terms of: increased use of improved inputs and other means of production for agriculture; increased ability for households and enterprises to enter into primary processing of agricultural products; and increased trade and commerce based on agricultural commodities and goods linked to agriculture, both crops and livestock derived. The financial models prepared for the project, presented in Appendix 10, Economic and Financial Analysis, show clear economic benefits and positive returns in the different rural economic activities that result from the investment generated from better access to financial services. The models developed include an assessment of the impact of project activities on a range of farming activities and agricultural-based enterprises, including: groundnut production, improved seed maize, land rental (cassava), purchase land (maize, cassava), milk cows, goats, piggery, and trade models including fish trading. A *financial and economic analysis* was carried out to assess: (i) the financial viability of the interventions at the individual client or enterprise level; (ii) the clients' capacity to borrow for investment in income-generating activities; and (iii) the financial and operational sustainability of CSCGs and SACCOs.

98. The benefits are expected to lead to higher incomes, increased crop and livestock production, improved food security and reduced vulnerability. A review of the benefits and impact of the CSCG services indicates that most members were able to increase their engagement in micro productive enterprises such as farming, purchase of agriculture inputs, including renting and purchasing land, purchasing small and large ruminants, petty trade, fish mongering, dealing in second hand clothes, and tailoring, with increases in income in the range of USD 20-40 within the first year of the programme. There will also be significant benefits from consumption smoothing. The fact that a majority of the members in these groups are women, many of whom will have access to savings and loan services for the first time, is expected to lead to a significant positive impact on households given that poor women generally lack decision making power, control over household income, and access to land.

99. The most important immediate benefits of the SACCO component derive from improved access to financial services, by rural women (reflected in an improved women/men member ratio among the participating SACCOs) as well as by rural men, and the resulting economic impacts of borrowing for business purposes. There will also be benefits in terms of good governance, improved management and strengthened operations leading to: (i) expanded outreach, more diversified products and improved services; (ii) higher profitability and viability; (iii) improved support for agricultural production through financial services that are more responsive to farmers' needs and constraints, (iv) increased financial awareness of the general public deriving from the financial literacy programmes; and

¹² While there is expected to be some households that are members of both CSCGs and SACCOs, the numbers are expected to be small – though there is no data available – and have not been taken into account here. Only a limited portion of the participating SACCOs will be in the same areas as the CSCGs supported.

(vi) improved consumer protection related to financial services. Furthermore, adoption of innovative technologies will enable SACCOs to become more competitive and cost efficient in providing services and in expanding their outreach through techniques such as branchless banking.

100. The *results of the financial and economic analysis* are positive. For the seven production models and three trade models, the incremental returns to labour are attractive, as are the rates of return. In terms of the economic analysis, the project has an economic rate of return (ERR) of 15%; changes in key variables do not affect the economic viability of the project: a 20% decrease in or a delay in benefit by two years would reduce the ERR to 12% (see Appendix 10, Financial and Economic Analysis, for details).

D. Sustainability

101. For PROFIRA, sustainability is the underlying theme for the whole project – from the strengthening of SACCOs to become fully sustainable institutions to the restructuring and support to UCSCU to become an operationally and financially sustainable apex body for the SACCOs. Also, the model employed to create new community savings and credit groups is inherently a sustainable one which works within the means and economic scope of poor rural communities and provides a sustainable means to have secure savings and create income generating opportunities. Specifically, the project will result in the following: (i) some 500 SACCOs that will be strengthened so that financially they will become sustainable institutions capable of operating as viable financial service providers offering a range of services; also, based on the revenues generated they will be able to pay for future training and technical support required; (ii) similarly, the technical and management support to UCSCU will transform it into a financially sustainable institution capable of financing its operations from membership fees, services provided and other revenue generating activities – a major change from the current situation in which it must depend on government to meet a major part of its operating costs; (iii) the model to be adopted for establishment of CSCGs will result in some 15 000 new groups operating on a sustainable basis once the one-year training programme is completed; a further 3 000 existing groups, to be strengthened, will also become financially viable and sustainable institutions with the assistance of the project; and (iv) the project's support for local service providers that train and help establish CSCGs and provide services to SACCOs will help the country maintain a dynamic and viable institutional capacity focused on strengthening these rural, village-level organizations.

APPENDICES

Appendix 1

Appendix 1: Country and rural context background

Country overview

1. Uganda's development experience over the past two decades has been characterized by high growth and significant decline in poverty. Growth accelerated from 6.3% in the 1990s to an annual average of 7.0% during the 2000s, implying that Uganda has sustained one of the fastest growth rates in the world over the past two decades.¹³

2. Uganda is a land-locked country which adds to the cost of doing business with the outside world. The country is positioned over 1 000 kilometres from the nearest seaport in Mombasa in Kenya which is both a constraint and an asset for Uganda. It raises the cost of imports by about 20% and of exports by about 25% relative to Tanzania and Kenya. However, domestic industries have an advantage relative to its inland neighbours, which are even more distant from the ocean. Regional trade accounts for about half of exports, with accelerating trade to South Sudan and Democratic Republic of Congo providing opportunities for rural growth in northern Uganda. Exports account for about 16% of Gross Domestic Product (GDP) and imports about 21%. The advantages of location also come with some risks. Uganda's location among poor neighbouring countries prone to conflict has led to spill over of conflicts into the country. Uganda itself is also ethnically diverse, which adds to the risk of internal conflict. However, with peace coming to the north in 2008, Uganda has become more secure and stable.

3. Since 1986 Uganda has made substantial economic and social gains.¹⁴ Annual economic growth has averaged about 7% per year for the past decade, with wide disparities between regions. Government's revenue raising capacity is low at about 13% of GDP. About 30% of the government budget continues to be financed by development partners. However, substantial oil reserves were discovered in the Lake Albert Riff Basin in 2006. Oil production is expected to start in 2016, generating revenue of about USD 2 billion per year for 20 years. This is likely to enhance GDP by about 15-20%. The future challenge is to use oil revenue to reduce poverty and rural-urban inequalities and ensure sustainable and inclusive growth for a rapidly increasing population in the post-oil economy. International debt is about 25% of GDP. With the global recession and elections in 2011, inflation reached 25% per annum in September 2011 but has now dropped to about 5%. While these gains are admirable, they have been clouded recently by issues regarding corruption which is important economically as government's revenue raising capacity is low at about 13% of GDP, with about 30% of the government budget financed by development partners.

4. **Agriculture.** The agricultural sector accounts for about 15% of GDP and is the primary source of livelihood for over 75% of labour force. About 40% of the land area of the country is considered arable and about 30% is currently being cropped. While most of the country has two crop seasons, production in the north is limited to one. Agriculture provides 53% of Uganda's export earnings over 2007-2011 and a large share of the raw materials for industry. Food crops dominate, followed by cash crops, while non-traditional export crops are also important. Yields remain at subsistence level for most food crops and are generally poor for cash crops. Uganda has applied little of the 'green revolution technology' to-date. About three quarters of agricultural households derive their livelihoods from subsistence rainfed agriculture, with holdings averaging less than 1.5 ha. In spite of problems of fertility and high soil nutrient loss, use of fertilizers is among the lowest in the region. In addition, about 13% of area is planted with improved seeds compared to 22% for Sub-Sahara and the use of mechanisation is still low, for example: 0.4 tractors per 1 000 ha compared to Kenya's 2.7 per ha.

5. **Climate change.** Uganda is one of three countries bordering Lake Victoria and about 20% of the area of the country is covered by internal water bodies. The topography varies from mountain ranges to hilly terrain, with extensive grasslands and flatter areas in the north. Uganda has seen an increase in the variability of rainfall over the past ten years, and a rise in extreme climate events, which have included both drought and flooding, with landslides, collapsing structures and windstorms. Climate change analysis for the past ten years shows a decrease in rainfall of about 8% and an increase in temperature of 0.7-1.5° C. These changes are a result of human activities which have

¹³ Uganda, Promoting Inclusive Growth – World Bank, February 2012

¹⁴ See appendix 2 for the country economic data sheet.

reduced the resilience of the ecosystem, rather than being a consequence of global climate change.¹⁵ Uganda is considered to be amongst the most vulnerable and least climate resilient countries due to poverty and low income diversity.¹⁶ Its problems are further compounded as a result of poor soil fertility, land degradation and land tenure patterns.

National policy context

6. **National policy.** The National Development Plan (NDP) 2010/11-2014/15 aims to transform Ugandan society from a peasant to a modern and prosperous middle income country within 30 years.¹⁷ The NDP emphasizes social development and gender equality in peace building, post-conflict resolution as well as mitigating pressures on the environment. The development of sectors with comparative advantage for the post-oil economy is to be encouraged. Public-private partnerships will be promoted, together with outwardly-oriented policies to encourage foreign investment and exports. The agricultural sector is expected to play an important role. Key NDP investments areas are: developing human resources and achieving gender equality; improving physical infrastructure in rural areas (roads, connectivity and power generation); ensuring the availability of inputs and the promotion of the medium, small and micro-enterprise sector in rural areas to improve value-addition.¹⁸

7. **Agricultural policy.** The agricultural sector policy is contained in the Development Strategy and Investment Plan (DSIP) for 2009/10-2013/4. The vision is for 'a competitive, profitable and sustainable agricultural sector' with the mission of 'transforming subsistence farming to commercial agriculture'. The six guiding principles are: (i) private sector-led and market-oriented growth, with the promotion of private investment in agriculture; (ii) support to the agricultural zoning strategy to encourage value chain development and the emergence of viable agro-industries; (iii) agricultural services provided to all farmer categories as individuals or in groups, with attention to gender equity; (iv) agricultural extension services strengthened and provided through the decentralized system of government; (v) scope for special extension services in specific areas of the country having different needs and marginalized groups; and (vi) key agricultural resources, including soil and water, sustainably used and managed. The Agricultural DSIP is a framework that required detailed implementation plans for its operationalization. Different Donors (World Bank, DfID, Netherlands) provided technical assistance and funding to develop a comprehensive plan to make it operational at the end of 2012.

8. **Rural finance policy.** The Government of Uganda has promoted microfinance since a 1998 national strategy workshop, which culminated in legislation (2002) to create a special licensed Tier III for Microfinance Deposit-taking Institutions (MDIs) and in a Microfinance Outreach Plan supported by several Government- and donor-funded programmes to provide funds and capacity building. In 2006, the Government shifted to a Rural Financial Services Strategy of establishing Savings and Credit Cooperatives (SACCOs) in every sub-county in order to accelerate access to financial services in rural areas throughout the entire country. While the emphasis was on savings mobilization as a source of loans for investment in rural enterprises, the supply-driven approach and provision of additional start-up capital fostered some challenges in terms of repayment discipline, sustainability and oversight. The Government is in the process of drawing lessons from the experience gained over the past five years, and is now working on a revised policy framework and new legislation (currently before Cabinet) for regulation of Tier 4 microfinance institutions, including SACCOs, NGOs and informal microfinance institutions. The proposed legislation is expected to establish a Microfinance Regulatory Authority to license and supervise larger institutions in Tier 4, leaving smaller ones to self-regulation by apex bodies or, in the case of SACCOs, oversight by the Commissioner of Cooperatives, who will continue to be responsible for their registration. The largest SACCOs will come under Bank of Uganda (BoU) supervision once the MDI Act is amended. Furthermore, the Bank of Uganda is leading a consultative process to develop a national strategy for financial inclusion and a policy on financial literacy, and the government is considering support to community based financial services, which have proved to be an effective mechanism of providing access to financial services by poor rural communities. Regarding the regulation of new technology such as mobile banking, mobile

¹⁵ A climate trend analysis of Uganda, USAID, June 2012

¹⁶ International Panel on Climate Change, 2000 and Centre for International Governance Innovation, 2007.

¹⁷ "National Development Plan 2010/11-2014/15", National Planning Authority, Republic of Uganda, 2009.

¹⁸ See appendix 7 which provides a summary of the performance indicators relevant to IFAD's mandate that the government has set for itself in the NDP.

cash, agent banking and branchless banking, the BoU is taking a liberal approach to allow it to gain experience with these new approaches before determining the exact nature of the regulation needed.

9. **Decentralisation policy.** The Local Government Sector Investment Plan 2006-16 (LGSIP) has been prepared by the Ministry of Local Government and other stakeholders that are involved in implementing Uganda's decentralisation policy. The LGSIP provides the framework for guiding local government sector investments towards areas that are critical for improving service delivery and good governance, in support of the government's overall goal of poverty reduction. The six areas of focus of the LGSIP are: local government service delivery; political, administrative and fiscal decentralisation; good governance; and local economic development.

Rural finance policy and institutional context

Overview

10. Uganda has been a leader in special legislation to accommodate microfinance. In 2002 the Microfinance Deposit-taking Institutions (MDIs) Act enabled non-governmental organizations (NGOs) engaged in microfinance to become licensed as Tier 3 financial institutions to mobilize savings deposits as a source of capital, under supervision by the Central Bank or Bank of Uganda (BoU). Some of the regulated commercial banks in Tier 1 and non-bank financial institutions in Tier 2 also have a microfinance orientation or programmes oriented toward poor and rural households. A policy paper submitted to the Cabinet in 2012 sought to introduce new legislation to establish a regulatory framework covering the wide range of informal financial institutions in Tier 4.

11. Uganda has a high rate of financial inclusion, mainly through informal mechanisms. Due in part to substantial support from government and donor programmes, it has the highest rate of financial inclusion (70%, of which 42% contributed by informal institutions) outside South Africa, among 12 countries assessed by FinScope studies of the percentage of the population accessing different types of financial services. Despite substantial attention to MDIs and Savings and Credit Cooperatives (SACCOs), however, these 'other formal' financial institutions reach only 7% of the population in addition to the 21% who have bank accounts. Informal mechanisms are especially important in rural areas where only 15% are 'banked,' yet only 31% fully 'excluded' from financial services.

12. The policy stance has fluctuated between demand-driven covering a variety of financial institutions and supply-driven focusing on a particular category. The general policy stance in the early 2000s and at present is for the government to establish a sound regulatory framework combined with capacity-building programmes to facilitate outreach and sustainability. But periodically, especially toward election years, political emphasis tends to be placed on a subsidized, credit-led approach. While this has helped to capitalize some newly-created SACCOs, it has also fostered poor governance and repayment in others, and will be particularly unsuited to savings-based, member-operated community savings and credit groups (CSCGs).

13. Uganda has a range of institutions oriented toward supporting rural financial services. At the government level, the Department of Cooperatives together with District Commercial Officers are responsible for overseeing compliance of SACCOs with the basic requirements of an annual audit and general meeting. Three apex organizations have SACCO members and offer various training and mentoring services to them. Specialized training and access to concessional lines of credit are offered by two government-owned institutions. The industry is also serviced by a variety of private training organizations, consulting and accounting firms, and individual trainers and auditors. Donor support for rural finance is resuming, with particular emphasis on developing and applying new technologies and methodologies, including through a challenge fund. A number of both international and local NGOs have gained substantial experience in the establishment and operation of CSCGs that can provide basic savings and loan services on self-sustaining basis at the community level. Technology companies are partnering with commercial financial institutions to introduce lower-cost ways of reaching rural clients with small transactions.

Evolution of policies toward microfinance and financial inclusion

14. **1990s: Subsidized credit.** The advent of microfinance as a worldwide phenomenon in the 1990s was manifested in Uganda in two principal ways: (i) government credit programmes, including the 'Entandikwa' scheme of President Museveni to make cheap loans available for starting small businesses, and the Poverty Alleviation Project (PAP) under the Office of the Prime Minister and funded by the African Development Bank (AfDB) to make subsidized wholesale funds available to

NGOs and development organizations for on-lending; and (ii) the establishment and growth of several NGOs focused on microcredit, introducing international good practice methodologies in microfinance (FINCA, Uganda Women's Finance Trust, PRIDE, Uganda Microfinance Union). The latter began lobbying the government for legislation that will enable them to take and intermediate savings as a source of funds.

15. **1998-2006: regulatory environment and market development approach.** A key workshop took place in 1998 which focused on three main strategic themes: financial apex; regulatory framework; and capacity building. The overall strategic outcome was a shift away from direct government intervention toward creating a conducive policy, legal and regulatory framework. That policy shift was supported by the World Bank and others through Poverty Reduction Support Credits (PRSCs), and several development partners established programmes to strengthen the capacity of microfinance institutions, coordinated through a Microfinance Forum (MFF) chaired by the Ministry of Finance and Economic Planning (MFPED). By 2000, the European Union, United States Agency for International Development (USAID), British Department for International Development (DfID), and German Technical Cooperation (GTZ) all had major projects with a resident international technical expert. Danida and Sweden also supported rural finance and SACCOs. IFAD sent a Diagnostic Mission in 2001 in response to the government's request.

16. Financial apex. The poor recovery performance of the government-directed Entandikwa programme, as well as by many PAP-supported NGOs, led to interest in a more sustainable, market-based solution. PAP began raising its standards for recovery and financial performance to access further loans, and the AfDB's next phase – the Rural Microfinance Support Project – set up a semi-autonomous wholesaling agency, which eventually became the Microfinance Support Centre (MSC) Ltd. Under the multi-donor-supported PRSC3, the government agreed to a target for March 2003 of 'no direct government credit programmes (re)established.'

17. Regulatory framework. The Workshop discussions and cooperation by BoU resulted in a PRSC2 target for March 2002 that 'MFPED tables Microfinance Deposit-taking Institutions Bill in Parliament that enables licensing of microfinance institutions.' Uganda was one of the first countries to facilitate the transition of NGO MFIs to licensed status under the MDI Act, which was gazetted in 2003 and four MDIs licensed in 2004-5. Although the result was strong growth of those MDIs, establishment of new branches in rural areas did not materialize at the expected pace, due in part to strict enforcement by BoU of branching requirements on the same terms as for commercial banks.

18. Capacity building. Under a broad consensus that the priority to extend financial services to rural areas and the poor was to build the capacities of all types of rural and micro finance institutions and provide incentives for locating in rural areas, all donor-supported programmes emphasized or included capacity building. Partly in response to the threat of election-year resumption of direct government credit, the MFF developed a Microfinance Outreach Plan (MOP) in 2002, including the creation of Financial Extension Workers (FEWs) to reach into underserved areas, a Uganda Capacity-Building Framework, and a subsidy fund for remote rural outreach. The RFSP (approved in 2003) embodied many of the measures proposed in the MOP, providing demand-driven capacity-building support to MFIs meeting specified minimum performance criteria – although delays in effectiveness (2004) and the need to contract an agency (2005) to manage capacity-building funds (in lieu of passing them through other donor programmes, as originally envisaged) meant that approvals for funding did not really materialize until 2006.

19. **2006-12: Focus on SACCO creation and subsidization.** A return to more direct government intervention arose in 2006 through a combination of: disillusionment by some politicians due to the slow pace of entry of MFIs into their rural constituencies; the failure of MFPED to prepare legislation for Tier 4 (as mandated when Parliament passed the MDI Act); the orientation of the new Minister of Finance and State Minister for Microfinance toward government intervention and cooperatives; political concerns about high interest rates (especially of MFIs) and, no doubt, the forthcoming election; and the end of the time frame of the original MOP.

20. The government did not renew the contracts of the two firms hired to implement RFSP's Business Culture Fund and Microfinance Capacity-building Fund, stopped the hiring of new FEWs, and launched the Rural Financial Services Strategy, which concentrated all government support for microfinance through SACCOs, with the stated intention to establish a SACCO in every sub-county (then numbering 970 [subsequently increased to 1089], of which 589 had no SACCO). Although the government expected that it will be able to redirect the funds of all the donor-supported microfinance

programmes accordingly, in practice the existing programmes of the European Union, USAID, and DfID were allowed to lapse with no follow-on for microfinance, and Danida cancelled its planned contribution to MCAP. IFAD and the World Bank (as Cooperating Agency) renegotiated the implementation of RFSP with government to focus on outreach and capacity-building of those SACCOs (264 identified) that met prevailing RFSP objectives and criteria and were also consistent with the government's focus on one 'Lead SACCO' in each sub-county.

21. The government also returned to its emphasis on channelling credit (especially leading up to the 2011 election), putting pressure on MSC to lower its standards and introduce an interest-free 'start-up loan' for SACCOs that did not meet its criterion of two years of operation. It also stepped up consultations to try to reach a consensus on how to regulate SACCOs and other Tier 4 MFIs, which became increasingly important in the wake of growing collapses and fraud in various SACCOs and MFIs that were set up in expectation of money becoming readily available. This eventually resulted in a draft Policy Paper which was reviewed by Cabinet in 2011 and is awaiting revision to address its comments.

22. 2012-forward. During 2012, MFPED and BoU renewed efforts to bring about reforms in the legal and regulatory environment. The Cabinet Paper on Tier 4 regulation was revised to respond to Cabinet queries and resubmitted and the Policy Paper is being finalized. A Cabinet paper is also under consideration on support for CSCGs. BoU is leading a consultative process to develop a national strategy on financial inclusion and a policy for financial literacy. Analysis of and increased emphasis on sustainability by RFSP over the last two years has been well received by government as a basis for moving forward. While these are works in progress whose fruits remain to be seen, prospects are better than they have been in six years for the government to return to a primary emphasis on setting the policy and regulatory framework and encouraging market-based capacity-building and financial literacy approaches to enhancing access to financial services by rural, poor households.

23. BoU is also in the process of preparing two changes in the legal and regulatory framework. Agreement has been reached in principle to amend the MDI Act to allow the largest SACCOs to become licensed and supervised by BoU as MDIs (Tier 3). And both the MDI Act and the Financial Institutions Act to permit agency banking, once Cabinet approval has been obtained.

24. In the meantime, BoU has maintained a flexible and supportive attitude towards innovations applying information and communications technology (ICT) to develop convenient financial products that take 'branchless banking' well beyond the limits of automated teller machines. In particular, it has allowed mobile network operators to offer money transfers over mobile funds, in collaboration with commercial banks to handle the financial aspects. These 'mobile money' products can also, in effect, allow rural residents to save money onto their mobile phone accounts and withdraw the funds at a later time. Other companies have developed point-of-sale devices that allow rural residents to open and operate bank accounts, even without being literate or possessing a mobile phone. By reviewing and allowing such products on a no objection basis, BoU has been gaining experience to inform the drafting of the amendments and regulations to establish a transparent, conducive framework for such innovations to continue in ways that are expected to enhance rural access to financial services.

Current status and oversight of microfinance institutions

25. **Four tiers of MFIs: outreach.** Table 1 shows estimates of the approximate number of people served by microfinance institutions (MFIs) in Uganda's different tiers by type of registration and regulation. About 2 million Ugandans (leaving aside possible double-counting) have accounts with formal institutions licensed and supervised by BoU under the Financial Institutions Act 2004 (Tiers 1 and 2) and the MDI Act 2002 (Tier 3). Some 2.6 million more are clients of financial institutions that are registered under the Cooperatives Societies Status 1991 or the Companies Act 1961 (whether limited by shares or guarantee), or are part of a project implemented by an NGO that is so registered (Tiers 3.a, b and c in Table 1). If FinScope data are correct, as many as 9 million other Ugandans participate in some other type of local, informal finance, ranging from moneylenders to rotating savings and credit associations. The latter, as well as the 30% of the population that is 'financially excluded,' constitute a substantial potential market for more organized and better regulated financial services.

Table 1: Estimates of Outreach of Microfinance Institutions by Tier, 2012

Tier and Type	Number	Depositors/ Members	Micro-borrowers
Tier 1, Commercial banks	2 (Centenary Bank, Equity Bank)	1,200,000	84,000
Tier 2, Credit institutions	2 (Post Bank, Opportunity Bank)	300,000	158,000
Tier 3, MDIs	4 (PRIDE, FINCA, Uganda Finance Trust, UGAFODE)	470,000	155,000
Tier 4a. SACCOs ^{a/}	2090	1,050,000	320,000
Tier 4b. MFIs ^{b/}	~ 180	n.a.	800,000
Tier 4c. VSLAs ^{c/}	30,000	750,000	n.a.
Tier 4d. Other informal ^{d/}	n.a.	9,000,000	n.a.

Source: German Development Institute, "Assessing the Sustainability of Savings and Credit Cooperatives (SACCOs) in Uganda, August 2011

Uganda Bureau of Statistics (UBOS), "Report on Census of Micro Finance Institutions in Uganda", 2010

AMFIU, "The Uganda Microfinance Directory 2011/12", 2012

UCSCU, "Summary of SACCO Status by Region as at 31st December, 2010"

IFAD, "Identification Report on Investment Opportunities for IFAD in Rural Finance Sector," June-July 2012

Private Sector Competitiveness Project, 2009, "Results of a National Survey on Demand, Usage and Access to Financial Services in Uganda: 'FinScope Uganda 2009' Final Report," Uganda Insurers Association. ("FinScope 2009").

Notes:

^{a/} UBOS Census records 2063 SACCOs with 664, 346 members; but DIE reports MTTI data indicating "around 3000 registered SACCOs with approximately 2 million members, of which 30% are borrowers." The data shown here are from UCSCU's 2010 Summary (similar to the UBOS numbers), representing active SACCOs.

^{b/} Registered as company limited by guarantee (NGO) or shares.

^{c/} Village Savings and Loan Association using standardized methodology of CARE, PLAN or other NGO engaged in facilitating formation of VSLAs.

^{d/} Based on FINSCOPE 2009 finding that 61% of the population 16 and over engaged in informal financial services.

26. Only the larger well established SACCOs that qualify for Tier 4 fall under any regulatory regime, and that only in terms of the requirements for registration and operation under the Cooperatives Societies Statute. The latter has no separate provisions for SACCOs, though the Department of Cooperatives has for some time tried to propose new legislation explicitly recognizing them as financial cooperatives. Besides the requirements for registration (including by-laws and paid-up membership – normally at least 300 for SACCOs), all cooperatives are required to have an annual audit and annual general meeting (AGM) to fulfil the transparency and good governance principles of member-based cooperatives. Since SACCOs handle money and poor management and oversight by Boards have adverse consequences for members' savings, the audit and AGM requirements are especially important.

27. Nevertheless, the Department of Cooperatives in the Ministry of Trade, Industry and Cooperatives (MTIC) has little budget to facilitate monitoring and enforcement of these requirements. This limited capacity means that SACCOs are rarely liquidated and deregistered, resulting in widely varying estimates as to how many SACCOs (among the 5 000 or so cumulatively registered) are actually operational. Another constraint is that the District Commercial Officers (DCOs) are the designated representatives of the Commissioner of Cooperatives when issues arise at the local level, and to carry out the mandate to audit Cooperatives that cannot afford private auditors; but they fall administratively under the local districts (hence the Ministry of Local Government), and have little budget for this purpose.

28. While the proposed new legislation for Tier 4 is expected to bring greater clarity in terms of the principles for regulation of Tier 4 institutions, and in particular the role of the proposed Microfinance Regulatory Authority, it will possibly be several years before new mechanisms are put in place and operational. The extent to which it can effectively conduct external supervision of Tier 4 MFIs will be limited by the budget available, which in turn may depend heavily on the availability of donor funds.

29. Hence it appears likely that the current regulatory regime for SACCOs will prevail for some time to come and may well continue for SACCOs at the lower end of the spectrum that fall below the size for direct supervision by the proposed new regulatory authority (or BoU). In an effort to improve the Registry of SACCOs and oversight by the Commissioner of Cooperatives, the Rural Financial Services Programme (RFSP) entered into partnership with MTIC to computerize the Registry and facilitate enforcement of the basic requirements. The Department of Cooperatives has increased its number of staff to 18, and hence its capacity to carry out its mandate; however, its effectiveness will depend on whether it has adequate operational budget. It has been undertaking a field survey of SACCOs to determine their actual status (including whether operating or dormant), as a basis for making accurate entries into the computerized Registry.

30. It can be anticipated that implementation of the proposed Tier 4 legislation will require formal licensing of other MFIs currently registered as companies limited by guarantee or by shares, perhaps with differential requirements depending on whether they take savings from the public or provide 'credit only' from externally sourced funds (with savings only insofar as mandated as security to be held against loans).

31. To date, there has been no explicit discussion of how CSCGs might be covered under the proposed Tier 4 legislation. Many of them have been promoted by registered NGOs following a specified methodology and hence have some oversight by their sponsors, at least for the first few years. But at present there is no continuing oversight once they have been weaned, and there are many more 'spontaneous' CSCGs that have formed on their own and adopted or adapted some variation of the standard VSLA methodology.

Support institutions for SACCOs, MFIs and CSCGs

32. This section reviews the major support institutions and programmes relevant to rural finance (especially SACCOs), apart from the government ministries and BoU already discussed above under the policy and regulatory frameworks.

33. **Apex organizations.** *Uganda Cooperative Alliance (UCA)*. UCA is the umbrella organization for all cooperatives in the country, including unions of cooperatives in specific sectors (such as UCSCU). Since the late 1990s, UCA has received support from various donors to implement a methodology of sensitizing communities on community-based savings and credit, starting a SACCO, providing operational support for a limited period on a declining basis, introducing good practices and record-keeping, and monitoring them. This was the model that was adopted under RFSP. However, UCA was sidelined from major support under the GoU's SACCO focus since the mid-2000s, with some tension as to the appropriate roles of UCA and UCSCU with respect to SACCOs.

34. UCA has nine regional offices, with 49 of 69 staff in the regions. Its key activities include general cooperative advocacy, mobilisation of communities for cooperative activities, assisting them in registration, providing them with management support, and helping to form regional SACCO unions. UCA today operates with an annual budget of around USD 150 000. Its main sources of income are rents from its properties, sales of stationary and membership fees. Recently, it was brought in as a RFSP partner to facilitate regional unions of SACCOs, as a step towards establishing examples of consolidation that might set the stage for future mergers and measures to streamline the SACCO system.

35. In 2008, UCA also established the Uganda Central Cooperative Financing Agency, which collects share capital and fixed deposits from its 194 member cooperatives, most of them SACCOs. Today it has a share capital of UGX 770 million and deposits of UGX 1.3 billion. From these sources it has developed a portfolio of UGX 1.7 billion (USD 710 000), consisting of loans at 13% p.a. to its member cooperatives. While still a relatively new organisation, it is approaching operational sustainability. Results of the recent evaluation of the Central Financing Agency indicated good management performance, a low portfolio at risk (PAR) at 4.6%, and good prospects for its future lending operations, particularly if it manages to increase its lending capital and through that, its portfolio volume.

36. *Uganda Cooperative Savings and Credit Union (UCSCU)*. Prior to the government's intervention in the mid-2000s, UCSCU was a small, 7-staff organisation with 46 members, serving mainly urban, employment-based SACCOs. Previous attempts by USAID and the World Council of Credit Unions to work with it were ended due to a lack of commitment and effectiveness, and tangible results. The government decision to make UCSCU the lead implementing agency for its Rural

Financial Services required rapid scaling-up of the institution in the first six months of 2008, with major new Head Office responsibilities and the establishment of eight (later fifteen) regional offices. Initially, staffing up and implementation were to be undertaken jointly with the RFSP Programme Administration Unit to support 264 SACCOs, but the government subsequently added considerable budget for UCSCU to support a total of 735 SACCOs. Consequently, the staff of UCSCU increased to its current 120. These extremely rapid increases in staffing, budgets, responsibilities and expectations have put many strains on UCSCU. Tensions arose between management and the Board, which were finally resolved with the election of a new Board in 2010 and changes in management in 2011.

37. As a result of its primary role in implementing RFSP, approximately 95% of UCSCU's current income consists of government and RFSP grants. UCSCU's own income generation is very low, less than USD 150 000 per year, from which only limited types of activities can be financed. Only in 2012 has UCSCU management and Board begun addressing the challenges that will happen when the RFSP/government support ends in mid-2013. Clearly, UCSCU has to reposition itself and build up its core revenue-generating activities, after seeking information on the potential for government's direct future support. The current draft of UCSCU's Strategic Plan is a step in this direction, but needs continued elaboration on how to transform the activities of UCSCU to reflect its future financial resources and on options to close the financial gap between expected revenues and even a smaller, restructured organization.

38. Association of Microfinance Institutions in Uganda (AMFIU). AMFIU is the umbrella organization for all microfinance operators in Uganda, with a focus on capacity-building, information exchange and monitoring, as well as on microfinance advocacy. It currently has around 90 members, consisting of commercial banks, credit institutions, SACCOs, MDIs and credit-only MFIs. It operates with an annual operational budget of USD 800 000, funded mainly with grants from various donors (CORDAID, NAD, Mission/CRS, Citi Foundation and Ford Foundation), plus a Technical Advisor from the GIZ Financial System Development programme. It has recently been engaged as a RFSP partner to provide training and technical support in implementing the Performance Monitoring Tool, a methodology for entering and utilizing data to track microfinance performance that was developed by the Microfinance Information Exchange (MIX) for the international Microbanking Bulletin, and which is the preferred reporting system for donors supporting MFIs in Uganda. It has also been involved in financial literacy and consumer education programmes. Its experience covers the operations of both the SACCOs and NGO-based MFIs. It has ten professional staff, supplemented by contracted associate trainers.

39. Uganda Institute of Banking and Financial Services (UIBFS). Owned by the Uganda Bankers Association, UIBFS offers both standard professional courses in financial sector operations as well as shorter courses, tailor made to suit the needs of the client organisations. It operates with 16 permanent staff and a large group of associate trainers, many of whom are well experienced practitioners in the financial sector. While its focus has been on commercial banks, it is interested in further expanding into institutional capacity building of the Tiers 3 and 4 institutions, and is willing to design its courses to reflect the expected changes in regulatory practices in these Tiers.

40. *Private Sector Foundation Uganda (PSFU)*. PSFU is the apex organisation of the private sector institutions in Uganda. Its membership of 110 associations represents different sub-sectors of the economy and society, and includes the Bankers Association of Uganda. Its main tasks are linked to policy and advocacy issues related to the operations of the private sector in the country. It has acted as an implementing agency for various donor-supported interventions in the microfinance and small and medium enterprise (SME) sectors. It has managed various matching grant programmes, mainly for small and medium enterprises, under the Business Uganda Development Scheme (BUDS). It has partnered with DfID in various agricultural sector operations. It works with the VSLAs through the Village Health Teams, sponsored by a Dutch NGO, has implemented a financial literacy programme with the Centenary Bank and the Agribusiness Initiative Trust (aBi), and has partnered with Heifer International in SACCO operations in the dairy sector. On a larger scale, it has been the implementing agency for the recently closed financial sector component of the World Bank's Private Sector Competitiveness Project II, and has just been selected to implement the USD 13 million Financial Sector Deepening Component of the World Bank's new Competitiveness and Enterprise Development Project. PSFU expects to expand its operations of this type in the implementation of the development programmes of key international donor organisations.

41. **Government-owned agencies.** *Microfinance Support Centre Ltd (MSC)*. The MSC originally operated as a project of the African Development Bank (AfDB), but in 2001 was organised into a

100% government-owned support facility, mainly offering wholesale financing services to MFIs and SACCOs, with complementary capacity-building. Most of the funding for MSC has come from the on-going Rural Finance and Income Enhancement Project of the AfDB and the Islamic Development Bank, the rest as direct budget transfers from the government. Since the mid-2000s and in support of the government's Rural Financial Services Strategy, MSC has been actively used as a channel to provide external funding to the SACCOs, including for start-up SACCOs that will not have met its normal criterion of at least two years of operation. Its loan portfolio and management were adversely affected, resulting in suspension of AfDB disbursement, and it underwent changes in governance, Board and management in 2012 to address these issues. Of its total portfolio of USD 21 million, loans to SACCOs and some MFIs today cover 65%. The remaining 35% consists of direct loans by MSC to small and medium enterprises and other companies. MSC's interest rates are subsidised, ranging between 9% and 13%, but it does not attempt to set retail rates of its clients. With its income from the loans, MSC currently covers around 50% of its operational costs; the rest is paid directly by the government. It is seeking an increase in its wholesale rates to achieve self-sufficiency over the next two years.

42. MSC conducts its lending operations from 13 zonal offices. It has around 1 000 borrowers, which include some 300 SACCOs. Its current portfolio at risk (PAR) over one year is 4%, but 17% PAR over 30 days, with SACCO loans (especially for start-ups) reported to be the worst segment. The MSC management relates its problems in loan recovery from SACCOs to multiple reasons: (i) very limited loan management and follow-up skills in many SACCOs; (ii) poor governance and culture in many SACCOs, leading to large-scale insider lending favouring the SACCO management, especially when operating with the MSC funds; (iii) politicized establishment of new SACCOs, leading to a perception of 'free public money'; (iv) pressure on MSC to issue loans to very weak SACCOs; and (v) limited capacity to supervise loans. The current policy of MSC is to continue serving the SACCOs but with a much more selective approach, focusing on those institutions that are properly managed. This approach is fully in line with the SACCO support approach planned for PROFIRA. Nevertheless, the current AfDB funds are expected to be fully committed in 2013, and its operations may then be constrained mainly to recycling recovered funds.

43. *Uganda Cooperative College Kigumba (UCCK)*. Established in 1954, UCCK has traditionally been the main training service provider for the cooperative sector, with the training of SACCO managers and staff one of its key functions. It annually provides a 9 month Certificate Course in SACCO and Microfinance Management (fee around USD 700). It also offers a 15 month Diploma Course in SACCO and Microfinance Management (fee around USD 1 000). In addition, it offers tailor-made courses on specific subjects for those larger SACCOs that demand such services. It is fully owned by the government and operates from its own training centre with 15 professional staff. Of its operational costs (excluding staff salaries which are paid fully by the government), the income from course fees currently covers 66%.

44. UCCK was brought into RFSP as a partner to provide tailored training to staff of UCSCU and DCOs, as well as to SACCO Board members and management, with mutually satisfactory results. It is well placed to continue offering tailored courses to support SACCO capacity building on a competitive basis, both to SACCOs being supported under a new project and to others willing to pay the costs, which are kept relatively low by using its facilities. One of the key pillars of its new Strategic Plan is the establishment of a research and consultancy centre. With this facility, UCCK aims to develop its capacity to offer top quality capacity building services for those cooperatives, especially SACCOs, that are willing and able to pay for these services.

45. *NGOs and VSLAs*. *International NGOs*. A number of international NGOs have been active in promoting rural finance in Uganda, in particular using the Village Savings and Loan Association (VSLA) model, a type of community-based savings and credit group (CSCG) that has developed a standardized methodology (see Working Paper 3). Most of these use a variation of the VSLA model developed by CARE, including Plan International. Other international organizations with programmes in Uganda to facilitate communities to establish and operate savings and loan groups include Catholic Relief Services, Oxfam and Stromme Foundation.

46. *Local NGOs*. The international NGOs frequently work with local NGOs which they contract to implement their programmes. A number of regional organizations grew out of the former Private Sector Promotion Centres of a United Nations Development Programme project, including the South Eastern Private Sector Promotion Centre Ltd (SEPSEL) and the West Nile Private Sector Development Promotion Centre Ltd (WENIPS). These were involved in development of the VSLA

model in the mid-2000s, supported in part by the DfID Financial Sector Deepening Uganda project, and continue to implement the model on behalf of other donors and international agencies. Other local NGOs that are capable of partnering with international NGOs and programmes to develop VSLAs include the Uganda Women's Effort to Save Orphans (UWESO).

47. **Private trainers, auditors and service providers.** In the development of the capacities of banks, MDIs, SACCOs and MFIs, Uganda has a relatively well developed private sector training market. Services to financial institutions are provided by various training companies and institutions as well as by individual consultants trained in financial sector operations. Many Tier 4 institutions, including SACCOs, already use private service providers instead of turning to their apex institutions for training assistance.

48. Uganda also has a well-developed accounting and auditing sector, including certification of auditors. However, the leading firms are oriented primarily toward commercial banking and larger enterprises, with costs beyond the reach of most SACCOs. In many cases, SACCOs are able to use the more affordable services of accounting firms and auditors based in the regions. However, there is a need to develop the skills of local auditors specifically to audit SACCOs, and to find more cost-effective ways of having timely, professional audits of SACCOs throughout the country.

49. **Donor programmes. aBi Trust.** The Agribusiness Initiative Trust provides challenge grants, loan guarantees and lines of credit to agricultural value chains and the financial sector. It was financed originally by DANIDA, as a means of establishing an on-going organization that could sustain activities beyond project lifetimes. It now manages funds on behalf of USAID, European Union, Sweden, Belgium and The Netherlands, with an endowment of USD 30 million and USD 60 million in programme funds. It charges 2% on the former and 7% on the latter. Credit lines are given today in local currency at 15% interest rate. In 2010/11, a total of 5 481 agricultural loans were issued from the aBi credit lines, and 22 612 loans were issued with the aBi credit guarantee. Participating financial institutions included Opportunity Bank, Pearl Microfinance, PRIDE and UGAFODE. The plan for 2012 includes financing for another 28 000 agricultural loans. Today, both the guarantee and credit line windows have substantial unused balances to expand their operations in agricultural finance.

50. In its next planning phase 2014-2018, the aim is to make the aBi Trust a bigger, more permanent multi-donor development instrument. DANIDA has already allocated another USD 50 million to expand its operations, and USAID has recently allocated the Trust USD 22 million as basket funding. The plan is to increase the total fund volume to over USD 200 million. On the financial services side, both the already well-capitalised guarantee scheme and the credit line window will receive more capital and are likely to interact with a larger number of banks and MFIs. New interventions include investments in a new agricultural equity fund and the possible introduction of agricultural bonds and an SME incubator. The credit line and guarantee fund needs of agro-lending appear adequately catered for by the grant-funded, well-capitalised aBi Trust, at least in the near future.

51. **GIZ.** GIZ has been an important donor in the financial sector of Uganda since 1998. Its core Financial System Programme (FSP), housed in BoU, is the fifth phase, covering the years 2011-2014 with a budget of EUR 6 million. It has three components. Component 1, Enabling Environment for the Financial Sector, covers support to: (i) the establishment of the credit reference bureau, (ii) the regulation of mobile banking and new outreach instruments such as agencies, (iii) the regulation of Tier 4 operators, (iv) the revision of the MDI Act and (v) the deposit protection fund for MDIs. Consultancies cover a major share of the Component 1 budget. Setting up of the credit reference bureau has been slow, and it will only be accessible to institutions licensed by BoU. Component 2, Access to Agricultural and Rural Finance, covers such assistance instruments as the publication of the annual Agricultural Finance Yearbook. The major part of the component is, however, implemented by SwissContact and covers support to five SACCOs in Lira District. SwissContact has found implementation of this component challenging, as the supported SACCOs tend to suffer from political interference, insider lending, very low repayment rates (20%-30%), and dormancy of some SACCOs. Component 3 is the Financial Literacy and Consumer Protection, supporting the preparation, management and coordination by BoU of a new National Strategy on Financial Inclusion, with its four pillars of financial literacy, innovation, consumer protection and data measurement. Plans for a sixth phase to continue the current operational areas beyond 2014 are underway, including activities for regulation of Tiers 3 and 4, financial inclusion and agro-finance.

52. *United States Agency for International Development.* USAID is another long-term partner in rural finance development in Uganda. Currently, its key support is in the form of direct loan portfolio guarantee facilities to stimulate competition among local commercial and microfinance banks to enter the agricultural finance sector. It has guarantee facilities open with three banks, lasting until mid-2014: Bank of Africa (USD 6 million), Centenary Bank (USD 6 million) and Opportunity Bank (USD 3 million). The plan is to transfer these guarantees to the aBi Trust guarantee funds. USAID also works on a USD 5 million Partnership Investment Development Fund, which supports new ideas to develop rural and microfinance in a manner that can be replicated elsewhere.

53. *The World Bank.* The World Bank has recently closed its Private Sector Competitiveness Project II, which included a financial sector component of USD 4.3 million implemented by PSFU. It established a credit reference bureau for banks and MDIs, provided capacity building support for selected MFIs, conducted the Finscope II Study and supported financial literacy efforts. Its next intervention in the financial market is just starting, as part of a 5-year, USD 50 million Competitiveness and Enterprise Development Project. The budget of its Financial Sector Deepening Component is USD 13 million, of which USD 8 million is for the further development of the warehouse receipt system, particularly to be used as an instrument to access bank and microfinance credit. The other part of the project (USD 5 million) will be used to support the implementation of the BoU's new National Strategy of Financial Inclusion and its four pillars (see above under GIZ). The Financial Sector Deepening component is to be implemented again by the PSFU.

54. *European Union (EU).* The EU was one of the first donors to establish a programme of support for microfinance at the end of the 1990s, focusing on capacity building. However, it did not renew such programmes following the government's shift to supply-driven promotion of SACCOs in 2006. Its present emphasis is on establishing a Small and Medium Agribusiness Development Fund (SMADF) for equity investment in agricultural value chain businesses. The initial fund size has been confirmed at EUR 30 million. Commitment size per client company is expected to be from EUR 250 000 to EUR 2 million. The investment period is likely to average five years, with holding periods ranging from three to eight years. The fund will be managed by an experienced fund manager, probably based in Kampala to be able to effectively reach the client companies. The EU reports that the planned EUR 30 million investment capital has already been identified from investors to complement the EU contribution of EUR 10 million for capital and EUR 5 million for related technical assistance (TA) to clients.

55. *Department for International Development (DfID).* DfID is a key player in practically all the East African rural finance markets with its Financial Sector Deepening Programmes. In Uganda, its operations in this sector were discontinued due to the GoU's new policy orientation in 2006. Presently, however, DfID has set aside £ 17 million to finance the Uganda Financial Services Inclusion Programme, to be implemented in the period 2013-2017. The concept paper for the project has been approved, and competitive recruitment for a consultancy firm that will both design and implement the programme is underway. The actual contents and activities of the programme will be known only when the design process develops in 2013. Two key aspects to be included are: the use of technology to deliver services to the poor; and working through the SMEs on the demand side of the financial services. In addition, it will continue support for CARE to implement a VSLA project, with a special focus on vulnerable people who receive government grants. Furthermore, BRAC, a large MFI, will be supported to upgrade three of its rural branches, to be adequate for the planned transformation into a MDI. Similarly, Opportunity Bank will be given a grant to pilot with mobile technology to process loans directly in the field. Finally, and jointly with the World Bank, grants will be made available to include financial literacy courses in the curriculum of primary schools. The longer term target is to follow the Kenya and Tanzania model and establish a Financial Sector Deepening Trust.

56. *German Technical Support Agency (KfW).* KfW is currently completing the planning for a EUR 8 million Rural Challenge Fund under its Rural Finance Enhancement Programme. Activities are planned to be included in the aBi Trust operations as a separate window, with the responsibility for actual implementation to be given to an international consultancy company. The services offered are likely to include credit lines for financial institutions and partial grant-based support to new approaches in the financial sector. This relatively short-term fund is planned to operate in the 2012-2015 period, with potential for a one-year extension. In addition, it is considering support for strengthening of SACCOs, possibly through MFPED. This support is only at the concept stage, and could be developed in synergy with the design of PROFIRA.

57. Applications of Mobile Phone Technology. The high and growing penetration of mobile phones in Uganda, even into rural areas, makes it a fertile ground for applying information and communications technologies (ICT) to expanding access to financial services. Safaricom's dramatically successful M-Pesa service in neighbouring Kenya sets a clear example of the scope of penetration that could be possible. The dominant operator in the market is MTN with its Mobile Money product, developed based on and in partnership with the Kenyan M-Pesa. The system covers 2.5 million customer accounts and records on average some 12 500 transactions per day. The service network covers the whole country, operating through about 7 000 agencies, including a growing number of SACCOs. According to a recent study for the Bill and Melinda Gates Foundation, as many of 20% of Uganda's households already have at least one member who has used mobile money services to transfer funds (although only 9% to save money temporarily on the phone account for subsequent retrieval).¹⁹ Other mobile network operators (MNOs) such as AirTel and Warid are also introducing similar products. MTN also operates a Public Access programme (formerly Grameen Phone) to facilitate purchase of mobile phones in remote areas as an income-generating activity.

58. Partnerships between technology companies, including the MNOs, and financial institutions are rapidly increasing the range of products that are becoming available. In addition to the deposit and local money transfer products, other services offered through mobile phones include the payment of salaries, other bulk transfers, the payment of bills and, increasingly, international money transfers (used also for remittances). At present, while BoU is developing a formal regulatory framework that will cover finance-related products of MNOs as well as use of branchless and agency banking methodologies by financial institutions, products must be based on such explicit, contractual partnerships. For example, M-Cash has developed a point-of-sale device that enables rural, illiterate residents to open and operate a formal bank account, based on thumbprint recognition technology. Such technologies make it possible to greatly extend the reach of financial services without setting up brick-and-mortar branches.

59. These technologies can also be applied to enhance the business activities of SACCO and CSCG members. For example, Agrinet uses mobile phone technology to make price data readily available throughout the country. Grameen Foundation similarly uses smartphone technology for Community Knowledge Workers to enable their clients to access a wide range of information and advice. Continued development of such applications and linking them to financial services can enhance the extension services being provided in rural areas through the National Agriculture Advisory Services (NAADS).

60. It is clear that the technology companies, MNOs and larger financial institutions are being driven by competition to develop these products, and are adequately funded for that purpose. The challenge will be to adapt them so that rural financial institutions can participate as agents without getting pushed aside, and to make them relevant to the needs of their members and customers. Already, some of the apex organizations serving SACCOs and other MFIs are in discussions with technology companies to act as intermediaries for the adoption of these products. Hence it will be important to facilitate this process to ensure not only the means to adapt and apply new products, but also understanding by both rural financial institutions and their clients of the risks as well as benefits involved.

¹⁹ InterMedia, "Mobile Money in Uganda: Use, Barriers and Opportunities," Report for the Bill and Melinda Gates Foundation Financial Inclusion Tracker Projects, September 2012.

Attachments to Appendix 1

Attachment 1: Complementary donor initiatives and partnership potential

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Agency (country strategy)	Priority sectors and areas of focus	Complementarity/synergy potential
GIZ and KfW, Germany	<p>Key selected investment programmes relevant for IFAD:</p> <ul style="list-style-type: none"> • GIZ - Financial Systems Development Programme, TA support to BoU: <ul style="list-style-type: none"> ○ Phase I – Enabling environment for the financial sector (policy and regulatory framework), Support to SACCOs in Lira District, Financial literacy and consumer protection (BoU strategy for financial inclusion), EUR 6 M, 2011-14. ○ Phase II – still to be determined. • KfW - Rural Finance Enhancement Programme (2012-15): <ul style="list-style-type: none"> ○ Rural Challenge Fund, matching grants for financial institutions financing SMEs and farmers in rural areas, EUR 8 M; ○ Refinancing facility, credit line for onlending to farmers and agri-business, EUR 6 M. 	<ul style="list-style-type: none"> • High potential for partnership under PROFIRA (being discussed) for policy and regulatory aspects (Tier 4) as well as for implementation of financial literacy strategy at SACCO level. • GIZ is a member of the Task Force overseeing the design of PROFIRA • Members of the Private Sector WG (including microfinance). • Potential complementarity of KfW programme with EU SMADF (to be explored)
DfID, UK	<p>Key selected investment programmes relevant for IFAD:</p> <ul style="list-style-type: none"> • Uganda Financial Services Inclusion Programme, design on-going, implementation to start in 2014. 	<ul style="list-style-type: none"> • Discussions on-going on how to ensure synergies and complementarities of the new programme with PROFIRA – NB: DfID is a member of the Task Force overseeing the design of PROFIRA • Member of the Private Sector WG (including microfinance)
Bill and Melinda Gates Foundation	<ul style="list-style-type: none"> • Various support for use of mobile network technology to enhance provision of financial services (USD 7 M) and agricultural/market information (USD 8 M), in partnership with Grameen Foundation and MTN. • Support to Centenary Bank (through WB/AgriFin Project, USD 2 M) to increase its outreach to rural areas. 	<ul style="list-style-type: none"> • Potential complementarities with PROFIRA: access for SACCOs to mobile technology and partnership with Centenary Bank.

Appendix 2

Appendix 2: Poverty, targeting and gender

Poverty context and strategy

1. **Poverty and rural development context.** In 1997, the Government launched its Poverty Eradication Action Plan (PEAP) aimed at supporting rapid economic growth to reduce poverty. The PEAP, which provided the overall policy foundation for national development, was completed in 2008. The 2009 external evaluation of the PEAP concluded that reducing the national poverty headcount to 10% by 2017 is achievable, provided that GDP growth does not fall below 7% per annum, population growth is reduced, and inequality does not increase. The evaluation concluded that the main driver of economic growth has been private rather than public investment. The reduction in civil strife, establishment of a stable macroeconomic framework, fiscal prudence and market liberalization have provided the enabling environment for growth and development to take place. The National Development Plan (NDP) (2010-2015) is the successor of PEAP. This Plan recognizes agriculture as one of the key productive sectors driving the economy. The Government signed the Comprehensive Africa Agriculture Development Programme (CAADP) at the same time. This commits the government to the principle of agriculture-led growth as a main strategy; pursuit of a 6% average annual growth rate for the agricultural sector; and to increase the share of the national budget allocated to the agricultural sector to reach an eventual target of 10%. A new Agriculture Sector Development Strategy and Investment Plan (DSIP) (2010/11- 2014-15) was formulated in 2010. The DSIP is the foundation document for the CAADP Compact and will help move the sector towards achieving both the national and CAADP outcomes and targets. The overall objective is to promote food and nutrition security and household incomes through coordinated interventions to enhance productivity and value addition, provide employment opportunities, and promote domestic and international trade.

2. **Gender Strategy and Priorities.** The Government of Uganda recognizes the importance of women in key strategy and planning documents. The National Development Strategy and the DSIP both stress gender aspects of the strategy. NDP recognizes that the contribution to the socio-economic transformation of the country cannot take place without improving gender equality indicators. The NDP acknowledges that Uganda's development progress continues to be constrained by gender inequalities and social vulnerabilities. In the case of gender, Uganda's constitution guarantees equality between women and men, and has a number of affirmative action measures. Uganda is a signatory to various international commitments and has a Gender Policy that provides a framework for gender-responsive development. The DSIP acknowledges that if agriculture sector investments are carefully targeted, the gender benefit can be considerable, especially in developing commercial agriculture. A recent study by MFPED concluded that a one per cent improvement in productivity in agriculture in Uganda will not only disproportionately benefit women but also contribute an extra 0.4% growth to GDP.

3. **Strategies and Priorities for Youth.** In Uganda, "youths" are defined as males and females aged 18-30. With a population growth rate of 3.2% there is a very high proportion of young people for whom it is a challenge to find gainful employment especially in the rural areas. Moreover, 50% of the economically active youth are not engaged in income generating employment (paid employment or self-employment). Of these, 6% are looking for employment while the rest are employed as unpaid family workers. The most affected is the young female population (14-30 years) of which 70% are engaged in unpaid family work (Population and Housing Census, 2002). The NDP and DSIP both place strong emphasis on youth. The NDP considers investing in human resource development with a focus on health, education and skills development a key priority. The NDP is considering a wide range of programmes for youth including making the national education system globally competitive, skill development, funds for enterprise development and youth employment programmes. The DSIP also places strong emphasis on the youth and is prioritizing production and productivity gains among its core targets with the specific intention of helping create an improved environment for the employment of youth. A specific issue for the DSIP is that the capacity for involvement of young people in agriculture is quite limited. This is partly attributed to issues of access to, and control over, productive resources (land and capital), as well as limited knowledge and skills in modern farming techniques. A majority of youth is already engaged in small income-generating activities such as "*bodaboda*" riding (motorbike taxis), brick making, petty trade and service sector work and will be reluctant to persevere in agriculture. With the population growth rate likely to stay high for some time, however, it will become increasingly urgent that ways are found to engage with this untapped labour force. The

Government is taking active measures to deal with some of these issues through a broad range of opportunities for the youth.

Poverty characteristics

4. **Population.** The population of Uganda was estimated to be 34.1 million in 2012 based on projections made by the Uganda Bureau of Statistics.²⁰ In the last 20 years, population density has more than doubled to 141 persons/km. About 86% of the population currently lives in rural areas. However, urban population in Uganda has increased rapidly from less than 0.8 million persons in 1980 to 5.0 million persons in 2012, representing an increase of more than six times.²¹ This increase is mainly attributed to the creation of new urban administrative units, natural growth, demographic factors and rural-urban migration. The adult literacy rate is 73%, but one third of the labour force has only primary level education. The unskilled labour force is growing at about 3.7% per annum, and is currently absorbed as unpaid household workers in the subsistence agricultural sector. The proportion of children (under 18 years) increased from 51.4% in 1969 to 56.1% in 2002, which gives Uganda one of the highest dependency ratios in the world. HIV/AIDS adult prevalence rates are 7% and rising.

5. **Poverty.** The proportion of the total urban and rural population living below the US\$ 1 per day poverty line declined from 31.1% to 24.5% between 2005/06 and 2009/10 according to the Uganda National Household Survey (UNHS) data. This represents a 6.6% decrease in the proportion of people living in absolute poverty. While the proportion of people living in poverty significantly declined, the reduction in the number of poor persons – in absolute terms – was not significant and inequality of income increased. Based on the 2009/10 survey data, it was estimated that about 8.3 million Ugandans were poor. Another 13 million can be described as low-income insecure and vulnerable people who face the risk of falling into absolute poverty.

6. **Rural poverty.** A significant decline in poverty levels was observed in both rural and urban areas between UNHS 2005/06 and UNHS 2009/10. Nevertheless, the incidence of poverty remains higher in rural areas (27.2 percent) than in urban areas (9.1 percent). In 2009/10, 95% of total poor people lived in rural areas. While rural poverty levels have declined in all regions, they continue to be the highest in the Northern Region (65 percent) and the Eastern Region (40 percent). Table 1 shows the incidence of rural poverty and number of poor and the share of population in the lowest wealth quintile by sub-region.

Table 1 – Rural poverty indicators by sub-region

Sub-region (DHS)	Location (Region)	Poverty incidence	Poverty headcount	Share of population in lowest wealth quintile
Karamoja	North	88%	767,414	79%
Acholi/Lango		61%	1,382,470	41%
West Nile		58%	985,943	41%
Eastern	East	40%	1,309,951	33%
East Central	East & Central	36%	943,085	12%
Central 1	Central	19%	532,208	6%
Central 2		24%	494,218	10%
Western	West	20%	466,922	14%
Southwest		18%	577,721	6%

Source: Demographic and Household Survey, WRI, 2011

7. **Millennium Development Goals (MDGs).** Uganda has already achieved its 2015 target of halving the proportion of the population living on less than one dollar a day, from 53% in 1993 to 24.5% in 2011. However, worsening distribution of income and high population growth may reverse this trend if not dealt with appropriately. There is progress towards achieving universal primary education, with about 84.9% of the children in school. While being on track for gender equality and

²⁰UBOS 2012.

²¹Ibid.

women's empowerment, progress is slower for reducing child mortality and improving maternal health. About one quarter of all girls become pregnant before age 19, the highest rate in Africa. Maternal mortality remains high, with young mothers accounting for about 50%. HIV/AIDS continues to spread while there is universal access to treatment; progress on other diseases is slow.

8. **Gender.** Gender equality in Uganda is slightly better than the Sub-Saharan average. The country's score under the Gender Inequality Index is 0.577, which places it in 116th place out of 146 countries.²² The gender gap in primary school enrolment has been narrowed to the current 49.9% for girls and 50.1% for boys. This brings Uganda close to attaining MDG 2 of achieving gender parity in primary education by 2015. However, only one third of the enrolled girls remain in school until age 18, rendering 50% of women functionally illiterate. Low education levels of women and lack of sufficient access to family planning services such as contraceptives are one of the contributing causes of the high fertility rate. Women's enterprises face substantially higher barriers to market entry although they are at least as productive and efficient as men's in terms of value added per worker. Although women are estimated to comprise about 70% of the labour force for agriculture, their access to formal services is much lower. Women are paid about 40% less than men. Nearly 60% of women have experienced some form of physical violence, and in more than 87% of cases, the perpetrator is a current or former husband or partner. The government has recently enacted several laws that attempt to protect the rights of women and secure their rights with regard to land ownership and at the work place. The government has also intensified action to address gender-based violence, which has resulted in the passing of specific laws on domestic violence. In the last two years, government has put in place social protection measures for vulnerable groups including older women to facilitate their access to basic services for health and food security. Other interventions include revolving funds and grants for rural women, adult literacy and business skills development.

9. **Causes of poverty and vulnerability.** Poverty and vulnerability in Uganda are caused by multiple factors. An analysis of the household characteristics between poor and non-poor households shows that the poor generally tend to have a larger household size, greater reliance on agriculture sector, and much lower access to non-farm income and credit. Poor Ugandans are severely affected by health-related shocks, and tend to focus on access to treatment, rather than the role of prevention. Only when parents have cash on hand, do they focus on preventive measures. About 20% of all Ugandans suffer from undernourishment, and HIV/AIDS is still a widespread disease, reducing productive potential and vulnerability. There is much greater inequality between female-headed households with orphans and other vulnerable children, households with members living with disabilities, and households in the north, compared to others. Overall, women head 27% of the chronically-poor households in rural areas. The probability of female-headed households being chronically poor or falling into chronic poverty is substantially higher than for male-headed households. In the face of shocks, poor households pull children out of school as a first strategy to cut expenditures, which leads to a high drop-out rate in rural areas.

Table 2: Household characteristics in Uganda by poverty status

Parameter	Poor households	Insecure non-poor	Middle class
Average household size	7.3	6.7	5.7
Median value of household assets)	US\$ 150	US\$ 300	US\$ 840
Proportion with subsistence agriculture as primary income source	57%	56%	28%
Proportion with a non-agricultural wage income	9%	18%	40%
Proportion operating at least one non-farm household enterprise	37%	35%	50%
Millions and per cent of population 1992/3	9.9 / 56%	5.8 / 33 %	1.8 / 10 %
Millions and per cent of population 2009/10	8.3 / 24.5%	13.2 / 43%	10 33 %

Source: *Poverty Status Report, MFPED 2012*

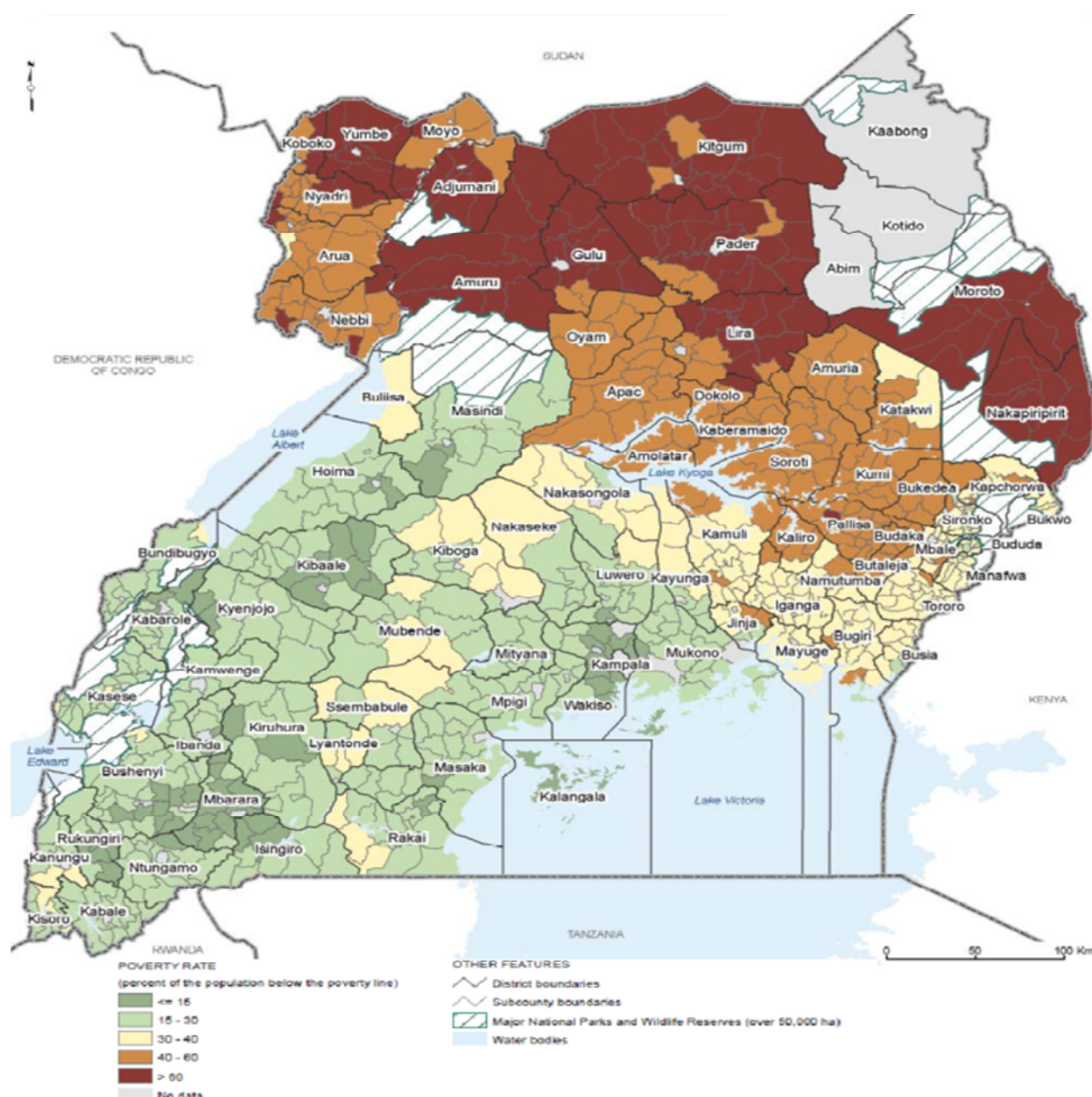
²²United Nations Development Programme 2011

10. The sources of vulnerability are mainly inherent to rain-fed smallholder agriculture – unpredictable weather, pest attacks, livestock epidemics and poor seed quality. Half of all households had suffered from extreme weather over the previous five years (mainly drought), while 17% experienced other agriculture-related shocks. Access to risk-coping mechanisms is inadequate. Of those affected by extreme weather, over half were forced to lower their consumption. Poor and insecure households are consistently more likely to report reduced consumption following a negative shock – reflecting a lack of access to other coping mechanisms such as use of savings, borrowing or support from friends or family.²³ The Uganda National Panel survey reveals a picture of relative stability among the middle class, but extreme volatility among the poor and those just above the poverty line.

11. **Regional inequalities.** The growth in the number of insecure non-poor has primarily happened in the rural areas. In addition, poverty entry and exit rates differ by location. In Kampala, all poor households surveyed in 2005/6 had escaped poverty in 2009/10. The risks of urban life are less than rural, and fewer households fall back into poverty. Poverty rates vary from 4% in Kampala to 76% in the North East. Poverty is greatest in the North where armed conflict has meant missing out on two decades of growth. The central region is dominated by the middle class; the east and west by the low-income insecure; the north by the poor. The dark colours in Figure 1 on the following page show the sub-counties with the highest per cent of the rural population below the poverty line. In the northern and eastern regions, 40% or more of the population live below the national poverty line. Using three measurements of poverty, namely the poverty rate, poverty density and the absolute number of poor, the poorest districts are also indicated.

²³Poverty Status Report, Economic Development Policy and Research Department, Ministry of Finance, Planning and Economic Development. May 2012.

Figure 1: percentage of rural sub-county population below the poverty line, 2005



12. **Structural constraints.** Inefficiencies in the markets for land, credit and other production inputs restrict both the rate and inclusiveness of the transformation process. The failure of public servants to deliver goods and services is widespread and Uganda scores low on the Transparency International corruption index. These challenges lead to inefficient use of resources and in-service delivery, presenting a barrier to economic growth. Coupled with rising inflation, falling purchasing power and increasing bank interest rates on loans, the ability for smallholders to purchase sufficient food and inputs of agricultural production, as well as their competitiveness on international markets, is threatened. Lack of market access, poor infrastructure and means of transportation are key obstacles to growth in rural areas, as smallholders do not have the possibility of selling their crops and tend to receive low farm gate prices. The northern regions are especially isolated from markets. For poor food insecure households this is a key constraining factor and keeps households trapped in poverty.

13. **Smallholder farmers.** Smallholder farmers are the prime target groups for the project as they represent the major part of the participants in savings and credit cooperatives (SACCOs) and

community savings and loan associations (CSLAs), which are the two main institutions supported by the project. Agriculture is dominated by smallholder farmers who occupy the majority of land and produce most of the crop and livestock products. It is estimated that over 85 per cent of Ugandan farmers are smallholders and can be described to have small plots of land which are becoming increasingly fragmented over time. Over 75 per cent of the total agricultural output is produced by smallholder farmers with farm sizes of, on average, about 2.5 ha or less. They produce mainly for home-consumption and use traditional technologies. Limited commercial and semi-commercial production also occurs. In areas with high population densities, smallholder farmers usually cultivate less than one hectare of land, which may increase in sparsely populated semi-arid areas, sometimes in combination with livestock of up to 10 animals. Most smallholder operations occur in farming systems with the family as the centre of planning, decision-making and implementation, operating within a network of relations at the community level²⁴. The farming systems are low input, especially in northern and eastern regions. Crop productivity in the farming systems is poor, soil fertility is poor, use of fertilizers is limited, rainfall is unpredictable and quality of seed is uncertain. Sustainability of the farming households is driven by livestock, crop production, labour and access to off-farm income opportunities. The key long-standing challenge for the smallholder farmers is low productivity stemming from the lack of access to markets, credit, and technology, in recent years compounded by the volatile food and energy prices and very recently by the global financial crisis²⁵.

14. Women and women-headed households. Women, including women-headed households, which are the second project target group, overlap with the first target group, as women represent the majority of the farmers in Uganda, but the importance of their representation in the project's two main institutions, SACCOs and CSLAs, especially in SACCOs, warrants their being considered as a separate target group on which the project will focus. Women are the poorest, the most illiterate, the most involved in un-gainful employment or work where they don't get paid and they are the ones bearing the brunt of bringing up children and ensuring they go to school.²⁶ Overall, 27 per cent of the chronically poor households in rural areas are headed by women. The probability of women-headed families being chronically poor and moving into chronic poverty is substantially higher than for male-headed households. Poor women are particularly vulnerable to chronic poverty in addition to gender inequalities, which then doubles their plight. Unequal gender relations underlie all the maintainers of chronic poverty in Uganda. This is perpetrated by the practice of paying bride price and domestic violence, which is often linked to alcoholism. Conservative attitudes among both men and women are also in the centre of the problem. About 16 per cent of women-headed households are landless compared to 10 per cent of the male-headed households. Many women in Uganda also move into chronic poverty when their spouses die, especially in cases where relatives grab land and other assets upon the death of their husbands. Polygamy has also been identified as a factor compounding the situation of women when most men unfairly divert household resources when getting a second or third wife. AIDS widows are commonly stigmatized.²⁷

15. Youth (18 to 30 years). As a third target group, the youth will receive particular attention in the targeting of project activities, particularly through participation in SACCOs and CSLAs. Uganda is a country of young people who aspire to forms of modernity, in terms of education, employment and family. But for most of them, the reality is of marginalization in rural settings in which males achieve true adulthood only after marriage and economic independence, and women, usually not at all. The experience of African youth and youth in Uganda in particular, is one of instability and uncertainty, exacerbated by war, displacement, economic crisis and the HIV/AIDS pandemic. They consider themselves a part of a socio-political category that emerged from the collapse of traditional societies under the impacts of colonialism and the post-colonial mobilization of young people for a range of power struggles in which they have often been the major victims. Uganda's young people are often frustrated by their environment. Those from poor households often have to drop out of school due to the inability of their parents to pay their education expenditures. The education often fail to find suitable employment. This contributes in many cases to impatience, risk-taking and militancy.

²⁴ Adeleke Salami, Abdul B. Kamara and Zuzana Brixiova. *Smallholder Agriculture in East Africa: Trends, Constraints and Opportunities*. African Development Bank. 2010.

²⁵ Peter Ebanyat Et Al. *Drivers of Land Use Change and Household Determinants of Sustainability in Smallholder Farming Systems of Eastern Uganda*. *Popul Environ*. 2010 July; 31(6): 474-506.

²⁶ October, 2005 on the poverty situation in Uganda. The report entitled – *Chronic Poverty in Uganda; The Policy Challenges*. Chronic Poverty Research Centre and Development Research and Training (DRT).

²⁷ Ibid.

Different forms of organized religion, often of fundamentalist orientation, are also seeking to mobilize and capture the allegiance of youth by recruiting them. Young people are also seeking their own alternatives. They present the vision of a social order struggling to emerge despite repressions and economic hardship, and seeking to have a voice in societies whose basic structures is not conducive to listening to young voices. Everywhere, young people are a force for social and political change, but in a demographical country, such as today's Uganda, they represent immense potential, as both threat and opportunity.²⁸ Youth also represent an opportunity for the project as they will bring important energy and dynamism to organizations such as SACCOs, with their participation in CSLAs also being an important element in the development of associations, in their taking up new technologies such as mobile banking and transfers, and in their making linkages with more formal financial service establishments.

Access to financial services

16. Formal financial services in Uganda are regulated institutions including banks, micro-finance institutions (MFIs), micro-finance deposit-taking institutions (MDIs), insurance companies and money transfer services. Informal financial services include Savings and Credit Cooperatives (SACCOs) and various types of community-based savings and/or credit groups. This includes traditional groups such as rotating savings groups (ROSCAs), accumulating savings groups (ASCAs) and burial societies, and modern savings and credit groups (CSCGs) that go under the names of Village Savings and Loan Associations (VSLAs), Savings and Internal Lending Communities (SILCs) and Community-managed Micro-Finance groups (CMMFs). The modern types of financial services that are most accessible to the rural poor are SACCOs and CSCGs, both of which are supported by PROFIRA.

17. According to the latest FINSCOPE survey (2009), only 28% of the rural population aged 16 and above currently make use of any type of formal financial services such as banks, insurance or money transfer; 42% rely exclusively on informal financial services such as savings groups and the remaining 30% make no use of any financial services, formal or informal. In rural areas, only 22% use banks, 47% use informal services, and 31% use none at all. In the youngest age group (16-17 years), 73% use none at all. The proportion of the population using either formal or informal financial services increased from 57% in 2006 to 72% in 2009, but there is still a lot to be done. Access and use of formal financial services is higher in urban areas than rural areas and higher among males (24 percent) than females (18 percent), whereas the use of informal financial services is higher in rural than urban areas and higher among women than men. Financial exclusion is highest in the northern region (57 percent), as shown in Table 3 below. The classification of households by degree of financial exclusion does not imply that there ought to be a linear path of progression from no use of financial services, to informal groups, to SACCOs and then to formal institutions such as commercial banks, MFIs and MDIs.

Table 3 – Financial inclusion by type and region (percentage of adult population)

Region	Per cent using regulated banks	Per cent using only non-bank formal	Per cent using only informal services	Excluded (per cent not using any)
Central	26	6	34	34
Eastern	22	7	52	19
Western	18	8	54	20
Northern	14	7	22	57

Source: *FinScope Survey 2009, P. 30.*

18. **Savings.** Seventy-one per cent of adult Ugandans are currently saving or investing while 20% have never saved. Seventeen% save with banking products while the majority use informal products. The most common way to keep one's savings is to hide them in a secret place (64%), or to keep them with an informal group (40%). The most common reason for saving is to meet household needs (67%) and emergencies (67%). The most common reason for not saving is lack of money (88%). Fifty-nine%

²⁸ Munnulo Nasser. Policy and Communication Officer, Uganda Parliamentary Forum on Youth Affairs. September 2012.

of youths aged 16-17 currently save. The vast majority of youths (76%) keep their savings in a secret place and only 18% keep their savings with an informal group.

19. **Borrowing.** Almost half (46%) of adult Ugandans were currently borrowing. There are more borrowers in the western (57%) and eastern (56%) regions compared to other regions. The most common sources of credit are shops (54%), friends (25%) and informal groups (24%). Only 7% borrow from commercial banks, 3% from MDIs and 2% from SACCOs. The main purpose of borrowing for two-thirds of borrowers is to meet daily needs. Youths aged 16-17 are legal minors and can only borrow when they have an adult guarantor.

20. **Risk management and insurance.** Only 3% of the population has insurance policies with formal institutions. An additional 20% belong to burial societies and 4% to other informal insurance groups.

21. **Money transfer.** Thirty-five% of Ugandans are engaged in money transfer using mainly informal channels (78%) and commercial banks (25%). Those who send or receive money from abroad use informal channels (42%), money transfer services (33%) or commercial banks (18%).

Target groups for the project

22. Most IFAD projects define target groups as “poor smallholders, women and youths” (i.e., in terms of gender, age, livelihood source and poverty status). However, since PROFIRA is a financial inclusion project, it makes more sense to define target groups in terms of degrees of financial exclusion or inclusion – which is in fact breaking new ground. The project therefore targets two broad categories of rural population: (i) the financially excluded (the share of population not using formal or informal financial institutions) and (ii) members of informal financial institutions such as community-based savings and credit groups (CSCGs) and/or Savings and Credit Cooperatives (SACCOs). The FINSCOPE study refers to the latter as “informally included” but “formally excluded.” As a crosscutting issue, PROFIRA seeks to increase the financial inclusion of women, youths and poor or disadvantaged people. With these distinctions in mind, the target group can be defined as follows: (i) the financially excluded (defined as rural women, men and youths who earn money but do not use any financial services – formal or informal); (ii) members of mature community savings and credit groups (CSCGs) who have successfully saved and borrowed within their informal group for at least 3 years, but do not yet make use of formal financial institutions; and (iii) women and men who belong to rural SACCOs that are not yet operationally self-sustaining but have the potential to become sustainable. Within these three broad categories of target groups, PROFIRA will set explicit targets for including women and youth. It will also encourage and monitor the inclusion of socially-disadvantaged people such as HIV/AIDS-affected households, caretakers of orphans and vulnerable children, and disabled people who are economically active.

23. **Financially excluded rural households: economically active poor and low-income vulnerable women, men and youth who do not use any formal or informal financial services.** Throughout Uganda, 4.5 million adults (31% of the adult population), 4 million of whom are rural, are “financially excluded” in that they do not use any formal or informal financial services. “Financial exclusion” can be due to the absence of any financial services in an area or the non-affordability or non-use of whatever services may be available. Who are the financially excluded? There is likely to be considerable overlap between the 31% of rural population with no financial access and the 27% of the rural population living below the national poverty line of US\$ 1.25 PPP per day. This category of people is chronically poor and food insecure. It overlaps with the 21% of the rural population who never saved (2.7 million people) and the 9% who used to save but stopped due to shortage of money (1.2 million people). The Ugandan poor tend to have large households with many dependents, little formal education, and to rely on subsistence farming or casual labour for their livelihoods. A higher proportion of the poor and financially excluded are female. Overall, 27% of the chronically poor households in rural areas are headed by women. The financially excluded will form the priority target group for Component 2.1, which aims to include 375 000 financially excluded adults in community-based savings and credit groups.

24. There is a huge unmet demand in rural areas of Uganda for setting up CSCGs. Women, in particular, are keen to join CSCGs to enable themselves to save for children’s schooling, household necessities and emergencies. They are also interested in taking small loans to pay school fees or to engage in petty trading. Experience in Uganda (and throughout Africa) shows that the CSCGs are

self-targeting to poor households, especially women. Women's membership in existing CSCGs ranges from 70%-75% women in groups supported by CARE, CRS, and Plan Uganda and 83% in those supported by UWESO, which has a special target group of caretakers of AIDS orphans and vulnerable children. Although feminists might wish to encourage agencies to increase the proportion of women beyond 75%, practitioners have learned that it is preferable to have a 70:30 balance between women and men. When the percentage of women exceeds 75%, there is a risk that men will feel threatened by the economic empowerment of women. It is preferable to co-opt some of the husbands into the group, so that they can become knowledgeable about the workings of the group and defend the group against the accusations of outside men.

25. *Rural women, men and youths who are members of mature community savings and credit groups.* A "mature" CSCG is defined as one that has been successfully saving and lending its pool of savings among group members for at least 3 years. It should have a rapidly increasing pool of capital (savings + interest on loans), good group cohesion and discipline, an increasing amount of weekly savings per member in each successive annual cycle, and an excellent repayment record (99-100%). In Uganda, there are currently over 30,000 informal community savings and credit groups (CSCGs), with a membership of nearly 900,000 people. On average, 70% of group members (630,000) are female and around 15% are youths aged 18-30. The members of these groups coincide with the second category of financially excluded population – those who have access to informal financial services like savings groups but are excluded from access to banks and other formal financial institutions. Seventy-4% of the members of community-based savings and credit groups are below the international poverty line of US\$ 2 per day PPP. At the time of joining the CSCGs, they tend to coincide with the lowest stratum of the active poor in rural communities – those who are able to save very small sums (US\$ 0.20 to US\$ 0.40) per week. Generally, the main agencies involved in the establishment of CSCGs support the groups for one annual savings and loan cycle, and then leave the groups to manage their saving and lending activities on their own. To enhance sustainability of the groups after the first annual cycle, most agencies identify and train one of the group leaders to become a Village Agent, who provides supervision and coaching to the groups for a small fee. Most of the agencies that promote CSCGs are aware that after 3-5 savings cycles, the groups start to have different needs from those of ordinary groups. All of the main agencies are keen to develop new ways of addressing the needs of the mature groups. PROFIRA will therefore target the members of 3,000 mature CSCGs to further develop their savings and credit activities and to expand their businesses and to forge linkages with higher level financial services.

26. *Members of SACCOs that are not yet self-sustaining but have potential to achieve operational self-sufficiency.* The main target group of Component 1.1 – SACCO Strengthening and Sustainability – will be rural adults who have enough savings capacity for them to want to join a SACCO. The project will select 500 SACCOs for strengthening from a list of over 600 countrywide. The selected SACCOs will have to meet strict criteria regarding their degree of existing operational and financial self-sufficiency. The target group will include around 200,000 existing members plus an additional 200,000 new members who are expected to join during the course of the project. Because of the relatively high cost of belonging to a SACCO (membership fee plus at least one share of capital), individual SACCO members tend to be economically somewhat better off than the members of CSCGs. The individual members can be characterized as small-scale "rural entrepreneurs" and "emergent commercial farmers." Nonetheless, poor and low-income vulnerable women and youths also join SACCOs through group memberships. Households join SACCOs for two main reasons: to get access to credit and to keep their savings in a safe place. Most of the ordinary members are poorly informed about their rights as members. They are vulnerable to fraud and embezzlement of their savings deposits and share capital. In some SACCOs, a high proportion of members are inactive. The inactive members' savings fail to grow and are insufficient to enable them to secure a loan, so they get little benefit from membership. The needs of ordinary SACCO members include: enhanced knowledge of cooperative principles and member rights; transparent information on the "health" status of their SACCO; enhanced voice in SACCO governance; advanced financial literacy and record-keeping skills; better knowledge of business and marketing; new financial products tailored to women, youths and to groups; assurance that SACCO Manages and Board members do not embezzle their savings and that overdue loans are promptly recovered.

Target population and expected PROFIRA coverage

27. The design mission has estimated the size of the financially excluded population in Uganda by crossing population data with FINSCOPE survey data on different degrees of financial exclusion. The analysis suggests that 2.7 million rural people use formal financial services, 5.8 million use only informal financial services and the remaining 3.8 million make no use of any financial services. These estimates serve as a basis for estimating PROFIRA's likely coverage of the various categories of financially excluded people.

28. Preliminary estimates of the target population are contained in the following table.

Table 4 – Estimation of financially excluded population in rural Uganda

<i>Financial exclusion by type</i>	Percentage of adult population		
	Population	Rural	Urban
Financially excluded (use no formal or informal)	30	31	28
Formally excluded (use informal only)	42	47	25
Formally included (use banks, MFIs, MDIs, etc.)	28	22	38
Total	100	100	100
Financially excluded population (estimate)	Number of people (millions)		
Financially excluded population age 18+	4.3	3.8	0.5
Formally excluded / informal only (population 18+ only reached by informal groups and/or SACCOs)	6.3	5.8	0.5
Financially included (population 18+ that make use of formal financial institutions)	3.6	2.7	0.9

29. **Component 1: SACCO strengthening and sustainability.** The component will target 500 existing savings and credit cooperatives (SACCOs) country-wide, with the aim of strengthening their governance and sustainability, and thereby inspiring greater confidence in the population, which is a prerequisite for attracting more clients. Over the life of the project, participating SACCOs are expected to double their membership as part of a strategy for increasing savings deposits and achieving a more prudent debt-to-assets ratio. Incremental membership resulting from project support is expected to be around 150 000 new members, taken from among the people who are not yet clients of SACCOs or banks and who may or may not belong to an informal community-based savings and credit group. When taking into account the existing membership of the selected SACCOs, with an average of about 150 active members per SACCO, plus 150 additional members who will join as a result of project support– the total number of people benefiting from the project under the SACCO component will be 300 000 people, equivalent to a similar but somewhat lower number of households, due in a few cases to membership by more than one member of a household.

30. **Component 2: Community based financial services.** Sub-component 2.1 – Formation of New Community-based Savings and Credit Groups (CSCGs) – will target the 375 000 households from among the financially excluded population countrywide. In addition, sub-component 2.2: CSCG Strengthening, Innovations and Partnership, targets around 75 000 formally excluded households who are already members of mature CSCGs. Whenever possible the CSCGs will be geographically clustered to facilitate implementation.

31. When the two components are taken together (Table 5), PROFIRA will cover 750 000 people representing more or less a similar number of households, of which 525 000 (70%) will be from the financially excluded population and 225 000 (30%) from households that are members of informal financial institutions but have no contact with formal institutions.

Table 5 - Estimated PROFIRA outreach by component and type of financial exclusion

Project component/sub-component	A. Financially excluded population	B. Formally excluded (informal only)	PROFIRA Target groups A + B
Component 1: Sacco Strengthening and Sustainability			
1.1 Sacco Strengthening and Sustainability	150 000	150 000	300 000
Component 2: Community based financial services			
2.1 Establishment of new CSCGs	375 000		375 000
2.2 CSCG Strengthening, innovation and partnership		75 000	75 000
Total coverage by PROFIRA	525 000	225 000	750 000

Geographical targeting process

32. The project will be national in scope but will focus particularly on those rural areas that have a high incidence of poverty and a high proportion of financially excluded population. Geographical targeting on the basis of poverty will apply particularly to support for community savings and credit groups, many of which are based broadly speaking on the Village Savings and Loan Association (VSLA) methodology, which has been particularly successful in Uganda. Project support will focus on outreach and be targeted exclusively to the poorer areas of the country. Within the four poorest sub-regions, the focus will be on districts and sub-counties that have limited access to financial services. Within the communities selected to benefit from establishment of new community savings and credit groups, targeting will be through social inclusion to assure the active involvement of both men and women, with the prime focus on women, and with emphasis on inclusion of youth and poorer, more vulnerable households.

33. There will be less geographical focus in the selection of SACCOs, with the prime determinant being potential financial sustainability of existing SACCOs; however, in the screening of potentially sustainable SACCOs, priority will be given to strengthening those in regions that are poorer and less well served by formal financial institutions. While both the selection of areas for establishment of CSCGs and selection of SACCOs for support will be criteria based, with no specific areas designated, it is expected that the heaviest concentration of support for the establishment of CSCGs is likely to be in the poorest regions of rural Uganda.

34. **Geographic Targeting of community-based financial services.** The choice of geographic location for the Community-based Financial Services component will be criteria-based, with no specific areas designated in advance of project approval. All regions and districts of the country are potentially eligible. After project approval, the choice of intervention areas will be narrowed down by the PMU on the basis of an agreed set of criteria and indicators. The principal criterion will be rural poverty – measured by three different but complementary indicators. All sub-regions will be objectively ranked according to the selection criteria and the PMU will prepare a composite score for each sub-region. Logistically, from the standpoint of contract management, the project could be active in a maximum of four sub-regions among the nine rural sub-regional clusters used by the Demographic and Household Survey (DHS). A detailed timeline for each step in the geographic selection process is provided in the Project Implementation Manual. The following are the key steps in the process:

- **Step 1: selection of four priority sub-regions on the basis of poverty.** For the community-based financial services component, the PMU will select no more than four sub-regions based on the following criteria:
 - Poverty incidence: Number of rural poor as a percentage of the total rural population
 - Poverty headcount
 - Share of population in lowest wealth quintile (UNHS)

To make the selection process as objective and scientific as possible and to minimize the risk of possible political interference, selection will be done at project start-up by the PROFIRA Project Management Unit on the basis of agreed sets of official UNHS poverty data, using a scoring sheet prepared expressly to assign weightings to the above criteria across regions.

- **Step 2: selection of priority districts and sub-counties within the four poorest DHS sub-regions.** After selecting the four priority sub-regions, within each of the priority regions, the PMU will apply – separately for each of the four sub-regions - the three criteria below to identify the poorest districts. Within the poorest districts, it will apply the following criteria to select the poorest and most financially excluded sub-counties:
 - Poverty incidence (rural poor as a percentage of total rural population in the sub-district)
 - Poverty headcount (number of poor people)
 - Financially excluded population (number and percentage of rural people with no financial access)

Within each of the four priority sub-regions, the PMU will estimate the number of financially excluded people within the sub-region, on a district-by-district basis, based on the following criteria:

- Number, location and outreach of Tier 3 financial institutions (banks, MFIs, MDIs)
- Number, location and membership of SACCOs
- Number and membership of informal community savings and credit groups.

The information on priority districts and sub-counties will be used by the PMU to set targets for numbers of new CSCGs to be established in each sub-region. The target of 15,000 new CSCGs will be allocated among sub-regions on the basis of poverty, financial exclusion and local absorptive capacity.

- **Step 3: Selection of CSCG Service Providers.** Service providers for the establishment of community savings and credit groups will be selected on the basis of competitive bidding. The tenders will be divided into four separate lots, one for each Sub-Region. The Request for Proposals will specify, for each lot, the target number of new CSCGs to be established and list of poor districts and sub-counties. Each bidder will submit a proposal as to which districts, sub-counties it will work in and how many CSCGs it will establish in each. Bids will be evaluated on their poverty focus and other criteria.
- **Step 4: selection of poor and underserved parishes and communities.** As its first field activity under the contract, the winning bidder for each of the four sub-regions will visit the priority districts and sub-counties to select the parishes and communities to be covered.
- **Step 5: Socially inclusive community mobilization process for establishment of savings and credit groups.** Contractors will give special attention to inclusion of women, youths and vulnerable households. Group members will be self-selecting, although, on average, it will be stipulated that: women will constitute approximately 70% of members; youths <30 years of age (male or female) will constitute around 15% of members; at least 2/3 of members will be from poor and low-income vulnerable households; and economically active people such as the disabled and HIV/AIDS affected households will be encouraged to join.

35. Benefits of the Community-based Financial Services Component are of two types: material (asset creation) and psychological. During the mission's field visits, a series of testimonials were compiled from various members of community savings and credit groups.

In Nebbi district, West Nile sub-region, a woman told us the following story. She was not sure when she joined the group that the group will accept her because she only has one leg (disabled). She was also worried that she might not be able to meet the requirement of saving US\$ 0.40 cents every week. By the end of the year she was totally empowered because she discovered that she never once failed to meet the weekly savings requirement of 0.40 cents; she discovered that – even with only one leg - she could successfully earn a profit from small scale trading of fish; and she learned that the group accepted and respected her because she always met her weekly savings quota and she always repaid her loans on time. She got a year-end share-out of around US\$70 from division of the pot of accumulated savings plus 10% per month interest on loans. She used the money to invest in 3 goats to raise and sell.

In the same group, a widow declared: “I am not here in the group for nothing! I had never saved before and never knew I had the capacity to save. I am borrowing to buy fish from Lake Albert and sell them in the village. I always repay on time with a profit and I have done it 5 times. I got an end-of-year share-out of UGX206 000 (US\$70), which I used to buy clothes for the children and a full set of household utensils that I had always dreamed of owning but could never afford to buy.

One of the money counters for the group (male) declared: both my wife and I are members of the same group. We both save and take loans – she for her business and I for mine. We are working together to build a new house. At the end of the last cycle we each got a payout of UGX250 000 (US\$100). We pooled our money and paid for an iron roof.

36. The overall impression is that the prevailing CSCG methodology²⁹ is highly empowering for the group members, both materially and psychologically – even after as little time as 12 months. The main impact in the first year has been to enable the members to meet household expenses, pay school fees for their children and expand their trading businesses. Impact assessments of CSCGs suggest that it takes three annual savings and credit cycles for impact on household assets to show statistically significant results.

37. **Geographic targeting of support to SACCOs.** The selection of SACCOs for project support will be criteria based and will start from a quantitative assessment of all rural SACCOs countrywide. Since the objective of Component 1 is to strengthen existing SACCO governance and sustainability, and all potentially sustainable SACCOs in principle being able to qualify, there will be less geographical focus in the selection of project SACCOs. A major challenge for ensuring a poverty focus is that the overall number of SACCOs – and especially the number of SACCOs that have a good potential to become operationally self-sufficient in the next seven years – is much higher in the less poor parts of the country than it is in the poorer regions (Table 6) due to lower numbers of SACCOs and particularly financially viable SACCOs in these areas. To partially compensate for the skewed distribution of potentially viable SACCOs in the different regions of Uganda, in the screening of potentially sustainable SACCOs, priority will be given to strengthening those in regions that are poorer and less well served by formal financial institutions.

²⁹ The term Community Savings and Credit Groups is intended to include Village Savings and Loan Associations (VSLAs), promoted by CARE and its partners, Savings and Internal Lending Communities (SILCs), promoted by CRS, and Community-managed Microfinance Groups (CMMGs), promoted by Stromme Foundation, along with other variations on the model. It will not be promoted as an IFAD brand name in competition with the above.

Table 6: Rural poverty headcount and rural poverty incidence in relation to SACCO numbers, by DHS sub-region

Sub-region	Rural poverty headcount	Rural poverty incidence	Total SACCOs	Poor people per SACCO
Southwestern	577,721	18%	344	1,679
Western	466,922	20%	188	2,484
Central 1	532,208	19%	179	2,973
Central 2	494,218	24%	156	3,168
East Central	943,085	36%	338	2,790
Eastern	1,309,951	40%	420	3,119
West Nile	985,091	58%	103	9,564
Acholi/Lango	1,382,470	61%	132	10,473
Karamoja	767,414	88%	47	16,328

38. The final selection from the list of eligible SACCOs meeting the minimum criteria will be done as part of an assessment (by the PMU, probably with a consultant) at the beginning of PROFIRA start-up.

Poverty targeting

39. The project activities, implementation arrangements and M&E system have been designed in compliance with the *IFAD targeting strategy*. The PROFIRA poverty targeting strategy has four complementary prongs: geographic targeting (already discussed section F), social inclusion (women, youths, HIV/AIDS-affected households, caretakers of orphans and vulnerable children and the disabled), self-targeting and tracking CSCG and SACCO members' evolving poverty status. CSCG contractors will be encouraged to adopt methods such as Household Mentoring to gradually build the capacity of the poorest households to successfully take part in community savings groups. The project activities, implementation arrangements and M&E system have been designed in compliance with the *IFAD targeting strategy*. The PROFIRA poverty targeting strategy has four complementary prongs: geographic targeting (already discussed section F), social inclusion (women, youths, HIV/AIDS-affected households, caretakers of orphans and vulnerable children and the disabled), self-targeting, and tracking CSCG and SACCO members' evolving poverty status.

40. To maximize social inclusion, CSCG contractors will be encouraged to adopt methods such as Household Mentoring to gradually build the capacity of the poorest households to successfully take part in community savings groups. The types of components that PROFIRA has developed and the activities within them take into account the needs of smallholder farmers, women and the youth and are likely to be particularly attractive to the IFAD target group. The fact that the weekly savings amounts and the loans provided are small, as is the incremental income that can be gained from the micro-enterprise activities initiated by the loans made available to CSCG members, means that the CSCGs will be of relatively limited interest to the richer members of the community, thus this project activity will be largely self-targeting.

41. A review of the current membership of community based organizations by a Progress out of Poverty Index (PPI) designed for Uganda shows that 74% of the members of these organizations have an income of less than US\$ 2 per day. Similarly, membership of SACCOs generally consists of those who do not have the capacity for accessing formal sector financial institutions such as commercial banks. Thus by design, both of PROFIRA's components will target the poorer segments of the rural society. PROFIRA will commission a panel assessment of the evolving poverty status of a sample of SACCO and CSCG members compared to non-members at the baseline, mid-term and project completion. In addition it will finance socio-economic impact assessments at the baseline, mid-term and project completion.

Gender mainstreaming strategy

42. The project gender mainstreaming strategy will have three prongs: one for SACCOs, one for community-based savings and credit groups, and another for the PMU

Gender mainstreaming strategy for SACCOs

43. The design of the gender mainstreaming strategy builds on the experience of a pilot project on gender mainstreaming in SACCOs supported by GIZ. Under that project, a gender audit was conducted for eight SACCOs in different regions of Uganda. Findings from the gender audits were used to develop and implement gender strategies for three SACCOs. The most successful tools for gender mainstreaming in the SACCOs were found to be (i) using Community-Based Facilitators to train community savings and credit groups (CSCGs) on SACCOs; and (ii) broadcasts on local radio. The trainings for CSCGs covered topics such as cooperative principles, how to join, how to open savings accounts, financial products offered, terms of lending to individuals and groups. The radio broadcasts urged women to join SACCOs and urged husbands to allow their wives to join. The training for CSCGs resulted in a substantial increase in female membership and in savings deposits. The radio messages were also effective in increasing women membership of SACCOs. The gender audits were a useful starting point. The gender mainstreaming strategies prepared by a consultant for each specific SACCO did not bring any results, because the managers did not “own” them (or even read them) and they were never implemented. The strategies for increasing women’s representation on SACCO staff, Boards and SUPCOs could not take effect immediately because the members of the Board and SUPCO can only be changed at the time of the Annual General Meeting, and only with members’ approval.

44. The PROFIRA gender mainstreaming strategy for SACCOs aims at expanding female membership and women’s participation as active savers and borrowers and as members of SACCO Boards and Supervisory Committees (SUPCOs). It will require a SACCO to demonstrate that it has at least 20% individual female membership (or 30% female membership including women who join as members of groups), to be eligible for project support. PROFIRA will also establish a target to achieve a minimum of 33% women for individual members and 50% women including members of groups after three years of project support. It will also set targets for increasing the proportion of female members who are active savers.

45. In the first year of implementation, PROFIRA will finance gender audits of selected numbers of SACCOs as a basis for developing gender mainstreaming strategies. PROFIRA will also set a target of at least 33% for women’s representation on SACCO Boards and SUPCOs (as is already required by SACCO bylaws) and provide training to enhance the knowledge, skills and effectiveness of Board and SUPCO members. It will encourage SACCOs to provide basic training about SACCOs to CSCGs in their vicinity as a strategy to boost female membership and savings deposits. In parallel, PROFIRA will encourage SACCOs to develop financial products targeted at female clients. It will target rural women for basic financial literacy. Each contractor for the SACCO component will be required to track gender indicators in its own field of responsibility and will be held accountable for achieving gender goals.

Gender empowerment strategy for community-based financial services

46. Gender targeting of CSCGs will be handled as an integral part of the responsibilities to be contracted to service providers. Bids will require all prospective contractors to develop a gender mainstreaming and gender empowerment strategy. The quality of the gender strategy and each bidder’s proven track record with targeting women will be explicit criteria for tender evaluation. PROFIRA will set a minimum target of at least 70% women in CSCG groups to be established under the project. Sub-component 2.2 will empower women in mature CSCGs through advanced financial literacy training, business development services, access to mobile money and agency banking and linkage to outside financial services.

Gender and targeting responsibilities in the Project Management Unit

47. The Project Coordinator will take responsibility for ensuring effective gender mainstreaming in the project as a whole, with the M&E officer designated as the gender focal point. The main functions of the gender focal point in the PMU will be:

- to carry out sensitization

- facilitate gender audits of existing SACCOs / CSCGs
- develop and oversee the implementation of gender strategies for the two components
- prepare TORs and tender documents for the gender audit and for analysis of gender targeting performance
- monitor the gender targeting performance of the different contractors for the two components
- organize experience-sharing on gender across the range of SACCOs and among CSCG contractors
- identify good practices on gender mainstreaming for scaling-up and document lessons learnt for wider diffusion.

48. In addition, the TORs of the Community-based Financial Services Manager and SACCO Development Manager make them accountable for ensuring gender mainstreaming in their components. The Procurement and Contracts Officer is responsible for ensuring that: (i) all relevant tender documents call for bidders to state their plans for meeting the project's gender and poverty targeting objectives; (ii) gender and poverty targeting experiences are explicitly listed among the criteria to be used to evaluate proposals from different bidders; and (iii) achievement of gender targets is explicitly listed among the contractual obligations of each contractor.

49. When the SACCO and Community-based Financial Services components are taken together, it is estimated that of the 750 000 people who will be reached by the project, 435 000 (58%) will be female.

Table 7 – PROFIRA: Estimated Beneficiaries by Component and Gender

Estimated Beneficiaries by Component	SACCOs Or CSCGs (Number)	Total Beneficiaries	Women SACCO members		Women In CSCGs	Total women
			Individual members	Group members		
<i>Percentage women</i>			30%	50%	70%	58%
1.1 SACCO strengthening and sustainability	500					
Existing SACCO members		150 000	45 000			45 000
New SACCO members		150 000		75 000		75 000
2. Community based financial services						
2.1 CSCG establishment	15 000	375 000			262 500	262 500
2.2 Mature CSCGs	3 000	75 000			52 500	52 500
Total direct beneficiaries		750 000				435 000

Targeting strategy for rural youth

50. PROFIRA will target economically active rural young adults below 30 years of age, with the main emphasis on the age group 18-30³⁰. The targeting strategy for rural youth will have three prongs:

- Under the SACCO component, PROFIRA will set a target for new members of 10% youths for individual members and 15% youths including people who join through a group membership. It will target information to youths engaged in business, to encourage them to join a SACCO individually or in groups. In parallel, the implementing agencies for the SACCO component will monitor the proportion of youths among members, active savers

³⁰ Although some reviewers might object that a target of 15% between the ages of 18 and 30 is too low, due to the very high birth rate, only 21% of the Ugandan population is between the ages of 18 and 30. Considering that many young adults who are over 18 but not yet 30 still depend on their parents for their livelihoods, a target of 15% seems prudent.

and borrowers, with a view to achieving the target of at least 15% youths among the members.

- Under the Community-based Financial Services component, it will set a minimum target of 15% youths for the establishment of new CSCGs, and monitor the actual participation of youths as a basis for learning lessons about what attracts (and sometimes constrains) youths to join and what encourages them to continue with the savings and credit groups.
- Under Sub-component 2.2 – CSCG strengthening, innovation and partnership, it will invite NGOs to present proposals for targeting of young adults, and select the best proposals for financing. The packages for youths are likely to include a combination of savings and credit groups, plus advanced financial literacy, plus business development services and products such as mobile money. After implementing different approaches with different contractors in different parts of the country, the PROFIRA M&E/KM unit will organize an experience-sharing workshop to identify good practices, and draw lessons on what approaches work best for youth.

Monitoring of targeting effectiveness

51. As required by the IFAD Targeting Policy, the project will monitor gender, youth and poverty targeting effectiveness on a continuous basis through the following mechanisms:

- The M&E unit will prepare standardized formats for recording and reporting of gender-disaggregated performance indicators and will train contractors to ensure a uniform standard of reporting.
- Project SACCOs will be required to report on changes in membership of women and youths as a condition for receiving project support.
- In the first year of implementation, PROFIRA will finance a consultancy for completion of gender audits on a sample of project SACCOs.
- Contractors for support to SACCOs will be required to report semi-annually on the percentage of women and youths among individual members as well as group members; the achievement of targets for women (33% for individuals; 50% for groups) and youth (15% including groups) will be continuously assessed. (PIM Chapter IV provides a detailed list of indicators).
- Contractors for support to CSCGs will be required to report semi-annually on the number of women, men and youths that belong to the CSCGs and the achievement of targets of 70% female and 15% youth.
- The M&E, Learning and Knowledge Management unit of the PMU will synthesize information on women and youth's participation across components, sub-regions and contractors.
- PROFIRA will finance annual consultancies for in-depth analysis of data relevant to gender, youth and targeting to feed into annual reports as well as mid-term and project completion reports
- The M&E, Learning and Impact Team of the PMU will organize thematic workshops that bring together different contractors to share experience on gender, youth and poverty targeting across regions and to draw lessons.
- To assess accuracy of poverty targeting at project start-up, PROFIRA will finance panel surveys on the poverty status of members of a selected sample of SACCOs and CSCGs compared to non-members in the same localities. By comparing poverty status at the baseline with the mid-term and project completion, it will be possible to document progress out of poverty. Poverty profiling will also be done for the membership of a small number of SACCOs for the sake of learning.
- Socio-economic impact assessments will be carried out for the two components at the baseline and again at mid-term and project completion.

Attachments to Appendix 2

Attachment 1: Target group identification, priority issues and project responses

Attachment 2: IFAD's key features of gender-sensitive design and implementation

Attachment 3: IFAD's targeting policy – Checklist for Design

Attachment 1: Target group identification, priority issues and project responses

<i>Typology</i>	<i>Characteristics and Poverty Level</i>	<i>Coping Actions</i>	<i>Priority needs</i>	<i>Potential project responses</i>
Financially excluded rural households: economically active women, men and youths in poor and low-income vulnerable rural households not using formal or informal financial services	31% of total rural households (3.8 million people) of which 27% are below the absolute poverty line of US\$1/day; 46% are slightly above national poverty line but below US\$1.5/day and are economically insecure and vulnerable to slipping back into poverty; 87% are <US\$2/day; 11% are food insecure. HHs <US\$2/day have some cash savings capacity; HHs below US\$1/day include near landless subsistence farmers, casual labourers, unemployed youths, HHs with a high dependency ratio such as caretakers of orphans, elderly people, sick or disabled persons	The poorest households currently struggle to save US\$0.20-0.40 cents a week. When they are short of cash, they borrow from friends and relatives. The low-income vulnerable are food secure in normal years but in years when crops fail, they are forced to sell-off their assets and go into debt. 64% of rural HHs hide their savings in a secret place in the home.	The poorest need to agree on household goals, start planning to achieve goals, adopt the habit of regular weekly savings as low as 10 cents, with group pressure to encourage them to persist; savings and loans are needed for seasonal consumption smoothing and school fees and emergencies. Individuals (70-85% female) who are able to mobilize cash savings of 50c per day are keen to join community savings and credit groups.	PROFIRA will establish 15,000 new CSCGS with 375,000 members. Sub-regions and districts will be selected on the basis of poverty incidence. The project will set a target of at least 70% female and at least 15% youths and 2/3 poor or near-poor for new groups. Household mentoring will be piloted to enable women and youths among the poorest to begin saving and to empower them to control the income they earn.
Members of mature community savings and credit groups: rural women, men and youths who have saved and borrowed successfully for at least 3 annual cycles as members of a CSCG and are keen to establish links, individually or as groups, with higher level financial services institutions including banks, MDIs, SACCOs or mobile money	Members of mature CSCGs were below the poverty line when they joined, and have risen to the status of low-income vulnerable as a result of 3+ years of successful saving, borrowing and asset accumulation. Members are 70-75% female and 15% are youths. They do not yet use any formal financial services.	CSCG members have good savings discipline; adopt higher weekly savings targets with each cycle; grow their money by lending within the group at 10% per month interest; keep savings in a locked cash box; share out the entire pot (savings + interest) to all members at the end of each yearly cycle and reconstitute the group for a new cycle each year.	Advanced financial literacy training (about banks, credit, interest, etc.); business and marketing knowledge, linkage to SACCOs and banks to deposit savings, mobile banking services, collateral-free group loans, linkage with info on agric. technology and prices	PROFIRA will contract service providers to support members of 3000 mature CSCGs on demand with advanced financial literacy, business development services and exposure to higher level financial services including banks, SACCOs, MDIs, and/or mobile money services

<p>SACCO members who have insecure access to financial services: poor and low-income women, men and youths who are members of SACCOs that are not yet operationally self-sustaining but have potential to achieve sustainability</p>	<p>Because of the relatively high cost of membership, individual SACCO members tend to be from the rural middle class and low-income vulnerable households. Poor women and youths also join as members of a group. Ordinary members tend to be poorly informed about their rights and are vulnerable to fraud and embezzlement of their savings and/or share capital.</p>	<p>Poor and near-poor households join the SACCO as a group (1 membership for all). They join to keep their savings in a safe place to get access to bigger loans. Those groups that are members SACCOs and individuals within the groups seek loans from the SACCOs for consumption smoothing, education expenses and quick turnover income generating activities such as trading</p>	<p>Enhanced knowledge of cooperative principles and member rights; transparent information on the health of the SACCOs; enhanced voice in SACCO governance; advanced financial literacy, better knowledge about business and marketing, new financial products tailored. Empowerment of ordinary SACCO members to: ensure their rights as members, to make sure that the Management or members of the Board do not embezzle their savings; make sure that loans are not given only to the influential and that outstanding debts are repaid; and make sure that their savings are safe. Need mobile banking services to save time and money to deposit, withdraw and transfer money</p>	<p>PROFIRA will target 500 rural SACCOs that are not yet operationally self-sufficient but are potentially sustainable. It will increase individual female membership to 33% and to 50% including women who join as members of groups; and facilitate better and more accountable management and performance of the SACCOs</p>
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Attachment 2: IFAD's key features of gender-sensitive design and implementation

Key Issue	Design Response
1. The project design report contains – and project implementation is based on – gender-disaggregated poverty data and an analysis of gender differences in the activities or sectors concerned, as well as an analysis of each project activity from the gender perspective to address any unintentional barriers to women's participation.	Sex-disaggregated data on poverty has been used in the analysis and the challenges specific to women's access to financial services in rural Uganda.
2. The project design report articulates – or the project implements – actions with aim to: <ul style="list-style-type: none"> Expand women's economic empowerment through access to and control over productive and household assets; 	PROFIRA will enhance women's access to financial services and thereby enable them to accumulate human, social, physical and financial assets.
<ul style="list-style-type: none"> Strengthen women's decision-making role in the household and community, and their representation in membership and leadership of local institutions; 	The project will enhance women's participation and voice in decision-making by setting a target of 30% female for SACCO staff, Boards, Supervisory Committees and Loan Committees and of 70% female for membership of community-based savings and credit groups.
<ul style="list-style-type: none"> Achieve a reduced workload and an equitable workload balance between women and men. 	PROFIRA is designed to enhance women's access to financial services. The project does not invest in rural infrastructure. However, members use savings and credit to pay for children's education and health care services.
3. The project design report includes one paragraph in the targeting section that explains what the project will deliver from a gender perspective.	Yes. The gender-related and social inclusion aspects of the project are summarized in the section on project area and target group.
4. The project design report describes the key elements for operationalizing the gender strategy, with respect to the relevant project components.	Yes this is summarized in Appendices 2 and 4.
5. The design document describes - and the project implements - operational measures to ensure gender-equitable participation in, and benefit from, project activities. These will generally include:	
5.1 <i>Allocating adequate human and financial resources to implement the gender strategy</i>	A Gender Action Plan will be prepared in the first year and reviewed in subsequent years to ensure that PROFIRA retains a strong focus on promoting women's access to financial resources. All actions identified in the Gender Strategy have been properly costed and budgeted.
5.2 <i>Ensuring and supporting women's active participation in project-related activities, decision-making bodies and committees, including setting specific targets for participation</i>	At the community level, the participation of women in the CSCGs is the starting point for forming these associations and initiating activities such as savings, which are valued by women. Gender sensitization will be part of the process of engagement with rural communities. A minimum of 70% of membership in CSCGs. Women should be 30% of individual SACCO members and 50% of members including groups; women should also be 30% of active savers and borrowers.
5.3 <i>Ensuring that project/programme management arrangements (composition of the project management unit/programme coordination unit, project terms of reference for staff and implementing partners, etc.) reflect attention to gender equality and women's empowerment concerns</i>	Gender equitable staffing has been proposed for the project management unit. Gender-sensitive language has been used to describe staff positions and responsibilities for gender mainstreaming have been detailed in TORs of all PMU staff. The Project Coordinator has overall responsibility for ensuring that the gender strategy is prepared and implemented. The M&E officer is the gender focal point. The SACCO Manager and Community-based Financial Services Manager are responsible for

	<p>implementing the strategy for their respective components. The Procurement Officer is responsible for ensuring that gender targeting concerns are reflected in the tendering process and in all contracts with service providers to SACCOs and CSCGs. The Communication and Knowledge Management Officer is responsible for public sensitization on gender and financial services and for organizing experience sharing workshops to identify, document and disseminate good practices on gender mainstreaming. An agency's demonstrated experience in working with women and marginalized groups will be a pre-requisite for selection of agencies forming CSCGs and strengthening SACCOs. CSCG contractors will be accountable for achieving targets of at least 70 percent women.</p>
<p><i>5.4 Ensuring direct project/programme outreach to women (for example through appropriate numbers and qualification of field staff), especially where women's mobility is limited</i></p>	<p>The inclusion of women staff members in the agencies contracted to support establishment of CSCGs will be among the factors used to evaluate the qualifications of bidders. Similarly, the presence of women staff in agencies hired to strengthen SACCOs will be a criterion for evaluating their qualifications.</p>
<p><i>5.5 Identifying opportunities to support strategic partnerships with government and others development organizations for networking and policy dialogue</i></p>	<p>The Commissioner for Gender, from Ministry of Gender, Labour and Social Development will be a member of the Project Oversight Committee. The PMU Learning and Knowledge Management Unit will document and capitalize on the experience of women's participation in CSCGs and SACCOs to engage in high-level policy dialogue with Government and the donors.</p>
<p>6. The project's logical framework, M&E, MIS and learning systems specify in design – and project M&E unit collects, analyses and interprets sex- and age-disaggregated performance and impact data, including specific indicators on gender equality and women's empowerment.</p>	<p>The number of women who will benefit from PROFIRA has been clearly specified and this is indicated in the logframe. All relevant logframe indicators (i.e., all those dealing with people) are sex-disaggregated. Gender Audits have been budgeted for to further focus attention of SACCOs on inclusion of women at various tiers as members, managers and in governing boards.</p>

Attachment 3: IFAD's targeting policy – checklist for design

Key issue	Design response
1. Does the main target group - those expected to benefit most- correspond to IFAD's target group as defined by the Targeting Policy (poorer households and food insecure)?	Yes. The project targets financially excluded households who do not use financial services formal or informal (30% of rural adult population) broadly corresponding to the 27% below US\$1/day. 74% of CSCG members have per capita consumption <US\$2/day.
2. Have target sub-groups been identified and described according to their different socio-economic characteristics, assets and livelihoods - with attention to gender and youth differences? (matrix on target group characteristics completed?)	Yes. The project group is described in 3 categories of financially excluded households: (i) financially excluded households who use no financial services formal or informal, (ii) those using only informal savings & credit groups and (iii) SACCO members whose access to financial services is precarious because the SACCO is not yet self-sustaining although it has promise of becoming self-sustaining.
3. Is evidence provided of interest in and likely uptake of the proposed activities by the identified target sub-groups? What is the evidence? (matrix on analysis of project components and activities by principal beneficiary groups completed?)	Yes. There is a huge unmet demand for forming community savings and credit groups.
4. Does the design document describe a feasible and operational targeting strategy in line with the Targeting Policy, involving some or all of the following measures and methods:	
4.1 Geographic targeting – based on poverty data or proxy indicators to identify, for area-based projects or programmes, geographic areas (and within these, communities) with high concentrations of poor people	Yes, to 3 poverty indicators to be used in combination to identify 4 sub-regions for support to CSCGs. PIM details procedures and how to score sub-regions and provides poverty data.
4.2 Direct targeting - when services or resources are to be channelled to specific individuals or households	50% of training on financial literacy and business development skills will be targeted to women and youth.
4.3 Self targeting – when goods and services respond to the priority needs, resource endowments and livelihood strategies of target groups	Yes. CSCGs are highly self-targeting to women (70%) and the poor, and are uninteresting to the non-poor because of very small weekly savings (<US\$0.50), high (10% per month) interest rates, short maximum loan duration (1-3 months). SACCOs are also community-based and self-managed by the members. This makes them more accessible to the poor than formal financial services such as banks. Women are 33% of SACCO members, own 34% of the share capital, own 36% of total savings, and received 37% of loans. Youth's share is between 4% and 7% of members, share capital, savings and loans.
4.4 Empowering measures - including information and communication, focused capacity- and confidence-building measures, organisational support, in order to empower and encourage the more active participation and inclusion in planning and decision making of people who traditionally have less voice and power	CSCGs are highly empowering to members including women and youths; they build social and psychological self-confidence hand in hand with economic empowerment. Members learn that they can successfully save on a regular basis, borrow and repay, and make good profits on petty trading of local products. Savings empower them to pay children's education, smooth consumption, improve their homes and diets, and accumulate livelihood assets.
4.5 Enabling measures – to strengthen stakeholders' and partners' attitude and commitment to poverty targeting, gender equality and women's empowerment, including policy dialogue, awareness-raising and capacity-building	Commissioner of Gender, MGLSD is on Project Oversight Committee. MGLSD will be represented on all tender committees for CSCGs. PMU communication and knowledge management officer will prepare and disseminate messages on gender and poverty targeting. M&E unit will organize experience sharing workshops to identify good practice on targeting and disseminate lessons.

<p>4.6 Attention to procedural measures – that could militate against participation by the intended target groups</p>	<p>Procedural measures are addressed in PIM to prevent political interference in selection of the poorest project areas. Possible procedural obstacles to women and youth and the poor's access to credit are also analysed and addressed.</p>
<p>4.7 Operational measures – appropriate project/programme management arrangements, staffing, selection of implementation partners and service providers</p>	<p>Targeting responsibilities are explicitly mentioned in TORs for all PMU staff. Project coordinator will be responsible for seeing that gender and poverty targeting is effective. All service provider contracts make them accountable for targeting. Service providers will be assessed on their proven track record with poverty, gender and youth targeting.</p>
<p>5. Monitoring targeting performance. Does the design document specify that targeting performance will be monitored using participatory M&E, and also be assessed at mid-term review? Does the M&E framework allow for the collection/analysis of sex-disaggregated data and are there gender-sensitive indicators against which to monitor/evaluate outputs, outcomes and impacts?</p>	<p>Yes, the M&E design gives strong emphasis to monitoring of targeting performance. All contractors are required to provide disaggregated data on women and youth participation in relation to targets of 70% women in CSCGs; 30% women membership in SACCOs (or 50% women including those who join as members of groups), 30% women on SACCO Boards and supervisory committees. Poverty status of CSCG members will also be monitored at baseline, MTR and PCR using poverty scorecards.</p>

Appendix 3

Appendix 3: Country performance and lessons learned

Country programme evaluation

1. **Context.** In 2011/12 IFAD's Independent Office of Evaluation (IOE) undertook the first Country Programme Evaluation (CPE) in Uganda since operations started in 1981. The performance and impacts of IFAD's operations were assessed, and have been fed into IFAD's Uganda Country Strategic Opportunities Programme (COSOP) for 2013-18, to be presented to the IFAD board in April 2012.

2. **Main evaluation findings.** IFAD has played an important role in supporting the government in its efforts to reduce rural poverty in different parts of Uganda. The Fund is highly regarded by the government and other development partners for its focus on the rural poor; for having contributed to decentralised development processes and for improving incomes among the target groups, thus enabling them to have better lives and food security. However, the effectiveness of the 1997-2011 COSOP is considered not totally satisfactory, as sector-wide programmes joining government and donor efforts for promotion of sustainable rural financial services for the poor and access to land and markets have not been fully developed and as IFAD did not engage enough in poverty reduction in northern Uganda.

3. **Policy challenges.** IFAD's strategic approach and projects were relevant and aligned to government's Poverty Eradication Action Plan (PEAP) and the Plan for Modernisation of Agriculture (PMA). Since 2006, changes in government policy and strategy, particularly within rural finance (Rural Finance Services Strategy - RFSS) and agricultural advisory services, as well as "stop-and-go" approaches **from** the government side, have caused debate and some challenges to harmonize IFAD approaches and commitments with new government's policies. The splintering of districts has fragmented local government implementation capacity and some programmes have spread resources too thinly over non-contiguous areas.

4. **SACCOs and VSLAs.** According to the CPE Report, the change in government strategy led to the exclusive focus in the Rural Financial Services Project on development of SACCOs, effectively closing the **door** to directly working with informal grassroots institutions, such as Village and Savings and Loans Associations (VSLAs), which serve many of the poorest households, and women in particular. Government policy led to the establishment of a SACCO in each of the 1 085 sub-counties, under the influence of the local elites, and dependent on public subsidies; without subsidies their viability and sustainability is debatable and a number are either dormant or moribund. Regarding VSLAs, IFAD supported the creation through grant assistance to Uganda Women's Efforts to Save Orphans (UWESO). If IFAD's grant-support for UWESO were to be evaluated and rated according to the methodology of rating loan-supported projects, this Grant will probably receive an overall rating in the area of 'highly satisfactory'.

5. **Synergies and sustainability.** The CPE found limited synergies among IFAD supported projects, and sustainability was the lowest rated indicator for IFAD performance. For RFSP, this included weak sustainability indicators for SACCOs and their apex organisation. A stronger focus on sustainability and ownership can be achieved through clear communication about expectations at project start-up and about exit strategies. If rural populations expect free hand-outs for development such as agricultural inputs, livestock and cheap credit, this cannot be achieved.

6. **Agreed actions with government based on CPE recommendations.** It was agreed that: (i) IFAD should expand the geographic coverage of its operations to the northern region; (ii) IFAD should provide **support** to commodity value chain development; (iii) a realistic and appropriately resourced agenda for policy dialogue should be defined; and (iv) project results should be strengthened by ensuring synergies among activities within and across projects financed by IFAD in Uganda, with increasing focus on impact within natural resources and environmental management and human and social capital/empowerment.

Lessons learned from 10 years of microfinance in Uganda

7. **Context.** In 2001 the study "Microfinance in Uganda" was launched by the Austrian Development Cooperation, concluding that **Uganda** was "*the country with the most vibrant and successful microfinance industry in Africa*". Ten years later, where are we? The following section

presents the lessons learned from 10 years of microfinance in Uganda, followed by concrete lessons on implementation modalities and experiences from working with SACCOs and CSCGs in Uganda.

8. **Coherence and collaboration needed within the sector.** *The government should encourage stakeholder coordination and revitalize platforms for exchange and communication within the sector.* The sector is not characterised by a joint vision and many donors have moved out since the RFSS was adopted in 2006. Previously, a strong collaborative effort had emerged among donors, **government**, the central bank, practitioners and capacity building providers in: (i) setting up the Association of Micro Enterprise Finance Institutions of Uganda (AMFIU) to serve as a practitioners platform to share experiences and technologies and act as a lobby and advocacy body for Ugandan MFIs; (ii) establishment of the Uganda Cooperative Alliance (UCA), an apex body for cooperative unions, to develop among other things a set of performance indicators and a rating system for good practice of SACCOs in Uganda with SUFFICE in 2000; (iii) a monthly Microfinance Forum for practitioners and (iv) a microfinance workshop facilitated by AFCAP to develop a joint vision and coherent strategy among donors. An environment of macroeconomic stability, strong and competent MFIs with international alliances, practitioners and donors committed to best practices and a supportive government contributed to the success of the Ugandan microfinance industry.

9. **Microfinance facilitates poverty alleviation.** *SACCOs are an appropriate tool for financial inclusion of the rural poor, as they:* (i) are sources of easy and cheap loans compared to banks; (ii) are accessible **and** often located near member workplaces and homes; (iii) provide daily deposit collection services; and (iv) extend quick short-term loans that can be used to ease cash flow pressure and smooth consumption.

10. **The lack of regulation leads to overdependence on self-regulation.** *A healthy SACCO system depends on a supportive regulatory environment.* Absence of clear **regulations** for cooperatives and lack of clarity within government structures for SACCO oversight, including licensing, regulation and supervision, has resulted in many cases of fraud and embezzlement.

11. **Women participation should be targeted.** *Women should be actively encouraged to become involved in rural financial institutions as experience in CSCGs and SACCOs demonstrates conclusively that they make the most reliable and conscientious members of these organizations.* Women's participation tends to protect their families against risks by rendering their enterprises more competitive, diversifying their income sources, broadening their asset base, re-stocking their businesses and smoothing consumption. In addition, most MFIs focus on women because lending to women is thought to benefit the whole family and strengthen the role of women in society.

12. **Competitive microfinance sector is advantageous to clients.** *Growing competition and an increased diversity in financial service institutions, particularly as these services become more available to rural communities, is good for the clients and has created an increasingly dynamic microfinance sector in Uganda.* It has forced microfinance institutions to become more responsive to clients' needs and preferences, and to focus more attention on service quality and engage in the development of new products, focusing on the comparative advantage of that particular institution.

Lessons learned from RFSP on Implementation Modalities

13. **Allow for implementation capacity in PMU.** *To mitigate the risks of failure of service providers, a PMU must have greater capacity in terms of contract and financial management.* The Programme Administration Unit foreseen at RFSP design proved to be too small to handle the administrative tasks – **especially** regarding procurement – and the expectation that other projects and agencies will be available and willing to implement various components proved unfounded. In addition, when implementing through a single agency, the PAU had insufficient capacity to act effectively if service providers failed to perform.

14. **Implementing partners should be chosen on their comparative advantages.** *Contracting private agencies to implement certain activities had the disadvantages of being costly and adding another layer that sometimes made problem-solving more difficult.* Giving a single government-designated agency, Uganda Cooperative Savings and Credit Union (UCSCU), primary responsibility for implementation after reorientation of the project at the mid-term had similar drawbacks, which were compounded by delays while the agency tried to build up the actual capacity to keep up with its dramatically enlarged responsibilities and by the **associated** lack of a results-oriented culture. Under the extended RFSP, more success was achieved by involving more partners to implement specific

aspects according to their comparative advantage and capabilities, while maintaining oversight and contracting responsibilities within the PAU.

15. **Customized, on-site training packages important for sustainability.** *On-site training allowed a greater range of Board members, staff and even SACCO members (potential future board members) to participate.* This was coupled with regular **mentoring** on demand-driven subjects, with SACCOs being visited on-site, to receive specialized feedback. Analysis of the bottom line performance of SACCOs (financial self-sustainability, portfolio at risk etc.) led to more customized training packages oriented **toward** addressing the most common problems and delivered at the SACCO level, rather than at a residential location.

16. **Trade-off between bulk procurement and tailor-made approaches.** *The large number of SACCOs supported and the logistical challenges of procuring and delivering service kits to SACCOs, forced the implementation approach to become commoditized and conveyed the message that the SACCOs were essentially a government body for receiving free handouts.* Only through customized trainings and mentoring, was the project able to ensure more responsive support to SACCOs.

17. **Subsidies foster a culture of dependence.** *Not until the SACCOs saw that the support from RFSP was linked to their own initiatives, linked to the mentoring approach, did the culture of dependence start to weaken.* A SACCO development pathway was envisaged in the design of RFSP with differentiated support packages for different levels of development of the SACCOs. Weaker ones received operational subsidies and bicycles, but not motorcycles or generators, which will be expensive to run; stronger ones could get more expensive equipment, but had to cover their own operational costs. Training became more varied and advanced for the stronger ones, and moving up meant another two years of subsidization at a higher level. Nevertheless, progress from the basic to advanced levels was not as fast as expected, and operational support for the weaker ones often had to be extended – fostering a culture of dependence (e.g., even as their loan portfolios grew, some SACCOs did not hire a loan officer because that position wasn't included in the operational subsidy). Towards project completion, there are still expectations on ground for extended government subsidies and lack of planning for the future.

18. **A baseline is important for evaluating project performance.** *Because RFSP did not undertake any baseline studies when implementation started on-going assessment of project performance suffered due to the lack of a possibility to validate the implementation logic, and the lack of focus on cross-cutting issues.* One example is the assumption that providing support kits for 2 years will **translate** into development and sustainability; this was overambitious, but the practice continued for a while.

19. **Knowledge based information can influence policy.** *Systematic data collection exercises and vigorous data analysis following best international practices, such as adopted in the Reality Check, lead to adjustments in the implementation approach and has informed the design of PROFIRA and continues to **inform** government policy.* Through improved application of technological data collection and display, such information should be easier to produce in the future.

Lessons learned as identified in the latest IFAD COSOP

20. The latest COSOP 2013-2018 listed a number of key lessons, from the experience accumulated through IFAD interventions in Uganda, as follows:

- *A conducive policy framework is essential for the success of a project.* The risk of changes in policy during implementation needs to be factored into project design and appropriate risk-management measures identified.
- *Projects and programmes should, to the extent possible, invest in contiguous geographical areas and focus on a few strategic interventions in order to maximize impact and avoid spreading financial resources too thinly, both geographically and thematically;* this might pose a political challenge, which needs to be carefully managed starting from early design stages.
- *Flexibility, of both the country strategy and the project design, is critical* as it allows to be reviewed and adapted in response to the evolving situation as well as to seize emerging opportunities; a functional M&E system and an appropriate framework for review of objectives and strategies are essential elements to ensure such flexibility.

- In planning new interventions, the fact that rural populations commonly expect *free hand-outs from government for development should be carefully considered*. In particular, if support to private sector initiatives such as farmer organisations or community based financial institutions is envisaged, the type and modality of support should be carefully thought through to avoid undermining ownership and sustainability.
- *The allocation of resources for public economic investment should not be driven by administrative and/or political decision-making*, but should instead be primarily determined by the economic conditions and opportunities. An example is the location of markets and agro processing facilities.
- *Working through existing systems at decentralized level enhances the capacity of Local Governments and increases the responsiveness to local needs*, but the splintering of districts has fragmented local government planning and implementation capacity.
- *Sustainability of project benefits requires a solid institutional framework* and therefore long-term investment in strengthening key local institutions, both public and non-public.
- *A clear communication strategy is essential at all stages of a project*, at start-up to manage expectations, build ownership of local stakeholders and buy-in political support; during implementation for proactive sharing of information and exchange with local stakeholders; and towards project closure, with particular focus on exit strategies and sustainability.
- *PPPs have proved to be a powerful tool to integrate farmers into markets and strong value-chains*. The private sector has proven willing to engage in equitable partnerships with smallholders, as long as they can be assured of a stable supply of high quality. The government's role is critical in ensuring a pivotal effect of public funds to foster a commercial win-win relationship between smallholders and the private sector.
- *The IFAD piloted "household mentoring" approach has proved to be a valuable tool for promoting inclusion of very poor households*, such as female-headed, HIV/AIDS affected, and more generally those with a heavy burden of many dependents and very limited resources for agricultural production; the approach is based on strengthening the capacity of the households for self-assessment of their constraints and empowering them to overcome poverty. Matching it with small food security grants has enabled the supported households to gradually exit from a situation of chronic food insecurity.

Additional Lessons learned in supporting SACCOs

21. **Strong SACCOs can achieve outreach.** *Rather than establishing one SACCO in each sub-county it will be more cost-effective to assess those with the potential for scaling up, growth and expansion, and then built on them.* Outreach could have been achieved through branching out, rather than establishment of more SACCOs. The FinScope study showed that many areas in Uganda are still underserved.

22. **Motivation for forming a SACCO is important for sustainability; external funding undermines such motivation.** *When SACCOs are formed by the local elite often involving political interference, which was not uncommon under the government policy of 'one SACCO in each sub-county when there was a clear expectation of "free money" from government, the risk of non-functional SACCOs increases exponentially.* Many of these SACCOs formed as a result of this policy have collapsed, or are struggling to make profits and provide few services to their members. SACCOs driven by a definite savings-first principle have a much higher chance of becoming financially sustainable institutions.

Lessons learned in supporting community savings and credit groups

23. **VLSAs are effective institution for providing financial services to excluded, unbanked and rural poor.** *The savings-first approach and emphasis on social cohesion and low entry levels has made savings and credit groups a very effective community level means of providing financial services.* The manner and amounts in which the savings and loans are accumulated and distributed attracts the low income households; especially women who constitute as much as 70%; youth are also well represented. The fact that a group member only can borrow from funds generated in the groups keeps loan size small, making debt incurred within the capacity of the members to repay and

has kept default to a minimum. The fact that savings are not allowed to accumulate beyond one year has tended to ward off the problems faced by many such groups in other countries where the office bearers were tempted once large amounts were accumulated.

24. **Groups have high potential of increased incomes.** *The model with its low operational cost is highly financially viable and can return of above 50% for its members; although interest rates are high, the profits are shared within the groups.* Reports from agencies implementing the approach, and various reports assessing their performance indicate that there is a very low attrition and more than 90% of the groups sustain themselves.

25. **Adherence to model is key.** *Self-Help and other type of groups formed by a wide range of organizations not initiated in a well-structured and precise methodology such as the VSLA were found to struggle.* Some implementing agencies have introduced the VSLA methodology to existing community groups and found an immediate transformation and growth in their savings and loan programme.

26. **Seasonal variations can lead to safekeeping needs among mature groups.** *As groups become successful and their level of savings increases, it become increasingly important for them to find a more secure place to deposit their savings.* Seasonal fluctuations affect the demand for loans in a VSLA cycle. In the beginning of the school year, loans for school fees will be in high demand. In low agricultural output seasons, petty trade will be less, minimizing the need for loans to purchase bulk produce, and the ability to make a return on such an investment for loan repayment. In such periods, saving amounts risk to grow in excess of amount safe to keep at village level, fostering the need to be linked to formal financial sector institutions or use of new technologies.

Appendix 4

Appendix 4: Detailed project description

Component 1 – SACCO strengthening and sustainability

1. Robust and durable decentralized financial institutions that combine outreach in rural villages with good long term viability prospects are still the exception rather than the rule in rural Uganda. IFAD's previous investment provided a first determined push towards building up an institutional landscape that promoted and strengthened rural SACCOs in their establishment and fledgling phase. Most recent figures from the IFAD-supported Rural Financial Services Programme (RFSP) indicate that a critical pool of SACCOs in rural Uganda with adequate short and medium term viability prospects has been created.

2. Overall, however, the SACCO sector in Uganda remains weak when compared to the neighbouring countries and Kenya in particular. Primary societies are under regulated and under supervised and fraud as well as elite capture and political interference can weaken even strong SACCOs and result in collapse despite years of institutional strengthening and capacity development.

3. PROFIRA is designed to provide capacity building support to rural SACCOs with a different approach from RFSP, which included substantial efforts to establish SACCOs in sub-counties where no SACCOs were functioning. The focus of PROFIRA is on societies with the best medium to long term growth and development prospects, which will be supported with a capacity development plan that is tailored to their needs and will result in a rural SACCO sector that is stable enough to be supervised. As a union of SACCOs designed to represent and service the entire SACCO sector, UCSCU will also be supported to become more business-oriented and sustainable. Legislation for regulation of SACCOs and other 'Tier 4' microfinance institutions is also being supported, as well as the Registrar of Cooperatives, to strengthen prudential and non-prudential legislation, data management. PROFIRA thus attempts to consolidate the rural SACCO sector through a process of stabilization, growth, transformation and preparation for on and off site supervision. The objective is to provide a sound foundation for continued growth of outreach by SACCOs after as well as during the project. This will be done through one direct support sub-component, SACCO strengthening (Sub-Component 1.1), and two sub-components with an indirect but no less important impact on SACCO sustainability and health: strengthening of the SACCO Union UCSCU (Sub-Component 1.2) and the legal and regulatory framework (sub-Component 3.1).

Sub-component 1.1 - SACCO Strengthening

Rationale

4. This sub-component builds on the achievements of the IFAD-supported RFSP and its strengthening of about 650 SACCOs. The targeting of support to SACCOs has been adjusted. Building on the lessons emerging from RFSP, with a view to strengthen the rural SACCO sector, the project will not promote start up SACCOs with uncertain viability prospects. PROFIRA will instead include a portion of comparatively stronger SACCOs with good potential for long term sustainability, reflecting their on-going needs to emerge as fully sustainable village level financial institutions. Altogether, 500 SACCOs out of an estimated 2,200 operating at present in Uganda will be included in PROFIRA support. This will cover a large share of the stronger SACCOs that are candidates for regulation by the proposed regulatory authority but not yet close to qualifying for Tier 3 licensing. It will also cover a number of comparatively strong smaller SACCOs, all of them based in rural areas of Uganda.

5. Rural SACCOs in Uganda, including strong ones and those with good sustainability prospects, require further stabilization and tailored support. This is necessary both to consolidate the gains to date from SACCO establishment and strengthening and to align the SACCO sector with the requirements and limitations of SACCO regulation and supervision. The envisaged Regulatory Authority will need a sufficiently large pool of adequately strengthened SACCOs with good management information systems (MIS) and internal controls and the capacity to generate the reports necessary to carry out meaningful off site supervision and control.

Strategy and approach

6. The main objective of this sub-component is to reach a critical mass of sustainable rural-based SACCOs with an enhanced level of service provision, leading to increased numbers of members and capital mobilization. SACCO strengthening will be principally achieved through capacity development of SACCO staff and managers, Board members and ordinary SACCO members, and MIS systems in the case of the most advanced ones. The PROFIRA training plan covers all major capacity building requirements for the selected SACCOs. These selected 500 SACCOs will be divided into two major groups: 'strong' and 'intermediate' SACCOs (see Preparatory Activities below). For each PROFIRA partner SACCO, final classification and requirements will be established at the outset through an entry level assessment. It is expected that about 350 strong and 150 intermediate SACCOs will be selected for support. This on-site review will also provide the SACCO with an opportunity to articulate its own wishes and preferences for training and capacity development, and will be the basis for a Memorandum of Understanding (MoU) stating the expectations and responsibilities for both the SACCO and the project. Altogether, at least 90 per cent of the 500 project supported SACCOs are expected to consolidate and attain sustainability by the end of the project, enabling total membership to double.

7. The majority of SACCOs in the 'strong' (or 'A') category (about 200) will receive a menu of up to eight different types of training (see SACCO Capacity Building, below). The first three types comprise financial literacy training for members; training in SACCO governance, and business development skills. These training sessions will include not just SACCO staff and Board, but also selected members of the SACCO. SACCO management and staff will also be given training in savings and other product development, financial management, strategic planning, credit management including default management, and MIS/automation.

8. Among 'strong' SACCOs, the most advanced (or 'A+') SACCOs (up to 150 out of 350 expected to be selected as 'strong' SACCO) will be supported only in: (i) automation and updating or establishment of electronic accounting and loan tracking platforms, and (ii) credit management with a specific focus on default management. This lighter approach for high-performing societies aims at consolidating achievements and directly tackling growth constraints – particularly limitations of manual accounting and weak financial performance because of loan defaults and insufficiently pro-active credit management.

9. It is estimated that about 150 'intermediate' SACCOs will be selected, many of them in poorer regions. Support for these will be more intensive and cover the full range of the above training areas, other than MIS/automation (except in cases where they are already computerized).

Investment activities

10. The sub-component contains two broad areas of investment: (i) Preparatory and Support Activities, and (ii) SACCO Capacity Building, which constitutes the core of the sub-component.

11. **Preparatory Activities to Select SACCOs.** Start-up activities for Sub-Component 1.1 are first focused on selection of 500 appropriate PROFIRA partner SACCOs. Preparations for this include identification of an appropriate long list of potentially eligible SACCOs from a potential SACCO population of about 2,200 in Uganda. SACCO survey results generated by MTIC and supported by RFSP will be utilized in order to avoid duplication of efforts and make use of existing data and resources. The pool of potentially eligible SACCOs consists of SACCOs with a minimum size of 150 members that are rural based and not dormant or closed. General and financial eligibility criteria (table 1, below) will be applied to these SACCOs to bring them down to a total of about 700-800.

12. Classification of the two categories of SACCOs to receive support under the component – Category A, the stronger SACCOs; and Category B, the intermediate SACCOs – will be based on meeting the following key performance parameters.

Selection criteria will be as follows (Table 1):

- Outreach – at least 150 paid-up members in financially underserved regions and no less than 250 members in regions that are less poor or with denser SACCO coverage
- Financial – Operational sustainability (coverage of operating costs from revenues generated) at 60% or higher

- Operations – Active loans and savings functions, PAR (over 30 days) < 30% [40% if in the poorer regions]

13. This first screening will rely on data available in the MTIC database, and without the possibility to check these criteria in the field. Subsequent field assessments may find a fair number of these SACCOs will not eventually meet all of these criteria, or additional qualitative criteria such as compliance with regulatory requirements to have annual audits and general meeting. For this reason, the total number of short-listed SACCOs is targeted to reach about 700 SACCOs'.

Table 1: Eligibility Criteria for Classifying SACCOs

Criterion	Strong SACCOs (Category A)		Intermediate SACCOs (Category B)
	A+	A	
Paid-up members	≥ 300	> 250	> 250
In poorer regions		> 150	> 150
Operational sustainability	≥ 100%	80%	60%
Portfolio at Risk (over 30 days)	10%	10%	30%
In poorer regions		10%	≤ 40%

Note: Must meet all three criteria to be classified in a category.

14. The Project Implementation Manual (PIM) contains details of the selection process and prescribes a process of bias towards poorer and more remote parts of the country. In essence, this process works through a poor-first approach in selecting PROFIRA partner SACCOs. For intermediate as well as strong SACCOs³¹, SACCOs that meet the criteria will be phased in first from the priority poor regions. Only after all SACCOs from poor parts of the country that meet eligibility criteria for intermediate or strong SACCOs have been included, will SACCOs from other parts of the country be considered, again with a development bias that gives the more prosperous regions the last priority of access to the PROFIRA SACCOs.

15. Entry level field assessment of Proposed PROFIRA Partner SACCOs. Following the initial classification, SACCOs will then be assessed in the field by specialized service providers conducting a SACCO level financial, technical and needs assessment on behalf of the PMU. Besides verifying that the SACCO continues to meet the quantitative criteria, this assessment will also be used to assess qualitative factors related to good governance and compliance with regulatory requirements, and to familiarize the SACCOs with the MoU/Partnership Agreement that needs to be signed between the PROFIRA PMU and the SACCO. Also included will be monitoring indicators related to the specific SACCO to be collected monthly and submitted to PROFIRA PMU in regular intervals (Attachment 1 to MoU), and the entire support model proposed for the SACCOs through PROFIRA (Tables 2 and 3, under Implementation Arrangements, Characteristics of the SACCO support models). At the end of the field level assessment of about 700-800 short listed SACCOs, a total of 500 MoUs are expected to be signed for a total of three years each with a third of the 500 joining in three staggered 12 monthly periods. The PIM will contain details on selection procedures that ensure adequate representation of SACCOs from more disadvantaged regions of Uganda.

16. Implementation will be coordinated by the PMU and executed under contract with the different service providers. Monitoring and quality control, based on activity tracking and recipient progress, will be done by the PMU and will form the basis of continued work with each service provider.

17. **SACCO Capacity Building – Eight Action Areas.** This is the major intervention for the sub-component. PROFIRA direct support to the participating 500 SACCOs consists of training, mostly for the SACCO management and Board members in skills development, but also importantly for the SACCO members. PROFIRA support to the rural SACCO sector builds on two different models of support throughout the PROFIRA implementation period, as specified below. The first and more

³¹ No 'more advanced' (or A+) SACCOs are expected to be found in the remoter and poor areas of the country

intensive support model works with intermediate level SACCOs. They will receive more intensive trainings with an initial focus on financial literacy, governance and business skills, for members as well as for management and Board. More advanced training will follow in year 3 and onwards. Stronger SACCOs require similar training areas, but less intense, while high performing, 'more advanced' (A⁺) rural SACCOs will only receive two types of support under PROFIRA: account and loan tracking automation ('MIS platform automation') and credit management..

18. SACCO capacity development in PROFIRA is designed to consolidate the achievements of selected RFSP-supported SACCOs and bring into the fold additional SACCOs that have not yet benefitted from external project support. The eight proposed areas of capacity building, taken together, are expected to provide the critical inputs in terms of skills and management development that will make a SACCO more permanently viable in rural Uganda. These areas are outlined below.

19. As the trainings proceed, SACCOs will develop towards industry standards for such institutions. These standards will be developed by the national SACCO Union, UCSCU, in consultation with other cooperative apex institutions such as the Uganda Cooperative Alliance (UCA). In essence, these standards relate to: (i) front office operations, savings, loans and other types of products offered (if any); (ii) back office operations, including cooperative charts of accounts, key accounts and control systems; and (iii) the entire system of audit, inspection, controls and different approaches to these with different types of SACCO automation.

20. The eight types of training/capacity building are described below. Details on the number and profile of trainees, the training location and other implementation details are summarized in the subsequent section on implementation arrangements:

- a. *Financial Literacy and Deposit Mobilization.* The more elementary financial literacy trainings will be based on the messages of the financial literacy strategy, one of the pillars of the National Financial Inclusion Strategy prepared by the Bank of Uganda. This emphasizes the importance of savings in SACCOs. This 'savings first' approach needs to be strongly re-emphasized in SACCOs since many of the more recently formed SACCOs, and a high portion of the other SACCOs, operate with expectations of members primarily directed towards receiving loans. The guidelines for the service providers contracted to carry out this training will emphasize the adequate incentives for mobilization of deposits and the fact that financial savings are needed and bring benefit for each farmer – big or small. Agricultural producers need to bridge uneven income flows during and in between cropping seasons and financial savings are the most convenient way of doing this. Care will also be taken to focus entry level assessments for intermediate SACCOs on safety and soundness aspects of SACCOs. Only when the overall financial and technical stability of the PROFIRA partner SACCO is robust enough, should deposit promotion be conducted as a PROFIRA training. Putting member deposits, above all of poor rural people, at risk in SACCOs that are not strong enough, will put member savings at risk and does not contribute to systemic stability of the rural SACCO sector.
- b. *SACCO Governance.* Guidelines for service providers contracted to provide support on SACCO governance will focus on the operations of the SACCO supervisory committees, the proper selection of members, adequate position description and management of the committee, and the reporting of the supervisory committee to the Board. The practical implementation of basic operational, technical and financial controls, both in an automated and a manual accounting environment will be introduced and/or strengthened; and the pivotal importance of good record keeping emphasized and practiced; early warning signals and follow up actions in case of frauds and misappropriations detected will also be covered. Training area for SACCO governance will include a select number of ordinary SACCO members with a view to maintaining a critical minimum mass of potentially qualified supervisory committee members over and beyond the three members that usually make up the supervisory committees in Uganda at present. A similar strategy will be employed in the training presented under a. and b. Terms for supervisory committee members expire after a maximum of four years. For SACCOs that are automated or undergoing a process of software installation supported by PROFIRA, the training will also include detection of fraud and possibilities for utilization of software functions for account reconciliation, internal audit through the software.

- c. *Business Development Skills.* Together with financial literacy and SACCO governance trainings, this is the second basic training with ordinary members as well as Board and management as targeted trainees. Trainings will include both general business skills and a specific focus on farming and processing in locally important agricultural value chains. This on-site training is particularly relevant for poorer members of the community in order to diversify household income sources and to deepen the technical skills related to activities that are already carried out by SACCO members. The training curriculum for this elementary subject is standard. Care should be given to adjust it appropriately to local conditions in terms of local crops and value chains relevant for small farmers.
- d. *Savings and other Product Development/refinement.* Rural SACCOs do not offer a wide range of client-adjusted services on both sides of the balance sheet. Deposit products often consist of only a sight account, in many cases with only nominal interest paid, and term deposits, usually between 3 and 12 months. The entry point for poor SACCO members in the SACCO is the simple sight deposit with withdrawable savings that is used also as a guarantee for borrowing. These deposits need to be made more attractive in order to attract large volumes of new savings in the community. The interest lever is the principal tool, but deposits can also be linked to targets such as school fees or with lotteries and community type competition and games to make them more attractive, above all for term deposits. In this training area, as well as in a. Financial Literacy and Deposit Mobilization, the entry level assessments for intermediate SACCOs need to take account of the overall financial and technical stability of the PROFIRA partner SACCOs foreseen. Intensive trainings focusing specifically on savings product refinement should proceed only when the overall status of the SACCO will justify mobilization of additional member deposits without undue risks to these deposits on the part of members. Trainings will operate with a matrix format for product development breaking down the components of a deposit or loan contract into its single constituent elements and clarifying to the trainees the levers available in adjusting each of these contract elements. The role of product development in the management of a small financial institution is then clarified with the help of matrices and graphs. Then the process of developing and rolling out a new product are introduced and practiced. Small sub groups then develop their own deposit and lending products based on specific instructions given by the trainers and applications are pilot tested.
- e. *Finance Management.* Proper back office functionality is essential for stable SACCOs. This part of the SACCO training will focus on the main accounting, control and financial management aspects in a SACCO. This starts with proper maintenance and management of records and accounts. Proper records and procedures – manual or automated – are pre-requisites for good accounting, record management and different types of internal controls. All cash management and other back office related functions of SACCOs were generally found to be under-performing. SACCO staff commands the basic skills but require updates and repeaters to remain on top of the financial management requirement of growing SACCOs. Financial management trainings were in high demand under RFSP and successfully delivered by Ugandan service providers. Depending on the overall assessed strength of the SACCO, these trainings have a different length and intensity. Typically they will include the topics of correct data inputting and analysis in manual and automated accounting environments, data categorization (chart of accounts) and storage, and preparation of back office and in particular financial management reports, work flow and data consistency throughout the SACCO, early warning and projecting capacities of good financial management reports.
- f. *Strategic Planning.* This training will build on the essential basics of business planning already provided by RFSP and UCSCU to SACCOs, including non-RFSP SACCOs. The module comprises the drafting, or updating, where these business plans exist, of the narrative and quantitative sections of a simple SACCO business plan. Key operational and financial targets are then taken as the base for annual planning and budgeting in the SACCO. The assessment of business plan targets against actual achievements is a good basis for PROFIRA M&E to assess whether the concerned SACCO is on track overall in achieving its growth and development objectives. Strategic planning trainings will focus both on qualitative aspects (SWOT analysis and comparative strengths of SACCOs vis-a-vis competitors, etc. And the UCSCU Business Plan format) but also emphasize the important role of quantitative planning – at least balance sheet and income statement projects, for larger and more advanced SACCOs also projections of fund flows. During the final training sessions, the adoption of the

strategic plan benchmarks in short terms tactical plans for the SACCO and their annual adjustments will be shown and practiced as well.

- g. *Credit Management (including default management)*. Loan defaults are the main challenge to long term sustainability in Ugandan rural SACCOs. As defaults mount, the operating earnings and financial base of the SACCO is weakened and ultimately completely eroded. Credit management training should focus on early warning signals for loan portfolio deterioration, and move to a regular review of the adequacy of the loan loss provision which affects the balance sheet and income statement. The guidelines for this training will therefore be drafted in close coordination with the financial management and SACCO governance modules.
 - h. *MIS/Automation (for Category A SACCOs)*. The tender with the service provider will include the following key steps in the process: (i) an assessment of the data quality, storage issues and requirements for migration into the selected software platform; (ii) training of SACCO management and Board representatives by the selected software company and subsequently submission of their data in electronic format to the software company to check whether these data are ready for migration; (iii) after testing and assessments of hardware and software requirements and readiness for installation, through trial installations on site, the data bases will then be installed and tested in the SACCOs, followed by one or more follow up visits once the software is operational. The work is considered completed when: (i) the software is running on the workstations of the SACCO, (ii) staff is familiar not just to input into it, but also the management of the data process at different hierarchy levels, and (iii) the hardware required is found working and operational. The introductory on-site familiarization and training on software automation need to involve SACCO executives, in particular the chair persons and heads of supervisory and loan committees. SACCO managers need to be involved in the process of installing and using the new software. In SACCOs with branches, licenses should be acquired for all branches that can be automated as part of the PROFIRA support package.
21. *SACCO Capacity Building – Management Development Support*. In addition, the project will support up to 100 management staff of SACCOs, half of them to be women, for the long term UCCK diploma course in cooperative finance as well as in customized courses by UCCK for effective SACCO implementation and management oriented toward cooperative principles.

Implementation arrangements

22. **Preparatory activities**. Sub-component 1.1 will work in two stages. First, preparatory activities and selection of 500 PROFIRA partner SACCOs will be undertaken. Prior to PROFIRA, the MTIC database will be updated for 2012 data and used to prepare the initial long list of SACCOs that meet basic sustainability criteria. Out of these, about 700 SACCOs that meet minimum eligibility criteria as shown in Table 1 and are community-based SACCOs in rural areas will be included in a short list. At the beginning of PROFIRA, a service provider will be contracted to: (i) assess the short-listed eligible SACCOs to validate the assessment; (ii) assess their governance structure and compliance with regulatory requirements; (iii) grade them into intermediate, strong and 'more advanced' (A⁺) categories; and (iv) agree on a 36-month training and capacity development plan for each of the 500 SACCOs. This will form the basis for a partnership agreement between the MFPED and each of the 500 SACCOs, including relevant annexes for SACCO M&E, data collection of other indicators, and proforma and other supporting documents for SACCOs to certify satisfactory delivery of performance of different service providers. Draft ToRs for the two assignments above are in Annex IV of the PIM (Appendix 11)

23. **Training and Capacity Development**. PROFIRA will engage training and capacity development services in the eight outlined areas for the selected SACCOs. There are a number of relevant arrangements to be considered in implementing this intervention. Most of the training/capacity building assignments will be carried out by different service providers operating in 3 to 5 regions of the country. Only in the case of SACCO MIS/Automation, with the limited scope of 50-150 SACCOs and few qualified service providers available, will the contract be signed on a nationwide basis.

24. Contracts with service providers will be on a 18–36 month renewable basis with key performance indicators facilitating decisions as to contract renewal or cancellation. This way, contract processes will be reduced (one contract) even though these contracts could run for up to 36–48 months.

25. Three training areas - financial literacy, SACCO governance and business development skills - will be carried out on-site. The other trainings will be clustered and carried out as residential trainings. The duration of each training module varies in accordance with the SACCO classification. Intermediate level SACCOs receive a longer first round and repeat training than strong SACCOs, while only two areas will be open for SACCOs that are rated as more advanced.

26. The *Financial Literacy and Deposit Mobilization* training is proposed to be conducted by five service providers in as many regions of the country. Contracts will be for three years renewable and the trainings will be conducted on-site at the location of the SACCO. The trainings will range from three days (stronger SACCOs) to five days (intermediate level SACCOs) and include trainings of selected SACCO members, the Board and two representatives of SACCO management. There is one repeater training budgeted. UCSCU, UCA and – if compatible with their legal status – also UCK could be included as prequalified candidates in a bid for training services.

27. *SACCO Governance trainings* are proposed to be conducted by five service providers in as many regions of the country. Contracts will be for three years renewable and the trainings will be conducted on-site at the location of the SACCO. The initial trainings will range from three days (stronger SACCOs) to five days (intermediate level SACCOs). They will include trainings of selected SACCO members, the Board (at least two representatives) and two representatives of SACCO management. In view of the importance of the subject and the need to spread the training messages widely, also among members, two repeater trainings are budgeted for this activity. UCSCU, UCA and – if compatible with their legal status – also UCK could be included as prequalified candidates in a bid for training services.

28. *Business Development Skills*. These training courses are the third and final training type to be conducted on site at the SACCO location. Training is proposed to be provided by up to five service providers in five regions of the country. Contracts will be for three years renewable with a widely placed Expression of Interest to initiate the tender process. Trainees will include selected SACCO members, the Board (at least two representatives) and two representatives of SACCO management.

29. *Savings and other Product Development/refinement*. These training courses will be conducted as residential trainings with a group of SACCOs clustered together at a central training location (district or region). Training is to be conducted by five service providers in as many regions of the country. Attendance will be from the Board and SACCO management (two representatives each). Contracts will be for three years renewable. The project budget foresees one repeater training.

30. *Finance Management*. These training courses will be conducted as residential trainings with a group of SACCOs clustered together at a central training location (district or region). Trainings are to be conducted by five service providers in as many regions of the country. Attendance will be from the Board and SACCO management (two representatives each). Contracts will be for three years renewable. The project budget foresees one repeater training. In this training area, there may be a stronger element of specific calibration to the specific needs and deficits found in the PROFIRA SACCO entry level assessment.

31. *Strategic Planning*. Arrangements here are the same as for ‘finance management’.

32. *MIS/Automation*. Arrangements here are a mix between training and coaching of key SACCO staff of the 50 SACCOs selected for installation, and the preparation of a platform for installing the software, data migration, trial runs and successful installation. The activity shall be considered completed only once results based performance monitoring indicates successful installation and use of the systems in the SACCOs. It is recommended to recruit a contract manager specifically for this activity area.

33. *Credit Management including default management*. There is only limited expertise in the country related to this subject area. For this reason, it is aimed to work with only three service providers in parallel and to place the tender internationally aimed at sourcing regional expertise, specifically on SACCO default mgt. best practices (including Kenya, Tanzania, Rwanda). These trainings will be conducted as residential trainings with a group of SACCOs clustered together at a central training location (region). Trainings are to be conducted by the three service providers in one five day course and one additional repeater course. Attendance will be from the Board and SACCO management (two representatives each). Contracts will be for three years renewable.

34. **Characteristics of the SACCO support models.** The detailed information on each of the three SACCO support models is presented below:

- **Intermediate level SACCOs.** These SACCOs have the largest capacity building requirements. Financial literacy, SACCO governance and business development skills trainings will be conducted not just for managers and Board members, but also for a segment of active members. No MIS installations and account & loan tracking automation support are foreseen for intermediate level SACCOs, which will be ready for automated MIS, neither in terms of hardware (including access to grid or reliable alternatives for electricity) nor skills. A training unit for this group of SACCOs will be generally more staff intensive than for stronger SACCOs. The cells in table 2 below with line marks indicate the first and main training, and the shaded area, usually in year three, denote repeater trainings that form an integral part of the approach in PROFIRA. These SACCOs with their intensive training requirements in most of the indicated training areas combined with a comparably weaker financial position will be required to contribute financially for the repeater trainings from the third year of the trainings onwards (10% cash contribution or the in-kind equivalent for lodging of trainers).

Table 2: Support Areas/Contract Packages for Intermediate Level SACCOs (Category B)

Indicative support areas	Year of Support		
	1st year of Support	2nd Year of Support	3rd year of support
Financial Literacy & Deposit Mobilization			
SACCO Governance			
Business Development Skills			
Savings and other Product Development/refinement			
Finance Management			
Strategic Planning			
Credit Management			

- **Stronger SACCOs.** These SACCOs will receive lighter training in most of the indicated training areas than the intermediate SACCOs and will be required to contribute financially for the repeater trainings from the first year of the trainings onwards (10% cash contribution or the in-kind equivalent for lodging of trainers). Experience from RFSP shows that stronger SACCOs often have equal if not higher percentages of poor members among them, as compared to intermediate level SACCOs. The poor in particular are highly risk averse to putting their money for safekeeping or interest earning into SACCOs without a good and solid reputation in the village. In quite a few cases, these stronger SACCOs also branch out to poorer neighbouring areas with higher concentration of poor people. The costs of installing these new branches are thus cross subsidized for the benefit of poorer villagers in areas where the SACCO branches out.

Table 3: Support Areas/Contract Packages for Stronger SACCOs (Category A)

Indicative support areas	Year of Support		
	1st year of Support	2nd Year of Support	3rd year of support
Financial Literacy & Deposit Mobilization			
SACCO Governance			
Business Development Skills			
Savings and other Product Development/refinement			
Finance Management			
Strategic Planning			
MIS/ Automation			
Credit Management			

- **More advanced SACCOs.** PROFIRA supports SACCOs that are in the strongest category of rural SACCOs only selectively and in two specific areas: (i) account and loan tracking automation and (ii) training on credit management, specifically loan default management. SACCOs in this category will have to contribute 10 per cent in cash to the installation of software packages under MIS/automation support and are required to contribute 20 per cent in cash to the residential trainings in credit and default management.

Table 4: Support areas/contract packages for more advanced SACCOs (Category A+)

Indicative support areas	Year of Support		
	1st year of Support	2nd Year of Support	3rd year of support
MIS/ Automation			
Credit Management			

35. **Phasing of Support over the PROFIRA Implementation Period.** The following table provides indication of phasing of PROFIRA partner SACCOs assuming a three year phasing-in process and a total PROFIRA active support period of three years for each support model, and also the more advanced SACCOs with very limited support requirements (support for automation and credit management only).

36. Both the absolute figures in each of the two sub categories (200 strong, 150 intermediate, plus 150 more advanced SACCOs) and the phasing in over a three year time period are indicative and need to be reconfirmed at start up (for the 18-month AWPB) and during the first phase of PROFIRA implementation. While it is possible to switch SACCOs between these categories, there may be capacity constraints on the part of available domestic service providers if the training programmes are front-loaded and carried out in parallel and without staggering/phasing SACCO capacity development activities. The entry level assessments in the SACCOs will determine the final phasing and content of the trainings based on SACCO feedback and existing skills levels found in the concerned SACCOs.

Table 5: SACCO phasing over programme implementation period

	Number of SACCOs						
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
More Advanced SACCOs in first year of PROFIRA Support	0	50	50	50	0	0	0
More Advanced SACCOs in second year of PROFIRA Support	0	0	50	50	50	0	0
More Advanced SACCOs in third year of PROFIRA Support	0	0	0	50	50	50	0
Stronger SACCOs in first year of PROFIRA Support	0	70	70	60	0	0	0
Stronger SACCOs in second year of PROFIRA Support	0	0	70	70	60	0	0
Stronger SACCOs in third year of PROFIRA Support	0	0	0	70	70	60	0
Intermediate Level SACCOs in first year of PROFIRA Support	0	50	50	50	0	0	0
Intermediate Level SACCOs in second year of PROFIRA Support	0	0	50	50	50	0	0
Intermediate Level SACCOs in third year of PROFIRA Support	0	0	0	50	50	50	0

37. **Tendering.** There will be open tendering for most of the activity areas. For MIS/Automation with only a limited number of domestic companies at hand, the tender will be pre-qualified. For SACCO credit management with its emphasis on arrears management, it is recommended to open the tender internationally for bids from the region, in particular from Kenya, but also from Rwanda and Tanzania.

38. **Clustering.** For most of the eight training areas, there will be geographic grouping i.e., for one topic, 3 to 5 different service providers may be on the job in as many regions of the country. Up to 5 clusters are required for the more staff intensive on-site trainings (a., b., c.). For SACCO automation and MIS installation, one single contract will be awarded to a specialized company. There are too few specialized service providers in Uganda and the PROFIRA supported software needs to be uniform to allow for uniform platform development for mobile banking and related services later on.

39. **Performance based contracts and incentives for service providers.** Service contracts under PROFIRA will be results-based rather than recommending payments after completion of training activities only. For each specific subject area, key performance indicators will be drafted for inclusion into contracts with service providers. Where this is not practical, a performance review will be conducted after 12 months as a basis for renewing contracts or not.

40. **Repeater training.** There is special emphasis in PROFIRA on repeating key training messages and ensuring that core messages stick with management and the Board beyond the active PROFIRA programme implementation period. These repeater training sessions have been budgeted and are planned to be carried out in the final year of the overall SACCO training programme i.e., in PY 3. For SACCO automation, there is no specific provision for repeater training. Instead, the necessary provisions will be included in the contract with the service provider.

41. **Evaluation of training courses.** There will be evaluations at the end of each training period. These will be conducted anonymously for the trainee and collated by the service provider and dispatched back to the PMU. The end-of-training evaluation format will be more detailed. For the repeater trainings, an entry questionnaire will be used to inform how the main training messages stuck with the trainees. Spot checks will be conducted by the PMU, the proposed contract manager and possibly specifically recruited service providers to check on the trainings delivered, their quality and the accuracy of the evaluations.

42. **SACCO Action Plans.** At the end of each training session and with periodic and final evaluation forms already processed, the service provider will agree with the SACCO on an action plan for the period up to the repeater training with 3 to 5 key deliverables to be achieved in the period between the two trainings.

43. **Linkages with other components.** At present, different types of linkages have materialized between existing VSLAs and SACCOs. Their nature depends basically on the strength and trustworthiness of the local SACCO for safekeeping of liquid funds of a VSLA and the extent of liquid funds generated in the business of a VSLA. In most SACCOs, VSLAs join as a group, often for safekeeping of accumulated funds; some of their members may also become individual SACCO members. In other cases, the VSLAs mainly use the SACCO for money transfer. In general, however, VSLAs are self-sufficient and do not necessarily seek to join SACCOs, unless they have specific financial needs. Similarly the attitudes of SACCOs towards VSLAs vary. VSLAs provide a vital input of women members and valuable savings in the SACCO business, and most SACCOs welcome them as a local source of deposits and reliable group members. Some SACCOs, however, take an indifferent stance towards them, while others view VSLAs as competing for members. This process is evolving without external interventions or impositions and as it stands now, has net benefits for both SACCO and VSLA members. These linkages should continue to form and take shape organically without outside guidance or interference to this effect.

Benefits and impact

44. **Benefits.** Training and capacity developments are expected to benefit a total of 500 SACCOs with a total membership of 300,000 existing and newly attracted members. Stronger SACCOs will make financial services provision in more rural and remote areas of the country more predictable and provide a safe place to deposit as well as to take out loans and invest for poor villagers.

45. **Impact.** The conservative assumptions of total SACCO members at the end of PROFIRA already indicate a favourable ratio for value for money and directly attributable costs per beneficiary.

Exit strategy and scaling up

46. The final stage of PROFIRA will consist of exit arrangements related to the training provided. One of the apexes or possibly the Uganda Cooperative College Kigumba will receive the training materials and M&E reports on each of the PROFIRA SACCOs. The appropriate institution for this should be determined at MTR and included into the management and implementation of sub component activities in the time period between MTR and loan closing.

Risks

47. There are a number of risks relating to the still fragile sector environment in which rural SACCOs in Uganda operate:

- Under-regulated and under supervised rural SACCOs. Response: a policy for Tier 4 regulation will be approved by Cabinet as a condition for the project to be submitted to the IFAD Board. The project will then support the process for passing the required legislation and setting up a Microfinance Regulatory Authority.
- Non-compliant SACCOs: In the absence of a new authority, there is the real risk that MTIC with its current budget limitations and no resources to finance DCO operations at district level will not be able to provide effective regulation and support to SACCOs with respect to the minimum requirements of annual audits and general meetings. Response: PROFIRA trainings mitigate this risk by focusing on the SACCO internal supervisory capacity exercised through well trained supervisory committees and SACCO management, and by providing complementary support to MTIC in carrying out its monitoring and regulatory functions, at least until such time as the MFRA is operational.
- UCSCU financial weakness. A failure of UCSCU to attain operational sustainability after five years will undermine advocacy and the support environment for SACCOs, in particular rural SACCOs without easy access to other national or regionally operating apex institutions. Response: Risk mitigation will consist of a managed approach to right-size UCSCU to a level that ensures sustainability, while at the same time keeping other options for the conduct of SACCO apex functions open.

Follow up actions

The following actions are recommended to expedite implementation of Sub-Component 1.1

- SACCO Survey as a base for SACCO selection under PROFIRA. It is recommended that RFSP staff work with the Department of Cooperative Development to update the MTIC SACCO database for 2012 and use it for generating the long list of potentially eligible SACCOs and then applying financial and operational selection criteria to derive the proposed short list of SACCOs.
- Once the component manager for PROFIRA is in place, initiate the tender processes for a consultant to undertake the field-level assessment of shortlisted SACCOs and for the service providers for the first round of training.

Sub-component 1.2 - Developing a sustainable SACCO union

48. The SACCOs operating in Uganda suffered setbacks and collapses during the 1990s due to politicization and other factors. Over the last decade, several projects have worked to strengthen SACCOs to provide financial services in rural areas, many of them underserved by licensed commercial financial institutions, but the sector has remained rather weak and somewhat disjointed due to the lack of a national institutional framework for the system as a whole, the lack of legal standing as financial institutions distinct from other cooperatives, and a few years ago the use of SACCOs as a distribution channel for government credit. Nevertheless, with capacity-building support from RFSP, implemented primarily by the Uganda Co-operative Savings and Credit Union Limited (UCSCU), as well as other programmes, SACCOs have come to play an important role in many communities and the image of cooperative financial institutions is improving overall. With new legislation in process covering SACCOs and other microfinance institutions that constitute 'Tier 4' of the financial institutions, SACCOs will soon have to face the challenge of complying with financial as well as other regulatory requirements intended to enhance public confidence in the 'brand'.

49. Three key institutions have emerged that provide significant services to the SACCO sector. The apex organization for all cooperatives in Uganda is the Uganda Cooperative Alliance (UCA) whose members are unions of primary cooperative societies. It has implemented projects and has started up about 250 SACCOs and also facilitated formation of the Uganda Central Cooperative Financial Services Ltd. (UCCFS) as a liquidity management agency for its members (both SACCOs, mainly drawn from these 250, and other cooperatives). UCSCU is a union of SACCOs, representing the majority of active SACCOs in the country, with a mission 'to promote and empower SACCOs in Uganda by offering high quality services' and a vision to serve the entire sector on a sustainable basis. It has used its primary responsibility for implementing the Rural Financial Services Programme (RFSP) to increase its membership to over 1 200 SACCOs (about half of those active) and to contact a total of 2 000 for basic data.

50. The primary SACCOs, together with these and other support institutions, constitute the 'SACCO system', whose sustainability and health is a key objective of Component 1. At present, UCSCU is the only organization that is focused exclusively on SACCOs and aspires to serve all of them. UCA can no longer have primary societies as members, and both it and UCCFS serve other types of cooperatives as well as SACCOs. Hence UCSCU is the logical choice for efforts to strengthen support to the sector as a whole in order to improve the sustainability and image of the SACCO 'brand' and help them prepare for regulation. Nevertheless, there is some degree of overlap between the three organizations. For instance, UCSCU and UCA both have field staff that provide mentoring, and UCSCU and UCCFS both have Central Finance Facilities that act as liquidity pools for member SACCOs. UCA and UCCFS, however, focus more narrowly on SACCOs meeting their specific criteria. While competition in some services is healthy, closer collaboration among these organizations in the future will help minimize fragmentation, contradictory signals and inefficiencies.

51. The focus of the support under Sub-component 1.2 is UCSCU and its transition from an institution that has been largely dependent on government to one that is able to operate as a financially viable institution, with a rigorous business mentality and within the framework of a sustainable financial cooperative system. While UCSCU has started down this path, it has a considerable work to do to transform itself into such an organization. UCSCU has recognized this, and with strong support from its Board has prepared a five year Strategic Plan, supported by a two-year business/operational plan, laying out how the transformation will take place to become a fully sustainable and meaningful union for the SACCOs. It is this Strategic Plan, and the resulting two-year Business Plan, that is the basis for the support to be provided under the project. The plan is based on the following four pillars, which are intended to enhance the brand image of both UCSCU and SACCOs generally:

- Develop new products and improve existing ones in order to satisfy members' needs'
- Attract all SACCOs in the country to become affiliates of UCSCU
- Improve institutional efficiency and effectiveness for sustainability, in terms of governance, management and operations
- Build synergies by enhancing institutional partnerships, networks and collaboration.

Rationale

52. A strong and operationally sustainable SACCU union is a prerequisite to having a sustainable SACCO System. Without such a union, the SACCO System does not have the capacity to address issues systematically (such as upcoming changes in the regulatory framework), confront constraints and meet core cooperative support and training needs. A SACCO union can strengthen the SACCO System by providing reliable and strong coaching and capacity building, a secure place for SACCO funds, advocacy, information sharing mechanisms, and other ongoing services for SACCOs. If the SACCO union fails, member SACCOs will suffer through their loss of deposits and capital invested in the union, as well as damage to the reputation of the sector. Similarly, the SACCO union cannot become sustainable if its SACCO members cannot afford to pay dues and elective services or repay loans. The failure of the SACCO union will thus create a void that ultimately risks the savings and capital of individual members and the viability of the SACCOs as a broad-based rural financial institution.

Strategy and approach

53. As noted above, UCSCU is the only SACCO union both positioned and aspiring to play such a role, and supporting it to do so on an operationally sustainable basis is a logical corollary to the role it was given under RFSP to build its capacity to reach and strengthen SACCOs nationwide. Among the above mentioned SACCO unions and apex organizations, UCSCU has the most SACCO members and best represents the SACCO System, as well as having an explicit objective of serving the entire sector. Most of the approximately 250 SACCOs that are members of UCA and UCCFS are also members of UCSCU. UCSCU has had significant past donor investment to build its capacity (e.g. new building with training centre, staff training, systems development), providing a foundation for it to become sustainable over the next five years (see Attachment 1 to this Appendix for a comparative analysis of the different apex organizations existing in Uganda and the justification for the choice of UCSCU as main partner).

54. The interventions under this sub-component, based on the UCSCU Strategic Plan and an assessment of the type of assistance needed, will provide a package of professional support, designed to promote its core strategic initiatives, and performance-based incentive payments, designed to meet the shortfall in UCSCU's financial position, on a declining scale over the five years covered by its Strategic Plan. Professional support will be provided through an IFAD partnership with an organization experienced in development of SACCO Systems and apex organizations.

The key principles that underlie the support provided under this sub-component are to:

- Build the confidence of the public and SACCOs in both SACCOs and UCSCU as a 'brand'
- Facilitate a process of cultural change in UCSCU's management and staff
- Steadily overcome the current constraints on the willingness and ability of the SACCOs to pay for UCSCU services that used to be free
- Foster UCSCU's ability to provide professional support that is specialized, flexible and sustainable
- Engage in a partnership relationship with an organization experienced in SACCO System development that can facilitate the above changes through a collegial, mentoring process
- Develop core services where there are economies of scale that are most efficiently delivered by a single supplier, while engaging in other elective services when UCSCU can deliver them competitively with other suppliers
- Have UCSCU, UCA, and UCCFS follow their stated cooperative principles, including the principle of 'cooperation among cooperatives', when collaborating on SACCO support services.

55. The expected output of the sub-component is *UCSCU provides sustainable services to members*, as stated in the project Logframe, facilitated by UCSCU achieving break even income from operations by the 5th project year. 'Operationally sustainable' means that annual revenue from operations is sufficient to meet annual expenditures, without depending on external subsidies, and is the most practical indicator that is also consistent with UCSCU's Strategic Plan. Two additional elements in securing sustainability that will be monitored are capital adequacy (the ability to repay all obligations) and liquidity (the ability to repay current obligations).

Investment activities

56. The investment activities include professional support and performance-based incentives for the next five years. The performance incentives will be on a decreasing scale over five years. The professional support is based on an in-depth analysis of UCSCU's institutional gaps (see Table 4 in Attachment 1 to this Appendix), and will be concentrated in the early years of the project and totals.

57. **Professional support.** The professional support for UCSCU includes long-term management support for the Board, CEO and executive management to be provided by a 'CEO/Board mentor' and short-term technical/management support to complement the work of the CEO/Board Mentor. The objective of this support is to work with and train management, help improve UCSCU's systems and operating procedures and, in essence, transfer sufficient knowledge to UCSCU Board and

management so that they will be able to implement their business plan efficiently and manage their future knowledge requirements.

58. The professional support is fully aligned with UCSCU's Strategic Plan and will address the following key institutional gaps: (i) Board governance; (ii) executive professional development; (iii) Enterprise Risk Management (ERM); (iv) external relations (government and stakeholder); (v) marketing and business development; (vi) supplier relations; and (vii) SACCO system and monitoring.

59. The professional support includes 3.5 years for the CEO/Board mentor and various inputs of short-term technical assistance (TA), spread across PY1-PY5. The CEO/Board Mentor has a supporting and oversight role to build the capacity of the CEO, UCSCU management and Board to achieve their accountabilities, not to manage or direct UCSCU. It is a participatory role and requires the endorsement of the CEO and Board to be successful. The CEO/Board Mentor's role is to coach the Board and management on how to go about the cultural and institutional changes in each area, while the short-term TA is intended to provide specialized expertise on specific technical matters (detailed TORs are found in Attachment 4 of Appendix 5). Their respective roles in each of the areas can be summarized as follows:

- *Board governance:* Mentor: assist the Board to define its role relative to management and develop a plan to close gaps in carrying out its role; TA to assess progress and benchmark it to international standards.
- *Executive professional development:* Mentor: Assist the CEO in managing cultural change, raising the profile of compliance with policies, and building a core management team. TA: Facilitate change management training, develop capabilities for the Central Finance Facility (CFC), develop HR tools.
- *ERM:* Mentor: Support the CEO in including ERM in UCSCU culture and implementing strategies to reduce fixed costs. TA: Strengthen capabilities in providing internal audit service; develop ERM framework and MIS.
- *External relations:* Mentor: Assist the CEO in engaging government and other apex organizations. TA: facilitate leaders' forums.
- *Marketing and business development:* Mentor: Assist the CEO in establishing a business development function. TA: brand and sales management and targeting.
- *Supplier relations:* Mentor: Assist the CEO in establishing beneficial long-term arrangements with suppliers. TA: Supplier evaluation and management, develop policies and model contracts.
- *SACCO system and monitoring:* Mentor: Mentor: Support the CEO in how to measure SACCO system performance and set standards. TA: Facilitate forums on monitoring performance and standards, facilitate SACCO brand and IT development.

60. **Performance-based incentives.** The performance incentives will fund the annual operating loss shown in the Strategic Plan, which forecasts decreasing losses to break even five years forward. Funding the operating loss will enable UCSCU to keep essential core resources while at the same time transitioning to more revenue-generating products to SACCOs, including the 500 to be supported under PROFIRA. Funding the expected loss based on achievement of performance benchmarks, especially progress toward profitability (see Appendix 11 for details) enables UCSCU to adjust its service offerings and pricing for maximum progress toward cost recovery and sustainability. This represents an acceptable balance between the objectives of UCSCU sustainability and affordability of services to SACCOs. Because the projected breakeven is relatively far in the future, the performance incentive will be structured to encourage UCSCU to accelerate implementation of its strategic plan to generate a profit sooner. In particular, if operating losses are reduced faster than projected, half of the gains will be allocated to offsetting past deficits (or adding to reserves), and half to staff performance incentives.

Implementation arrangements

61. Implementation of support to UCSCU will be performance-based, requiring an initial review to confirm that initial triggers have been met, as a pre-condition to activate the partnership for technical

support and to commence disbursement of the performance incentive. This will be done in the last quarter of 2013, to allow time to finalize the partnership agreement and have the CEO/Board Mentor in place soon after the project commences. Once the project has started, there will be provision for suspension of the component if operating losses are sufficiently large as to cause capital adequacy to decline significantly below the FY2012/13 level.

62. **Triggers for start-up.** Prior to the start of this component, the following must be met:

- Two-year Business Plan specifying activities to implement the Strategic Plan in place and being implemented;
- Human Resource Plan implemented for restructuring in light of RFSP completion;
- Satisfactory FY 2013 audited financial statements and SUPCO report, and management response specifying actions to remedy any major issues raised;
- UCSCU tax arrears resolved;
- Written Board agreement passed at the AGM that there will be no capital distributions for the next 5 years.
- Satisfactory 2013/14 budget, including expected sources of external support and contingency plan if external support is not realized.
- Internal Auditor who is accredited as a professional accountant by a professional accounting body, or a plan to undertake recruitment within six months.

63. Any delay in implementing the Human Resource Plan due for implementation by April 1, 2013, or a substantial deficit realized in 2012/13, will act as early warning signals and will trigger the need for further institutional assessment and modification of the Business Plan to address underlying imbalances before the component begins disbursement.

64. If the above entry triggers are met and a formal request is made, IFAD will recruit a partner familiar with SACCO System development to start the recruitment of the CEO/Board mentor and short-term technical support as needed during the first two project years.

65. **Professional support.** IFAD will enter into a partnership agreement with two reputable international cooperative organizations, experienced in development and support of SACCO systems and apex organizations: the Canadian Cooperative Association (CCA), which has a long experience in supporting SACCO apex organizations in Uganda and an established presence in the country, and the World Council of Credit Unions (WOCCU), which has a wide international network and experience in providing this type of technical assistance services to national credit unions, including in the East Africa region. The partners will recruit professional staff with the qualifications to meet the requirements of both the CEO/Board Mentor and the various short-term technical assistance (TA) inputs. At least part of the short-term TA will be provided through arrangements with volunteer retired executives with the requisite skills and experience, to help minimize the costs of such interventions. The partner will be responsible for the recruitment, arrangements and oversight of the CEO/Board Mentor as well as of the various short-term TA. The partnership agreement will include IFAD's option to cancel the partnership agreement if this component is suspended or cancelled.

66. The partners are expected to contribute to about 20% of the total costs of the assignment, while an IFAD grant will cover the remainder. The IFAD grant is justified to allow the project to enter into a financial partnership with experienced international cooperative associations. The Government will not be willing to use loan resources to pay for such relatively expensive high-level international expertise, although this input is considered essential to support UCSCU in positioning itself as a reliable and sustainable apex SACCO organization in Uganda.

67. The CEO/Board Mentor will work directly on a day-to-day basis with the CEO but will report to the UCSCU Board. The CEO/Board Mentor will have the authority to recommend the technical support and the annual performance incentives, in consultation with the Board, for approval by the Project Manager. The partners will bi-annually evaluate the performance of the CEO/Board Mentor relative to his/her terms of reference. The Mentor will be full-time on site through one planning and actual outcome cycle (2-3 years) and then on site part time for three months per year for another 2-3 years to monitor progress and ensure that the systems supported during the first three years are

being implemented successful. The CEO/Board Mentor, in consultation with UCSCU, will elaborate annual work plans, including proposals for recruitment short-term TA as needed, to be submitted to the PMU for consolidation with the overall PROFIRA AWPB.

68. **Performance-based incentives.** The performance incentive will be paid annually over a period of five years starting at the beginning of the project, expected to be in the first quarter of 2014. The incentive payments will be disbursed quarterly based on the annual amounts shown in the cost tables. Each quarterly payment after the first is contingent on UCSCU providing to the PMU a summary of activities undertaken during the preceding quarter, including a response to any material Internal Audit and SUPCO reports and, at mid-year, an analysis of material financial statement variances. If progress is not satisfactory, management will develop and submit to the PMU, with the endorsement of the CEO/Board Mentor, an action plan to bring the loss back into line for the remainder of the year. At the end of each fiscal year, if the actual audited loss (including loan loss provisions) is less than the amount provided for in the cost tables of that year, half the difference will be kept by UCSCU to offset accumulated annual deficits (or to add to reserves) and half will be distributed as a performance incentive to staff proportionate to their salaries and possibly also as compensation for performance of the staff member (to be decided during the first six months of the project and agreed with the CEO/Board Mentor). On the other hand, if actual losses are materially higher than forecast losses, IFAD reserves the option to reconsider continuing its support or changing the nature of the performance incentive and professional support.

69. At the beginning of each year the performance incentive formula will be reviewed by the CEO/Board Mentor to ensure it continues to provide motivation for reducing the projected loss and to ensure that any material outstanding audit or SUPCO issues are being addressed. Any recommended changes will be approved by the Board and IFAD.

Benefits and impact

70. The members of the SACCOs will ultimately benefit from the following expected results of strengthening UCSCU:

- Better products and experience for the SACCOs due to segmentation and targeted marketing resulting in more effective products offered to individual SACCO members;
- Less risk that SACCOs will lose their savings and capital invested with UCSCU, which, in turn, reduces the risk of savings and capital losses for individual SACCO members;
- More management tools – human resources, management information systems, ERM tools;
- An effective voice advocating for SACCOs with government;
- Closer relations with other support organizations to reduce duplications and improve cost-effectiveness of services to SACCOs.

71. The Government of Uganda is expected to benefit from:

- Improved information flow to the authorities responsible for monitoring and regulating the financial sector, as well as to donors and researchers;
- A better reputation of SACCOs, resulting in better uptake and outreach of financial services to Ugandans;
- A more dynamic rural finance system that provides better services to rural communities, including those communities that are more remote and poorer.

Exit strategy and scaling up

72. The project objective is for UCSCU to become sustainable. The CEO and Board of UCSCU will champion the cultural change, implementation of the Strategic Plan, and skills to achieve this. If the project objective is achieved, UCSCU will have the cultural change, the knowledge transfer and the earnings to continue scaling up its operations to increase coverage of the SACCO sector after the project ends. It is thus the sustainability, which is the objective of the sub-component, that will be critical to the exit strategy of the project. While achieving this operational sustainability, and thus being able to continue as an organization to service SACCOs, there will still be a role for government to play

in supporting UCSCU and providing a conducive policy and legislative environment for its continued operations.

Risks

73. The major risk is that, in spite of project support, UCSCU does not achieve sustainability by the end of PY 5. *Response. This risk can be mitigated by entry triggers before the project starts and performance reviews during the project linked to annual benchmarks, which if not reached will trigger corrective actions. If actual losses are materially higher than forecast losses, IFAD reserves the option to reconsider remaining with this component or changing the nature of the performance incentive and professional support. Material losses mean losses significant enough to reduce capital adequacy (equity/risk weighted assets) significantly below the FY2012/13 level.*

74. There is also a risk that other SACCO unions and apex organizations will continue to provide free services which will hinder UCSCU's ability to recover its costs through fees. *Response. This will require a coordination mechanism such as the Private Sector Donors Working Group to agree on common standards for cost-sharing contributions and for organizations like UCA, UCCFS and UCSCU to co-operate.*

Follow-up actions

75. At least six months prior to the start of this component, an assessment will be required to verify that the triggers specified in the paragraph on Trigger for Start-up have been implemented. In addition, a Written Board request seeking IFAD professional support will be required.

Component 2. Community based financial services

76. A number of recent studies, including the comprehensive FinScope 2009 Survey, have highlighted the limited coverage by financial institutions particularly in the more remote rural areas in Uganda. Formal financial services still reach less than 25% of the rural population, while almost 50% use only informal services and more than 30% remain totally unserved. In this situation, financial inclusion is a key element of any strategy aimed at reducing poverty in rural areas. At the same time many of these areas today have an increasing level of business and economic activity which is being constrained by limited access to financial services. Therefore, in addition to basic inclusion, there is a parallel need for improved and more diversified services to rural clients to support the transformation of the rural economy and contribute to more vibrancy in the agricultural sector which is the backbone of most rural communities.

77. The lessons learned globally and more particularly in Uganda show that systematically organized Community Savings and Credit Groups (CSCGs), often called in Uganda the Village Savings and Loan Associations (VSLAs), have been far more effective in providing financial services to financially excluded and un-banked segments of the population, often found in less readily accessible areas, than the banks, MFIs or even SACCOs. The CSCG approach has been very effective in reaching the poor, the women and youth and enabling many of them to smooth their consumption pattern, deal with social sector expenditures, enhance agriculture productivity and increase the range of income generating activities. The manner and amounts in which the savings and loans are accumulated and distributed attracts lower income households and thus acts as a self-targeting mechanism. Furthermore, more than 90% of these small savings-based operations sustain themselves well beyond the initial support period, which provides opportunities for engaging them and their members in more advanced financial sector operations.

78. Component 2 of PROFIRA builds on the successful experiences in CSCG promotion in Uganda. In addition to aiming at a major increase in the coverage of the CSCGs in the poorer segments of the rural areas, the component also provides substantial support to the further development of the CSCG method in an innovative manner and with active linkages to the formal financial sector and its support organizations.

79. Component 2 comprises of two sub-components:

- Establishment of New CSCGs, and
- CSCGs Strengthening, Innovations and Partnerships.

Sub-Component 2.1: Establishment of New CSCGs

Rationale

80. The basic rationale for using the CSCG³² approach as a tool of financial inclusion and economic development is linked to the core characteristics of this model and the manner it fits to the realities of rural Uganda. An examination of the existing CSCGs/VSLAs shows that they are excellent and effective first entry points for the rural population to financial services. This savings-led approach offers products and services which are relevant for group members, and can be implemented in an equitable manner with a high potential for sustainability beyond the project period. The model with its well defined and structured approach of weekly savings and strict rules about loan repayments instils a discipline to which members are strictly adhering. Almost all members are able to take a loan at least once during each savings cycle. Loans are kept small and are within the member's capacity to repay. The system of annual payout of the entire savings and interest generated to members further protects the savings and wards off the risk of elite capture or fraud. The approach provides a gradual but effective process that over two to three years creates strong and sustainable community financial service institutions at the lowest end of rural society.

81. Furthermore, while the VSLA model has proved to have a high outreach potential, the groups also add real value to poor households. Practically all evaluations confirm the positive impact of these groups on rural development. Uganda's National Demographic and Health Survey (UDHS) data shows that while VSLA participants started out when joining the VSLAs significantly behind the national averages in most key indicators, within a year the proportion of VSLA members with higher than the national average figures had significantly increased. These groups often also become interested in other developmental issues such as health, women's rights and empowerment. Further, CSCGs have been shown to dramatically raise the self-respect of individual members and help to build up social capital within communities, particularly among women. As the sustainability rate of CSCGs is very high, various studies show the model adds a structure, sense of purpose and vibrancy to the manner in which communities manage their financial resources.

82. The above type of positive characteristics of the CSCG/VSLA model strongly support the rationale to use this approach to increase financial inclusion in the poorer and more remote sub-regions of Uganda. The demand by rural communities to participate in the CSCG/VSLA development is strong: it is estimated that, in addition to the current number of some 30,000 CSCGs in Uganda, as many as 150,000 new ones will be required to cover all the rural areas in the country.

83. The CSCG approach is also in line with the strategies and key policies of the Ugandan Government and IFAD. Up until now, the Government of Uganda has not explicitly articulated a policy with regard to community-based financial services. However, in recognition of their growing role in providing financial services to rural areas, the Government has decided to take on a more proactive role in supporting these organizations. The Microfinance Department of the Ministry of Finance, Planning and Economic Development (MFPED) is in the process of drafting a national policy on community-based financial services, and a cabinet paper is currently under preparation on the subject. The planned policy includes various development support actions to increase the CSCG coverage among the low-income population, while no direct injections of funds to CSCGs is envisaged, which will be directly against the whole VSLA approach and have serious negative consequences.

84. For IFAD, the support to community based financial institutions is at the core of the institution's global approach to increase financial inclusion. Specifically for Uganda, the new COSOP defines the community-based arrangements as the key tools in its rural financial sector support, as they are 'the ones that better serve the needs of the target group', and provide a basis for later development and provision of more advanced financial services to rural low-income people.

Strategy and approach

85. The objective of Sub-component 2.1 is to alleviate rural poverty through the increased inclusion of low-income rural population into community-based financial sector operations. The sub-component

³² The term CSCGs is used in the report as a generic term for community savings and credit groups that are formed using different methodologies but which are however focused on saving first accumulation, providing short-term loans to members and redistributing the funds (profits) to the members at the end of the cycle, normally after one year.

will achieve this through the establishment of around 15,000 new CSCGs in the rural communities of the poorer sub-regions of Uganda.

86. The expected output and related indicators of the Sub-component 2.1 operations (see project Logframe) are:

- 15 000 new CSCGs, with trained and cohesive membership, established by end of project (Indicator 10 in Logframe)
- 90% of CSCGs formed operational after 3 years (Indicator 11 in Logframe).

87. To achieve these objectives and targets, the following key principles are to be followed when implementing Sub-component 2.1:

- Use experienced private sector service providers (SPs) to mobilise and establish the CSCGs
- Use the savings-based, systematic Village Savings and Loan Association model as the general approach of the sub-component implementation, but allow flexibility and respect modifications in the operational methods based on proven practices of each service provider
- Use a comprehensive, performance-based approach with clear implementation targets when contracting the SPs for the sub-component
- Focus the sub-component operations on the poorer sub-regions of Uganda (Appendix 2 provides details of the methodology and criteria to be used in selecting the areas of project intervention)
- Aim at an average inclusion of 70% women and 15% of youth (18-25 years) in the groups' membership
- Include among the CSCGs to be formed already functional community groups such as traditional rotating savings and credit groups (ROSCAs) and lift their operational standards to the level inherent in the systematic 'VSLA approach' promoted by the project.
- Include no external injections of funds, including revolving loan funds, to the new CSCGs from the Government, PROFIRA or SPs.

Description of investment activities

88. **Core investment activity.** With the support of Sub-component 2.1, PROFIRA-contracted service providers will form approximately 15,000 new community savings and credit groups over the seven year project period using broadly the VSLA methodology. These CSCGs are expected to cover a membership of around 375 000 people. As shown in Table 1, it is expected that the formation of most of these CSCGs will have been completed within the first five years and the remaining two year period will be used to consolidate and strengthen these groups.

Table 6: Phasing of CSCG establishment

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Total
No of CSCGs Formed	750	3,000	4,500	3,750	3,000	-	-	15,000

Targeting the activity. The targeting of the establishment of new CSCGs and their members is done in three stages. First, the activity will take place in four sub-regions. These sub-regions are selected based on the following criteria:

- The percentage of rural poor
- Proportion of people in the lowest wealth quintile.

89. Within each of the selected four sub-regions, the contracted SP will select the sub-counties in which the CSCG formation activity will focus. The focus will be on poorer sub-counties with fewer CSCGs. Furthermore, adequate concentration of target population will be used as an additional criterion to promote clustering of the CSCGs and effective implementation of the sub-component.

90. Finally, within the selected sub-counties, self-selection of the members to the groups is an integral part of the CSCG/VSLA approach. However, following the PROFIRA objectives, the service providers are expected to give particular attention to the following targets:

- Women will constitute a minimum of 70% of the groups' memberships
- Youth (18-25 years) will constitute a minimum of 15% of the groups' membership
- SPs should encourage the inclusion of poorer, more vulnerable and often risk averse households, including the handicapped and the caregivers of orphans to CSCGs.

91. The targeting analysis for PROFIRA is presented in detail in Appendix 2 of this report. It should be noted that a key outcome of the PROFIRA targeting analysis is that because the VSLA method itself is a powerful targeting and empowerment mechanism, no additional targeting instrument is proposed to be included to the Sub-component 2.1 operations.

92. **CSCG formation process and investment activities.** The contracted service provider is expected to follow the basic approaches of the VSLA method that has proved to be effective in Uganda. This approach includes: (i) working with the poor and vulnerable, (ii) self-selecting groups, (iii) regular weekly or bi-weekly meetings, (iv) accountability, security and transparency through clearly defined accounting and savings and credit procedures, (v) savings-first approach, and (vi) annual share-out to distribute savings and profits.

93. Following these general VSLA/CSCG principles, the experienced CSCG promoters already have well-defined strategies for CSCG establishment, with appropriate training modules and manuals for the different activities that could be implemented as part of this sub-component. After initial mobilisation activities in sub-counties/parishes, the CSCG establishment activity will in most cases be implemented in three phases. First, the Preparatory Phase will cover activities that are necessary before the service provider's Field Officer starts to train the group. Second, the Training Phase will cover the activities that take place when a group self-selects and receives intensive training from the Field Officer. Third, the Supervision Phase will cover the time period during which the Field Officer supervises the operations of the group. The methodology is adapted to local customs and preference. The specific activities and steps involved in the overall process include the following:

- *Self-selection.* The PROFIRA-contracted service provider introduces the concept of savings and loan services to the community and then facilitates the formation of CSCGs comprised of 15 to 30 persons, with most tending towards 30 members per group. Because trust is fundamental to the effective functioning of a CSCG, members select each other to form their group.
- *Training.* Training is provided over a few months to help members define the CSCG's purpose, elect members to serve as officials, and set terms for savings and loans, including interest rates, repayment schedules and penalties for late payments or missed meetings. The group is also trained in a system to collect savings and make loans, record transactions, and run weekly meetings. The methodology offers record keeping techniques suitable for both literate and illiterate people.
- *Governance.* Each CSCG elects a chairperson, secretary, treasurer, and two money-counters who form its executive committee. In addition, members select three others and entrust each with a key to one of the three locks on the cashbox where the group's funds are kept. This governance structure serves as an internal control system. All transactions such as the collection of member savings and the disbursement of loans are carried out at weekly meetings in front of all members, ensuring transparency and accountability.
- *Financial Services.* CSCGs begin by collecting weekly savings from members. Savings are accumulated in the form of shares, with a low price agreed upon by the group for one share to allow also the poorest members of the community to participate. The use of shares simplifies recordkeeping. Once sufficient savings have accumulated in the cashbox over four to five weeks, loans are offered to members. Typical early loans range

from \$10 to \$20, but gradually become substantially higher. The group sets an interest rate for loans, normally at around 5% to 10% per month. In addition, CSCGs set up an insurance fund, often called a social fund, to enable members to access money in emergencies or at particularly vulnerable times. The group determines if the emergency funds are distributed as grants or as interest-free loans with flexible repayment.

- *Action Audit.* Some nine to twelve months after the CSCG is formed, the group conducts what is termed as an Action Audit whereby it pays out savings and earnings from interest and fees, closes its books, and disbands. When the funds are shared at the end of the cycle, members receive a return on their savings ranging from 30 to 60 percent annually generated from interest and fees collected throughout the year. The Action Audit is usually timed to provide a lump sum to members at critical times in the year when access to money is needed, for example to pay for school fees or inputs at the start of the agricultural season. It also enables members to leave the group and new members to join. Most groups reconstitute themselves and resume the savings and loan process.
- *End of Direct SP Facilitation.* From the start of the CSCG's operations to the time of the first action audit, the PROFIRA-contracted SP observes the group's meetings and supports the executive committee as needed to ensure that procedures and systems are working well. If there are no issues, the group functions independently thereafter. To reach this stage takes between 12 and 18 months for the Ugandan SPs.

94. The funding package to be agreed on between PROFIRA and each service provider will cover all the expenditures that are required to take the new groups through the above-described formation process. As indicated above, the sustainability rate of CSCGs as independent organisations after this formation phase is very high in Uganda, exceeding 90% of the established CSCGs/VSLAs. Thus the investments included in the project cost tables for carrying out the work and establishing the CSCGs are all subsumed within one cost line – 'Formation of New Community Savings and Credit Groups' – which will be disbursed in the form of all inclusive service provider contracts. The investment cost is based on a unit cost of USD 20 per member of established CSCG, assuming on average 25 members per group and 15,000 groups in total formed over the project period.

Implementation arrangements

95. To ensure that all activities under this sub-component are properly planned and executed, the PMU of PROFIRA will recruit a Community Based Financial Services Manager (CBFSM) to oversee and manage this component during the seven year project period. The TORs are provided in the PROFIRA Project Implementation Manual (PIM). In addition, short-term technical assistance will be provided in the PROFIRA budgets for the CSCG operations, as needs arise, to ensure effective management and supervision of this sub-component.

96. Sub-component 2.1 will be implemented by contracting the services of NGOs or private sector companies, also referred to as service providers, in Uganda with the experience of implementing the CSCG/VSLA approach. A review of potential service providers for key services needed to implement this sub-component indicates that there is sufficient existing capacity among both the local and international service providers to provide the appropriate level of professional services needed to implement the sub-component. The PROFIRA Project Implementation Manual includes the institutional profiles of such key organisations that are likely to bid for the contracts under the sub-component. PROFIRA will encourage either the submission of joint bids or a consortia approach to spread the risk and provide competition among the NGOs and private companies and help further to strengthen the service provider capacity in the country.

97. For effective implementation, the geographical area of the Sub-component 2.1 implementation will be divided into four sub-regions, for each of which a separate contract will be issued. Furthermore, the PROFIRA project period will be divided into two different contracts of three years each. This means that a total eight performance-based contracts will be awarded under the sub-component. The target will be that the Request for Expression of Interest for the first four 3-year contracts under Sub-component 2.1 will be announced soonest possible after the PROFIRA financing agreement is signed and disbursement conditions met.

98. While the key target of Sub-component 2.1 is to increase financial inclusion in rural areas, a related target is to develop the capacities of various CSCG service providers in Uganda. To this end,

each service provider is allowed to bid for PROFIRA contracts in each of the selected sub-regions. However, during each round of the bidding, a service provider, operating either alone or as a part of a bidding consortium, can win a contract only in two of the four PROFIRA sub-regions. These two winning contracts will be awarded in those two sub-regions, which the bidder wins by the largest scoring point margin. If the same bidder scores highest also in other sub-regions, the contracts in these sub-regions will be awarded to the bidder that scores the second highest points by the CSCG Evaluation Committee. The Quality Cost Based Selection (QCBS) method will be used. In the PROFIRA Project Implementation Manual, a detailed description of the bidding and contract awarding process is provided. The PIM also includes a proposal for the composition of the Evaluation Committee and for the principles to be used in the scoring of Proposals by the potential SPs.

99. After the implementation contracts are awarded, the PMU and particularly the CBFSM is responsible for the continuous follow-up of the progress towards the performance milestones defined in the contracts. Based on quarterly reports by the service providers and verification visits to the field by the PMU staff, the performance of each SP will be evaluated on a continuous basis and the payments to the SPs made when the milestones agreed on in the contracts are reached.

100. The NGOs and private companies that are likely to be selected to implement the sub-component need to have well-developed procedures and IT systems to report on their progress to their financiers in CSCG/VSLA formation. At the start-up of the PROFIRA implementation, a simple, computer-based reporting system will be developed, to be used by SPs when reporting on the sub-component progress and by the PMU to follow-up implementation performance and to process the performance-based payments. This system should make it possible to automatically aggregate the performance figures at the project level to support the periodical reporting requirements of the PMU. The M&E operations of PROFIRA are discussed in detail in Appendix 6, as are the planned operations of the PMU in impact evaluation covering the Component 2 operations.

101. To implement this sub-component successfully and with adequate resources, as mentioned in the previous section, a unit cost of USD 20 per a new CSCG member has been budgeted to meet all the costs of the service provider in establishing CSCGs. This cost is based on a survey of the unit costs of undertaking this type of work in Uganda and in the region. The unit cost includes all costs of the service provider, namely: the costs of mobilising its staff; the mobilisation and formation of CSCGs; all operating costs; costs of registers, passbooks, safe-deposit boxes and other items to be provided as grants to the CSCG; and the supervision and monitoring of the CSCGs for 12 - 18 months. The costs also include the costs of the service provider's staff and all costs linked to logistics and field work.

Benefits and impact

102. Sub-component 2.1 is expected to introduce 375 000 new members to CSCGs and increase their access to financial services, enhance basic financial literacy, provide elementary business development services and improve the members' capacity to manage financial resources more effectively. After adjusting for double counting within the households (both wife and husband will sometimes be members of new groups), this investment has the potential to reach 300 000 rural households that are in the lower income brackets.

103. In Appendix 10 (Financial Analysis), the review of the benefits and impact of the community-based savings and loan services indicates that despite the fact that the savings and loans generated are small, the loan funds are provided to a majority of the members, fund utilization rates are high and there is a sharp increase in the income generating activities undertaken by the members. The financial models show that after saving and borrowing through CSCGs/VSLAs, most members are able to increase their engagement in productive enterprises such as petty trade; fish mongering; trading in second hand clothes; tailoring; brick making; charcoal making; purchase of agriculture inputs including renting and purchasing land; and the purchase of small and large ruminants. Through increased participation in activities of these types, CSCG/VSLA members in Uganda are shown to be able to increase their income by a range of US\$ 32 to US\$ 48 within the first year of the project.³³ This can be regarded as a significant increase at the income levels of the PROFIRA target group. Furthermore, while the benefits of consumption smoothening have not been estimated or included in the economic analysis, they are reported to be significant.

³³ This calculation follows the approach of the Impact Assessment of SUSTAIN Project, a large-scale VSLA support operation by CARE International.

104. Another key area of investment for members of the savings and loan groups is in meeting the education expenditures of their children. The benefit of this is the increase in life-time earnings for those who are enabled to complete their education through savings and loans provided to the family by the CSCGs. While accurate quantitative data on this impact is not available, it can be assumed to be substantial during the seven years of sub-component implementation as it is estimated that at least 20 per cent to 25 per cent of the money saved in CSCGs is likely to be used to retain children in schools.

Exit strategy and scaling up

105. There is an in-built exit strategy in the CSCG/VSLA model in creating and training the savings and loans groups. Those using this model generally use a cycle of between 12 to 18 months to mobilize, train and start the savings and lending activities of these groups. Thereafter CSCGs are expected to operate on their own with a minimum of supervision and monitoring. In most cases in Uganda, CSCG promoters have used volunteer village agents from within the community to organize, train and monitor these groups after the exit of the service provider for a small fee paid by the groups. The experience of the SPs also confirms that some of their community-based trainers often innovate and adjust their original role and continue to provide useful services for CSCGs/VSLAs for a fee. As an integral part of its performance-based contract, PROFIRA and its SPs will utilize a similar strategy of forming CSCGs and then allowing them to manage on their own with minimal support through training local women and men who can provide such support at the village level. With this approach, the expectation is to reach the same 90% plus sustainability rate with the PROFIRA-supported new CSCGs as has been achieved in general with the VSLA model in Uganda so far.

106. The scaling-up of the supported CSCG operations can be approached from two angles. Concerning the number of the new groups, the allocated PROFIRA funds are estimated to be enough for the creation of around 15,000 new CSCGs. If additional funding from other sources is made available, the operation could easily be further expanded to new districts and sub-counties. Concerning the scaling up of the activities within the CSCGs, Sub-component 2.2 is targeting just this aspect of the CSCG operations, aiming at the creation of opportunities for the members of mature CSCGs to expand their small businesses, through increased opportunities for access to funding, and in that manner to improve the livelihoods of the poor low-income households participating in the CSCG operations.

Risks

107. The key threat to successful Sub-component 2.1 implementation comes from outside interference in the CSCG operations. There is a real risk that the success of community savings and credit groups, and their broad coverage in rural communities, could result in politically-motivated injection of government grants or loans to beef up the liquidity of these groups, resulting in loss of social cohesion and internal trust within the groups and ultimately to their dissolution. While relevant Government authorities reassured that there are no plans to inject public funds to CSCG/VSLAs to boost their lending capacity, it is hoped that the planned Cabinet Paper will shed some light on the matter and confirm this as part of the official government policy. In the financing agreement, a clause will be inserted that will allow IFAD to discontinue disbursement in case this specific policy orientation will change in the future.

Follow-up actions

108. While the start-up of the implementation of this performance contract-based sub-component is a relatively straightforward issue, the need for the following follow-up actions can be foreseen:

109. From the Final Design Mission to Project Effectiveness, keep the potential service providers for Sub-component 2.1 informed in a pro-active manner of the progress of PROFIRA towards the implementation stage. This is critically important to ensure their active interest when the first Request for Expression of Interest is announced soon after the PROFIRA start-up.

110. Use the resources and expertise of the PAU of RFSP to continuously upgrade the PROFIRA PIM and especially its sections on contracting the CSCG service providers, to prepare for a smooth launching of the first bids for the service provider contracts.

Sub-component 2.2: CSCG strengthening, innovations and partnerships

Rationale

111. The VSLA approach, based on systematic operational procedures and effective group management, was originally introduced as a tool for increased financial inclusion. In this respect the CSCG/VSLA groups have performed very well: they have been far more effective in providing financial services to financially excluded and un-banked segments of the population than the banks, MFIs or SACCOs. At the same time it has been clearly demonstrated that even when operating with the original, simple VSLA concept, significant improvement has been achieved in the livelihoods of the participating rural households.

112. However, as the income generating operations of the group members have grown and diversified, financial services offered through the basic CSCG/VSLA model do not always meet the needs of all the members of the groups and sometimes constrain the development of activities of the whole group. This situation has already emerged in Uganda: encouraged by the success of their VSLA-supported small businesses, members of the mature savings and credit groups are looking for opportunities to move to higher levels of financial intermediation.

113. This situation has been acknowledged by practically all the leading CSCG service providers in Uganda. Pilot operations have been introduced to develop the CSCG methodology itself, while at the same time looking for options to link the mature CSCGs and their members to more formal financial institutions and other economic operators around the rural communities. The fast development in financing technologies and the expected new market rules on bank and MFI branching and agency banking are expected to substantially increase the opportunities for active networking for CSCGs and their members during the PROFIRA implementation period. In addition to pilot operations in Uganda, various interesting initiatives are on-going in the region (such as the ASCA Plus activities and various VSLA linkage schemes) that could provide useful inputs when developing the CSCG approach in Uganda to the next development stage.

114. In this situation, in addition to the CSCG outreach operations, PROFIRA under Sub-component 2.2 will capitalize on the opportunities that are open to these mature CSCGs and will provide substantial support to further develop the CSCG method in an innovative manner and with active linkages to the formal financial sector and its support organizations. Developing the basic CSCG/VSLA approach further is needed to create opportunities for a substantial increase in the level of business activities of the benefiting households and the related improvements in their livelihoods. If this development work is successfully carried out with the PROFIRA support, these new, innovative methods can be relatively easily replicated in other areas to benefit much wider numbers of rural low-income people that are already involved in the basic CSCG activities in Uganda.

115. Sub-component 2.2 responds to Government's expressed concerns regarding the relatively small funding volumes in the VSLA operations and the lack of an obvious path towards the further development of the VSLA members' small businesses. For IFAD, the intervention is very much in line with the approach of the Uganda COSOP that envisages that while membership in a CSCG is an important first step in financial inclusion, this will be followed by other actions that will make a wider range of financial services available to the members of the community savings and credit groups.

Strategy and approach

116. The objective of Sub-component 2.2 is to alleviate poverty through improved financial services to the PROFIRA target group. This objective is achieved through the development of the operations of mature CSCGs through operational innovations in the CSCG method and through active linkages and partnerships with the financial sector and other economic operators in the communities.

117. The expected output and related indicator of the Sub-component 2.2 operations are:

- Mature CSCGs with advanced methods and linkages developed
- 3 000 mature CSCGs (75 000 members) have improved skills and are exposed to more advanced financial services (Indicator 12 in Logframe)

118. To achieve these objectives and targets, the following key principles will be followed when implementing Sub-component 2.2:

- Use experienced private sector service providers to implement the sub-component

- Allow service providers substantial discretion when designing their implementation approaches and activities, as long as the proposals contribute to the overall objective of the sub-component in an effective and innovative manner and meet the criteria and principles set out in the tender documents and are able to produce the stipulated outputs (see paras below on the description of anticipated Sub-component 2.2 activities and the specifications of basic activity requirements in the PIM)
- Maintain the savings first-approach when considering modifications in the CSCG model and when encouraging linkages with other financial institutions
- Include under the sub-component modules of both advanced financial literacy and advanced business development, to create a basis for sustainable development of members' small enterprises
- Partner, when developing linkage operations, with mature MFIs and development-oriented institutions regulated by the Bank of Uganda
- Focus the sub-component activities in four poorest sub-regions
- Maintain the gender and youth focus when selecting mature groups for further support activities under Sub-component 2.2.

Description of investment activities

119. **Core investment activity.** With the support of the project, PROFIRA-contracted service providers will provide more advanced development support to the members of 3,000 mature CSCGs, to increase the level of financial intermediation in these groups and for their members. These CSCGs are expected to cover a membership of approximately 75,000. Each selected group will receive PROFIRA support for the period of two full cycles, corresponding in most case to a total of two years. Table 2 shows the indicative schedule, according to which the groups are expected to enter the support activities of Sub-component 2.2.

Table 7: Entering of CSCGs into Sub-component 2.2 Support

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Total
Groups entering sub-component support	-	600	600	600	600	600	-	3,000

120. **Targeting the activity.** The targeting under Sub-component 2.2 is carried out in three stages. First, the activity will take place in the same four sub-regions selected at the project start-up by PROFIRA/PMU for the Sub-component 2.1 operations. This selection will be based on the poverty ranking of the sub-regions.

121. Within each of the selected four sub-regions, the contracted SP will select the sub-counties, to which Sub-component 2.2 activities will focus. While the poverty criteria is used as the criterion to select the sub-regions, a key criteria for the selection of the sub-counties and parishes for Sub-component 2.2 operations will be the number of mature CSCGs/VSLAs that operate within each sub-county. These mature CSCGs do not have to be selected from the groups formed under Sub-component 2.1 but can be any CSCGs/VSLAs that fulfil the criteria defined below for a mature CSCG.

122. Finally, within the selected sub-counties, the service provider will select the CSCGs for the Sub-component 2.2 support based on the following criteria defining a mature CSCG: (i) at least two CSCG cycles successfully completed; (ii) savings volumes and lending performance justify their need for further development and linkages; (iii) good governance and management practices are being used, based on assessment to be carried out by the Service Provider; (iv) record keeping is up to date; (v) the participation rate of women is 70 per cent of total membership and (vi) the group has expressed a clear interest and provided a sound justification, with clear achievable targets for participating in Sub-component 2.2 operations. In addition, priority will be given to parishes and villages, in which the number of eligible groups is adequate for the effective clustering of groups and therefore for the efficient implementation of the sub-component.

123. Investment activities under sub-component 2.2. Most of the key CSCG service providers in Uganda and the region are currently working on strategies on how to develop the CSCG/VSLA method to the benefit of their members by: (i) modifying the CSCG method itself so that the group members could receive more advanced, appropriate and fairly priced financial services from the CSCG itself; and (ii) linking the groups and their members to financial institutions and other economic operators in an appropriate, innovative and safe manner. These new development efforts and pilot programmes, while aiming at the same overall target of improved financial service provision, differ in many ways in their orientation and approach to such issues as the method of savings accumulation, capacity building and the focus in linkage formation.

124. Under Sub-component 2.2, experienced service providers will be invited to present project proposals on how to further develop the CSCG/VSLA model, how to increase the business capacities of the group members to be able to get engaged in larger-scale income generating activities, and how to raise funds needed by the members in their more developed business activities. While the approaches of service providers in these development activities are likely to differ, each is expected to use PROFIRA resources to cover most or all of the following type of activities with mature CSCGs and their members:

- Advanced business development training to CSCG members
- Advanced financial literacy training to CSCG members
- Development of the CSCG model to encourage the accumulation/carry over of group savings over different cycles, to make room for larger and longer loans from the CSCGs' own funds
- Support to register the mature CSCGs under local government, to make bank linkages and other economic partnerships possible
- Focused and pro-active linkage support with financial institutions, including IT based solutions
- Partnership building between the CSCGs and their members and other economic operators in the rural communities.

125. The funding package between PROFIRA and each service provider under Sub-component 2.2 will cover all the expenditures that are required to implement the above type of activities that the service provider will describe in a comprehensive project proposal that it will make to PROFIRA as a part of a competitive bidding process. As with the contracting of service providers under Sub-component 2.1, the investments included in the project cost tables for carrying out the work with mature CSCGs are all subsumed within one cost line – 'CSCG Strengthening, Innovation and Partnerships' – which will be disbursed in the form of all inclusive service provider contracts. The investment cost is based on a unit cost of USD 40 per member of participating mature CSCG, assuming on average 25 members per group and 3,000 groups in total supported over the project period. The assigned unit cost is based on a survey of the unit costs of undertaking this type of advanced CSCG work in Uganda and in the region for a two cycle period per each selected group.

Implementation arrangements

126. Sub-component 2.2 will be implemented by contracting the services of NGOs or private sector companies in Uganda with the experience of implementing the CSCG/VSLA approach, most likely including the majority of those that will be bidding for the contracts under the first sub-component. A review of potential service providers for key services needed to implement this sub-component indicates that there is sufficient existing capacity among both the local and international service providers to successfully implement this innovative and forward looking sub-component. All the key service providers already pilot these advanced CSCG approaches and have clearly indicated their interest to bid for the PROFIRA contracts.

127. For effective implementation, the geographical area of the Sub-component 2.2 implementation will use the same four sub-regions as selected for Sub-component 2.1, for each of which separate contracts will be tendered. Furthermore, the PROFIRA project period will be divided into two different contracts of three years each. As with Sub-component 2.1, a total eight performance-based contracts will be awarded under the sub-component. The Request for Expression of Interest for the first four 3-year contracts under Sub-component 2.2 will be announced some 4-5 months after the effectiveness of PROFIRA, when the first bidding round for Sub-component 2.1 contracts will have been finalised in

order to allow for the experienced Service Providers to fully participate in the tendering process of both sub-components of Component 2.

128. One of the targets of Component 2 is to develop the capacities of various CSCG service providers in Uganda. To this end, as with Sub-component 2.1, each service provider is allowed to bid for PROFIRA contracts in each of the selected sub-regions. However, during each round of the bidding for Sub-component 2.2 contracts, a service provider, operating either alone or as a part of a bidding consortium, can win a contract only in two of the four PROFIRA sub-regions. These two winning contracts will be awarded in those two sub-regions, which the bidder wins by the largest scoring point margin. If the same bidder scores highest also in other sub-regions, the contracts in these sub-regions will be awarded to the bidder that scores the second highest points by the CSCG Evaluation Committee.

129. The actual bidding process will follow the Quality Based Selection (QBS) selection method, which is considered more appropriate than the QCBS for the type of services envisaged. The reporting by service providers will follow the same IT-based approach that was described under Sub-component 2.1. In the PMU, the CBFSM, operating under the Project Coordinator, will plan, manage and report on the sub-component operations.

Benefits and impact

130. Sub-component 2.2 is expected to provide some 75,000 members of CSCG groups with advanced business development and financial literacy skills and to open opportunities for a section of these members to access higher level financial services than the basic CSCG/VSLA model can offer. With these new skills and funding, the largely female members of the groups are expected to get engaged in business activities that are of substantially larger scale than was the case before the sub-component activities were implemented. The consequent improvements in the livelihoods of the participating households can be expected to be significant.

131. Furthermore, Sub-component 2.2 will assist the key service providers in Uganda to develop such advanced CSCG/VSLA development models that can then be actively implemented by a range of service providers in other rural communities in Uganda and in the region. While difficult to quantify, the long-term benefits and impact of these method development and replication processes could substantially exceed the direct benefits that the 75,000 PROFIRA participants can draw from Sub-component 2.2 operations.

Exit strategy and scaling up

132. As indicated under Sub-component 2.1, there is an in-built exit strategy in the VSLA model, which makes the launching of separate exit strategies unnecessary. This is even more the case when working with mature CSCGs that have already demonstrated their sustainability. With more advanced training and linkages organised under the sub-component, the level of sustainability of the participating CSCGs and that of the small businesses of the group members can be assumed to be very high. Further, a successful development of advanced CSCG development methods will open unprecedented opportunities for scaling up the pro-poor activities of this type, either in Uganda or elsewhere, and either with IFAD support or with resources from other sources.

Risks

133. The very same main risk as with Sub-component 2.1 applies also to Sub-component 2.2. Politically-motivated injection of government grants or loans to beef up the liquidity of CSCG groups can destroy mature groups as easily as newly formed ones.

Follow-up actions

134. For the technically more demanding Sub-component 2.2, the need for following follow-up actions can be foreseen for the period between the Final Design Mission and the Project Effectiveness:

- Potential service providers for Sub-component 2.2 should be informed in a pro-active manner of the progress of PROFIRA towards the implementation stage. This requires by the PAU of the RFSP to meet the individual CSCG/VSLA service providers one by one during 2013 as well as to potentially organise a short workshop when the actual timing of the first Request for

Expression of Interest for the Sub-component 2.1 bids will be known, ideally early in the first quarter of 2014.

- Use the resources and expertise of the PAU of RFSP to review and upgrade the PROFIRA PIM and especially its sections on contracting the CSCG service providers, to prepare for a smooth launching of the first bids for the service provider contracts.

Component 3. Policy and institutional support and project management

135. Component 3 comprises two sub-components: (i) Policy, Regulatory and Institutional Environment, which aims to support the facilitation of a conducive environment for the development of community-based financial institutions; and (ii) Project Management, which will support the staffing and operations of the PMU, including the provision for monitoring and evaluation, and organizing knowledge management and communication. Here below only the first sub-component is described, as project management and M&E/KM processes are described in detail in Appendices 5 and 6.

Sub-component 3.1 - Policy, regulatory and institutional environment

136. A conducive policy and institutional environment is an essential pre-condition for the development of inclusive financial services in the rural areas, with a particular focus on community-based financial institutions. This is also a core Government role in the sector. To achieve this, this sub-component will support the three main institutions responsible for the overall policy and institutional framework in the sector: (i) the Microfinance Department of MFPED, regarding its overall role of coordination and strategic guidance for the sector; (ii) the Department of Cooperative Development of MTIC, by strengthening application of non-prudential and prudential regulations for SACCOs; and (iii) the Bank of Uganda, by facilitating implementation of its financial literacy strategy.

137. As the result of a long consultative process, Cabinet is in the process of approving a policy of introducing and amending legislation to improve the regulatory framework for Tier 4 financial institutions. Both the Ministry of Finance, Planning and Economic Development (MFPED) and Bank of Uganda (BoU) are actively developing policies, legislation and regulations for the development and oversight of SACCOs. Their role is to establish prudential regulations and supervision mechanisms concerning the financial operations of SACCOs. MTIC's present role is to ensure that SACCOs comply with the non-prudential regulations for SACCOs to be registered and properly governed as cooperatives. It is improving mechanisms for more effective monitoring, auditing and governance of SACCOs. This sub-component enables the project to support these processes and facilitate a collaborative approach to effective implementation of the legislation and regulations to promote a sound environment for SACCO development.

Rationale

138. SACCOs have become a significant player in Uganda's financial system, with over a million members and a presence in virtually every sub-country. However, there has been no system of regulating them as financial institutions, or even for ensuring their compliance with basic requirements for registration as cooperatives. Inadequate internal and external controls have resulted in a high rate of dormancy and collapse relative to other types of financial institutions, putting poor people's savings at risk, undermining confidence in the system, and hence compromising its ability to achieve its potential for greater rural access to financial services. Hence it is imperative to support the government's efforts to provide a more appropriate legal and regulatory framework for cooperative financial institutions and other microfinance institutions (Tier 4 of the financial system), as well as to enhance members' understanding of their role in overseeing their SACCOs. The Tier 4 legislation in process is expected to give MFPED and MTIC new mandates and roles with respect to regulation of SACCOs, requiring support for them to prepare for and implement their obligations as the new regulatory system is being put in place. At the same time, BoU needs support from stakeholders to implement the financial inclusion and literacy strategies that it is championing, so that the rural poor can more effectively utilize the services and participate in governance of their cooperative financial institutions.

Strategy and approach

139. The objective of this sub-component is to support the sustainability of financial services for the rural poor through a strengthened regulatory framework for SACCOs. The aim is more effective external and internal regulation of SACCOs for a healthy and dynamic SACCO sector following good

financial practices of governance and transparency. The sub-component supports measures to strengthen the regulatory environment at three levels: official regulatory authorities; the SACCO (audit); and its members. At the national level, it supports the process to implement proposed legislation for regulation of Tier 4 (including SACCOs), and strengthening the capacity of the Registrar and Department of Cooperative Development (MTIC) for non-prudential monitoring and regulation. This is complemented by strengthening the ability of auditors in the market place to enable SACCOs to meet the annual external audit requirement. It will also help develop instruments to implement the financial literacy pillar of the National Strategy on Financial Inclusion, supporting the delivery of financial literacy training to SACCOs and VSLAs through other sub-components.

140. The principle underlying this sub-component is that SACCO sustainability depends not only on financial performance but on good governance. And good governance in cooperative financial institutions requires active participation by members, annual audits and annual general meetings by the SACCOs, and external supervision to monitor and ensure compliance with both non-prudential and prudential regulatory requirements. As cooperatives, SACCOs are, in principle, self-governing. This requires that members be aware of their rights and responsibilities (part of financial literacy) and that they have adequate information and opportunity to act (hence the legal requirement that registered cooperatives must have an annual external audit and annual general meeting [AGM]). A further principle is that external oversight is needed to ensure that these basic requirements of cooperatives are respected, with the ability to intervene when they are not (the role of MTIC/Department of Cooperative Development). Furthermore, as financial institutions, SACCOs should, in principle, follow prudential financial guidelines, e.g., regarding liquidity management, capital adequacy, and loan loss provisioning (the role of MFPED and the Microfinance Regulatory Authority [MFRA] that it intends to establish under the new legislation).

141. The main expected output of this sub-component, as per the project logframe, is 'strengthened regulatory framework for SACCOs'. Activities contributing to this output include supporting the process leading to the establishment of the MFRA, updating the Registry of SACCOs, and ensuring compliance with the external audit requirement. The main quantifiable indicator linked to the Logframe output is that at least 90% of project-supported SACCOs are audited annually by qualified auditors.

Investment activities

142. The main investments involved in this process are summarized in the following paragraphs.

143. *Policy and institutional environment.* The main focus will be support for MFPED to facilitate its role of overall coordination for the sector. This will include support for the overall process of review and elaboration of the financial services strategy, including consultation of national stakeholders, study tours, trainings and technical assistance; the revitalization of an active consultative mechanism with stakeholders in the sector, such as the Microfinance Forum that used to play an important role in this respect; and the operationalization of the Tier 4 regulation through stakeholder workshops and consultations to build awareness and consensus around the new legislation, capacity building to facilitate its implementation, as well as specialized assistance in developing and applying the legislation and establishing the Microfinance Regulatory Authority.

144. Successful passage and implementation of the new Tier 4 legislation will require substantial consultation among stakeholders eventually leading to the establishment of a proposed Microfinance Regulatory Authority (MFRA), with the largest and strongest SACCOs expected to become supervised by BoU as Tier 3 Microfinance Deposit-taking Institutions. MFPED will be supported to prepare for implementation of the new legislation for Tier 4 through a study tour to learn from other country experiences, by engaging technical assistance (both local and international) for the establishment of the MFRA, and assisting apex organizations to develop guidelines and prepare their members for regulation. The actual investment for the establishment of the MFRA is not within the scope of this project and could possibly constitute the object of additional IFAD financing subject to a specific request by Government and IFAD Board approval.

145. MFPED is also expected to revive the Microfinance Forum (which was effective in the early 2000s at mobilizing and coordinating support for new legislation for and capacity building of microfinance institutions) for overall coordination among stakeholders and to hold workshops and other consultations to build consensus on the new regulations (especially during the initial project years) and on other policy issues (in particular support to CSCGs).

146. *Monitoring and non-prudential regulation.* The capacity of the Department of Cooperative Development in MTIC will be strengthened in three main areas to carry out its mandate for registering and monitoring SACCOs and enforcing their compliance with the minimum requirements of an annual external audit and AGM: (i) maintenance, backup and upgrading of its computer systems (Registry and database); (ii) facilitation (field expenses) for Department staff and District Commercial Officers (DCOs) during the first three project years to verify the status (active or dormant; compliant or not with audit and AGM requirements) of SACCOs to update the Registry, and, for at least 200 of those in difficulty or out of compliance, to intervene in turnaround efforts (including special general meetings) or undertake liquidation; (iii) initiate at least 60 local or regional SACCO forums during the first three project years to provide information on new regulations and stimulate exchange of knowledge and good practices amongst SACCOs, and to follow up with at least 60 forums/networks at the initiative of the SACCOs themselves. The cleaned and updated database will also be used for analysis at mid-term review and project completion under the M&E sub-component in order to assess progress in consolidating and stabilizing the SACCO system and moving toward greater sustainability.

147. In addition to the above activities, the Department of Cooperative Development, under its mandate to ensure that SACCOs undertake annual audits by qualified auditors, will be funded to engage consultants to develop training manuals and materials specifically for auditing SACCOs and provide at least six training sessions during the first three project years to improve the capabilities of local accountants and auditors (including DCOs). By increasing the number of people qualified to audit SACCOs and tailoring their skills specifically to SACCOs, this activity is expected to both raise the quality of audits (for better governance and easier regulation of SACCOs) and to help achieve the logframe target that 'at least 80% of project supported SACCOs are audited annually by qualified auditors'.

148. *Implementing National Financial Literacy Strategy.* Working together with the BoU and within its framework for promoting financial literacy, this activity will fund technical assistance to tailor the national messages to SACCOs and VSLAs by developing, translating and printing posters, brochures and materials; and preparing training manuals. These materials will feed into financial literacy training under Components 1 and 2. The project will also support about 300 one-day sensitization campaigns in relatively poor communities in catchment areas of intermediate SACCOs being supported under the project, focusing especially on youth and women.

Implementation arrangements

149. The Department of Microfinance in MFPED will be directly responsible for activities under *policy and regulatory environment*. It will organize and invite stakeholders to sessions of the Microfinance Forum and workshops as needed, and arrange for study tours and retreats for those engaged in implementing Tier 4 legislation and establishing the MFRA. When TA is needed, including visits by officials from other countries, it will prepare TORs for submission to the PMU and oversee the TA.

150. The Department of Cooperative Development in MTIC will have primary responsibility for implementing activities under *monitoring and non-prudential regulation*. The PMU will sign a Memorandum of Understanding (MOU) with the MTIC/Department of Cooperative Development specifying the modalities and responsibilities for implementation. In particular, the Department of Cooperatives will be responsible for: (i) preparing the technical specification for the procurement and implementation of software, replacement and upgrading for the computerized registry and database; (ii) providing the time of its HQ staff and DCOs to carry out and oversee project activities; (iii) managing payment of per diems for field work (expected to exceed 100 days/year for verification, turnaround, liquidation and Forum formation efforts); and (iv) preparing TORs for and overseeing consultants, as needed. With respect to developing training manuals in SACCO auditing and delivering the training, MTIC will have the option of partnering with the Institute of Certified Public Accountants of Uganda (ICPAU) under a tripartite MOU, together with the PMU. Furthermore, to make audits more affordable, the PMU will be encouraged to work with ICPAU and SACCO unions (regional as well as UCSCU) to identify regional groups of SACCOs (particularly those supported by PROFIRA) and help them to negotiate bulk contracts with qualified audit firms for auditing them as a group.

151. With respect to *financial literacy*, the PMU will work with BoU and the financial literacy sub-group of the National Financial Inclusion Strategy to agree on terms of reference for a consultancy to adapt the general messages into materials and manuals suitable for financial literacy training of

SACCOs and CSCGs being supported under the project (sub-components 1.1 and 2.1). The PMU will also be responsible for engaging consultants (or identifying a partner) to conduct sensitization campaigns oriented toward youth and women in poor communities in areas being supported by PROFIRA.

Benefits and impact

152. This sub-component supports the objective of SACCO sustainability by improving the environment for SACCO governance and accountability, which is captured in the target of 90% of project-supported SACCOs achieving sustainability. SACCO members will benefit from this sub-component's activities by having better access to accurate audits and recourse to external support if governance issues arise. Improving the quality of data in the SACCO registry (e.g., by verifying the status of dormant SACCOs and liquidating and de-registering them) will benefit the regulatory authorities responsible for overseeing the sector. Keeping the database up to date will benefit both the authorities and agencies interested in supporting the sector, by providing a more accurate picture of SACCO performance than is presently available and identifying those that are out of compliance. In the medium term, the result will be a consolidated and more realistic roster of the number of registered and active SACCOs; in the longer term, the result will be a more stable and accurate picture of the sector and its performance.

Exit strategy and scaling up

153. Once the steps toward establishment of the MFRA under the proposed Tier 4 legislation have been undertaken, the government may decide to mobilize additional resources specifically to support the start-up costs of the MFRA (including equipment, staffing and training, developing manuals and operating procedures, field studies, etc.) and the substantial costs of building up the capacity of the SACCOs and other MFIs to comply with regulations and reporting requirements. PROFIRA lays the groundwork both with respect to the regulators and in enhancing the readiness of supported SACCOs for prudential supervision. But the full exit strategy and scaling up to the SACCO sector as a whole is likely to be embodied in a broader programme that will be aimed at attracting multi-donor support for the longer-term task of building the capacities of both the regulators and the institutions to be regulated.

154. The exit strategy for project support to strengthening the SACCO registry and capability of the Department of Cooperative Development is that their role in non-prudential regulation and oversight of SACCOs is expected to be formalized under the proposed Tier 4 legislation. The MFRA is expected to bear supervisory responsibility for only the upper portion of the SACCO sector (apart from the few to be licensed by BoU), and the Department of Cooperative Development will presumably have primary responsibility for (non-prudential) regulation of the rest. Thus, it is expected that in the latter half of the project period, there will be a transition from the minimal support being provided under PROFIRA to more systematic budget and future programme support for the regulatory framework.

Risks

155. With respect to Tier 4 legislation, there is a risk of delays in establishing the proposed MFRA and in funding it, especially if the Government has to seek substantial funding from donors to implement it. Thus it may be several years before a new regulatory regime for SACCOs is fully operational, and it may have adequate funding only to supervise the larger SACCOs. *Response: The consequent risk of inadequate supervision of SACCOs is mitigated by project sub-component 3.1, providing support for more effective implementation of regulations under the current framework, in preparation for a more comprehensive regime and new regulatory authority being put in place. The capacity building provided under sub-component 1.1 will help project-supported SACCOs put in place systems that will be better able to meet the regulatory requirements that emerge.*

Follow-up actions

156. Following Cabinet approval of the Tier 4 regulation policy, MFPED must undertake consultations and drafting to prepare the legislation for Parliament during 2013. These activities will require support from RFSP or other sources until PROFIRA becomes effective. Baseline analysis of the database from the survey of over 2 200 SACCOs currently being completed by the Department of Cooperative Development could be combined with the RFSP completion report on the status of the SACCO sector, as well as with initial selection of SACCOs potentially eligible for support under PROFIRA, using the same database. This could best be done under RFSP before it closes.

Attachments to Appendix 4

Attachment 1: Assessment of SACCO Apex Organizations and opportunities for support

Table 1: Relative size

Table 2: Financial analysis

Table 3: UCSCU's 5-year strategic plan

Table 4: UCSCU institutional gaps, roles of TA and performance benchmarks

Attachment 1: Assessment of SACCO apex organizations and opportunities for support

A. Background on SACCO apex organizations

1. In Uganda there are three existing SACCO apex organizations: the Uganda Cooperative Savings and Credit Union (UCSCU), the Uganda Cooperative Alliance (UCA) and the Uganda Central Co-operative Financial Services Ltd. (UCCFS). This Attachment summarizes the assessment of these organizations that is presented in greater detail in Working Paper 1.

2. **UCSCU.** Support from USAID and the World Council of Credit Unions ended in the mid-2000s. At the time, UCSCU had 46 SACCOs and 7 staff serving mainly urban, employment-based SACCOs. With the introduction of the Rural Financial Services Strategy (RFSS) in 2007, UCSCU expanded from zero to eight regional offices in the first six months of 2008 to support 264 SACCOs identified for IFAD support under RFSP. To support its objective of a SACCO in every sub-county, the GoU then added substantially more budget for UCSCU staffing and services to reach about 70 to support a total of 735 SACCOs. RFSP also supported 28 Financial Extension Workers (FEWs) who supported outreach (increased to 42 as of the end of 2012). Most of the staff lacked SACCO experience and the new SACCOs lacked savings deposits. Tensions arose between management who were targeting rural based SACCOs through RFSP and the UCSCU Board, which represented urban based SACCOs. At the time, about 95% of operational costs were paid by the GoU (directly or through RFSP), making the GoU, rather than the member SACCOs, the focal point of attention. A governance crisis arising from efforts to keep that Board in power beyond the end of its legal term was finally resolved through a Special General Meeting called in September 2010 by the Commissioner of Cooperatives and a new Board and Supervisory Committee (SupCo) elected, with much broader representation. In 2011, the CEO was removed; the Finance Manager was confirmed as new CEO early in 2012.

3. During 2012, the orientation of the new management shifted from the previous focus on delivery of equipment and standardized training toward a more service-oriented approach to its member SACCOs (including those not directly supported by RFSP), emphasizing mentoring and customized training. The new Board developed a five-year Strategic Plan which articulates the role of UCSCU as an apex organization specifically for SACCOs and serving the sector as a whole. A two-year Business Plan was prepared that addresses the issue of reorienting and resizing UCSCU to make the transition from implementing agency to a member-based and –oriented organization. UCSCU has extended its outreach beyond the 735 SACCOs it serviced through RFSP to reach total membership of 1,135 and monitoring data on 2,200 SACCOs. It is attempting to build up its core services to support the strategic objectives to:

- Develop new products and improve existing ones in order to satisfy members' needs;
- Attract all SACCOs in the country to become affiliates of UCSCU;
- Improve institutional efficiency and effectiveness for sustainability;
- Build synergies by enhancing institutional partnerships, networks and collaboration.

4. **UCA.** UCA is an umbrella body for unions of all types of cooperatives. Since the late 1990s, UCA has used donor support to sensitize communities to the benefits of community based savings and credit and then assist them to develop a SACCO. Nurturing has included providing operational support on a declining basis for a limited period of time and providing business practices and record-keeping. During a period of SACCO decline, UCA had its constitution amended to include SACCOs as members. The GoU's designation in 2008 of UCSCU to implement its RFSS created tensions between UCA and UCSCU on appropriate roles and the development of SACCOs. In 2012 the Commissioner of Cooperative Development ruled that only unions of cooperatives may be direct members of UCA. Nevertheless UCA has continued to monitor some 255 SACCOs that it helped to form, and supported the development of UCCFS, which includes many of those SACCOs. UCA has recently participated as an RFSP partner to facilitate the development of SACCO unions and regional networks, as a way of learning how this approach might help the SACCO system to consolidate in the future.

5. **UCCFS.** UCA established UCCFS in 2008 as a tertiary co-operative under the Co-operative Societies Statute (1991) for the purpose of providing financial services to the entire co-operative movement in Uganda. Financial services include: (i) liquidity management; (ii) payment arrangements; and (iii) any other cooperative support services approved by its members. It has 222 members, most (but not all) of them SACCOs (about half of them formed with support from UCA). Members must meet criteria of financial strength. UCCFS was formed to fill the financing gap to cooperatives after the closure of the Cooperative Bank of Uganda. Rabobank provided long term financing at a low interest rate. Even though many SACCOs have accounts with Tier 1 financial institutions, commercial credit is too short-term to be used to finance SACCO operations. UCCFS provides term credit to rural SACCOs, which enables them to meet high loan demand at the beginning of each crop cycle. Under the tripartite model promoted by UCA, a minimum of 30 farmers form a primary cooperative called a Rural Producer Organization (RPO) and deliver their produce to the Area Cooperative Enterprise (ACE), a secondary cooperative whose members are several RPOs. The ACE does the value-added functions such as bulking, cleaning, grading, packaging and marketing. The ACE issues a receipt to the farmer, who can use the receipt as collateral for a loan from the SACCO, which is owned by the local farmers. The sale of the farmers' production is administered through the SACCO, which makes the final payment to the farmer after deducting the repayment of the loan and interest. UCCFS nurtures the development of the tripartite model by fostering the development of new SACCOs and providing financial services to existing SACCOs and the ACEs. It provides short term contract financing to some ACEs who have supply contracts, e.g., with schools, governments, and processing companies. It provides term financing to the ACEs to buy equipment for the value addition. It provides creditor insurance (pay off the SACCO loan due to death or accident) to SACCO members through Sanlam Assurance.

Assessment of SACCO apex organizations

6. A strong and institutional support framework is a prerequisite to having a sustainable SACCO system that can help meet PROFIRA's objective of greater financial inclusion of the rural poor. In particular, it is important to have a nationwide union of SACCOs that can represent their interests and help develop the SACCO as a particular *brand* of financial institution. Without such a union, the SACCO system does not have the capacity to address issues systematically (such as upcoming changes in the regulatory framework), confront constraints and meet core cooperative support and training needs. A SACCO union can strengthen the SACCO system by providing reliable and strong coaching and capacity building, a secure place for SACCO funds, advocacy, information sharing mechanisms, and other on-going services for SACCOs. This section assesses the strengths and weakness of the three organizations cited above in terms of their ability to play these roles.

7. Table 1 presents data on their relative sizes, while Table 2 summarizes relevant financial data. UCSCU serves a much greater number of SACCOs (and their members) than UCA and UCCFs, and currently has a larger field presence (although this is expected to reduce following the end of RFSP). While UCA has a substantial field presence, they also serve the much larger number of producer and marketing cooperatives, as well as RPOs and ACEs. Most of the SACCOs served by UCA and UCCFS are also members of UCSCU.

Table 1: Relative size

	UCSCU	UCA*	UCCFS
Staff	92**	80	12
Field offices	15**	9	5
Number of SACCO members/affiliates	1,135	255	222
Total members of participating SACCOs	779,000***	Not Available	306,830

Source: Most recent annual report (June 30, 2012) except where noted.

* February 2013, Billy Butamanya, Deputy General Secretary, Uganda Co-operative Alliance and Patrick Sserubula, UCA.

**UCSCU expects to reduce staff to 70 and field office to 6 following the end of RFSP in 2013.

*** Total members of participating SACCOs is based on 769 members that are fully paid up, which is less than the 1,135 total SACCO members.

8. The business activities of an apex organization like UCA, which acts as a trade association and a development mechanism to nurture cooperatives generally, is different from the business activities of UCCFS, which, as a Central Finance Facility (CFF), intermediates deposits from its member cooperatives and makes the funds available for borrowing. UCSCU acts both as a trade association and development mechanism to nurture SACCOs as well as a CFF to SACCOs. These differences translate into different balance sheet structures and different levels of profitability.

9. Sustainability in this project is defined as annual operating income that covers annual operating expenses without any direct subsidy, i.e., operating profitability. Financial sustainability also includes two additional factors - capital adequacy (the ability to repay all obligations) and liquidity (the ability to repay current obligations). Capital/Total Assets will be used as an estimate of capital adequacy (which also should in principle consider the riskiness of the assets). Working capital (current assets – current liabilities) will be used as an estimate of liquidity.

10. Profitability must be balanced with growth and capital. The financial analogy is a three legged stool – the 1st leg represents profit, the 2nd leg represents growth, and the 3rd leg represents capital. (Note: other SACCO systems have defined a stakeholder three legged stool – members, board and management). If profit, growth and capital are not balanced, the stool falls over. For instance, if loan growth is much greater than deposit growth, profits will rise and capital will rise but the SACCO union will eventually run out of liquidity. In fact, deposit growth is more important and more difficult to achieve than loan growth, because savings depend on income levels and trusting that the SACCO union will be able to repay the deposit. Deposit growth is the key constraint inhibiting growth. If there is no growth, there is little profit growth and little growth in capital. For a financial cooperative, profit, growth and capital are inter-dependent and must be continuously balanced.

Table 2: Financial analysis (UGX million as at June 30, 2012)

	UCSCU	UCA	UCCFS*
Current Assets	623	2,006	1,791
Total Assets	1890	10,305	1,812
Current Liabilities	781	1,205	255
Capital and Reserves	1109	9,047	573
Total Comprehensive Income (Loss)	55	(98)	18**
Annual Savings Growth (UGX/%)	29/14%	NA	-31/-12%
Annual Loan Growth (UGX/%)	46/280%	NA	1,141/300%
Profitability (Return on total assets)	2.9%	Negative	Negative
Liquidity (Current Assets – Current Liabilities)	(158)	801	1,536
Capital Adequacy (Capital to Total Assets)	59%	88%	32%
Credit Risk (Provision for Bad Debts/ Loans)	3%	NA	0.7%

Source: June 30, 2012 year-end financial statements except where noted.

* Year-end Dec. 31, 2011.

** Includes 507 million in grants, so UCCFS will have reported a loss on operations of 489 million without assistance.

Note: Savings growth includes accrued interest. For UCSCU, savings growth includes "Unclaimed members' bank deposits" which has not been classified as savings or share capital. Loan growth is before provision for bad debts. Savings and loan growth are not applicable (NA) for UCA, which is a trade association, not a CFF.

11. UCSCU's liquidity is weak. Cash of UGX 200 million does not cover members' deposits of UGX 235 million, although UGX 91 million of the UGX 235 million may include some illiquid member shares. Savings growth is not balanced with loan growth, so UCSCU will eventually run out of liquidity without assistance. Return on total assets of 2.9% is weak when compared to market rates of return. Profitability of UGX 55 million is expected to turn to a loss based on UCSCU's Strategic Plan (Table

3). Capital/total asset is adequate but capital/risk weighted assets of 60% is the minimum management guideline. With projected losses, capital/risk weighted assets will have to be monitored closely.

Table 3: UCSCU's 5-year strategic plan (October 2012; UGX million)

	2012/13	2013/14	2014/15	2015/16	2016/17
Budgeted revenue:					
Members Subscriptions & Stat' Contributions	443	469	498	553	608
Business Income	733	620	775	1,046	1,517
Total revenue	1,176	1,089	1,273	1,599	2,125
Budgeted expenditure:					
Cost of Core Business Services	323	223	245	270	297
Business Development & Networking	160	168	185	203	224
Financial Service charges	58	60	66	73	80
Personnel Costs	323	931	931	931	931
Governance and Supervision Costs	40	46	51	56	61
Head Office Administration Costs	95	241	238	261	287
Regional Offices Administration Costs	-	490	539	593	652
Total Recurrent Expenditure	998	2,159	2,254	2,387	2,533
Projected surplus / deficit	178	(1,070)	(981)	(788)	(408)
Capital Expenditures	48	25	50	50	50
Settlement of Liabilities	128	-	-	-	-
Total budget surplus / deficit	2	(1,095)	(1,031)	(838)	(458)

12. UCSCU's credit risk is high. UCSCU does not provide for losses on SACCO loans and has accrued a loss of UGX 4 million in 2012 on Accountable Advances, which includes payments due from SACCOs and advances paid to staff. The SUPCO Report (p. 23) states, "...most of the receivables are from staff, who receive field-related activity advances to implement activities and they take so long to account for the same. This implies that, either activities are not implemented as per schedule or it is a deliberate move by staff not to account for advances." Management claims that staff advance repayments are now up to date or are being deducted from salaries.

13. UCA's liquidity is strong, with working capital of UGX 801 million. Cash of UGX 1,219 million is greater than current liabilities of UGX 1,205. UCA generated a loss of UGX 98 million for the first time in eleven years, as investments were made for the future. Management is confident that the losses will turn around. A capital/total asset of 88% is strong, so UCA can withstand the 2012 loss.

14. UCCFS's liquidity is misleading, as working capital of UGX 1,536 million includes UGX 1,696 million of loans classified as current assets. Cash of UGX 76 million is less than savings deposits of UGX 231 million, which implies weak liquidity. Profitability is weak and not sustainable, as reported income includes UGX 507 million in grants. Capital/total asset is weak. Capital and reserves of UGX 573 million is roughly the size of 1 year's losses if UCCFS did not receive assistance. UCCFS accrued a provision for bad debts of UGX 11.3 million for the first time in 2012. UCCFS does not accrue a provision for bad debts on staff advances.

15. In conclusion, all three organizations have financial weaknesses and will require some form of assistance to reach full financial sustainability. Based on capital levels, UCA ranks the strongest, followed by UCSCU and then UCCFS. (Note: The above analysis was based on information available at June 30, 2012.)

Rationale for PROFIRA to support UCSCU

16. Based on the above analysis and strategic considerations for development of the SACCO sector, UCSCU is considered as the most suitable institution for support under PROFIRA because of its coverage, mandate, and strategic direction. In particular, it has the most SACCO members, as well as a stated objective to serve all SACCOs nationwide with a variety of services whereas UCA can no longer have SACCOs as members, and UCCFS focuses on only one area – operating a CFF for cooperatives. Nevertheless, UCSCU financial weakness must be recognized and addressed.

17. UCSCU derives its mandate from its registered Byelaws Article 2: Objects. “The purpose of the union is to foster the organization and development of savings and credit cooperatives in Uganda and to improve their internal operations. In particular the union is to:

- Cause the organization and development of savings and credit cooperatives in Uganda in order to bring about greater participation by the people of Uganda in the activities of personal thrift, money management and prudent use of credit.
- Promote, sponsor and develop educational and training programmes to educate savings and credit cooperatives in proper methods, procedures and principles of safe sound operations.
- Promote publicity and public relations activities as may be required to inform...and broaden...public understanding of the importance of savings and credit cooperative services and benefits....
- Promote and act for saving and credit cooperative movement by advocating for legislation required for preservation and improvement of savings and credit cooperatives in the country.
- Design the offer to its members’ financial programs on complete terms.
- Provide an international link with other world bodies having similar projects.
- Engage in research and supply related information as required by its members...”

18. UCSCU has the strategic direction (vision and mission) to develop the national SACCO system. UCSCU’s vision of what they will like to be in the future is “to be the leading, sustainable union for all SACCOs in Uganda.” This is more focused on SACCOs than UCA’s vision (“A strong umbrella organization of prosperous cooperatives with empowered members”) and UCCF’s vision (“A catalyst for a financially strong and competitive co-operative movement”) – both of which include all types of cooperatives. The interests of cooperatives are not always the same as the interests of SACCOs – e.g. when a SACCO has to collect a defaulted loan from a cooperative.

19. UCSCU’s mission or purpose (“To promote and empower SACCOs in Uganda by offering high quality services”) likewise is more focused on all the SACCOs than UCA’s mission (“To provide high quality support services to cooperatives and their members on a sustainable basis”) and UCCFS’s mission (“Creating opportunities for co-operative growth and services to co-operators through efficiency and economies of scale”).

20. The above differences in strategic direction translate into different cooperative models which will lead to different futures. UCSCU’s cooperative model is independent of whether a SACCO member joins another cooperative, so future SACCO development will depend on national growth in Gross Domestic Product (GDP) and the national savings rate. It diversifies and mitigates risk by focusing on broad financial services at the national level. UCA’s cooperative model is based on a cooperative tripartite model - a SACCO member joins a RPO and the RPOs join an ACE, so future SACCO development will depend more on regional and agricultural sector growth and regional savings. UCCFS’s cooperative model depends on providing financial service to cooperatives, so UCCFS’s future will depend entirely on the financial success of cooperatives and the number willing to deposit with it.

21. Other potential SACCO support organizations suffer from constraints which preclude them from becoming the SACCO union.

- UCA legal constraint: UCA's role is to represent all co-operatives, not just SACCOs. It is a "fourth-tier" apex, according to the Commissioner of Cooperative Development's terminology (primaries, regional or sectoral unions, national unions, and apex). As noted above, it can no longer have primary societies such as SACCOs as direct members. Furthermore, membership requirements supplied by UCA include "making a surplus on their operations," which will preclude many SACCOs from being able to join. UCA's scope is limited to about 255 SACCOs that it has formed under projects and continues to monitor.
- UCCFS capacity constraint: UCCFS serves non-SACCO cooperatives (presently 17) as well as SACCOs (presently 222). It is much smaller than UCSCU and has a different vision – to become a cooperative bank providing financial services to the cooperative sector.
- AMFIU's mandate as an apex covers the entire microfinance sector, not any specific subsector such as SACCOs.
- Microfinance Support Centre (MSC) Ltd is a government agency, so by definition, conflicts with cooperative principles of being an independent organization based on democratic principles.
- There are also various regional SACCOs that provide specific services to their member SACCOs, but these lack the mandate and the capacity to be a national SACCO union. Development of regional unions is in its infancy in Uganda.

22. UCSCU represents most of Uganda's SACCOs and their members. UCSCU has the mandate and the strategic direction to represent all of the SACCOs in Uganda and can tailor its membership requirements, pricing, and product offerings to be inclusive.

Constraints and opportunities of UCSCU

23. To become a sustainable SACCO union, UCSCU will need strategies to overcome its key weaknesses. A detailed institutional analysis is included in Table 4 (below), showing the main institutional gaps, the respective roles of the CEO/Board mentor and short-term expert technical assistance (TA), and the milestones and benchmarks for evaluating progress. UCSCU will need to build its organizational knowledge. While UCSCU management, Board and staff have undergone several trainings under RFSP, institutional gaps were identified based on a high-level review of major enterprise wide risks. These institutional gaps cover Board Governance, Executive Professional Development, Enterprise Risk Management (ERM), External Relations, Marketing and Business Development, Supplier Relations and SACCO System and Monitoring. The CEO/Board mentor and the TA are designed to fill institutional gaps and transition UCSCU to sustainability. The role of the CEO/Board mentor is an oversight role supported by specific knowledge provided by the TA experts.

24. UCSCU will need to remain true to its Strategic Plan. In the past UCSCU strategic direction shifted from a narrow focus on urban based employment-based SACCOs to a much broader mandate as the implementing agency for RFSP and the government's policy of supporting at least one SACCO in every sub-county. In the process, its capacity improved, both in physical terms through the construction of its head office building and training centre in Kampala (with GoU and RFSP support) and in terms of number of field offices, staff, and training of staff. UCSCU now has a clear strategic direction that is aligned with its mission, vision and cooperative values. As UCSCU becomes sustainable, UCSCU will have the financial resources to withstand external influences in the future. Technical assistance and performance incentives under PROFIRA will provide the necessary support during its transition period.

25. There is some concern as to whether the Board, CEO, and executive management have the commitment to change the institutional culture toward becoming a sustainable, member-based, service-oriented organization. Mitigating Strategy: The Board and management acknowledge that they are accountable for achieving their Strategic Plan. They are fully aware that their Strategic Plan includes difficult decisions that must be made dealing with staff levels and SACCOs paying for services that used to be free. They are demonstrating their commitment by initiating fees for services and staff assessments as a basis for resizing in 2013.

26. After the start of the project and for five years of the project, the CEO/Board mentor will continue to monitor commitment. The CEO/Board mentor will have the authority to recommend approval of the technical support and the annual performance incentive to IFAD and the UCSCU Board. The annual performance incentive includes staff incentives to ensure that staff feel they have a stake in future success. If actual losses are materially higher than forecast losses, IFAD reserves the option to reconsider continuing its support or changing the nature of the performance incentive and professional support. Material losses mean losses significant enough to reduce capital adequacy (equity/risk weighted assets) significantly below the FY2012/13 level. Note: FY 2011/12 capital adequacy was about 60% equity/risk weighted capital.

27. UCSCU will need to grow its membership and member deposits and recover more of its costs. Mitigating Strategy: UCSCU recognizes the need for growth. Its 2013 Business Plan includes reviewing the content of existing training courses and starting to charge for these courses; refining its CFF loan and deposit offerings and insurance offerings; and reviewing dues-based funding for core products.

28. The project recognises institutional gaps in Board Governance and Executive Professional Development. The TA support to fill these institutional gaps is phased at the beginning of the project. Table 4 shows the institutional gaps, how the role of the CEO/Board mentor differs from the TAs, and the associated milestones and benchmarks.

29. UCSCU will need to manage its liquidity to avoid short falls. If UCSCU's losses are higher than projected, UCSCU will lack the liquidity to repay all of its current obligations and will require additional external support. Mitigating Strategy: The project recognises that there is more demand for credit than supply of savings in the SACCO system as a whole. SACCOs can lend to their members at three times their deposits so they naturally demand more credit from UCSCU than their savings deposits at UCSCU. As part of its 2013 Business Plan, UCSCU is reviewing whether it can obtain external credit from a third party financial institution at an interest rate that will be affordable for SACCO borrowing. Even so, SACCOs will also have to seek credit from UCCFS and third party financial institutions and ration their liquidity because, in the short term, the demand is simply too great. In the longer term, changing SACCOs from a credit based culture to a savings culture will require a cultural change management process that engages both UCSCU and its SACCO members. Professional assistance will help UCSCU change its culture with learning that can be passed to the SACCOs.

30. Within this environment, UCSCU will manage its liquidity. The triggers for starting the financial incentives up are designed to monitor liquidity – e.g., a satisfactory 2013/14 budget, including expected sources of external support and contingency plan if external support is not realized. The early warning signals are also designed to monitor liquidity – e.g., if a substantial operating loss is realized in 2012/13. After the start of the project, the CEO/Board mentor will provide oversight on monitoring and developing contingency plans for UCSCU liquidity. Technical assistance will help with liquidity management tools such as a liquidity planning, cash flow forecasting, and managing cash balances.

31. The key principles that underlie the support provided by UCSCU are:

- *Effectiveness and relevance* – the interventions are intended to directly address the most vital needs of UCSCU in terms of sustainability.
- *Efficiency* – interventions/activities are designed to optimize the use of time and financial resources of the project.
- *UCSCU participation* – the professional support is contingent on the Board of UCSCU requesting this support because effectiveness depends on the support and commitment of management and the Board.
- *Balance between quality and coverage* – the 3 ½ year commitment for a CEO/Board mentor is designed to be long enough to cover a complete planning and actual outcome cycle but short enough so that UCSCU does not become dependent on the CEO/Board mentor.
- *Networking and synergy* – the project will collaborate with the GoU and other SACCO unions, thereby leveraging efforts and resources for more efficiency.

- *Gap filling* – the project will work with UCSCU in risk areas that are currently not well covered.
- *Contribution to national development objectives* – as part of its rural development drive, the GoU is presently revising its regulatory framework for SACCOs and other MFIs in Tier 4. By supporting standards for SACCO audits, profitability and governance, UCSCU will help prepare SACCOs for compliance; and by supporting the Department of Cooperatives, the project will prepare the information base and regulatory mechanisms for a revised regime.
- *Sustainability of impact* – to ensure that the impact of project interventions remain after the project, the approach is to strengthen UCSCU as well as 500 SACCOs.

Synergies and complementarities among apex organizations

32. The way forward is to work within the current reality. In a democratic system, major structural change must come from within the SACCO system and institutions. For historical reasons, UCSCU, UCA and UCCF have their respective member SACCOs, and that will probably not change quickly. They may compete as contractors for services to PROFIRA-supported SACCOs although UCA has not participated in competitive bidding in the past, preferring to implement projects and submit proposals to funders for that purpose. The future is not likely to clearly separate their roles, since each is autonomous and has a history of support for SACCOs. While seeking collaboration and common ground, UCSCU must be ready for competition, regardless of who the competitor is, just like any other sustainable business. This is the reality.

33. While recognising this reality, the way forward is to seek areas of common interest based on common values. Leaders' Forums involving SACCOs and SACCO unions are the first step in finding common ground. Leaders' Forums will be designed to encourage the cooperative principle of "cooperation among cooperatives". The participants will determine the agendas, next steps, areas where there is a consensus, and areas where there is no agreement. Areas of consensus will help to build toward system-wide solutions based on common ground. The project role is to facilitate the Leaders' Forum process, not dictate the solution.

34. Both UCSCU and UCA have stated that they want to cooperate. Yet, it is difficult to forget past perceived wrongs. For instance, in the past when there were major problems with SACCOs, UCA had its constitution amended to allow it to develop SACCOs, which UCSCU feels is its mandate. UCA continues to encourage SACCOs to establish regional and national SACCO unions, which UCSCU perceives as rivals to its function as a SACCO union. The way forward is for each institution not to dwell on the past, but to recognise that the regulatory environment is changing and that they can choose to work cooperatively to strengthen the SACCO sector for their mutual benefit..

35. The way forward is to start with what UCA and UCSCU have in common – they share common cooperative values. SACCO development with cooperative principles and a focus on savings is a focus of UCSCU's Strategic Plan.

36. Similarly, one can examine areas of duplication and see if one standard can be used while maintaining separate tools. For instance, UCA has a very detailed financial analysis monitoring tool which is used to monitor the performance of 255 SACCOs. UCSCU uses the PEARLS Based Risk Assessment Tool with standard SACCO ratios developed by the World Council of Credit Unions (WOCCU). And AMFIU has developed the Performance Monitoring Tool as a common reporting platform used by donor supported projects. It will be worthwhile for these organizations to agree on key ratios and ensure maximum compatibility among the respective monitoring tools.

37. The way forward is to build on current practices of sharing. UCSCU and UCA share common SACCO members. In fact, UCA encouraged SACCOs to join UCSCU during RFSP so that they could access capacity building support services (e.g. safes, computers, motor cycles, etc.), which UCA did not provide. Today, there are opportunities for sharing the use of UCSCU's training centre or sharing feedback from their supported SACCO on each organization's roles. There is a need for investment in activities with long-term benefits such as the "SACCO" brand and common information technology (IT) standards. The common ground is that all SACCOs' reputations are affected when one SACCO fails ("SACCO" brand). The common ground is achieving economies of scale and future IT development when all SACCOs are connected to one banking system, or at least share a common IT standard.

Table 4: UCSCU institutional gaps, roles of TA, and performance benchmarks

Table 1: UCSCU Institutional Gaps: Roles and Resources					
Institutional area	Institutional gaps and actions needed	Role of CEO/Board Mentor (oversight role)	Role of short-term technical assistance (TA)	Milestones	Benchmarks of Success
Board governance	<ul style="list-style-type: none"> i. Board/CEO roles ii. Board professional development and mentoring (e.g. financial literacy, gender equality) iii. Board succession planning iv. CEO performance management 	<ul style="list-style-type: none"> • Assist the Board to define their role relative to the CEO and UCSCU management, to assess gaps in meeting their role and to develop and implement a plan to close those gaps. i.e.: • Engage the Board & CEO on defining a future state governance model • Facilitate the Board & CEO in developing a balanced scorecard for measuring UCSCU performance. • Assist the Board & CEO develop an action plan to achieve the future state. 	<ul style="list-style-type: none"> • Assist the Board to review and choose a Board governance model; to develop Board tools to achieve that model; TA to assess progress; specifically: • Facilitate the Board & CEO in selecting a governance model that will lead to the future state • Provide the rationale and performance metrics for scorecard items such as financial literacy and gender equity. • Provide Board self-assessment tools • Assess Board & CEO progress to their governance model. 	<ul style="list-style-type: none"> • Revised Board and CEO TOR • Professional development program for Board and CEO • Annual CEO performance review 	<ul style="list-style-type: none"> • CEO performance review based on revised TOR • CEO's performance review include achieving professional development & balanced scorecard goals • Board self-assessment – training and recruiting Board to fill gaps
Executive professional development	<ul style="list-style-type: none"> i. Cultural change management for UCSCU to become self-sufficient and adapt to changing member needs. ii. Responsiveness to SUPCO and to external stakeholders (especially Government of Uganda and IFAD) iii. Develop the Central Finance Facility (CFF) iv. Human resources – improve staff morale, performance management 	<ul style="list-style-type: none"> • Assist the CEO in managing cultural change with UCSCU stakeholders – the Board, staff, and SACCOs • Assist the CEO in compliance with policies, response to SUPCO, and reports to government & donors • Assist the CEO to build a new core management 	<ul style="list-style-type: none"> • Assist the Transformation Advisor and executive with planning and change management implementation tools. • Evaluate the success of change management both internally and on UCSCU stakeholders. • Assist with promoting the CFF • Develop the human resource 	<ul style="list-style-type: none"> • Executive acceptance of written change management plan management developed by Transformation Advisor • Executive performance to include compliance with policies, responses to 	<ul style="list-style-type: none"> • Achieving benchmarks in change management plan • Executive performance reviews with satisfactory ratings for compliance • CFF achieving annual growth

	v. Match management and staff to the needs of a restructured UCSCU	team; change executive motivation to provide value added services; and evaluate management of Central, Finance Facility (CFF)	tools required to strengthen staff capacity to provide value added products	SUPCO and donor reports <ul style="list-style-type: none"> Competitively priced CFF actively promoting itself HR tools – staff engagement, compensation, HR policy, performance management 	targets <ul style="list-style-type: none"> Improved annual staff engagement score; growth in new profitable products
Enterprise Risk Management (ERM)	i. Recruit Internal Auditor with professional accounting designation ii. Develop and implement an ERM framework - accountabilities, controls for managing key risks, and future plans where controls are lacking iii. Management information systems, product costing, responsibility centres, inventory control (stationery, T-shirts) iv. Strategies to reduce fixed costs: outsourcing vs. in-house (SACCO stationery), in-house vs. contract staff, fixed pay vs. variable pay, cost sharing with SACCOs, etc.	<ul style="list-style-type: none"> Assist the CEO & executive on how to include ERM in UCSCU's cultural change. Assist the CEO and executive with strategies to reduce fixed costs 	<ul style="list-style-type: none"> Assist with recruiting an Internal Audit professional with an understanding of risk management; Provide ERM framework Assess ERM progress Provide management information tools – product costing, responsibility costing, inventory control 	<ul style="list-style-type: none"> Professional accredited Internal Auditor reporting to SUPCO Executive assigned accountabilities for high level risks Product costing in place Profit centre for stationery supplies Greater use of contract staff 	<ul style="list-style-type: none"> Executive management responding and compliant with SUPCO reports Risk mitigation actions in place for significant risks Executive management making decisions based on profitability
External relations	i. Assisting SACCOs with legislative changes ii. Relations with other SACCO support organizations – e.g. inclusive leaders forum including SACCOs and SACCO support organizations to define their future state and how they will get there, i.e. SACCO System strategic plan managing the “SACCO” brand	<ul style="list-style-type: none"> Assist the CEO on engaging government and other apex organizations: Implementing an on-going communication programs with GoU regarding regulatory changes, large SACCOs, and feedback on UCSCU performance Implementing communication with apex 	<ul style="list-style-type: none"> Facilitate a leaders forum including SACCOs and apex organizations and follow up on next steps 	<ul style="list-style-type: none"> CEO is actively meeting with stakeholders Leaders forum implemented 	<ul style="list-style-type: none"> CEO is actively meeting with stakeholders Legislative changes includes Board & CEO recommendations Apex organizations have agreed to collaborate in at

	iii. Relations with other SACCO support organizations – how to improve poor SACCO performance by working co-operatively	organizations on ways to collaborate			least 1 area.
Marketing and business development	<ul style="list-style-type: none"> i. Brand management – develop over-all plan to improve UCSCU's reputation ii. Product development – review existing products and develop new products iii. Segmentation and targeting more profitable business iv. Competitive pricing (not cost plus) for fee based services and the Central Finance Facility v. Sales management tools for business development 	<ul style="list-style-type: none"> • Assist the CEO in establishing a Business Development function as part of cultural change across all departments 	<ul style="list-style-type: none"> • Provide a brand management framework • Develop a framework for segmenting and targeting SACCOs • Provide sales management tools 	<ul style="list-style-type: none"> • Written brand management plan • SACCOs segmented with targeted products and pricing • Staff using sales management tools 	<ul style="list-style-type: none"> • Improved UCSCU reputation • Achieving quarterly revenue goals by product, by SACCO segment, and by responsibility centre
Supplier relations	<ul style="list-style-type: none"> i. Effective partner relations – expanding Loan Protection Fund with Kenya partner ii. Procurement capability and contract management (e.g. consultant for Marketing Directory) 	<ul style="list-style-type: none"> • Assist the CEO to establish beneficial long-term supplier arrangements 	<ul style="list-style-type: none"> • Establish a framework to evaluate and manage suppliers • Develop model contracts 	<ul style="list-style-type: none"> • Supplier selection based on framework evaluation criteria and performance criteria • All major supplier contracts aligned with model contracts 	<ul style="list-style-type: none"> • Satisfactory user supplier satisfaction survey • No material Internal Audit compliance issues with the supplier policies.
SACCO System and monitoring	<ul style="list-style-type: none"> i. System performance monitoring - develop SACCO System electronic data capture to efficiently monitor SACCO System performance. ii. Setting standards on SACCO System training - Inclusivity and gender equity iii. Setting standards on SACCO System training – Board governance – role of General Manager in Board nominations, Board financial 	<ul style="list-style-type: none"> • Assist the CEO on how to engage the SACCO System to measure SACCO System performance, set SACCO System standards, and manage poor SACCO performance. • Assist the CEO on how to make investments with long-term benefits such as the “SACCO” brand and IT development 	<ul style="list-style-type: none"> • Facilitate SACCO System forums dealing with monitoring System performance, standard setting, and investments with long-term benefits such as the “SACCO” brand and IT development 	<ul style="list-style-type: none"> • SACCOs using a common data capture system • From the SACCO System forums, agreement on how to deal with poor SACCO performance • From the SACCO System forums, agreement on standard setting 	<ul style="list-style-type: none"> • Up to date data base on SACCO System performance • Stabilization of poor SACCO performance assigned to 1 apex organization • Standard setting assigned to UCSCU • Dues based

	literacy, etc. v. System training – tailoring the SACCO Mentoring Guide (SMG) to SACCO segments v. Setting standards on staff training (e.g. collecting loans, deposit campaigns,), and member financial literacy vi. Facilitating SACCO System Research and Development (R&D) – e.g. SACCO System leaders forums dealing with mobile banking, creditor insurance, etc.			<ul style="list-style-type: none"> From the SACCO System forums, agreement on how to make investments with long-term benefits 	funding in place for investments with long-term benefits.
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Appendix 5

Appendix 5: Institutional aspects and implementation arrangements

Organization of PROFIRA and institutional responsibilities

1. **Lessons learned.** The experience of the Rural Financial Services Programme (RFSP) shows the importance of striking the right balance between direct implementation by project management and outsourcing implementation to independent agencies or private service providers. The Programme Administration Unit (PAU) foreseen at RFSP design proved to be too small to handle the administrative tasks – especially regarding procurement – and the expectation that other project and agencies will be available and willing to implement various components proved unfounded. Over-reliance on a demand-driven approach to microfinance institutions (MFIs) seeking subsidized services and grants resulted in slow take-up due in part to the lack of a well-established market, a culture of seeking free services, and inadequate scope for pro-active implementation by project management.
2. Contracting private agencies to implement certain activities had the disadvantages of being costly and adding another layer that sometimes made problem-solving more difficult, though it had the advantage of being able to hold the contractors responsible and terminate the contracts as needed. Giving a single government-designated agency, primary responsibility for implementation after mid-term reorientation of the project had similar drawbacks, compounded by delays while the agency tried to build up the actual capacity to keep up with its dramatically enlarged responsibilities and by the associated lack of a results-oriented culture. Under the extended RFSP, more success was achieved by bringing in more partners to implement specific aspects according to their comparative advantage and capabilities, while maintaining oversight and contracting responsibilities within an expanded PAU.
3. In light of these lessons, PROFIRA is designed to provide adequate scope for delivery of services by competent providers on a competitive basis, to promote sustainability as well as cost-effectiveness, while giving project management clear responsibilities and adequate staffing to take primary responsibility for implementation, whether directly or through contracted services, as appropriate. The project will also provide for overall oversight and coordination through mechanisms that involve agencies directly concerned with project implementation as well as consultation with complementary programmes. An organization chart is provided in Attachment 1.
4. **Ministry of Finance, Planning and Economic Development (MFPED)** As the borrower, MFPED has overall responsibility for implementation of the Project for Financial Inclusion in Rural Areas (PROFIRA). MFPED will provide general policy directions for the implementation of the project, coordinate with other relevant Ministries, and chair the Project Oversight Committee (POC). Besides chairing the POC, the Permanent Secretary, Secretary of the Treasury (PS/ST) is responsible for ensuring that counterpart funds and agreed contributions from government are adequately budgeted. The Accounting Officer in MFPED gives final approval to requests to IFAD for 'no objection' on the AWPB, Procurement Plan and contracts. It is expected that the Department of Microfinance will be the focal point within MFPED for programme implementation.
5. MFPED also plays a critical role in reforming and improving the overall policy and regulatory framework for financial inclusion through sustainable access to and use of rural financial services, the key project objective. MFPED is expected to continue working with Cabinet, Parliament, BoU, MTIC and other key players to pass and implement new and amended legislation for regulation of Tiers 3 and 4 financial institutions. It is also expected to ensure that new policy documents for rural finance and community savings and credit groups (CSCGs) are consistent with the principles that have been agreed with IFAD as a basis for moving forward.
6. **Project Oversight Committee.** A national Project Oversight Committee (POC) will be established and chaired by MFPED. The POC shall orient programme implementation strategy, oversee programme planning, review each Annual Work Plan and Budget (AWPB) and Procurement Plan prior to submission to the Fund, and review implementation progress and impact. It will also provide high level advice and address key issues raised by project management. It will continue the work of the Task Force from the project design stage to ensure appropriate and timely coordination with other initiatives to strengthen the rural financial sector. The POC shall meet two times in a year and on an ad-hoc basis as and when necessary. (See Attachment 2.)

7. The POC membership will include representatives from agencies that are actively engaged in support for SACCOs, CSCGs and rural finance:

- The Ministry of Trade, Industry and Cooperatives (MTIC)
- The Ministry of Gender, Labour and Social Development (MGLSD)
- Two public agencies supporting the rural financial sector and financial inclusion: Bank of Uganda (BoU); and Microfinance Support Centre Ltd (MSC)
- Apex organizations representing SACCOs, agricultural marketing and production cooperatives, and microfinance institutions generally; i.e., Uganda Cooperative Alliance (UCA), the Association of Microfinance Institutions of Uganda (AMFIU), and the Uganda Cooperative Savings and Credit Union (UCSCU).

8. In addition, IFAD, as the lead funding agency, will be invited to attend as observer, as needed.

9. The POC will be supported by two working groups, one for SACCOs and one for CSCGs, convened by the respective PMU Component Managers. These working groups are expected to meet prior to POC meetings in order to review the draft AWPB and progress to date, so as to provide needed information and materials to the POC. The working groups may include additional key stakeholders, such as agencies involved in implementation, as needed.

10. **Microfinance Forum.** The Microfinance Forum, chaired by MFPED, is a mechanism for wide consultation with a broad range of stakeholders on policies, programmes and issues affecting rural and microfinance and financial inclusion. Although largely dormant in recent years, in the past it provided a useful vehicle for obtaining feedback and building consensus on key policies and issues, such as the Microfinance Deposit-Taking Institutions Act and the Microfinance Outreach Plan, as well as for vetting new programmes to promote consistency with on-going programmes. It is expected that MFPED will resume leadership of the Microfinance Forum at least on a semi-annual basis to help ensure consistency between the objectives and implementation modalities of PROFIRA and those of other programmes that may emerge and to build consensus on relevant policy, regulatory and financial inclusion issues. The Microfinance Forum can play an important role in promoting greater coordination both among the various agencies supporting the SACCO sector and between them and those supporting CSCGs. The project will provide support costs, on a limited level for venue and associated related expenditures, but will not provide sitting allowances.

11. **Project Management Unit.** MFPED shall establish a Project Management Unit (PMU) to handle all project management and administrative aspects, implement some sub-components, and contract implementation of others, as set forth in Component 3. The PMU will also be responsible for financial management, procurement, monitoring and evaluation, and knowledge management.

12. PMU staff will include (see TORs for key staff in Attachment 3):

- Coordinator
- SACCO Development Manager
- SACCO Development Specialist
- Community Based Financial Services Manager
- Monitoring and Evaluation (M&E) Officer
- Monitoring and Evaluation Assistant
- Knowledge Management and Communications Officer
- Financial Controller
- 2 Financial Accounts Assistants
- Procurement and Contracts Officer
- Administrative Assistant
- Secretary
- 3 drivers.

13. **Ministry of Trade, Industry and Cooperatives (MTIC).** The Department of Cooperative Development in MTIC has a general regulatory responsibility for the SACCO sector and specific roles in implementation of Component 1 (elaborated further in Section B). Registration of SACCOs according to established criteria, monitoring, and enforcement of legal requirements for cooperatives underpin achievement of project objectives for increasing the sustainability of SACCOs in general, as well as of those supported directly through the project. It is establishing a database on all SACCOs that will be essential for future regulation of the sector under new legislation. For these reasons, the project includes support for MTIC to strengthen its capacity and thereby to help it to effectively carry out its responsibilities for monitoring and regulation of SACCOs. In addition to facilitating support for SACCOs, including support for internal audit, this activity will facilitate cleaning up the Registry of SACCOs to help prepare the ground for implementation of proposed new legislation for regulation of Tier 4 microfinance institutions, including SACCOs.

14. **District Commercial Officers (DCOs).** Although DCOs are engaged by District Councils, and now come under the responsibility of the Ministry of Local Government and not MITC, they have an important role to play in representing the Commissioner of Cooperatives on issues regarding cooperatives in their district. This includes ensuring that all SACCOs are audited annually, and intervening if needed to address governance and management issues, e.g., by holding a Special General Meeting. They are also expected to work closely with UCSCU field staff to monitor compliance with regulatory requirements and report problems to the Commissioner if need be. Because they are responsible for many activities and organizations at the district level and have little budget for supporting SACCOs, the project includes facilitation and training to ensure that they are able to visit SACCOs and play their expected role.

15. **Apex organizations.** Three apex organizations are expected to offer services to project-supported (and other) SACCOs on a competitive basis, and also have important roles to play in building a sound institutional framework to support sustainability of SACCOs and other rural financial services. UCSCU is a beneficiary of project support to strengthen its capabilities and build it toward sustainability as the lead apex specifically for SACCOs. It is expected to use this support effectively to implement its business-focused, strategic plan and participate actively in providing demanded services to SACCOs generally, on a cost-recovery or profitable basis, as well as to those SACCOs receiving support under the project. UCA is tasked generally with supporting unions of cooperatives. It also has a long experience in SACCO establishment, monitoring and strengthening, and may offer services to project SACCOs in these areas on a competitive basis. AMFIU has played an important role in developing and training MFIs in use of the Performance Monitoring Tool (PMT), as a basic format for recording and reporting basic data and ratios relevant to microfinance – both at the individual MFI level and through reporting the data to the Microfinance Exchange (MIX) for inclusion in the international Microbanking Bulletin database. It also uses these data to monitor, analyse and benchmark trends through the Performance Monitoring System. It is expected to offer training in PMT as a service to SACCOs being supported under the project. If these agencies are assigned a specific implementation task (apart from general service provision on a demand-driven basis), a memorandum of understanding will be signed with them as a project partner.

16. **Ministry of Gender, Labour and Social Development (MGLSD):** MGLSD is represented on the POC with respect to its role concerning targeting by PROFIRA of women, youth and poorer communities. It is also expected to contribute to implementation of the project's gender mainstreaming strategy and the financial literacy strategy.

17. **Service providers.** In addition to the organizations mentioned in the preceding paragraph, private firms and individuals, NGOs, and public agencies such as MFC that are able to bid will be invited to apply for tenders to provide services to SACCOs (such as training and auditing) and for formation of CSCGs. Over 30 agencies have been identified that are capable of and interested in providing such services. The PMU will enter into contracts with the competitively-selected agencies to provide specific services to SACCOs and communities that meet the project's selection criteria and demand the services, most likely grouped by geographic areas.

18. **Bank of Uganda (BoU).** While BoU has no direct role in project implementation, it plays important roles in ensuring a sound policy and regulatory framework for rural finance and in leading the development of a national strategy for financial inclusion, including a policy on financial literacy. Besides taking an active role in licensing and supervision some of the largest SACCOs as MDIs, BoU is expected to be a key driver of a reformed regulatory framework for Tier 4 MFIs, e.g., through a

Microfinance Regulatory Agency. Furthermore, it is expected that project management will work closely with BoU, and in particular with the financial literacy sub-group, to ensure that implementation is consistent with that of the financial inclusion and literacy strategies. This will include developing materials suitable for communicating the agreed financial literacy messages to members of SACCOs and CSCGs and making adequate funding available to reach the actual and potential clients of SACCOs and CSCGs being supported through the project. For these reasons, BoU is expected to participate actively in the POC and to maintain contact with the PMU on implementation of financial inclusion.

19. **Additional partnerships.** The project will seek additional partners for implementation of the activities for innovative technologies and methodologies, financial literacy, and gender mainstreaming. These partnerships will generally be on a cost-sharing basis under a signed agreement, with the project providing funds necessary for the partner to undertake specific activities oriented toward project clients and beneficiaries. In addition, the project may enter into memoranda of understanding with other projects that are working on similar activities or with the same target groups, to ensure coordinated, complementary implementation.

A. Implementation of project components

20. The overall organization chart for implementation is shown in Attachment 2. Detailed modalities of implementation are set forth in Appendix 4, and summarized below.

Component 1: SACCO Strengthening and Sustainability

21. Sub-component 1 for SACCO strengthening will be implemented primarily by organizations, firms and individuals capable of providing services to SACCOs that are supported by the project, including training, audits, product innovation and development, and other technical assistance. These organizations will be selected competitively by the PMU on the basis of their demonstrated capabilities and experience in providing the specified services, and contracted to deliver services based on demands or needs assessments of project SACCOs. These organizations are expected to include apex organizations (such as UCSCU, UCA, AMFIU and UBIFS) and government agencies (such as UCCK and MSC), as well as private firms and consultants.

22. Sub-component 2, to develop a sustainable SACCO union, will be implemented primarily by UCSCU Board and management, supported by technical expertise (both long-term and short-term) through a partner contracted by the PMU.

Component 2: Community-based financial services

23. Component 2 will be implemented primarily by organizations that have adequate experience in supporting communities to establish community savings and loan associations, using the standard methodology (or a variation) of village savings and loan associations (VSLAs), which are referred to in the project by the more generic term community savings and credit groups (CSCGs). All interested organizations will be invited to bid to form CSCGs in targeted areas, individually or as part of a consortium. The PMU will manage the procurement process, including selection of bidders on the basis of experience, capacity, cost and credibility and actively manage the contracts issued both in technical and administrative terms.

Component 3: Policy and institutional support, and project management

24. Sub-component 3.1 on the policy, regulatory and institutional environment for SACCOs, will be implemented primarily by MFPED, in terms of coordination and preparation for implementation of new legislation for regulation of Tier 4, and by the Department of Cooperative Development in MTIC. A memorandum of understanding will be signed with the latter to specify what costs will be borne by the project for it to carry out its responsibilities for maintaining and updating the Registry of SACCOs, enforcing existing regulations, maintaining its database, and overseeing the participation of DCOs in relevant activities. In addition, the PMU will engage a consultant to prepare materials on financial literacy adapted to SACCOs and CSCGs, and may enter into partnerships with organizations involved in implementation of the strategy on financial inclusion and policy of financial literacy, once these are finalized.

25. Sub-component 3.2 provides for the staff and operating costs of the PMU, which has overall responsibility for project implementation. The staff include a Manager and Assistant each for Components 1 and 2, who are responsible for proactively seeking out partners and service providers

and overseeing the process of contracting them or signing MOUs, as well as for monitoring progress in implementation. The M&E Officer and Assistant are responsible for coordinating preparation of the AWPB, establishing an MIS system, and monitoring progress and results. The Knowledge Management and Communications Officer is responsible for compiling and disseminating knowledge from lessons learned through project implementation and communicating project objectives and accomplishments to key stakeholders and the general public. The Financial Controller is responsible for financial management, and the Procurement and Contracts Officer for ensuring that contracts are implemented consistent with government and IFAD requirements. Component 3 also provides for baseline and impact surveys, workshops, and knowledge management and dissemination.

B. Risks and issues

26. *The principal risk of concentrating responsibility for implementation in a PMU is that it will be overwhelmed with the tasks, resulting in delays in implementation and disbursement.* In the long run, the implementation burden on the PMU will be mitigated by contracting agencies to provide the actual delivery of services to SACCOs and communities forming CSCGs. However, the process of soliciting and reviewing applications, negotiating and signing contracts can be much more time-consuming than expected, especially in the first year of implementation when systems have to be set up and a large number of procurements initiated.

27. *The risks of delays in the contracting process in the first year will be mitigated by:* (i) drafting TORs and/or procedures for contracting at the design/appraisal stage; (ii) requiring that the core PMU team, including a Procurement and Contracts Officer, and 18-month procurement plan, be in place prior to beginning disbursement; and (iii) providing procurement training to PMU staff early in the first year.

28. *A potential risk of contracting for the provision of services is that the number and competence of agencies able to provide the needed services may be inadequate to achieve the required level and quality of services.* This risk has been mitigated at the design and appraisal stages by verifying the adequacy and capacities of the institutions and service providers available to provide the anticipated services to SACCOs and CSCGs (see paragraph 14 above and Working Paper 1, section D and attachment A).

29. There is a risk that the government will announce special credit programmes in the lead-up to the 2016 election, as it has done in past election years. In particular, *there is a risk that support for community savings and loan associations will be politicized and driven by provision of external credit or revolving funds, thereby undermining the savings-based, bottom-up approach of PROFIRA, and possibly even inducing people to leave SACCOs in order to join groups that are perceived as channels for government funds.* This risk is being mitigated by engaging MFPED in discussions on its policy initiatives.

Attachments to Appendix 5

Attachment 1: Project organizational chart

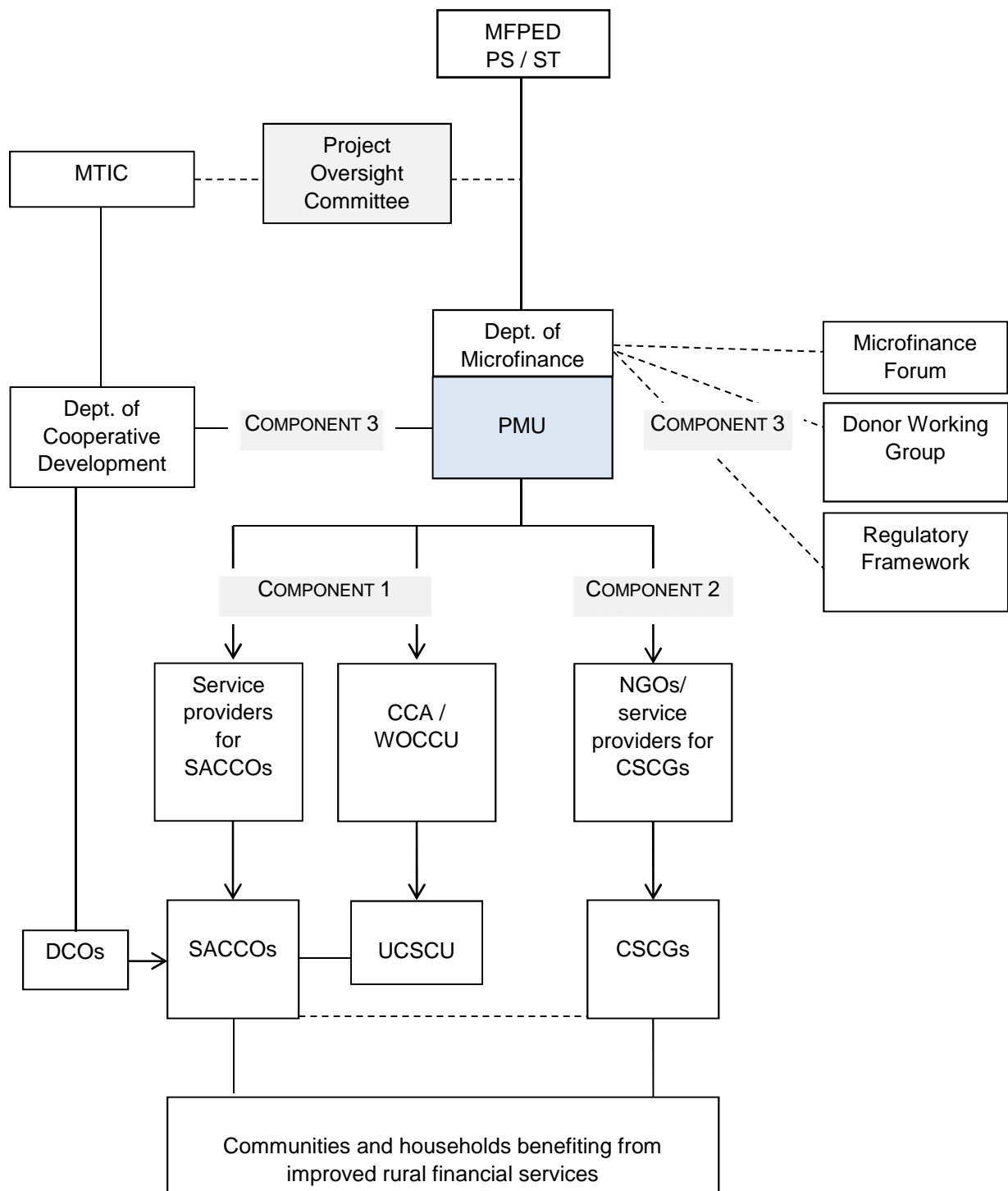
Attachment 2: TOR for Project Oversight Committee

Attachment 3: TORs for Key Staff

Attachment 4: TORs for Support to UCSCU

Attachment 5: Capacity Building Plan

Attachment 1: Project organizational chart



Attachment 2: Terms of Reference for Project Oversight Committee

1. The Ministry of Finance, Planning and Economic Development (MFPED) shall establish and chair a Project Oversight Committee (POC) to provide guidance and overall oversight to implementation of PROFIRA. The POC shall orient programme implementation strategy, provide policy guidance, oversee programme planning, review each Annual Work Plan and Budget (AWPB) and Procurement Plan prior to submission to the International Fund for Agricultural Development (IFAD), and review implementation progress and impact. It will also provide high level advice, address key issues raised by project management, and coordinate with parallel or complementary initiatives to strengthen the rural financial sector.

2. The POC shall meet two times in a year and on an ad-hoc basis as and when necessary. It will be supported by two working groups, one for SACCOs and one for CSCGs, which are expected to meet prior to POC meetings in order to review the draft AWPB and implementation progress and provide information and materials to the POC. It may also form sub-committees to deal with specific issues or aspects of implementation, if needed. The Coordinator of PROFIRA shall act as Secretary to the POC, and the Component Managers will convene the respective working groups.

3. The POC membership will include representatives from government and key agencies that are responsible for development of the rural financial sector:

- PS/ST MFPED as the chair;
- The Commissioner of Cooperative Development in the Ministry of Trade, Industry and Cooperatives (MTIC);
- The Commissioner on Gender in the Ministry of Gender, Labour and Social Development (MGLSD);
- Two public agencies supporting the rural financial sector: Bank of Uganda (BoU) Supervision Department; and Executive Director of the Microfinance Support Centre Ltd (MSC);
- The organizations concerned with overall development of the cooperative and microfinance sectors: General Secretary of Uganda Cooperative Alliance (UCA), and the Executive Director of the Association of Microfinance Institutions of Uganda (AMFIU); and the Chairman of the Board of UCSCU, as a non-voting member.ⁱ

4. In addition, IFAD, as the lead funding agency, will be invited to attend as observer, as needed.

5. Prior to meetings of the POC, the PMU Component Managers shall convene meetings of two working groups that include key stakeholders involved in implementation of the respective components, to review progress and problems, and provide update and materials to the POC, through the Coordinator as Secretary. In particular, they should help prepare or vet draft AWPBs, providing the POC with information on the AWPBs in a manageable form for decision making. Participants in the working groups will include:

- Component 1 (SACCOs): representatives from the Department of Cooperative Development (MTIC), UCSCU, UCA, and MSC.
- Component 2 (CSCGs): representatives from Gender (MGLSD), Financial Literacy group (BoU), and agencies contracted for implementation.

6. A quorum of at least half the members must be present to approve the AWPB and Procurement Plan. If a member fails to be represented for two consecutive meetings, the Chair may propose to the Committee that that member be dropped or replaced.

Attachment 3: Terms of reference – key staff of Project Management Unit

Project Coordinator

1. The Coordinator has overall responsibility for the day-to-day activities of PROFIRA. He/she will manage the Programme Management Unit (PMU) and report to the Permanent Secretary/Secretary to the Treasury or any other delegated person of the Ministry of Finance, Planning and Economic Development (MFPED). He will act as Secretary to the Project Oversight Committee (POC), liaise with and report quarterly to the agencies directly funding PROFIRA, and coordinate implementation activities with other programmes engaged in support for rural finance, especially savings and credit cooperatives (SACCOs) and CSCGs.

2. Specific duties of the Coordinator include but are not limited to the following:

- Overall responsibility for an efficient organizational establishment of the PMU and, in consultation with MFPED and in accordance with government procedures, contract relevant qualified technical and support staff to fill vacant positions within the Unit.
- Provide overall strategic guidance to PMU staff relating to SACCO development and CSCG establishment and development and the related administrative functions required.
- Provide technical and policy direction to PMU staff and implementing agencies for effective Programme implementation.
- Coordinate and supervise functions and activities of the PMU staff and regularly appraise them on job performance and otherwise. Ensure that work disciplines and ethics are adhered to by staff.
- Coordinate and follow up on the activities of the officers responsible for implementation of project components to ensure effective delivery of project activities.
- Approve all procurement and accounting transactions performed at PMU, and facilitate disbursement of loan funds needed for the implementation of PROFIRA.
- Liaise with MFPED, Ministry of Trade, Industry and Cooperatives (MTIC), IFAD and other donor financiers on matters of policy and project administration.
- Liaise with other projects, partners and agencies supporting the rural finance sector to ensure consistency and complementarity.
- Propose annual work plan and budgets (AWPB) and procurement plans for PROFIRA activities for approval by the POC. On the basis of the AWPB, approve the quarterly WPBs and authorize the subsequent releases of funds.
- Ensure timely and appropriate reporting on progress and problems of programme implementation and submit semi-annual reports to POC, MFPED and the donor financiers.
- Ensure gender mainstreaming in the project through the timely development, review and implementation of a Gender Action Plan.
- Undertake any other responsibility that will ensure smooth and effective implementation of the project.

3. *Qualifications and experience:* The Project Coordinator should hold at least a Master's degree in management, finance, or social sciences, with experience in rural or micro financial services and in managing a major international project or institution. Other qualifications include:

- A minimum of eight years of work experience, including four years in management of financial institutions and/or government/donor projects and a track record as a successful manager and administrator in the Ugandan context.
- Demonstrated capacity to take on a leadership position with strong managerial skills and capacity to manage people and interact with a wide range of private sector partners and public sector representatives, as well as managers of financial institutions.
- Strong organizational skills and knowledge of strategic planning.

- Strong oral and written communication skills in English.
- Understanding of financial literacy and gender issues.

SACCO Development Manager

1. The SACCO Development Manager has overall responsibility for achieving the project objectives, outcomes and targets identified in the SACCO Strengthening and Sustainability component. The SACCO Development Manager reports to the Project Coordinator and oversees the SACCO Development Specialist, as well as those agencies contracted to implement or provide services to SACCOs under the component.

2. Specific duties of the SACCO Development Manager include but are not limited to the following:

- Become thoroughly familiar with the cooperative principles and regulations governing SACCOs (including the roles of the Department of Cooperatives and District Commercial Officers), the mentoring approach and manual developed by the Uganda Cooperative Savings and Credit Union (UCSCU), and the performance indicators used to assess the sustainability of SACCOs for selection under PROFIRA.
- Establish lines of communications and coordinate with all major stakeholders for SACCO development in Uganda, including UCSCU, the Uganda Cooperative Alliance, the Uganda Cooperative College Kigumba, the Microfinance Support Centre, the Association of Microfinance Institutions of Uganda, and international cooperative support agencies involved in SACCO development in Uganda.
- Become thoroughly familiar with the strategic plan and budget of UCSCU and its operating structure, and oversee selection and implementation of technical assistance to strengthen it for sustainability.
- Prepare contracts and bidding documents in accordance with IFAD and Government procurement requirements for the competitive procurement of implementing agencies and service providers under the SACCO component ensure that this component is implemented as envisaged. Prepare memoranda of understanding for partnerships with other agencies designated to implement or benefit from specific activities under the sub-component.
- Prepare the Annual Work Plan and Budget (AWPB) for this component and ensure that all plans are properly planned, implemented and monitored according to specified deadlines and within the allocated budget.
- Develop project management guidelines, procedures and operating practices for project execution and proactively manage changes in project scope, identify potential constraints and devise contingency plans.
- Finalize Training Guidelines based on the provisions contained in the PIM.
- Identify opportunities for SACCOs to apply or become agents for innovative applications of information and communications technologies to enhance access to financial services in rural areas; identify potential partners or agencies interested in piloting or scaling up such innovations.
- Identify ways in which SACCOs could better adapt financial products for agricultural lending and for group members (in particular to enhance linkages with community savings and loans associations), and identify partners or prepare terms of reference for consultancies to develop and disseminate such products, guidelines, etc.
- Establish procedures for screening and selecting applications for grants and cost-sharing under the Innovative Technologies and Methodologies sub-component; invite applications and process them.
- Coordinate with the Ministry of Finance, Planning and Economic Development (MFPED) on new legislation and regulations affecting SACCOs, and with the Department of Cooperatives to ensure that activities under the project are consistent with and help prepare for developments in the regulatory regime.

- Guide the Monitoring and Evaluation (M&E) Officer in establishing a monitoring, evaluation and knowledge management system for this component of the project and ensure the submission of all progress reports on time. In particular, establish a system of regular performance monitoring of SACCOs being supported.
- Identify how best to use the Technical Assistance budgeted for this component and develop the terms of reference and most appropriate timelines for use of this assistance.
- Support supervision and implementation support missions, mid-term review, and project completion report, including making recommendations for the SACCO component and ensuring that agreed recommendations are implemented.
- Any other task determined by the Project Coordinator.

3. *Qualifications and experience:* The SACCO Development Manager should hold a Master's degree in business, management, finance, or social sciences, with experience in rural or micro financial services and/or cooperative development. Other qualifications include:

- A minimum of eight years of work experience, preferably in management of financial institutions and/or government/donor projects to support financial development.
- Demonstrated capacity to take on a leadership position with strong managerial skills and capacity to manage people and interact with a wide range of private sector partners and public sector representatives, as well as managers of financial institutions.
- Good quantitative and analytical skills.
- Strong oral and written communication skills in English.
- Understanding of financial literacy and gender issues.

SACCO Development Specialist

1. The SACCO Development Assistant supports the SACCO Development Manager in overseeing implementation of the SACCO Strengthening and Sustainability component to achieve the project objectives, outcomes and targets.

2. Specific duties of the SACCO Development Specialist include but are not limited to the following:

- Become thoroughly familiar with the cooperative principles and regulations governing SACCOs (including the roles of the Department of Cooperatives and District Commercial Officers), the mentoring approach and manual developed by the Uganda Cooperative Savings and Credit Union (UCSCU), and the performance indicators used to assess the sustainability of SACCOs for selection under PROFIRA.
- Assist in preparing contracts and bidding documents in accordance with IFAD and Government procurement requirements for the competitive procurement of implementing agencies and service providers under the SACCO component ensure that this component is implemented as envisaged, and in preparing memoranda of understanding for partnerships with other agencies designated to implement or benefit from specific activities under the sub-component.
- Provide input for the Annual Work Plan & Budget (AWPB) for this component and help ensure that all plans are properly planned, implemented and monitored according to specified deadlines and within the allocated budget.
- Identify opportunities for SACCOs to apply or become agents for innovative applications of information and communications technologies to enhance access to financial services in rural areas; identify potential partners or agencies interested in piloting or scaling up such innovations.
- Identify ways in which SACCOs could better adapt financial products for agricultural lending and for group members (in particular to enhance linkages with community savings and loans

associations), and identify partners or prepare terms of reference for consultancies to develop and disseminate such products, guidelines, etc.

- Assist in screening and selecting applications for grants and cost-sharing under the Innovative Technologies and Methodologies sub-component; invite applications and process them.
- Take overall responsibility for the signing of MoUs with SACCOs that will be supported by PROFIRA.
- Monitor developments in new legislation and regulations affecting SACCOs.
- Ensure gender mainstreaming in the project through the timely development, review and implementation of a Gender Action Plan, conducting gender audits, and tracking targets for the inclusion of women on an on-going basis in the SACCO component.
- Assist the Monitoring and Evaluation (M&E) Specialist in monitoring, evaluation and knowledge management for this component, and ensure the submission of all progress reports on time. Help maintain a system of regular performance monitoring of SACCOs being supported under the project.
- In close collaboration with the M&E specialist in the PMU, finalize monitoring arrangements for the SACCOs and ensure that technical and organizational requirements for SACCO monitoring are in place at the SACCO level to ensure timely reporting.
- Support supervision and implementation support missions, mid-term review, and project completion report, and help ensure that agreed recommendations are implemented.
- Any other task determined by the SACCO Development Specialist or Project Coordinator.

3. *Qualifications and experience:* The SACCO Development Specialist should hold a Master's degree in business, management, finance, or social sciences, with experience in rural or micro financial services and/or cooperative development. Other qualifications include:

- A minimum of five years of work experience, preferably in a financial institution, government/donor project, cooperative, or service provider to SACCOs or other financial institutions.
- Ability to interact with a wide range of private sector partners and public sector representatives, as well as managers of financial institutions.
- Good quantitative and analytical skills.
- Good oral and written communication skills in English.
- Understanding of financial literacy and gender issues

Community Based Financial Services Manager

1. The Community Based Financial Services Manager (CBFSM) has overall responsibility for achieving the project objectives, outcomes and targets identified in the community based financial services component. The CBFSM reports to the Project Coordinator, and oversees the Community Based Financial Services Specialist, as well as those agencies contracted to implement the component.

2. Specific duties of the CBFSM include but are not limited to the following:

- Carry the overall responsibility for achieving the objectives, outcomes and targets identified for the Community Based Financial Services component.
- Familiarise herself/himself in the PROFIRA approach and in the activities to be undertaken as part of the community based financial services component and ensure that the component is implemented as envisaged.
- Prepare the Annual Work Plan and Budget for the component and ensure that all plans are properly planned, implemented and monitored according to specified deadlines and within the allocated budget.

- Develop project management guidelines, procedures and operating practices for project execution, proactively manage changes in project scope, identify potential constraints and devise contingency plans.
- Prepare contracts and bidding documents in accordance with IFAD and Government procurement requirements for the competitive procurement of implementing agencies for the component.
- Manage the bidding processes to engage the service providers and pro-actively follow-up that the contract obligations are adhered to.
- Ensure gender mainstreaming in the project through the timely development, review and implementation of a Gender Action Plan, conducting gender audits, tracking targets for the inclusion of women on an on-going basis in the Community Based Financial Services component.
- Establish together with the M&E Officer a system of monitoring and data management for the CSCG component.
- Identify how best to use the Technical Assistance budgeted for this component and to develop the TOR and most appropriate time schedules for the use of this assistance.
- Provide support to Supervision and Implementation Support Missions and the MTR and ensure compliance with their recommendations for the community based financial services component.
- Assist the arrangement of a Third Party Evaluation of the CSCGs as planned in the project documents through the competitive procurement of the services of an agency specialized in such surveys.
- Any other task determined by the Project Coordinator.

3. *Qualifications and experience:* The Community Based Financial Services Manager should hold a Master's degree in Business Management, Social Sciences or other related field. Other qualifications include:

- A minimum of 10 years of work experience in microfinance, including senior level experience with community based financial arrangements.
- Strong oral and written communication skills in English.
- Demonstrated capacity to take on a leadership position with strong managerial skills, good analytical ability, and capacity to manage people and interact with a wide range of private sector partners, public sector representatives and most significantly smallholder farmers in rural Uganda.
- Sensitivity to gender issues and previous experience of working with women's projects and understanding of youth issues will be additional merits for the position.

Monitoring and Evaluation Officer

1. The Monitoring and Evaluation (M&E) Officer has overall responsibility for monitoring and evaluation, targeting, gender, knowledge management and communications. The M&E Officer reports to the Project Coordinator and supervises the work of an M&E Assistant and a Knowledge Management and Communications Officer as leader of the "M&E, learning and impact team."

2. Specific responsibilities include but are not limited to the following:

- Oversee the development of, and manage the M&E system (database and e-library repository).
- Develop an M&E service pack (reporting formats for data and narrative) for service providers, and assess and develop trainings in data collection tools as needed, to ensure that appropriate measures are established and implemented by service providers to provide sufficient basis for review of project progress and for monitoring changes seen on ground.

- Take responsibility for targeting and gender in project implementation, including providing technical assistance to service providers on gender issues and project targets with respect to inclusion of women and youth and ensure adequate awareness and activities in this respect, including during reporting.
- Oversee preparation of and consolidate inputs to the Annual Work Plan and Budget (AWPB), including arranging stakeholder review workshops.
- Coordinate reports from service providers for quarterly, semi-annual and annual reports.
- Manage special studies to be undertaken, including preparation of TORs and overseeing the work of the consultants.
- Offer on-the-job training and backstopping to everybody involved in data collection, data entry and data transmission.
- Ensure that tools are used and procedures adhered to.
- Liaise with the financial controller to link physical and financial progress data.
- Take responsibility for reporting on impact, including the log-frame and impact on poverty, as well as ensuring a common understanding of these issues in the PMU.

3. *Qualifications and experience.* The candidate should have a Master's degree in management or a similar subject, and specific training in M&E, , data management and gender and targeting tools. Other qualifications include:

- At least eight years of work experience, including at least four working with knowledge management, planning, M&E and/or MIS in government/donor projects or large institutions, with knowledge of logical framework projects and participatory systems.
- Strong managerial skills and demonstrated capacity to manage people and interact with a wide range of private sector partners, public sector representatives, and development partners.
- Self-motivated, with demonstrated ability to take initiatives and work under a minimum of supervision, but also to work effectively as a member of a team.
- Experience with performance based contract monitoring and output based work planning, budgeting and reporting.
- Knowledge of work planning, budgeting and reporting.
- Excellent oral and written communication skills in English.
- Excellent quantitative and analytical skills.
- Ability to set up and follow through on a monitoring system in a complex environment, and capacity to design and carry out relevant field level verification and other data validation tools.
- Computer-literate and well-versed in the use of Word, Excel and the Internet. Basic knowledge of Access will be an asset.

Monitoring and Evaluation Assistant

1. The Monitoring and Evaluation (M&E) Assistant will, under the supervision of the project M&E Officer, take specific responsibility for data and database management.

2. Specific responsibilities include but are not limited to the following:

- Assist in developing and take responsibility for operating the two databases of the project.
- Organise and manage the data collection framework for the project.
- Develop data collection formats for service providers, and compile inputs received on regular basis, including taking responsibility for quality, accuracy and timeliness of data.
- Undertake and provide technical support for analysis of project performance.
- Provide technical support to the team for developing an e-repository.

- Be an active team player of the “M&E, learning and impact team.”
- Qualifications and experience. The candidate should have at least a first degree (preferably a Master’s) in statistical analysis, computer systems, or similar subject, and/or specific training in M&E or MIS. Other qualifications include:
- At least four years of work experience, including two working with data management, M&E and/or MIS in government/donor projects or large institutions.
- Self-motivated, with demonstrated ability to take initiatives and work under a minimum of supervision, yet also able to work effectively as a member of a team.
- Ability to interact with a wide range of private sector partners, public sector representatives, and development partners.
- Excellent quantitative and analytical skills.
- Good oral and written communication skills in English. Knowledge of one or more local languages will be an asset.
- Computer-literate and well-versed in the use of Word, Excel and the Internet, and have demonstrated ability in Access.
- Experience working with digital data collection tools (such as smartphones) and geographic information systems for implementation mapping.

Knowledge Management and Communications Officer

1. The Knowledge Management (KM) and Communications Officer will, under the supervision of the project M&E Officer, take responsibility for knowledge management within the project, as well as external and internal communications. The officer will also take responsibility for stakeholder relations, including organizing workshops, exchange visits and visits to the service providers.
2. Specific responsibilities include but are not limited to the following:
 - Assume responsibility for the public profile of the project, including developing a strategy and taking responsibility for media relations.
 - Ensure that all relevant communication related to the establishment of PROFIRA, selection of SACCOs and other communication messages back to the field related to PROFIRA progress are managed and carried out properly.
 - Prepare and implement project knowledge management and communications strategy.
 - Systematically compile lessons learned from project implementation into formats suitable for dissemination, as well as take lead in branding and production of project communications materials.
 - Contribute the KM/Communications aspects to the TORs of service providers and ensure in-time access to information both from the PMU downwards as well as from the beneficiaries upwards, and support the service providers in this respect, based on an assessment of capacity.
 - Take responsibility for the creation of an e-library repository collecting knowledge and stories, and ensuring easy access for all staff.
 - Support the project Coordinator in his/her role as the project spokesperson by preparing write-ups and talking points, pointers (questions to be expected), as well as the appropriate responses.
 - Provide leadership in organizing and managing project events such that the events are viewed as learning experiences and not gatherings for the sake of it.
 - Take responsibility for relations with service providers, including organising annual data verification exercises in the field.
 - Help organize stakeholder workshops for feedback to and input from all stakeholders.

3. *Qualifications and experience.* The candidate should have at least a Master's degree in Mass Communication; International Relations; Language, Literature and Communication Skills; or Business Administration and Marketing. Additionally, the candidate should have the following:

- At least five years of work experience in a related field, including two working with data management, M&E and/or MIS in government/donor projects or large institutions.
- Good knowledge of financial institutions, microfinance and member-owned.
- A clear understanding of aspects of technical writing to different categories of audiences
- Experience working with the media and different stakeholders, as well as events management.
- Ability to bring together various stakeholders for purposes of policy dialogue.
- Experience in handling public relations issues.
- Excellent writing and story-telling skills, as well as the ability to capture relevant visual, audio-visual and audio materials, produce print materials for various audiences, and share these with all stakeholders.

Financial Controller

1. The Financial Controller reports directly to the Project Coordinator, and is responsible for financial management of the project and for maintaining all project accounts in good order.

2. Specific responsibilities include but are not limited to the following:

- Installation of appropriate accounting/reporting systems to ensure that the PMU and especially the Project Coordinator are regularly informed of on-going financial activities and transactions.
- Communicate to all implementing entities and service provider their financial responsibilities, the funds available and how to access it, and the requirements of reporting and record keeping in accordance with prevailing government practices which are acceptable to IFAD.
- Maintain all accounting records in a form appropriate for regular auditing (at least once a year).

Ensure that:

- All project funds are used in accordance with the conditions of the loan agreements, with due attention to economy and efficiency, and only for the purposes for which the funds were provided;
- Counterpart funds have been provided and used in accordance with the conditions of the loan agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
- Goods and services financed have been procured in accordance with the loan agreement and in accordance with government and IFAD's rules and procedures;
- All necessary supporting documents, records and accounts are kept in respect of all project activities, with clear linkages between the books of account and the financial statements presented to the financiers;
- Designated accounts are maintained in accordance with the provisions of the loan agreement and in accordance with the financier's rules and procedures;
- The financial statements are prepared in accordance with International Accounting Standards and Generally Accepted Accounting Principles.
- Liaise with external auditors to audit the project accounts to meet the required submission dates by IFAD.
- Oversee tax matters of the project, ensuring that tax exemptions for the procurement of goods for the project are secured at the appropriate time.

- Assist in procurement for the project in accordance with procedures laid down by the loan Agreements of IFAD and the Public Procurement and Disposal of Assets (PPDA) act of Uganda.
- Process documentation and follow up on disbursements from the government and IFAD to ensure that releases are not delayed. Ensure that funds for project implementation are disbursed in a timely manner to enable project interventions to be carried out on time.
- Prepare and submit regular withdrawal applications to IFAD and follow up to ensure that the project does not run short of liquidity.
- Follow up on all project funds released to implementing entities and technical partners for timely retirement and proper utilization.
- Ensure that statements of expenditure (SOEs) are carefully compared for eligibility with relevant financial agreements and the disbursement letter, and with reference to the Project Design Report for guidance when necessary.
- Ensure that fixed assets are well accounted for and annual verification is undertaken of the condition of assets and their location.
- Prepare half-yearly consolidated statements of project accounts as an integral part of the Management Information System to be submitted to the Project Oversight Committee, and subsequently to IFAD.
- Prepare annually: (i) balance sheets, which should disclose bank and cash balances (that should agree with the statement of sources and application of funds), fixed assets and liabilities; (ii) yearly and cumulative SOEs by withdrawal application and category of expenditures; and (iii) reconciliation of the Special Account.
- Act as a counter-signatory to project fund releases as required for project financial transactions and also sign as witness to contracts as much as possible.
- Prepare quarterly reports regarding aspects of project financial monitoring bringing out variances and advising component heads as to the limits of expenditure.
- Carry out any other activities that are assigned by the Project Coordinator.

3. *Qualifications and experience.* The candidate should have a Master's degree in business or finance, and specific training or certification as a financial accountant or manager. Other qualifications include:

- At least eight years of relevant work experience, including at least four as a financial manager or accountant in government/donor projects or large institutions.
- Strong managerial skills and demonstrated capacity to manage people and interact with a wide range of private sector partners and government representatives.
- Knowledge of work planning, budgeting and reporting.
- Excellent quantitative and analytical skills.
- Computer-literate and well-versed in the use of Excel, Word and financial software.

Procurement and Contracts Officer

1. The Procurement Officer reports directly to the Project Coordinator, and is responsible for all procurement under the project and for maintaining all procurement documentation in good order.
2. Specific responsibilities include but are not limited to the following:
 - Installation of appropriate procurement systems and procedures for effective planning and monitoring of procurements under the project.
 - Communicate to all implementing entities and service provider their responsibilities and requirements with respect to procurement in keeping with prevailing government practices which are acceptable to IFAD.

- Oversee preparation and consolidation of inputs to the Annual Procurement Plan.
- Oversee the contracting process, including ensuring that Evaluation Committees have people with appropriate expertise.
- Monitor implementation of contracts: report status and problems to the Project Coordinator on a monthly basis; and intervene to address problem upon request by the Coordinator.
- Maintain all procurement records in a form appropriate for regular auditing.
- Ensure that goods and services financed have been procured in accordance with the loan agreement and the Public Procurement and Disposal of Assets (PPDA) act of Uganda.
- Work with the Financial Controller to ensure that tax exemptions for the procurement of goods for the project are secured at the appropriate time.
- Prepare quarterly reports of progress with implementation of the Procurement Plan, and regularly inform the Project Coordinator of problems and make proposals to overcome bottlenecks.
- Carry out any other activities that are assigned by the Project Coordinator.

3. *Qualifications and experience.* The candidate should have a Master's degree in business, finance or related subject, and specific training in procurement. Other qualifications include:

- At least five years of relevant work experience, preferably including experience in procurement in government/donor projects or large institutions.
- Ability to work well in teams and to interact with a wide range of private sector partners and government representatives.
- Knowledge of work planning and reporting.
- Excellent quantitative and analytical skills.
- Computer-literate and well-versed in the use of Excel and Word.

Attachment 4: Terms of reference – support to UCSCU

A. CEO/Board Mentor to UCSCU

1. The CEO/Board mentor position is to be filled by the partnership firm contracted by PROFIRA to provide professional assistance to the Uganda Savings and Credit Union (UCSCU) to become more business-oriented and profitable. The assignment is for 3.5 years over a five-year period with the first three years full time and on site. The CEO/Board mentor reports directly to the project partnership and indirectly to UCSCU's Chief Executive Officer and to the UCSCU Board, under the aegis of the contracted partnering firm, which is accountable to the PROFIRA Project Coordinator for achieving results as specified in the contract.

2. The CEO/Board mentor is expected to help reorient the management, staff and institutional culture of UCSCU towards doing business and providing services to its members in a commercially sound and financially sustainable way. The CEO/Board mentor has an oversight role to build the capacity of the CEO and Board to achieve their accountabilities, not to manage or direct UCSCU. It is a participatory role and requires the endorsement of the CEO and Board to be successful. The CEO/Board mentor will have the authority to approve the technical support and the annual performance incentive. Specific responsibilities include but are not limited to the following:

- *Board governance:* Assist the Board to define their role relative to the CEO and UCSCU management, to assess gaps in meeting their role and to develop and implement a plan to close those gaps.
- *Executive professional development:* Assist the CEO in managing cultural change with UCSCU stakeholders – the Board, staff, and SACCOs; Assist the CEO in raising the profile of compliance with policies and response to SUPCO; Assist the CEO to build a new core management team.
- *Enterprise Risk Management (ERM):* Assist the CEO on how to include ERM in UCSCU's cultural change; Assist the CEO on strategies to reduce fixed cost.
- *External Relations:* Assist the CEO on engaging government and other apex organizations.
- *Marketing and Business Development:* Assist the CEO in establishing a Business Development function.
- *Supplier Relations:* Assist the CEO to establish beneficial long-term supplier arrangements.
- *SACCO System and Monitoring:* Assist the CEO on how to engage the SACCO system to measure performance, set standards, and manage poor SACCO performance; Assist the CEO on how to make investments with long-term benefits such as managing the "SACCO" brand and IT development.

3. *Qualifications and experience.* The candidate should have a Master's or other advanced degree in business, finance or related discipline, and a proven track record in financial service business or institutional turnarounds. Other qualifications include:

- A minimum of ten years of work experience, including five years in executive management in banking and/or SACCOs.
- Demonstrated capacity to provide effective advice without being in a direct decision-making position, including excellent capacity to relate to people of different backgrounds and skills.
- Strong organizational, strategic planning and financial analysis skills.
- Strong oral and written communication skills in English.
- Familiarity with African SACCO Systems.

B. Short term Technical Assistance (TA) to UCSCU

1. The short term technical assistance (TA) positions are to be filled by the partnership firm contracted by PROFIRA to provide technical assistance to the Uganda Savings and Credit Union (UCSCU) to become more business-oriented and profitable. The assignment is for a total of 575 days over a five-year period. The TAs report directly to the CEO/Board mentor and indirectly to the Chief Executive Officer of UCSCU, under the aegis of the contracted partnership firm, which is accountable to the PROFIRA Project Coordinator for achieving results as specified in the contract.

2. The TAs are expected to provide specialized expertise to help reorient the management, staff and institutional culture of UCSCU towards doing business and providing services to its members in a commercially sound and financially sustainable way. Specific responsibilities include but are not limited to the following:

- *Board governance*: Board/CEO roles; Board professional development and mentoring (e.g. financial literacy, gender equity); Board succession planning; CEO performance management.
- *Executive professional development*: cultural change management; develop the Central Finance Facility; Human Resource (HR) management tools such as staff engagement, compensation, HR policy, and performance management.
- *Enterprise Risk Management (ERM)*: assist with recruiting an Internal Audit professional; provide an ERM framework; management information such as product costing, responsibility centre reporting, and inventory control systems.
- *External Relations*: facilitate and follow up on a leaders forum.
- *Marketing and Business Development*: brand management; segment and target marketing; and sales management tools.
- *Supplier Relations*: supplier evaluation and management; model contracts.
- *SACCO System and Monitoring*: Facilitate SACCO System forums dealing with monitoring performance, standards setting, SACCO brand management, and Information Technology development.

3. *Qualifications and experience*. The TAs should have a Master's or other advanced degree in business, finance or related discipline, be a knowledge expert in the above responsibilities and have a proven track record of transferring this knowledge to their clients. Other qualifications include:

- A minimum of ten years of work experience, including five years in management consulting or management of a large organization.
- Demonstrated capacity to provide effective advice without being in a direct decision-making position, including excellent capacity to relate to people of different backgrounds and skills.
- Strong organizational, strategic planning and financial analysis skills.
- Strong oral and written communication skills in English.

Attachment 5: Capacity building plan

Institution/Staff	Objective	Training	Timing
PMU managers	Effective procurement planning; compliance with requirements	Procurement	PY1
PMU managers and staff	Results-oriented strategic planning and team building Effective targeting and monitoring	Logframe and managing for results Targeting strategies (focus on poor, women, youth); gender mainstreaming	PY1 – PY2 PY1 – PY3
UCSCU senior managers UCSCU staff (10, at least half women)	Results-oriented strategic planning and team building Effective implementation and management oriented toward cooperative principles	Logframe and managing for results Diploma in Cooperative Financial Services (UCCK)	PY1 – PY2 PY2 – PY4
MFPED Dept. of Microfinance senior managers	Results-oriented strategic planning and team building	Logframe and managing for results	PY1 – PY2
MTIC Dept. of Cooperatives senior managers	Results-oriented strategic planning and team building	Logframe and managing for results	PY1 – PY2
MFPED and PMU staff	Understanding of principles and current practices of microfinance and community-based financial services	Microfinance (e.g., Boulder, School of Applied Microfinance, Sustainable Microenterprise Development)	PY1 – PY5

Appendix 6

Appendix 6: Planning, M&E and learning and knowledge management

Principles, roles and responsibilities for project M&E

1. **Introduction.** The PMU will consist of an 'M&E, Learning and Impact Team', consisting of three staff members, headed by the M&E officer. The unit will be responsible for ensuring that the project is on track to achieving outcomes, development objectives and goals, by monitoring the progress and validating the appropriateness of the activities. This requires participatory approaches and a learning culture within the PMU and with service providers.

2. **Key principles.** To ensure adoption of best practices and flexibility of project implementation, the following principles must be spearheaded by the M&E, Learning and Impact Team:

- Participatory principles, such as feedback to beneficiaries ensures ownership
- the design document serves as an 'expert option' on how best to achieve the project objective, but not is not set in stone
- All stakeholders must (staff, service providers, etc.) understand and appreciate the specified objectives and how the project plans to get there
- Cost effective implementation leads to greater and better outreach
- Activities and contracts must be output and performance based
- Knowledge based communication can inform policy development.

3. **The M&E, learning and impact team staffing and roles.** The M&E, Learning and Impact Team will be responsible for planning, monitoring, reporting, evaluation, learning, knowledge management and communication, as well as ensuring appropriateness and efficiency of implementation related to targeting (gender, geographical, etc.). The M&E officer will head the team, overseeing the work of the others, and in particular take responsibility for special studies, planning and reporting, relations with service providers, and gender and targeting. A Communications and Knowledge Management Officer will take primary responsibility for communications and knowledge management, as well as cross-component learning and organisation of workshops, stakeholder relations and other events. An M&E assistant will be primarily responsible for data collection, management and analysis, in support of, and supported by, the component managers, who have overall responsibility for implementation within each component. While the PMU will not have a presence in the field, adequate numbers of travel days have been provided for in the project budgeting, especially for the M&E officer and the assistant, to enable them to work closely with the service providers in verifying monitoring processes and data.

4. **Roles and responsibilities.** The primary responsibility for implementation and data availability to monitor contracts and performance lies with the component managers, under the guidance of the project manager. The role of the M&E, Learning and Impact Team is to support these efforts. While the primary function of the M&E, Learning and Impact Team is to support the component managers, as well as ensuring consistency and coherence between the two components of the project, the unit is also responsible for delivering information and analyses to the project management to facilitate decision making. The M&E, Learning and Impact Team will act as the user department for procurement of special studies, supported by component and project managers.

5. **Project responsibilities in relation to financing agreement.** An IFAD financed project is subject to a negotiated finance agreement and IFAD's 'General Conditions for Agricultural Development Financing' ('general conditions'). Article VIII 'implementation reporting and information' sets out the requirements for which the M&E, Learning and Impact Team will be responsible. This includes maintaining records and documents (see e-library repository below), monitoring of project implementation, through an appropriate information management system in accordance with the IFAD 'Guide for Project Monitoring and Evaluation', on which this document is based. In short, the general conditions state the need to gather data and information to monitor implementation progress and achieve objectives. Progress reports, mid-term reviews and completion reports are similar legal requirements.

Logical framework

6. **Overall goals and outcomes.** The goal of PROFIRA is to *increase income, improve food security and reduce vulnerability in rural areas*, as is a common goal for development projects. What the PMU will be held directly responsible for is achievement of the development objective, namely: *Sustainable financial services enable rural poor to undertake economic activities and meet important household expenditures*. Two tools, or mechanisms, have been chosen as the most appropriate to reach this development objective, namely through SACCO strengthening and sustainability, and through outreach of community based financial services. Suggested targets and outputs for these activities have been set, and also form the basis for the financial analysis and viability of the project.

7. **Logical framework.** The logical framework reflects the intervention logic, i.e. the impact and changes in society we wish to see, as well as the activities and outputs we believe will get us there. Although in practice validated through separate exercises, the logical framework represents a simple overview for monitoring project performance in key areas and achievement of impact. The logical framework is structured with a left hand side logic, ranked from output, to outcome, objective and goal level; the projects ability to reach and influence the results is high at output level, and lower at goal level. The PMU will be held accountable for reaching the development objective, with the risk that external factors limit the success of the project, as catered for in the right side column. The number of indicators, included in the log-frame, is limited in number and will act as project key performance indicators to assess performance and impact. These will be supplemented by a series of more detailed indicators used by component managers (see below on Indicators).

8. **Annual updating for impact monitoring.** It is the task of the Project Management Unit (PMU) to assess the targets in the log-frame (as captured in the Indicators), and to plan the activities needed to reach the outputs. Further, the PMU must, in conjunction with service providers, at least annually assess if outputs are leading to desired outcomes, and the likelihood of reaching the development objective. These annual assessments will serve to monitor progress, scrutinize why results are not being achieved, and modify implementation approach as appropriate. The assessment will be part of the AWPB process, as described below.

9. **Indicators.** The indicators in the logical framework are used to monitor achievement of the outputs, outcomes and development objectives. The goal level indicators will only be monitored at baseline and project completion, while the M&E system will have to ensure that sufficient data is captured to monitor and report on the remaining indicators. See the logical framework for a more thorough description of the indicators. In addition to the pre-defined indicators, the project will define additional indicators to monitor progress; this can be within each unit of the PMU, within each thematic area, and cross-cutting across the components.

10. **Targets.** Targets have been set in the logical framework to correspond to the objectives of each of the technical components, and to correspond to the economic analysis leading to the cost tables of the project design. While the outcomes and development objectives and goals should be seen as constant, the established baseline and/or the mid-term review could lead to fine-tuning of the targets, based on through analysis and reasoning.

11. **Results and Impact Management System (RIMS).** As part of its corporate reporting system, IFAD has developed the RIMS, which aims to create a common set of indicators that can be compared across projects and countries. All IFAD-financed projects are obliged to report using the RIMS procedures. Considerable efforts have been made to ensure that this reporting requirement is consistent with the reporting requirements internally in the project; additional information is provided in Attachment. Annually, in March, the project will report on RIMS indicators as indicated in the log-frame, and on indicators relating to the total number of project beneficiaries, in the excel formats provided by IFAD.

Monitoring outcome, impact and targeting

12. In order to monitor outcome, impacts and targeting success of the project, a number of studies will be undertaken. The studies are described in detail in the PIM, and listed below. In order to ensure that study outputs feed into the knowledge management and up-scaling strategy, the studies and reports must be planned well and procurements initiated in a timely manner; Attachment shows the

phased approach. Final impact studies can be undertaken during the closing period, but procurements are preferably done before project completion.

13. **Establishing baseline levels.** Following the selection of project areas and project SACCOs, a baseline mapping exercise will establish the baseline levels of all performance indicators, especially for the log-frame. This will not be as a survey on ground, but rather a collection of available information. For SACCOs, information from the Ministry of Trade, Industry and Cooperatives (MTIC) database, also used for selecting the SACCOs, will serve as the baseline for the number of members, number of females, males, etc. For the CSCG component, information from the project-established CSCG database will be compiled for those areas, along with statistics from other sources, such as UBOS, MIX mapping, etc.

14. **RIMS baseline and impact surveys.** In reporting on impact at project goal level – ‘To increase income, improve food security and reduce vulnerability in rural areas’ – the standardized tools developed by IFAD, including standardized methodologies for data collection and analysis, will be applied. Some 900 households, selected at random throughout the project implementation areas, will be surveyed following the methodology. The surveys will be done following the same methodology at baseline and project completion.

15. **Measurement of poverty reduction.** For the CSCG component, explicit and representative surveys to measure the movement out of poverty will be done at baseline, mid-term and completions, as a panel survey, following the same beneficiaries, under each of the project components. The studies will estimate the proportion of people living on less than 2 dollars a day, benchmarking against other poverty lines, acting as a baseline for targeting purposes, and monitor how many move above that level by the end of the project. For the SACCO component, a smaller number of SACCOs will be selected for monitoring of clients, to better understand the dynamics of the membership, the organisational commitment for poverty focused approaches and empirically investigate the assumption that strong SACCOs can achieve outreach and inclusion of the rural poor; stronger SACCOs will be chosen for the analysis. The SACCOs will be analysed three times during the project, in order to enable new members to also be included in the analysis.

16. **Social and environmental impact assessments.** To monitor the impact of the projects on societal issues, such as household structures or levels of conflict and beneficiary participation in a village, a baseline assessment will be undertaken to assess the communities involved in the project; each component will be analysed to investigate the impacts of savings and credit activities. Similar assessments will be made at mid-term and project completion, monitoring positive as well as negative impacts and providing guidance for alterations in project implementation. The assessments will similarly be used to assess any environment impacts of the project.

17. **Analysis of gender and targeting performance.** A gender and targeting strategy will be developed in the initial year of the project, and monitored through specific analyses, with focus on approaches and successes of each component in attracting and mobilizing target groups. Similarly, an assessment of the approaches of the service providers will be assessed, with potential for up-scaling and developing best practice information. The study will mainly be a desk study, supplemented by interviews with key stakeholders.

18. **SACCO gender audit.** To monitor gender mainstreaming and success in attracting both genders by the SACCOs, a gender audit will be undertaken, under supervision of the component manager. Lessons from the study will be packaged and shared with relevant service providers.

19. **Mid-term review.** The mid-term review will serve as a reflection on the implementation efficiency and progress in achieving the targets, outcomes and development objectives of the project. It will include an assessment of the performance of the service providers and contain lessons and recommendation from the above studies. The mid-term review is the main opportunity for adjusting the project design, depending on an assessment of implementation and perhaps changing external circumstances. Concrete suggestions for modifications of the AWPBs and contracts of service providers will be made, as well as an update on the logical framework.

20. **Project completion report.** Between project completion and closure, the PMU will be responsible for developing a project completion report, following the IFAD guidelines. Main elements of the report include documentation of achievements and impacts (supported by the above mentioned studies) and documenting lessons learnt. Through quantifiable impact assessments, the project

completion report will inform policy on the area of financial inclusion and provide potential for up scaling of successful implementation.

Planning and reporting

21. **Content of AWPB.** The M&E officer will consolidate inputs from PMU staff and service providers for project annual work plans and budgets (AWPBs), but also assist in the preparation of individual/unit level work plans and the procurement plan. In order to feed-back experiences and lessons learnt, review workshops will be held in March-April every year to discuss the progress, identify constraints and develop solutions with stakeholders and project partners. Planning will thus be based on the achievements of the previous period. The project will be dependent on the realism of the targets agreed with the service providers, therefore detailed planning sessions will be held with all of the contracted service providers in the process of establishing the AWPBs.

22. **Process and phased approach.** The first AWPB will be largely based on the project design report. In following years, physical progress and lessons learnt will play an increasingly important role. The AWPB includes a 18-24 month rolling procurement plan, and monthly indication of activities to be undertaken. Emphasis will be placed on cost-efficiency and the AWPB will be output-based. This means that every activity that is included should have a clear, measureable output, linked to the cost of the activity. Achievement of the AWPB, and the targets set therein, will be a main indicator for monitoring the performance of the PMU. The activities budgeted for in the cost tables, are described in the draft PIM.

23. **Overview of main reports.** Quarterly, the M&E, Learning and Impact Team will assemble a project wide status report, based on inputs from service providers and other PMU officers. Analyses reflecting impact, implementation progress, costs and lessons learnt will be provided to the Project Manager as a decision making tool. The reports, along with feedback tailored to the individual service providers, based on management reactions, will be fed back to the service providers, along with key messages to be further shared with project beneficiaries. Semi-annual and annual reports will similarly be consolidated by the M&E officer for reporting to IFAD and Government, and will contain more documentation on progress and demonstrated impact on ground. Suggested outlines and time tables are in the PIM.

24. **Sharing of and learning from reports.** During project implementation, reports generated will be shared with stakeholders for purposes of feedback and communicating areas of improvement. The M&E, Learning and Impact Team, under the lead of the Knowledge Management and Communications Officer, will develop popular versions of annual reports and other reports.

25. **Annual report.** Following the annual evaluation and planning workshop, the project annual report will be developed, showing progress, performance, impacts perceived on ground, as well as documenting main lessons learnt. Progress should be measured according to baselines and objectives set for the year. All studies undertaken in the period are to be finalized in time to be reflected in the annual report. The report will be published in a shorter, "popular" version, for broad distribution.

The M&E system

26. **Goal and role of M&E system.** The goal of the M&E system is to collect, process and make available to all players of the project reliable and useful information on the process of implementation, physical and financial achievements and data for further analysis. Key stakeholders should be able to access, the results and performance of the project in terms of outcomes and impacts on the lives of people, as well as the performance of the service providers. The 'system' will consist of an IT platform (two databases and an e-library) and the processes involved in collecting, assembling and processing information and data.

27. **Roles and responsibilities.** Service providers will perform a high degree of self-monitoring and monitoring of SACCOs/groups, through progress reports and data sheets. The system will be closely linked to the performance based contract monitoring system (ultimately linked to payments of the services). Thus, progress monitoring will be the main responsibility of the component managers and the contracts manager. Spot checks and data validation will be joint exercises (see below). The M&E, Learning and Impact Team will have key responsibility for data management and consolidation of report, as well as the impact monitoring. This entails cross-cutting studies, capturing of lessons learnt, ensuring an enabling environment around and within the project (communication) and

providing evidence based information for decision making by the project manager, component managers, the ministry and other external parties.

28. **IT-platform.** In order to track project performance, data will be assembled from various sources, and on occasion collected directly by the project; relying solely on external data sources will not be sufficient. The databases will be access based, with analyses performed in excel. This will allow for automatic importing of data from external stakeholders, and be easily integrated with the SACCO registry in the Department of Cooperatives, Ministry of Trade, Industry and Cooperatives (MTIC database), and others. Web-portals for easy viewing can be considered, if deemed relevant by service providers and beneficiaries. This will contribute to transparency and accountability, as well as facilitate participatory monitoring and project implementation. External support will be recruited for designing and setting up the databases and support the general IT infrastructure of the project.

29. There will be two databases, one for each component, with data structured in similar ways to allow for cross-analysis and overall project reporting. Data will be structured in lists, with the SACCO or the CSCG as main point of interest. In addition, a report for each group should be designed, for easy printing and sharing with the SACCOs and CSCGs received through the service providers. Envisaged lay-outs of each of the databases, as well as detailed descriptions of the compiling and analysis, can be seen in the draft Project Implementation Manual (PIM).

30. **E-library repository.** An e-repository will be linked to the M&E access based system, through a report of links to documents stored on common drives within the PMU. Providing information for the e-library will be the responsibility of each staff member for the PMU, as well as being a place for collection of reports. The Knowledge Management and Communications Officer will responsible for the content of the repository, while the M&E assistant will be responsible for the technical maintenance of the library.

31. **Implementing a common key.** Current databases on the micro-finance sector in Uganda, are not easy to integrate for purposes of data verification and leads to duplication of efforts. While the project will not take on responsibility for developing comprehensive databases of the sector, an advocacy and technical effort will be put into developing a “common key” among relevant stakeholders. For SACCOs, stakeholders include MFPED, MTIC, UCSCU, MSC, MIX markets, UBOS and individual SACCOs. The common key will be the SACCO MTIC registration number. For the CSCGs, all created groups will be numbered following geographical indications (district and sub-county ID) and group number in the village (A, B, etc.).

32. **Monitoring tools.** Tools used for monitoring will be data collection and analysis, qualitative data such as beneficiary statements and lessons learnt. The project and service providers should ensure that stories are collected on a regular basis, providing factual information, already from baseline. Such testimonies are especially relevant for documenting project attribution on higher level impacts. Photo archives should be kept as part of structuring qualitative information. Examples of techniques can be found in the PIM.

33. **Contract monitoring.** For monitoring performance and progress of service providers, performance based contract monitoring will be the primary tool. As this is closely linked with technical assessments of the services delivered, as well as to key performance indicators for disbursements of funds, the primary responsibility for contract monitoring will lie with the component managers, supported by the Procurement and Contracts Manager. The M&E system will support the decision making process (if a payment should be made or not), as well as ensuring complementarities across the two components.

34. **Component 1.** Five main elements constitute the activities for monitoring Component 1, as listed below. The main activity of Sub-Component 1.1 is the support to SACCOs, which will be based on contract monitoring and performance monitoring of supported SACCOs. Compilation of data and information from various data sources will be a key task for monitoring of the SACCO component. Data collection sheets are more thoroughly described in the PIM. The two other sub-components are less data-heavy; though monitoring the performance of UCSCU and its achievement of the agreed benchmarks will be critical. Similarly MTIC performance and ability to strengthen its registry capacity will be monitored through contract monitoring and assessments on ground.

- **Qualitative information from the ground.** Primarily collected and provided by service providers through quarterly reports. Supplemented by back-to-office reports collected when PMU members travel to the field.
- **Quantitative performance data of the SACCOs.** As part of each service provider contract, it will be specified which data should be collected, depending on the natural overlap with trainings and services provided. For example, trainers in SACCO governance will collect information on composition on the boards, and trainers in financial literacy will collect sustainability indicators. The indicators to be collected form a natural part of the work of the service provider. The data will be submitted to the PMU in soft copy (excel), for merging into the overall database. The data collected will be mainly in the form of indicators, rather than raw data.
- **Service provider progress and performance.** Across all sub-components, service providers will monitor their own performance on the ground; both in delivering trainings to SACCOs, but also the service provider supporting UCSCU, and MTIC status reports. Through spot checks (described below), such as checking the visitors book at individual SACCOs and interviewing beneficiaries.
- **Data verification.** Annually, a private service provider will be recruited to collect a full set of sustainability and outreach performance indicators, collecting in digital form data from audited accounts. This information will be collected in a digital way to be directly uploaded into the PMU database, meaning that service providers must have adequate capacity on ground. In addition, data can be cross-checked with UCSCU reports, and through spot checks. Completeness of the data provided by SACCOs should be used as a performance indicator for the SACCO.
- **Usage of data.** Data generated by the project will be publicly available, to enhance transparency and accountability. Main recipients of the data will be the MTIC database, for which the information can be used for updating; and the MIX market database. Similarly, performance data for individual SACCOs will be printed and shared with the SACCO.

35. **Component 2.** There are two sub-components in component two: creation of and working with mature groups, respectively. The monitoring tools will be similar for both sub-components, although data collected will differ. All data, regarding performance of the groups, as well as progress monitoring of the contract, will be collected by the service providers to be submitted in electronic format. This will be supplemented by narrative progress reports. Suggested outlines are provided in the PIM, to be further developed during start-up. Depending on a capacity assessment of recruited service providers, each will be supported in developing data collection tools. Formats for submission of data will be excel sheets, with drop-down menus to the extent possible. These will be submitted by e-mail, and directly imported into the access database. Data verification will take place, as described below. A workshop will be organised for all service providers, prior to implementation.

36. **Sub-component 2.2.** Experiences and lessons learnt from how to work with mature groups, is a key area for knowledge management, as well as capturing innovative approaches, and documenting the models. Performance will be measured by the targets set by the service provider, and monitoring “what does not work” is an equally important task as capturing success. Emphasis should be paid to possibilities for up-scaling by service providers from other sub-regions, for following service provider contracts or by external parties.

37. **Database of CSCGs.** To support component 2 on targeting and implementation, the project will additionally collect information from all CSCG implementers in the efforts to investigate outreach. This database will be fully integrated into the project database monitoring groups directly supported by the project, although the information will not be as detailed. Geographical information and the number of people reached are key parameters to collect. Data will be collected through coordination meetings with service providers; through gaining access to the information in the complied database, and the knowledge products developed therefrom, service providers will have an incentive to provide information on their activities. The output of the database will be a mapping of the outreach of CSCGs in the country.

38. **Verification principles.** An annual spot check exercise – expected to last about one month, to be followed by an analysis period – will be undertaken by PMU staff, organised by the M&E, Learning and Impact Team. Project areas will be chosen, and both supported SACCOs and CSCGs will be

visited. Data will be verified, information validated, and interviews undertaken with service providers and beneficiaries. Focus will be on experiences with project implementation, and to assess the relevance of the trainings/activities and satisfaction with the service providers. The results will be fed into the annual report. In addition to these systematic exercises, spot checks will be undertaken, both by phone to service providers and beneficiaries where possible (to verify information in status reports, for example), and to the field. IFAD supervision and implementation support missions should similarly be organised to verify activities on ground, ensuring geographical coverage.

39. **Linkages to financial management.** While not being directly responsible for this, the M&E, Learning and Impact Team will support the financial management staff on output based reporting, linking the cost of activities. This includes updates of the financial and economic models, developed at design, where the internal rate of return etc. might change based on changing unit costs of interventions. In addition, documentation of beneficiary contributions, an element of viability of the investment, will be monitored.

40. **IFAD supervision and implementation support missions.** The project will receive support from IFAD once or twice a year, which will serve as a key element of the M&E system. The support missions will be comprised of international experts within technical and practical areas, as requested by the project and identified by IFAD. The missions will perform a review of project performance and identify key areas for improvements.

Knowledge management, learning and communication

41. **Knowledge management.** Knowledge management is the process of capturing information from special studies, status reports and analysis from the project data, and making it available to project stakeholders. The PMU must ensure a learning culture and implement deliberate initiatives to make use of available data and information for improved performance. It includes maintaining repositories, improvement of knowledge access and sharing, as well as communications. The PMU will target an environment where collaboration among the various units is facilitated to enhance the knowledge environment. Knowledge obtained from outside the project, for example by participation in workshops, must be shared with colleagues every time.

42. **Communication.** There are three main elements of communication relevant to the project: (i) external communication to manage expectations and create an enabling implementation environment for the project; (ii) disseminating project knowledge internally and externally, including to service providers and beneficiaries, and (iii) providing knowledge based evidence to inform policy making and de-politicization of implementation. The Knowledge Management and Communications Officer will support the Project Manager on his/her communication skills, on behalf of the project.

43. **Main principles.** A knowledge management and communications strategy will be developed during the first year of implementation. The first step is to develop key messages, building on the experiences from RFSP. Such messages are linked to the intervention logic and include 'savings first', 'it is our SACCO' and 'women and men both have the right to develop'. Similarly, the targeting strategy, with a focus on gender, poverty and underserved areas must be clear. Such clear, evidence based messages must be shared among stakeholders at all levels, through available channels such as meetings, audio, audio-visual and written materials. More detailed elements of the strategy can be found in the PIM, and be gathered from Appendix 3: Country Performance and Lessons Learned.

44. **KM tools.** Information and data from the field are the key sources of lessons learnt and knowledge generation. Each PMU member will produce 'back to office reports' when travelling to the field, capturing key observations and beneficiary stories. Reports produced within the project will be the main decision making tool and thus the key to the success of the M&E system. Such reports, analysis, stories and key messages emerging, should be developed in one/two page formats and be illustrated for easy accessibility for SACCO and CSCG members. The Knowledge Management and Communications Officer will be responsible for harvesting information from external sources, through participation in on-line networks, for dissemination within the PMU and with project stakeholders, as well as developing 'best practice leaflets'. Exchange visits and knowledge sharing forums will be platforms for these efforts.

45. **Piloting and up-scaling strategy.** The nature of the PROFIRA design provides several opportunities for piloting and up-scaling. Although service providers will have similar contracts and key performance indicators, the project will be implemented through a very flexible approach, with a

lot of independence for service providers. Mid-way through the project, service providers will be repetitively recruited for the second half of the project, providing ample opportunities of mainstreaming lessons learnt and innovations into that phase. This, especially the activities of Component 1.1 linked to facilitating access to innovative technologies and methodologies and Component 2.2 in practice provides a basis for piloting and later up-scaling of best practices, if the methodologies used and impacts gained are well documented.

46. M&E of knowledge management and communication. Monitoring and evaluation of knowledge management and communication activities will be done within the M&E, Learning and Impact Team, analysing which information is collected, what channels are used and how it can be improved. This will include an annual assessment of each of the service providers in this respect, coupled to an assessment of the PMUs efforts to further disseminate these messages.

Start-up activities

47. Start-up workshop. Within the first two months of the project, a start-up workshop will be organised by the project management, for all PMU staff. The M&E, Learning and Impact Team will present the implementation logic (including the logical framework and indicators), and the main principles as stated in this document. The key message delivered should be to ensure that all staff are working towards a common objective and avoid risks of silo-thinking between the components. Staff will become familiar with the design document, and the administrative procedures of public projects, and IFAD. Within the first half year, this will be followed up by a team building exercise (preferably 2-3 days) to promote cooperation and a learning culture of the project.

48. Project launch. A public project launch will be held, approximately six months into project implementation, where main project stakeholders, including staff from the Ministry of Finance, Planning and Economic Development and other public institutions will be invited. Partners and a broad range of stakeholders, including media, will be invited, and the meeting will serve as an initial platform for sharing of key messages as identified in the communication strategy. Prior to this launch, key messages will be shared through radio and other channels, clarifying the project objectives.

49. Developing implementation guidelines (PIM). A draft project implementation manual has been developed; however, a number of elements must be further developed and others added. The M&E, Learning and Impact Team must ensure that responsibilities of other staff in M&E and communications activities are properly represented, as well as processes for developing AWPBs, reports etc. Some of the first elements of the AWPB for the M&E, Learning and Impact Team will be indicator profiling, identification of additional indicators and recruitment of consultants to design the M&E system and databases. Following this, it will be possible to develop TORs for initial studies, and develop the M&E service pack for service providers. This will include reporting formats and data collection sheets for all sub-components.

50. Targeting and data-collection exercise. As part of its initial activities, the PMU will collect the newest population and poverty data from the census expected to be completed in August 2013. For coverage by financial services, MIX markets is expected to have produced outreach maps. Collection of information on outreach of various savings and credit groups, is expected to be compiled by the project as a pre-start-up and start-up activity. UBOS is expected to provide information on rural vs. urban areas as well as targeting data on men, women, youth etc. For the first Component, the MTIC SACCO database will be the basis for identifying eligible SACCOs for programme support. The PMU will have to ensure that the data is valid and complete, which has been supported during the closing of RFSP. For the second component, information for the CSCG database must be collected from the long list of service providers working with such groups. This is further described in the Appendix 2: Poverty, Targeting and Gender.

Attachments to Appendix 6

Attachment 1: Indicator profiling and linkages

Attachment 2: RIMS reporting

Attachment 1: Indicator profiling and linkages

Indicator	Baseline	Target	Description	Link
1. 20% of the rural poor in the project intervention areas with improvements in assets ownership index at project completion	To be established	20% increase in asset index	20% target arrived at due to project outreach of 750 000 member/clients, corresponding to about 600 000 households, out of a total rural population of estimated of 21 million (nationwide project area). Target is ambitious, as changes should be seen within 100% of reached people. In the RIMS baseline survey, the following is measured at household level: <ul style="list-style-type: none"> - Main material of dwelling floor - Number of rooms in dwelling - Main source of drinking water - Toilet facility used - Household has: electricity, radio, television, refrigerator - Member of household owns: bicycle, motorcycle, car - Main cooking fuel used by household - Food security (length of hungry season) - Household involvement in cultivating farmland - Household use of farming tools - Household ownership of livestock 	RIMS level 3
2. 20% reduction of the prevalence of child malnutrition in rural households, by gender	To be established	20% reduction per gender group	Target as above. Measured by height/age, weight/age and weight/height. Increased resilience against chocks should lead to improved nutritional status within households.	RIMS level 3
3. 750 000 men, women and youth are active members of project supported SACCOs and CSCGs, of which at least the number of households with income earning activities has increased by 33% after 3 years of project participation.	150 000 (SACCOs) + 75 000 (CSCGs) = 225 000 existing members	150 000 existing + 150 000 new (SACCOs) + 75 000 existing + 375 000 new (CSCGs) = 750 000 people	The indicator is the sum of achievements under both components. 500 SACCOs to be supported are expected to have 150 000 members (individuals and groups) to be increased by 100%. About 3 000 mature CSCGs of 25 members expected to participate in component 2.2. 15 000 groups of 25 members to be created, i.e. 375 000 beneficiaries. Should baseline figures differ significantly, targets should be updated. Average SACCO and group sizes slightly low to allow for double counting between components and members of the same households participating. # beneficiaries to be multiplied by about 5 for total indirect outreach (average hh size). The project will have to, to a certain extent, to monitor the activities of the beneficiaries. This will be done through case studies, qualitative analysis and special studies, to ensure that loans are being put to productive use.	RIMS 1.3.2 RIMS 1.8.1 RIMS 2.31 COSOP
4. 300 000 members of projects supported SACCOs (of which 150 000 new; 55% men, and 30% women (non-youth), 15% youth) actively save increasing amounts (minimum 50%	150 000 members	300 000 members	New SACCO members are expected to be fairly balanced between men, women and youth as this will ensure no groups are excluded, and can be used as a proxy that the SACCO has attractive products. Dormant members are a common phenomenon; it is expected that all members of SACCOs should be actively using the services offered by the SACCOs. Satisfactory repayment rates indicate that loans are being used for economically viable purposes. Ability to repay (and purpose for taking out a loan) affects	

average increase per SACCO by PY5) and repay SACCO loans.			future loan-taking possibilities. This focus on loan repayment, effectively portfolio at risk (PAR) is another indicator for SACCO sustainability.	
5. 90% of the 500 project supported SACCOs attain operational sustainability by the end of the project.	To be established	450 SACCOs	Operational self-sufficiency (OSS) is the first stage a SACCO should reach on the way to long term financial viability; otherwise its equity will be reduced by losses or be dependent on grants. OSS is when operating income is sufficient to cover operational costs, such as rent, salary, equipment and loan losses, showing if income generation and operational costs are at sustainable levels (100%). Data will be calculated by the SACCOs, with support from UCSCU and service providers. The PMU will systematically collect data, and do annual sport-checks, following completion of audit reports.	RIMS 2.3.3
6. UCSCU has sustainability of operating income, covering 100% of operating expenses by PY5.	To be established	100%	Sustainability of operating income is a key target for UCSCU, coupled with many others. UCSCU will provide information on this, which should be validated at least annually. Increases should be visible from year 1.	
7. At least 90% of project supported SACCOs are audited annually by qualified auditors.	To be established	450 SACCOs	Indicator is used to monitor the strength of the regulatory framework for SACCOs, including the capacity of the DCO and the ability of SACCOs to undertake/pay for an audit. Will be monitored annually.	
8. 375 000 new members actively save in CSCGs (70% women; 15% youth), with increasing amounts of weekly savings in each annual cycle	0	375 000 members	Members of CSCGs will be counted by the service providers and annually verified. About 70% women per group is recommended and 15% youth will ensure this group is not excluded. Savings will be measured as membership, while the number of loans taken out and their purpose is an important indicator that financial services are used for productive purposes. It is crucial to follow a savings-first methodology; in later cycles of a CSCG members are more likely to have focus on micro-enterprises and other productive ways of investing loans.	
9. 75 000 CSCG members from mature groups accessing more advanced financial services.	0	75 000 members	About 3000 groups will be exposed to more advanced financial services, and their members will actively adopt more advanced financial services, such as individual bank accounts, mobile savings or other. Monitoring will be highly based on AWPB and reports from service providers.	
10. 15 000 new CSCGs established by the end of the project.	0	15 000 groups	15 000 groups are expected to be established in 4 sub-regions, over two periods, by different service providers, and target will thus only be met by the end of the project.	RIMS 1.3.1
11. 90% of CSCGs created operational after 3 years.	0	90% of groups expected to be in or past their 3 rd cycle by project closure	Lessons learnt show that groups past their third cycle can be expected to remain sustainable. The service providers will thus monitor the success rate of the groups created; the number of the groups to achieve this target will thus depend on the actual number of groups created.	RIMS 2.3.1
12. 3 000 mature CSCGs (75 000 members) have improved skills and are exposed to more advanced financial services.	To be established	3 000 groups	The targets in this indicator might change based on reality on ground, and can influence the targets of indicator 9. Service providers are expected to identify the number of mature groups with whom to work, as well as defined the "advanced financial skills" activities. Service provider AWPBs and reports will be key source of information.	RIMS 1.3.12

Attachment 2: RIMS reporting

4. **RIMS reporting.** The project will be part of IFAD corporate level reporting. Every 31 March, the project will upload information into the IFAD database, following a request from the IFAD head office. Every year, the project will report at the immediate results level; in years 3 and onwards, the project will also report on sustainability indicators. RIMS indicators are indicated in the log-frame, to be collected through regular data collection mechanisms. In the first year and final years, the project will report on the anchor indicators from the logical framework. First level indicators are quantitative, with information based on numbers collected in the field; second level are more qualitative assessments, although clearly specified within the technical components of the project. Reporting will follow the table below.

RIMS reporting tracking sheet

	Indicator number for reporting	PY1	PY2	PY 3-6	PY7
Project goal indicators	RIMS level 3				
1	Households in the project area with improvements in assets ownership index at project completion				
2	Reduction in the prevalence of child malnutrition				
	Sustainability indicators (RIMS level 2)				
Assessment of indicator 3 (based on 11)	2.3.1 Likelihood of sustainability of the credit/savings groups formed/strengthened (number of groups operational/functional)				
Assessment of indicator 5	2.3.3 Sustainability: improved performance of the financial institutions (portfolio at risk; operational self-sufficiency; active borrowers; operating expenses ratio)				
	Immediate result indicators (RIMS level 1)				
Indicator 10	1.3.1 Savings and credit groups formed				
Indicator 3	1.3.2 People in savings and credit groups formed/ strengthened				
Indicator 12	1.3.12 People trained in financial service				
Indicator 3	1.8.1 Individuals receiving project services (main outreach indicator)				

Rating scale for Level 2 results (sustainability level indicators)

Effectiveness		
1	Highly unsatisfactory	The intended results are highly unlikely to be achieved. No further resources should be committed until a new approach is devised. Consideration should be given to cancelling component/output
2	Unsatisfactory	The intended results have not been achieved. Major corrections need to be introduced to improve performance
3	Moderately unsatisfactory	The intended results have been achieved to a limited extent. Corrections need to be introduced to improve performance
4	Moderately satisfactory	The intended results have been partly achieved. Modifications should be introduced to improve performance
5	Satisfactory	The intended results have been achieved
6	Highly satisfactory	Intended results have been surpassed. The implementation approach can be considered as a best practice
Sustainability		
1	Very weak	None of the supporting factors are in place. Sustainability is very unlikely
2	Weak	Hardly any of the supporting factors are in place. Sustainability is unlikely
3	Modest	Some of the supporting factors are in place but they are not sufficient to ensure sustainability. Sustainability is unlikely
4	Moderate	Some supporting factors are in place but additional support is needed to ensure sustainability.
5	Strong	The most important supporting factors are in place. Sustainability is likely
6	Very Strong	All supporting factors are in place that will ensure sustainability

Appendix 7

Appendix 7: Financial management and disbursement arrangements

Overall financial management assessment

1. A Financial Management Assessment (FMA) has been undertaken as part of project design (see Attachment 1), with the objective of providing assurance that the implementing agency will have sufficiently strong financial management systems and controls in place to properly manage, control and report project finances in order to ensure that project funds are used economically and efficiently for the purpose intended. The FMA involves assessing: (i) the inherent risk at country level; (ii) the project specific risk. In the case of PROFIRA, as a similar set-up as for RFSP is envisaged, the latter has provided the basis to complete the assessment. The overall PROFIRA fiduciary risk assessment at design is assessed as *medium*. Mitigation measures are proposed to reduce the risk to *low*.

	Initial Risk Assessment	Proposed mitigation	Final Risk Assessment
Inherent Risk			
1. TI Index	-	-	H
Control Risks			
1. Organization and Staffing	M	Par 6	L
2. Budgeting	H	Par 7	L
3. Funds Flow and Disbursement arrangements	H	Pars 10-17	M
4. Internal Controls	H	Par 17	M
5. Accounting systems, Policies and Procedures	M	Par 18	L
6. Reporting and Monitoring	M	Par 19	M
7. Internal Audit	M	Par 20	L
8. External Audit	M	Par 21	L
PROFIRA Fiduciary Risk @ Design	M		L

H/M/L = High Medium and Low risk as per the Guideline Note on undertaking Financial Management Assessment at design

2. **Inherent risk.** Although Uganda's annual Corruption Perceptions Index (as published by Transparency International) decreased from 2.4 in 2011 to 2.9 in 2012, it still falls in the high risk category (<3). Furthermore, there have been many reports of recent corruption scandals which have resulted in some development partners cutting down on aid assistance to the country. These are mainly taking the form of cash drawn from the Bank of Uganda as advances. Once the cash is withdrawn, the IFMS is powerless in tracking the use of those cash advances. PROFIRA design arrangements have taken into account this fiduciary risk, and proposed appropriate financial management safeguard measures to be put in place at project level; these are summarised in this report and detailed in the draft PIM.

3. **Analysis of the GoU integrated Financial Management System (IFMS).** The GoU is rolling onto IFMS all projects. RFSP has been operating under IFMS. The assessment of IFMS shows that it has strong control features as illustrated in the following payment processing cycle:

- The requisitioning user department is required to generate the requisition form called PP Form 20, directly from Integrated Financial Management System (IFMS). If there is no budget for the activity, PP Form 20 will simply not be generated and the process will not be able to proceed any further. IFMS is thus very strong as a budget and commitment control tool. The accounting officer (in the case of projects, the Project Coordinator) will have to also sign off, electronically, on this form before the procurement officer can be notified, also under IFMS computer prompts, to take the necessary procurement actions
- Once PP Form 20 is successfully uploaded into IFMS, with all its contractual details, and signed by the Project Coordinator, the Procurement Officer is notified electronically on his/her workstation computer through IFMS auto prompts. If the Procurement Officer is comfortable, from a procurement perspective, he or she signs off by raising a local purchase order tool; this also has to be signed off by the project coordinator before proceeding to the next level. Therefore, the system is strong, if well used it ensures that procurement processes have been complied with; otherwise the Procurement Officer will not be able to sign off at this point and the system will abort.
- The next step in the payment processing cycle is for the user department to electronically sign off receipt of goods or acknowledgement of service delivery as the technical user department (technical contract manager). There has been an anomaly in RFSP; this function has been usurped by the finance officers yet it is crucial for segregation of duties and this should be rectified under PROFIRA.
- It is after the user department has signed off, confirming receipt of goods/ services that, the invoice payment prompt will appear on the workstation computer of the accounts staff. On receiving this prompt, the incoming invoices from suppliers / services providers will be posted in IFMS. The invoice parameters as posted by the accounts staff will have to be auto corroborated to the information already within IFMS before the payment processing can move to the next level.
- At project level, the final payment procedure involves the financial controller and the project coordinator, who have independent passwords, having to sign off thereby transferring the payment instruction to the Accountant General's (Treasury) MFPED for key system compliance checks. This, however, is not the last step as the MFPED and BoU still have to check for system integrity compliance.
- Regarding the Treasury, MFPED will organize the payments instructions coming from various ministries, departments and agencies in batches and, once satisfied that system controls have been complied with, the batch data will be encrypted and transferred to the Bank of Uganda for the latter to restore it in its own system, validate compliance with key system controls before finally processing the electronic funds transfer.
- Through the Output Based Tool (OBT), if well coded, budgets can be controlled up to key activity level.

4. From the above analysis, it is concluded that IFMS has strong features for segregation of duties and budget control. For a fraudulent payment to successfully go through will require a connivance of many officers, including at the Ministry of Finance and Bank of Uganda. Nevertheless, the following gaps/ weaknesses have been noted and will be properly addressed under PROFIRA:

- Cash advances once withdrawn from Bank of Uganda. Within IFMS these are 'expensed' at the point of withdrawing the funds and there is no in built mechanism for IFMS to track advances that remain unaccounted for/ unretired. *Mitigation measure:* while within IFMS advances will continue to be expensed, in Pastel an advance control ledger will be used to monitor advances.
- Like has been the case in RFSP, the user departments can be by passed with these functions being taken on by the accounts staff. This has the potential to perpetuate a fraudulent transaction. *Mitigation measure:* As part of start-up activities, PROFIRA will be profiled in IFMS whereby roles and limits will set for the various project staff.
- For project accounting purposes, if the coding in the OBT is not carefully done to reflect the structure of the project components, and expenditure categories, project financial reporting

will require a lot of off IFMS accounting work in excel. The general impression is that even, if it is very well coded, there will still be a lot of off IFMS accounting work. For example, it will not be possible to generate withdrawal applications to IFAD directly from IFMS; the system cannot maintain cumulative expenditure data for more than two years. *Mitigation measure:* In addition to ensuring careful OBT coding, as part of startup activities the chart of accounts suggested in the draft PIM will be finalized for use in the pastel accounting package.

PROFIRA financial management arrangements

5. **Organization and staffing.** The option of using seconded staff from the Accountant General Office to manage PROFIRA funds was assessed. The experience from projects such VOPD 1 that used seconded staff is that it will be difficult to effectively manage the anticipated number of contracted service **providers** under this option. In regard, under organisation and staffing the initial risk assessment was considered as medium. *Proposed mitigation:* The Financial Controller and the 2 Accountants (draft ToRs in Att. 3 of App. 5) will not be seconded from Government but will be recruited competitively on performance based contracts on an initial three year contract basis. IFAD will approve the recruitment of all 3 positions, including a prior review of all key steps of the recruitment process (advertisement and ToRs, shortlist interview panel report). The recruited officers will be trained in the IFAD-specific financial management requirements.

6. **Budgeting arrangements.** Under RFSP, there are striking differences between the AWPB which IFAD eventually expresses 'no objection' on and the budget that gets posted in the IFMS. This can create disbursement challenges given that IFMS can block any payments that are not in the approved budgets. Given this observation the initial fiduciary risk assessment was considered as high. *Proposed Mitigation:* There is need to ensure consistency between the budget in IFMS and the final AWPB approved by IFAD. However, it is also acknowledged that the elaboration of a detailed AWPB in December in line with the GoU planning calendar for the following financial year might be a bit too early. PROFIRA will therefore have a first level of planning and budgeting for the OBT in December at a broader level, which will then be further detailed and finalized for the AWPB in June ensuring to work within the higher level amounts included in OBT. Integration of PROFIRA higher level outputs, activities and estimates, in a three-year rolling framework, into the OBT shall ensure that the project objectives are captured into national priorities and MTEF, effectively monitored and consistently reported by government of Uganda. Care should be taken to ensure that the OBT coding within IFMS is reflective of PROFIRA components, sub-components and key activities.

7. **Flow of funds.** The project will open a Designated Account in USD and a project operational account in UGX, both in the Bank of Uganda. In addition, the project will open a SACCO contributions bank account in a commercial bank with a wide networked branch system to collect SACCO contributions **towards** training activities. GoU counterpart funds will not be comingled in the same operational bank account with IFAD loan/ grant funds thus justifying a counterpart funds bank account in UGX also in Bank of Uganda.

8. Segregation of duties and tight cash controls have been instituted by the Government of Uganda as all cash flows are channelled through the IFMS which is linked to the Bank of Uganda system. Physical cash drawings / advances from the project accounts in the Bank of Uganda will be kept to a minimal level as this has been identified as risk. Even for costs such as fuel, stationery etc., the use of framework contracts with suppliers will reduce physical cash drawings from the Bank Uganda, which has also been identified as a risky area. The SACCO and CSCG component managers will sign off payments within IFMS as acknowledgement of receipt of goods/services, which will be a deterrent to the risk that service providers may be paid for services not rendered.

9. Payments to contracted service providers shall be performance based, with agreed milestones. Upon achievement of a pre-set milestone by a service provider as included in the payment schedules in the respective contracts, the service provider will submit to PMU a standard commercial invoice. Supporting documentation to show that a milestone has been achieved will include, but not be limited to, certification from beneficiaries that a service has been delivered, and a quality control report from the **line** manager that the service was delivered satisfactorily. Sample field visits will also be carried out to authenticate requests for payment submitted by service providers. The initial payment will be based on a milestone such as submission of an inception report. The use of advance payments will be discouraged, and subject to a 100% bank guarantee.

10. Contracted service providers will submit invoices for services performed on a quarterly basis at most, with frequent invoicing encouraged. Regular invoicing as per the payment schedules in the contracts will ensure smooth implementation and adequate time to verify services rendered to the communities and beneficiaries.

11. The rationale for having a SACCO contribution bank account in a commercial bank that has a networked branch system is to make any enforcement of beneficiary contribution as the business of the PMU and not the service provider. It will constrain the service providers if they were to **receive** partial payments from PMU e.g. 90% with the rest having to be collected directly from the SACCOs. The PMU will put in place a mechanism where the SACCOs can make their deposits of their contributions in a commercial bank near their operating area and inform PMU in the simplest way possible including the use of SMS texts. The Financial Controller will be able to view all transactions on the account from the Kampala based PMU.

12. **Disbursement methods.** Standard International Financing Institution (IFI) disbursement methods will be used, including: (i) direct payment method for bigger payments over USD 50,000; (ii) use of **designated** account; and (iii) reimbursement if GoU has pre-financed any transactions. As PROFIRA has very few physical goods to procure, the use of the special commitment procedure is unlikely.

13. The SOE ceiling will be set at low levels initially given the high inherent risk. USD 20,000 is suggested as the initial SOE threshold and to be reviewed after supervision mission assessment of fiduciary risk.

14. **Internal controls.** An assessment of the current RFSP internal controls was carried out with an understanding that a similar framework will be replicated under PROFIRA. The overall assessment is **high** risk level. The following gaps were identified and appropriate mitigation measures have been suggested for PROFIRA.

- Delay by implementing agencies to account for advances resulting in the RFSP facing liquidity challenges due to failure to submit timely replenishment requests to IFAD. Under PROFIRA, disbursements to service providers will not be based on the AWPB-based cash advances for implementers to account later. *Mitigation measures:* payments will be on basis of achievement of performance based milestones agreed in the commercial contracts on submission of invoices and verifications of milestones achieved.
- Inadequate segregation of duties where the user department was not profiled with IFMS to be part of the payment approval cycle; that is to acknowledge delivery of a service or goods.
- The RFSP runs a fixed asset management system that is not regularly updated. *Mitigation measures:* while currently fixed asset verifications are not regularly performed, such controls have been provided for in the draft PROFIRA PIM.
- Management accounting. Under the RFSP, regular management accounts have not been provided systematically to aid in management decision and control. *Mitigation measures:* For PROFIRA, these will be provided on a monthly basis. In addition to all the tables for financial reporting above, management reports should include; i) budget Vs actual comparison up to individual activity level; ii) treasury Position; iii) cash flow forecasts; and iv) Advance aging Analysis reports.

15. **Accounting system.** Under RFSP Pastel accounting package has been used alongside with IFMS. This arrangement is also proposed for PROFIRA. The indicative chart of accounts has been provided in the draft PIM. The chart of accounts embedded in the IFMS that is emphasized by GOU is more skewed to the wider government requirements and not to project specific requirements. This makes the IFMS reports not very useful in making financial decisions at project level. The operations manager does not sign off anything in IFMS; yet he/she is, in substance and form, the technical head of SACCO support activities and IFMS provides for his service acknowledgement before payment can be processed. *Mitigation measures:* Under PROFIRA, as part of start-up activities, the coding in OBT facility of IFMS will be utilized and parallel accounting software will be installed to supplement IFMS and technical contract managers will have the mandate passwords to sign on payments in their respective components.

16. **Reporting and monitoring.** Under RFSP the report writer facility of Pastel was utilised to customise the standard project accounting reports. Reports such as expenditure trends component wise, category wise are generated straight from the accounting package without having to do further analysis in excel. This is **recommended** for PROFIRA as well. However, sometimes the system will be posted late, sometimes in arrears of two months. For PROFIRA, instead of having manual vouchers which are then later posted in pastel, it is suggested that pastel's Payment voucher facility be added on the existing software so that vouchers are electronically generated and thus spontaneously posted in the system. Details of the reporting requirements have been included in the draft PIM.

17. **External audit.** The Auditor General is empowered by the Constitution of Uganda, to audit all Government Funds including Government projects funded with development partner loans as approved by Parliament. However, because of the human resource constraints, with his/her consent, a private auditor can be appointed. The RFSP annual external audits have been carried out by private audit firms contracted by the Auditor General. The quality of the audit reports was satisfactory and compliant with both IFAD and GOU requirements, except for lack of procurement audit specialists on the teams. In consideration of the financial fiduciary risk assessment, a private audit firm will be contracted to provide internal audit services in addition to the annual statutory external audits. The TOR's and entire procurement process for both audit teams should be cleared by IFAD. A draft initial ToR has been included in the draft PIM. The audit reports, for both the dual audit teams, on the financial statements should include: (i) an opinion on the certified statements of expenditure and the operation of the Designated Account; and (ii) a separate management letter, addressing the adequacy of the accounting and internal control systems. Procurement auditing was lacking as the audit teams did have procurement professionals on their teams. Emphasis will also be placed on procurement auditing; besides having a specialised procurement audit in addition.

18. **Internal audit.** Under RSFP the a firm of Certified Public Accountants was retained not only to provide watch-dog kind of services but also to support the programme in technical financial management elements. It proved helpful in solving a number of financial management bottlenecks. However, there were cases when some of the internal audit recommendations were not **implemented** in time. Under PROFIRA it is suggested that sub-committee of the steering committee be constituted as an audit team committee that will be responsible for approving the annual audit plan and the meet at least quarterly to review the internal audit reports and management actions on the recommendations of both internal and external auditors.

19. **Financial management during supervision.** PROFIRA Supervision missions should be able to check the electronic IFMS system, including the performance of walk-through tests to confirm the **integrity** of system based controls. In particular, check on IFMS segregation of duties in the processing of payments such as the need for technical contract manager to sign off with the system acknowledgement of service delivery. The financial management specialist of the supervision team will have the capacity to review electronic payment platforms such as IFMS, as opposed to the conventional paper based payment processes.

Attachments to Appendix 7

Attachment 1: Financial management assessment questionnaire (FMAQ)

Attachment 2: The PROFIRA funds flowchart

Attachment 1: Financial management assessment questionnaire (FMAQ)

Implementing Entity: Ministry of Finance Planning and Economic Development

Topic		Response	Remarks
1.	Implementing Entity		
	Which entity is the LPA? What is the entity's legal status?	Ministry of Finance Planning and Economic Development	
	Will financial management of the project be the responsibility of the LPA or be undertaken within the-PIU?	Separate PIU as has been under the RFSP	
1.3	Has the entity implemented a donor financed project in the past - if so, please provide details?	Yes, the RFSP and others	
2.	Funds Flow/Disbursement Arrangements		
2.1	Does the Implementing Entity have previous experience of using imprest fund and donor funding SOE procedures? Were there any problems or issues encountered by project staff in the operation of the imprest fund or SoE procedures in the past?	Yes Yes	Dealing with implementing agencies to manage imprests was problematic Cash advances are expensed IFMS has in some other projects failed to block frauds
2.2	Does the Implementing Entity have experience in the management of disbursements from IFAD or other donors? Have there been the major problems in the past in receipt of funds by the entity?	Yes Yes	There were some cases when RFSP virtually faced cash flow challenges because of over bulking of WAs
2.3	Does the entity have/need to develop capacity to manage foreign exchange risks?	Not necessary	
2.4	Are the beneficiaries required to contribute to project costs? How are payments made for the counterpart funds? If counterpart funds are to be contributed in kind (in the form of labour), are proper guidelines formulated to record and value the labour contribution?	Yes Only taxes	Separate SACCO contributions account has been proposed Separate account for tax funds proposed as has been under RFSP
2.5	Is part of the project is implemented by communities or NGOs? Does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Yes	Payments to be on invoice basis once the service providers have met the agreed milestones Some risk exists in dealing with reimbursables with contracted service providers
2.6	Describe (proposed) project funds flow arrangements; (attach flow chart and explanation of the flow of funds from IFAD, government and other financiers.	Flow of funds chart attached and described	
2.7	In which bank will the Imprest Account be opened?	Bank of Uganda	This is a GoU requirement
2.8	Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the Implementing Entity satisfactory?	Yes	The signatories to designated account will involve Ministry of Finance but the operational account will be managed by PMU through IFMS

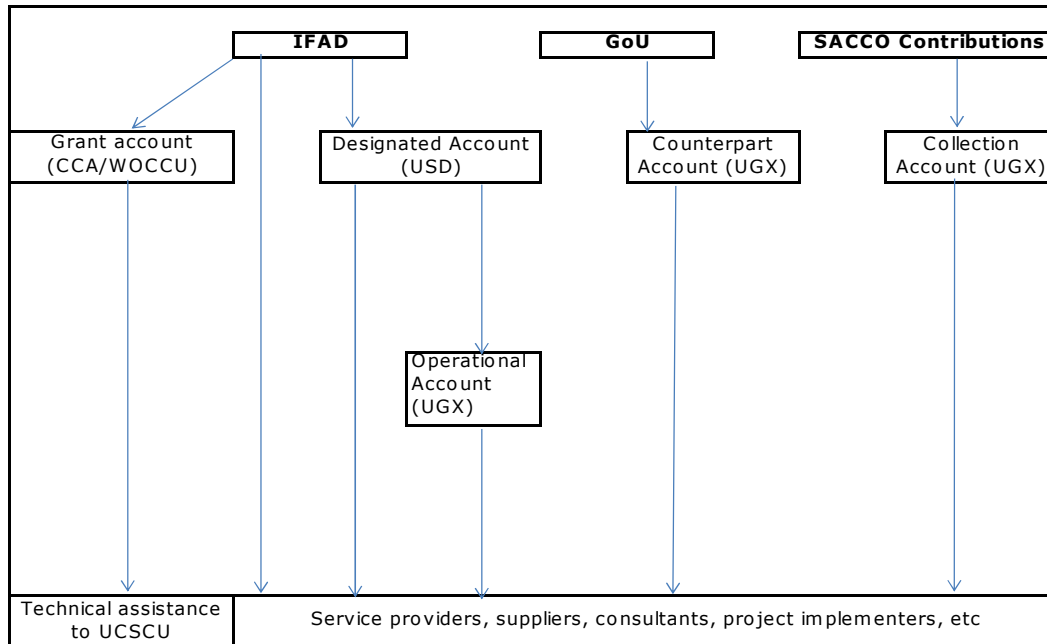
Topic		Response	Remarks
3	Staffing		
3.1	What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	Financial Controller and two accountants	See overall project organisation chart (app. 5)
3.2	Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	Financial Controller must be a certified public accountant Two accountants will hold accounting degrees	A competence profiling of existing staff is being done Use of seconded staff from the Accountant General has been problematic in the past as they easily get transferred and lack the level of commitment demanded for project work (VOPD1)
3.3	Are written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Draft ToRs available	
3.4	Is the finance and accounts staff adequately qualified and experienced?	Yes	assuming the RFSP team continues
3.5	Are the project accounts and finance staff trained in IFAD procedures?	Yes	assuming the RFSP team continues
3.6	Are any Finance Staff appointed on contract What is the duration of the contracts Indicate key positions not contracted yet, and the estimated date of appointment	Yes 1-2 year contracts	
3.7	What is training policy for the finance and accounting staff?	IFAD FM workshops	
3.8	Is there evidence that finance staff are regularly transferred to other Government departments At what frequency are personnel transferred?	No	
3.9	Is the project finance and accounting function staffed adequately?	Yes	
4.	Accounting Policies and Procedures		
4.1	Does the entity have an integrated accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Yes using a mixture of IFMS and Pastel	Higher level budget and accounting will be through IFMS Detailed project budget control and budgeting will be in the Pastel system
4.2	Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Medium risk	Under RFSP, the user department was by passed in processing payments
4.3	Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes in Pastel but not in IFMS	
4.4	Can cost allocations to the various funding sources be made accurately?	Yes in Pastel but not in IFMS	
4.5	Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes in Pastel	
4.6	Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes a very good filing system is in place at RFSP	

Topic		Response	Remarks
Project Budgeting System			
4.7	Who is responsible for preparation and approval of project budgets?	PAU led by the Monitoring and Evaluation Officer	
4.8	Are project budgets prepared for all significant project activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes and budget has been controlled both under Pastel and IFMS	There has always been discrepancies between budgets in IFMS and the ones on which IFAD expresses No Objection
4.9	Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes through involving implementing agencies in AWPB processes	
Payments			
4.10	Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	IFMS is very strong on all these aspects	The gap under RFSP has been to bypass the user department. Under PROFIRA, the technical managers such as the SACCO development manager will play this role.
4.11	Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes but sometimes the account code is not indicated especially for payments done by UCSCU.	
Financial Policies And Procedures			
4.12	What is the basis of accounting (e.g., cash, accrual)?	Cash	
4.13	What accounting standards are followed?	IPSAS	
4.14	Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	A draft skeleton PIM has been prepared for PROFIRA	
4.15	Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Weak	
4.16	Is there a written policies and procedures manual covering all routine project financial management activities? Are manuals distributed to appropriate personnel?	A draft skeleton PIM has been prepared for PROFIRA	
Cash and Bank			
4.17	Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes	
4.18	Are bank and cash reconciled on a monthly basis?	yes	
4.19	Indicate names and positions of authorized signatories of project bank accounts.	Category A: Under Secretary-MOPED Principal Accountant-MOPED Category B: Programme Coordinator Financial Controller	At least one signatory from each category for the special account transactions and two signatory for category B for the operational account

Topic		Response	Remarks
	Safeguard over Assets		
4.20	Is there a Fixed Asset accounting system, with a Fixed Asset Register, fully implemented - as part of an integrated accounting system Is the system maintained up to date ?	Yes within Pastel Fixed Assets module Yes	
4.21	Are there periodic physical reconciliation of fixed assets and stocks?	Appears to be only at instance of internal and external auditors	
	Other		
4.22	Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	No evidence of this	
4.23	Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	No evidence of this	
4.24	Do controls exist for the preparation of the project payroll and are changes to the payroll properly authorized	Yes	
5.	Internal Control and Internal Audit		
5.1	Segregation of duties - are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	The user department has been bypassed in processing payments	
5.2	Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	The user department has been bypassed in processing payments	
5.3	Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes the Coordinator approved the reconciliations prepared by the Finance officers	
5.4	Is there an internal audit department in the LPA?	yes	
5.5	What are the qualifications and experience of internal audit department staff?	Firm of Certified Public Accountants/ Registered Auditors	
5.6	To whom does the internal auditor report?	Reports to the Coordinator but can also report to the finance committee of the steering committee	Under PROFIRA there will be need for an audit committee being a sub-committee of the steering committee.
5.7	Will the internal audit department include the project in its work program?	yes	
5.8	Are actions taken on the internal audit findings?	Yes but with some delays. Some audit observation recur in many reports before being acted on.	
6.	External Audit		
6.1	Who is the external auditor of the entity?	Auditor General has been appointing a private audit firm	

Topic		Response	Remarks
6.2	Are there any delays in audit of the entity? When are the audit reports issued?	Usually at the very last day of the 6 month deadline	
6.3	Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	
6.4	Were there any major accountability issues brought out in the audit report of the past three years? Were there any issues noted in prior audit reports related to the operation of project imprest accounts or use of SOE procedures?	Some queries on transactions incurred by UCSCU	
6.5	Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Auditor General has mandate and may continue to appoint private auditors	Under PROFIRA ToRs will require the Funds No Objection
6.6	Has the project prepared acceptable terms of reference for an annual project audit?	Mainly rely on the Auditor General	ToRs will require the Funds No Objection
7.	Reporting and Monitoring		
7.1	Does the reporting system need to be adapted to report on the project components?	Yes and specific chart of accounts for PROFIRA will have to be developed	
7.2	Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and the frequency of production.?	Not well documented	
7.3	What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Quarterly but also monthly management accounts are available from pastel	But sometimes pastel is posted late
7.4	Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes through Pastel	
7.5	Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes through Pastel's report writer facility	
8.	Information Systems		
8.1	Is the financial management system computerized?	Yes	
8.2	Can the system produce the necessary project financial reports?	Yes but SOEs require some extra work in excel	
8.3	Is the staff adequately trained to maintain the system?	yes	
8.4	Are adequate systems in place to "back up" financial records	yes	

Attachment 2: The PROFIRA funds flow chart



Appendix 8

Appendix 8: Procurement

Assessment of procurement systems

1. **Country systems.** The most recent Country Procurement Assessment Report was prepared in 2004. As part of the background study for the elaboration of the Country Strategic Opportunities Programme (COSOP, 2013-18), IFAD financed study of National Procurement System of Uganda by Crown Agents. The overall finding is that the legal framework for public procurement in Uganda is strong and provides clear guidance for the procurement practitioners and providers. There are checks and balances within the system which, if utilised, ensure the public procurement is undertaken transparently and competitively.

2. In spite of the apparent strong procurement regulatory environment, Uganda's annual Corruption Perceptions Index as published by Transparency International still falls in the high risk category. This represents an inherent country risk that needs to be taken into account when designing a new project.

3. **Project specific assessment.** During the design, a comprehensive assessment of the degree of practical implementation of the regulatory framework in RFSP was undertaken in order to draw lessons to be applied in PROFIRA. The overall assessment is partially satisfactory; the full details are included in the Project Life File. In summary the following gaps were identified:

- Inadequate procurement planning and procurement performance monitoring resulting in delayed delivery of kits and services to SACCOs
- Poor quality of bidding documents
- Weakness in the evaluation process, including the way the evaluations were conducted as well as in the public sharing of award decisions for increased transparency;
- Poor contract management, especially the MoU with AMFIU where significant milestones lagged behind
- Record keeping; e.g. maintenance of appropriate contract register and monitoring forms
- The use of memoranda of understanding (MoUs), instead of performance based contracts
- External audits were generally weak on procurement auditing as they were not required to have procurement specialists in the audit teams.

PROFIRA procurement arrangements

4. For PROFIRA it is recommended that national systems and regulations, which have been assessed to be consistent with IFAD guidelines, be used. The IFAD prior review thresholds will be set at USD 50,000 for services and USD 100,000 for supplies. Only a few goods/ equipment procurements are planned for under the Programme Management Unit (in year one there is only provision for 3 vehicles, 1 motor cycle, and handful of equipment sets). These goods will be procured under National Competitive Bidding procedures and others under Request for Quotations. No International Competitive Bidding will arise for goods. There are no works foreseen at all. The bulk of procurements will be in the selection and contracting of service providers for which the most popular selection method will be the Quality Cost Based Selection method (QCBS). The process involved has been explained in the draft implementation manual.

5. PROFIRA will recruit a full time Procurement and Contracts Officer throughout the duration of the project. Appropriate tools for procurement and contract management (i.e. procurement plan, contract register and contract monitoring form) will be used. These templates have been included in the draft Programme Implementation Manual.

6. A few measures will be introduced to mitigate against the risks identified:

- *PROFIRA specific Contracts Committee.* A specific PROFIRA Contracts Committee should be constituted to avoid the long protracted procurement delays that are experienced by other projects that rely on the line ministry main Contracts Committee. This will enable PROFIRA to have a degree of control over the operation of the contracts committee, namely when and how it should meet. IFAD should be provided with the profiles of the members for comment

before fully constituting it. Financial provision has been made to train the committee once constituted, including refresher annual training. The committee should have tenure of at least 3 years to avoid disruptions in the procurement processes. It will be subordinate to the main MFPED Contracts Committee, but have full delegated powers to oversee PROFIRA procurement processes as stipulated in the PPDA and regulations.

- *Ad hoc evaluation committees.* The ad hoc evaluation committees will be well balanced with the level of skill and integrity. For all procurements above the prior review thresholds, IFAD 'no objection' should be obtained on the composition of the committee. Members of the evaluation committees will be required to sign a code of ethical conduct. Preceding each evaluation, members of the ad hoc committee will receive some briefing by the procurement specialist and the technical contract manager to ensure they have a common understanding of the evaluation criteria and scoring contained in the bidding documents.
- *Bidding documents.* Poorly prepared bidding documents can lead to selection of incompetent service providers and suppliers which can be recipe for corruption. The PCO will receive on-the-job training and backstopping on how best to adapt the standard bidding documents. In addition all members of the contracts committee will be briefed to understand bidding documents in order to make meaningful deliberations and correct decisions. The specialized annual procurement audits will include a thorough review of the quality of the bidding documents. External audit teams will be required, in their terms of reference, to include a procurement specialist on their audit teams differently from RFSP. The design report has included suggested evaluation criteria and the respective point scoring allocations for services; such non-ambiguous evaluation criteria will be included in the bidding documents and once bidding is closed, the evaluation criteria will not be altered.
- *Evaluation of bids.* During the procurement assessment review, as part of PROFIRA design, two issues were noted: (i) there were indications that evaluators do not conduct the evaluation continuously from start to finish in a secluded place, and (ii) there appears to be difficulty in the application of non-material deviations or reservations, and material deviations or reservations during the conduct of evaluation, which can lead to consequences such as good bidders being disqualified owing to non-material deviations and bidders who ought to have been disqualified for material deviations allowed to proceed. By allowing evaluators to go with the bidding documents to their respective work stations increases the risk of compromises, alteration of bid documents and other corrupt tendencies. Under PROFIRA, after the closing and opening of bids, evaluation will be done immediately as a continuous process in a secluded place until the evaluation report is finalised. Each evaluation will be preceded by a training facilitated in such a way to ensure that evaluators understand the bidding documents, and the evaluation criteria. Any material deviations in the score sheets of different evaluators will be documented and disagreements among evaluators will be encouraged and documented in the evaluation reports.
- *Public sharing of contract award decisions.* For any contract over the equivalent of USD 200,000, within two weeks of receiving IFAD's 'no objection' to the recommendation of contract award, PMU shall publish in *UNDB online* and in *dgMarket* the results identifying the bid and lot numbers and the following information: (i) name of each bidder who submitted a bid; (ii) bid prices as read out at bid opening; (iii) name and evaluated prices of each bid that was evaluated; (iv) name of bidders whose bids were rejected and the reasons for their rejection; and (v) name of the winning bidder, and the price it offered, as well as the duration and summary scope of the contract awarded.
- *Transparency.* In the publication of contract award, the PMU shall specify that any bidder who wishes to ascertain the grounds on which its bid was not selected should request an explanation from the PCO. The PCO shall promptly provide an explanation of why such bid was not selected, either in writing and/or in a debriefing meeting.

7. **Contract Management.** The two investment components will be implemented by competitively selected service providers under performance based contracts. Except in a few cases, such as UCKK and ICPAU³⁴, there will be no justification for use of memoranda of understanding in engaging

³⁴ UCKK – Uganda Cooperative College Kigumba; ICPAU – Institute of Public Accountants Uganda

service providers. Most of the contracts will be sizeable and should be able to attract competition. Quality Cost Based Selection (QCBS) will be the predominant selection method. In the first three years, around 45 service contracts will be running in parallel. This will impose a high procurement and contract administration burden on the PMU; thus the need for a dedicated full time Procurement and Contracts Officer. In cases where the PMU foresees that it will be overwhelmed with contract management and may thus not have the necessary capacity, it will employ external capacity to support contract management functions for the packages concerned.

8. In contract administration, a considerable part of the load will be taken by the technical team responsible for each of the two components – managing the technical aspects of these contracts will be their main responsibility. For each contract, the PMU will designate a contract management team to manage the day to day liaison with the service providers; such teams will be headed by the respective component managers and supported by the PCO. These teams may include short-term recruited capacity to support the verification of reports and performance based invoices. As part of start-up activities the entire PMU will receive training in contract management especially the services under performance based contracts.

9. Most of the contracts will be performance based. This means that the scope and duration of the services and the required output will have to be clearly defined. Payments will be linked to outputs (deliverables) such as inception report, number groups mobilized and entering the training cycle, final training reports etc. Lump-sum contracts are easier to administer because they operate on the principle of a fixed price for a fixed scope, and payments are due on clearly specified outputs and milestones. Nevertheless, quality control of the service provider's outputs by the PMU will be paramount.

10. The above approach will reduce the heavy weight of expenditure justification documents that don't relate to performance outputs as has been the case under RFSP. To the extent possible, lump sum, performance contracts will be used, where the outputs can be fully quantified and costed. Once the output has been fully costed, the service provider will be paid that amount once the output has been achieved as opposed to submitting receipts for each individual cost item that may have been incurred in achieving that output.

11. Once a service provider will have achieved a milestone, they will submit an invoice to the PMU clearly showing the deliverable/ output achieved quantified in monetary terms based on the unit costs agreed contractually. These invoices will be, to the extent possible, bulked by service of providers in terms of verifiable outputs achieved say in one quarter. This bulking of invoices will allow the contract management teams to be able to undertake field verifications before signing off the contracts in a manner that does not frustrate the service provider.

12. Payments to service providers will be based on achievement of agreed milestones and will be on invoice basis as opposed to the conventional project approach of availing service providers AWPBs funds to implement. An arrangement is to be included in the PIM to allow for beneficiary acknowledgement as part of accountability by requiring SACCOs to confirm the services rendered as part of invoice processing. For CSCGs, given the large numbers of groups involved and scattered all over the country, mechanisms will be put in place to confirm from the group members the services received before invoices are paid-off.

13. **Procurement Lots:** Under component 1.1, it is practically not possible to get a service provider who can cover all the envisaged training modules competently. A firm that may be able to train SACCOs in financial management may not be able to also competently handle savings and product development. The SACCO support activities will, therefore, be arranged in contract packages according to training content/ skill required. Under component 1.1, the following clusters of contracts are envisaged:

- Financial Literacy Training and Deposit Mobilisation
- SACCO governance
- Business development skills
- Savings and Product Development/ refinement
- Financial Management
- Strategic planning

- Credit Management (including default Management)
- SACCO automation/IT

14. In the same way, under component 2, separate service providers may be required under component 2.1 formation of new savings and credit groups and component 2.2 CSCG strengthening, Innovations and partnerships.

15. In addition to the fact that it is not practical to get one service provider who can handle all the modules, there is one other challenge, the geographical spread of the SACCOs to be supported. Overarching service contracts covering the whole country can be risky and will be discouraged. It will be unrealistic to get one service provider who can cover the whole country. PROFIRA will, therefore, lot services **regionally**. For example most contract packages will be advertised under 5 lots as follows but under the same bidding documents with same Terms of Reference with some specifics per region, if any, indicated for each lot.

- Lot 1- Northern Region,
- lot 2 -West Nile Region,
- lot 3- Central Region,
- lot 4 -Western Region and
- lot 5 -Eastern Region.

Attachments to Appendix 8

Attachment 1: Indicative 18 months procurement plan

Attachment 1: Indicative 18 months procurement plan

Indicative 18 Months Procurement Plan														
SERVICES														
				Request for Proposal		Bid Proposals		Bid Evaluation						
								Technical (T) & Financial (F)						
Contract Packages	Evaluation Methodology	Estimated Amount in US \$(000)	Prior/Post	Date	Date No-objection	Invitation	Submission/Opening Date	Submission Evaluation Report (T)	No-objection Evaluation Report (T)	Opening Financial Proposals	Submission Eval Report (T) & (F)	No-objection Eval Report (T) & (F)	Contract	Contract
			Review	Prepared		Date							Award	Signature
Consultancy for prequalification of service providers	QCBS	189	Prior	M1	M1	M1	M2	M2	M3	M3	M3	M3	M4	M4
Contract to provide Financial literacy training to SACCOs (5 Lots based on regions)	QCBS	298	Prior	M7	M7	M7	M8	M8	M9	M9	M9	M9	M10	M10
Contract for SACCO governance training (5 Lots based on regions)	QCBS	402	Prior	M7	M7	M7	M8	M8	M9	M9	M9	M9	M10	M10
Contact for Business Development Skills training to SACCOs(5 Lots based on regions)	QCBS	298	Prior	M7	M7	M7	M8	M8	M9	M9	M9	M9	M10	M10
Contract to provide Savings and other product Development trainnig to SACCOs (5 Lots based on regions)	QCBS	149	Prior	M8	M8	M8	M9	M9	M10	M10	M10	M10	M11	M11
Contract for the provision of Financial Management training to SACCOs (5 Lots based on regions)	QCBS	149	Prior	M8	M8	M8	M9	M9	M10	M10	M10	M10	M11	M11
Contract to provide Strategic Planning training to SACCOs (5 Lots based on regions)	QCBS	149	Prior	M9	M9	M9	M10	M10	M11	M11	M11	M11	M12	M12
Credit manamgent training services to SACCOs (5 Lots based on regions)	QCBS	400	Prior	M9	M9	M9	M10	M10	M11	M11	M11	M11	M12	M12
Contract for SACCO Automation/ IT	QCBS	322	Prior	M10	M10	M10	M11	M11	M12	M12	M12	M12	M13	M13
Contract for Gender audit services	QCBS	90	Prior	M1	M1	M1	M2	M2	M3	M3	M3	M3	M4	M4

SERVICES					Request for		Bid Proposals		Bid Evaluation						
			Proposal		Technical (T) & Financial (F)										
			Contract Packages	Evaluation Methodology	Estimated Amount in US \$(000)	Prior/Post	Date	Date No-objection	Invitation	Submission/Opening Date	Submission Evaluation Report (T)	No-objection Evaluation Report (T)	Opening Financial Proposal	Submission Eval Report (T) & (F)	No-objection Eval Report (T) & (F)
Review	Prepared	Date				Award	Signature								
Contract for training Service providers in M&E	QBS (IC)	19	Post	M1	M1	M1	M2	M2	M3	M3	M3	M3	M4	M4	
Contract to carry out a socio-economic impact assesement	QBS (IC)	20	Post	M1	M1	M1	M2	M2	M3	M3	M3	M3	M4	M4	
Contract to carry out a survey of poverty status of SACCO members	QBS (IC)	30	Post	M1	M1	M1	M2	M2	M3	M3	M3	M3	M4	M4	
Contract for a PPI SACCO study	QBS (IC)	10	Post	M2	M2	M2	M3	M3	M4	M4	M4	M4	M5	M5	
Contract to mentor UCSCU CEO and Board for the sustainability of UCSCU	QCBS	600	Prior	M2	M2	M2	M3	M3	M4	M4	M4	M4	M5	M5	
Contracts for the provision of short term technical assistance to UCSCU	QCBS	384	Prior	M2	M2	M2	M3	M3	M4	M4	M4	M4	M5	M5	
Contracts for establishing the MFRA and preparing of its guidelines	QCBS	40	Post	M10	M10	M10	M11	M11	M12	M12	M12	M12	M13	M13	
Contract for computer maintenance, backup and upgrading	LCS	9	Post	M2	M2	M2	M3	M3	M4	M4	M4	M4	M5	M5	
Contract for upgrading computer system	LCS	30	Post	M10	M10	M10	M11	M11	M12	M12	M12	M12	M13	M13	
Contract to develop training manuals and materials for use in the training of DCO's in audit	QBS (IC)	20	Post	M3	M3	M3	M4	M4	M5	M5	M5	M5	M6	M6	
Contract to train DCO's in audit	QCBS	126	Prior	M3	M3	M3	M4	M4	M5	M5	M5	M5	M6	M6	
Contracts to communicate financial literacy policy messages to SACCO's and VSLA's;	LCS	30	Post	M3	M3	M3	M4	M4	M5	M5	M5	M5	M6	M6	
Contracts for tailoring messages to SACCO's and VSLA's;	LCS	20	Post	M3	M3	M3	M4	M4	M5	M5	M5	M5	M6	M6	

Republic of Uganda
Project for Financial Inclusion in Rural Areas
Design completion report
Appendix 8: Procurement
Attachment 1

SERVICES				Request for Proposal		Bid Proposals		Bid Evaluation						
				Date	No-objection	Invitation Date	Submission/Opening Date	Technical (T) & Financial (F)					Contract Award	Contract Signature
								Submission Evaluation Report (T)	No-objection Evaluation Report (T)	Opening Financial Proposal	Submission Evaluation Report (T) & (F)	No-objection Evaluation Report (T) & (F)		
Contract Packages	Evaluation Methodology	Estimated Amount in US \$(000)	Prior/Post Review	Prepared										
Contracts for Printing communication materials	LCS	10	Post	M4	M4	M4	M5	M5	M6	M6	M6	M6	M7	M7
Contract for the formation of New Community Savings and Credit Groups (5 regional based lots)	QCBS	4,125	Prior	M1	M1	M1	M2	M2	M3	M3	M3	M3	M4	M4
Contracts for specialised technical assistance in CBSC	LCS	50	Prior	M4	M4	M4	M5	M5	M6	M6	M6	M6	M7	M7
Contracts for strengthening, innovation and Partnerships to CSCG's (5 regional based lots)	QCBS	1,200	Prior	M11	M11	M11	M12	M12	M13	M13	M13	M13	M14	M14
Contract for training Service providers in M&E	QBS (IC)	38	Post	M4	M4	M4	M5	M5	M6	M6	M6	M6	M7	M7
Contract to carry out a socio-economic impact assessment	QBS (IC)	20	Post	M4	M4	M4	M5	M5	M6	M6	M6	M6	M7	M7
Contract to carry out a survey of poverty status of SACCO members	QBS (IC)	30	Post	M4	M4	M4	M5	M5	M6	M6	M6	M6	M7	M7
Contract for a PPI SACCO study	QBS (IC)	10	Post	M5	M5	M5	M6	M6	M7	M7	M7	M7	M8	M8
Contract to develop an IT platform	LCS	120	Prior	M5	M5	M5	M6	M6	M7	M7	M7	M7	M8	M8
Contract for the provision of external audit services	LCS	120	Prior	M5	M5	M5	M6	M6	M7	M7	M7	M7	M8	M8
Contract to provide specialised procurement audits	QCBS	60	Prior	M5	M5	M5	M6	M6	M7	M7	M7	M7	M8	M8
Contract for developing communication strategy	QCBS	60	Prior	M5	M5	M5	M6	M6	M7	M7	M7	M7	M8	M8
Contract to support PMU on implementing the communication strategy	QBS (IC)	45	Post	M6	M6	M6	M7	M7	M8	M8	M8	M8	M9	M9
Contract for the preparation of Gender strategy	QBS (IC)	30	Post	M6	M6	M6	M7	M7	M8	M8	M8	M8	M9	M9
Contract to design M&E system	QBS (IC)	30	Post	M6	M6	M6	M7	M7	M8	M8	M8	M8	M9	M9
Contract to prepare a gender strategy	QBS (IC)	13	Post	M6	M6	M6	M7	M7	M8	M8	M8	M8	M9	M9
Contract to carry out RIMS (baseline and impact survey)	QBS (IC)	30	Post	M6	M6	M6	M7	M7	M8	M8	M8	M8	M9	M9

Assumes that requests for expression of interest and short list will be done before full loan effectiveness

M refers to month after loan effectiveness

QCBS = Quality and Cost Based Selection

QBS (IC) = Quality Based Selection (QBS) individual Consultant (IC)

Goods

GOODS					Bid Documents		Bidding Period		Bid Evaluation		
Description*	Estimated	Procurement	Prior or Post	Plan vs.	Date	Date	Bid Invitation	Bid Closing-	Bid	No- objection	Contrac
	Amount in US \$ (000)	Method	Review	Actual	Proposed	No-objection	Date	Opening	Evaluation Report		Amount in \$
Vehicles and Motorcycles Lot 1 - 4 WD Double Cabin Pick ups Lot 2 - Motorcycles	150	NCB	Prior	Plan	XXXX	M1	M1	M1	M2	M2	
Office Equipment and Furniture Lot 1 - Computers Lot 2 - Furniture	70	NCB	Post	Plan	XXXX	M1	M1	M1	M2	M2	
Accounting Software	17.5	RFQ	Post	Plan	XXXX	M1	M1	M1	M1	M2	
Local Area networking	25	RFQ	post	Plan	XXXX	M3	M3	M3	M3	M4	
Contract for MIS software	23	RFQ	post	Plan	XXXX	M3	M3	M3	M3	M4	
Printing and supply of communication materials	40	RFQ	post	Plan	XXXX	M1	M1	M1	M1	M2	
Legend:											
XXXX		To be done as part of start-up activities even before loan effectiveness									
NCB		National Competitive Bidding									
RFQ		Request for Quotation									

Appendix 9

Appendix 9: Project costs

Main assumptions for cost estimation

1. **Introduction.** The attachment describes the assumptions underlying the derivation of the project costs, presents the summary and detailed cost tables and the financing plan. Project cost estimates are based on field data as of January 2013.
2. **Project period.** The Project will have seven years duration with a probable start date in early 2014.
3. **Inflation rate.** Inflation eased significantly in 2012 and price pressures are expected to remain low through to 2014. The year-on-year inflation rate fell during 2012, from 25.6% in January to 4.9% in November 2012. Although monetary policy has been loosened, the impact of this on inflation will be relatively weak; supply-side factors, such as global commodity prices, have a greater impact. Food accounts for 27.2% of the consumer price index and any fuel price increase hits landlocked Uganda hard in terms of transport costs. It is forecasted that inflation will average 7.4% in 2013-15 before increasing to an average of 15.4% in 2016, owing to higher pre-election spending and the impact of oil revenue hitting the local economy. It should then ease in 2017 as the government tries to bring the fiscal deficit under control.

Table 1: Inflation rates (%)

	PY 1	PY 2	PY 3	PY 4	PY 5	PY 6	PY7
Local	7.4	7.4	15.4	10	7.0	7.0	7.0
Foreign	1.9	1.9	1.9	1.9	1.9	1.9	1.9

4. **Exchange rate.** The initial exchange rate for the cost estimate has been set at US\$ 1.00 : Ugandan Shilling (UGX) 2,650, the rate prevailing in January 2013. The Base Exchange rate for this analysis has been set at UGX 2660 for year 1, 2770 for year 2 and 2950 for the remaining five years.
5. **Taxes and duties.** The imported items for the project attract custom duties of 25%, and a Value-Added Tax (VAT) of 18% is levied on most goods, works and some service. The government will finance the cost of all taxes on goods and services procured under the project.
6. **Expenditure accounts.** The expenditure accounts are shown in Table 2, Appendix 1, including tax assumptions and the average foreign exchange rates.

Project costs

7. **Total project costs.** The total project investment and incremental recurrent costs, including physical and price contingencies, are estimated at US\$ 36.6 million (UGX 106 billion). Price contingencies make up 16% of the project costs. The foreign exchange component is estimated at US\$ 8.4 million (23%). Taxes represent approximately US\$ 4.9 million. The total baseline costs are US\$ 31.5 million, while price contingencies account for US\$5.2 million. Table 2 below presents a breakdown of the costs by PROFIRA components and sub-components. The detailed cost tables and additional summary tables are presented in Attachments 1 and 2 to this Appendix.
8. The investment in Component 1, SACCO Strengthening and Sustainability, in base costs totals US\$ 12.8 million (41% of total base costs) while Component 2, Community Based Financial Based Services, accounts for US\$ 11.4 million (36% of total base costs). Institutional and Policy support and Project Management accounts for 23% of US\$ 7.2 million (project management sub-component accounts for 5.5 million of total cost), including provision for monitoring and evaluation and knowledge management.

Table 2: Project cost by component

Components Project Cost Summary	(Local Million)					(USD '000)				
	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. SACCO Strengthening and Sustainability										
SACCO Strengthening	18 721	6 600	25 321	26	32	7 488	2 640	10 129	26	32
Developing a Sustainable SACCO Union	5 615	956	6 571	15	8	2 246	383	2 628	15	8
Subtotal	24 336	7 557	31 892	24	41	9 734	3 023	12 757	24	41
B. Community Based Financial Services										
Establishment of new community savings and credit groups	13 997	5 738	19 735	29	25	5 599	2 295	7 894	29	25
CSCG Strengthening, Innovations and Partnerships	6 252	2 563	8 815	29	11	2 501	1 025	3 526	29	11
Subtotal	20 249	8 300	28 550	29	37	8 100	3 320	11 420	29	37
C. Policy and Institutional Support and Project Management										
Policy, Regulatory and Institutional Environment	3 271	1 342	4 612	29	6	1 308	537	1 845	29	6
Project Management	3 141	10 009	13 150	76	17	1 256	4 004	5 260	76	17
Subtotal	6 412	11 351	17 763	64	23	2 565	4 540	7 105	64	23
Total BASELINE COSTS	50 997	27 208	78 204	35	100	20 399	10 883	31 282	35	100
Physical Contingencies	-	-	-	-	-	-	-	-	-	-
Price Contingencies	20 406	7 190	27 597	26	35	4 354	993	5 347	19	17
Total PROJECT COSTS	71 403	34 398	105 801	33	135	24 753	11 876	36 629	32	117

Financing plan

Financing plan. The project is to be financed by the Government of Uganda, IFAD and beneficiaries. IFAD will finance 82% of the project costs (approximately US\$ 30 million) through a combination of a loan to the government, on highly concessionary terms over a period of seven years, and a grant. The government will finance the taxes and duties (US\$ 4.9 million, representing 13.5% of total costs). CCA/ WOCCU will co-finance with USD250,000 to the development of sustainable SACCO Union. Beneficiaries will contribute US\$ 1.4 million to the SACCO capacity building activities. The details of financing arrangements are shown in Table 3.

Table 3: Financing plan by components

(USD '000)											Local			
	GoU		IFAD Loan		IFAD Grant		CCA/WOCCU		Beneficiaries		Total		For.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	Taxes
A. SACCO Strengthening and Sustainability														
SACCO Strengthening	1 774	14.4	9 110	73.9	-	-	-	-	1 443	11.7	12 327	33.7	2 932	7 621
Developing a Sustainable SACCO Union	208	7.7	1 258	46.3	1 000	36.8	250	9.2	-	-	2 717	7.4	407	2 102
Subtotal	1 982	13.2	10 368	68.9	1 000	6.6	250	1.7	1 443	9.6	15 044	41.1	3 338	9 723
B. Community Based Financial Services														
Establishment of new community savings and credit groups	1 346	14.2	8 132	85.8	-	-	-	-	-	-	9 478	25.9	2 513	5 620
CSCG Strengthening, Innovations and Partnerships	633	14.2	3 823	85.8	-	-	-	-	-	-	4 456	12.2	1 141	2 682
Subtotal	1 979	14.2	11 955	85.8	-	-	-	-	-	-	13 934	38.0	3 654	8 302
C. Policy and Institutional Support and Project Management														
Policy, Regulatory and Institutional Environment	372	17.2	1 787	82.8	-	-	-	-	-	-	2 158	5.9	580	1 207
Project Management	602	11.0	4 891	89.0	-	-	-	-	-	-	5 493	15.0	4 304	587
Subtotal	974	12.7	6 677	87.3	-	-	-	-	-	-	7 651	20.9	4 884	1 793
Total PROJECT COSTS	4 935	13.5	29 000	79.2	1 000	2.7	250	0.7	1 443	3.9	36 629	100.0	11 876	4 935

Attachments to Appendix 9

Attachment 1. Summary cost tables

- Table 1: Components Project cost summary
- Table 2: Expenditure accounts project cost summary
- Table 3: Expenditure accounts by components – totals including contingencies
- Table 4: Project components by year – totals Including contingencies (US\$)
- Table 5: Expenditure accounts by year – totals Including contingencies (US\$)
- Table 6: Components by financiers
- Table 7: Expenditure accounts by financiers
- Table 8: Disbursement accounts by financiers
- Table 9: Disbursements by semesters and Government cash flow

Attachment 2. Detailed Cost Tables

- Table 1: SACCO strengthening and sustainability – base costs
- Table 2: Community based financial services – base costs
- Table 3: Project management – base costs
- Table 4: SACCO strengthening & sustainability – totals including contingencies and parameters
- Table 5: Community based financial services – totals including contingencies and parameters
- Table 6: Project management – total including contingencies and parameters

Attachment 1. Summary cost tables

Table 1: Components project cost summary

Components Project Cost Summary	(Local Million)					(USD '000)				
				%	% Total				%	% Total
	Local	Foreign	Total	Foreign Exchange	Base Costs	Local	Foreign	Total	Foreign Exchange	Base Costs
A. SACCO Strengthening and Sustainability										
SACCO Strengthening	18 721	6 600	25 321	26	32	7 488	2 640	10 129	26	32
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Total BASELINE COSTS	50 997	27 208	78 204	35	100	20 399	10 883	31 282	35	100
Physical Contingencies	-	-	-	-	-	-	-	-	-	-
Price Contingencies	20 406	7 190	27 597	26	35	4 354	993	5 347	19	17
Total PROJECT COSTS	71 403	34 398	105 801	33	135	24 753	11 876	36 629	32	117

Table 2: Expenditure accounts project cost summary

	(Local Million)					(USD '000)				
				%	% Total				%	% Total
	Local	Foreign	Total	Foreign Exchange	Base Costs	Local	Foreign	Total	Foreign Exchange	Base Costs
I. Investment Costs										
A. Vehicles	309	466	775	60	1	124	186	310	60	1
B. Equipment and Materials	261	109	370	29	-	105	43	148	29	-
C. Training, studies, and workshops	3 941	1 635	5 576	29	7	1 576	654	2 230	29	7
D. Technical Assistance, Contracted Service Providers	45 721	16 338	62 059	26	79	18 288	6 535	24 823	26	79
Total Investment Costs	50 232	18 547	68 779	27	88	20 093	7 419	27 512	27	88
II. Recurrent Costs										
A. Salaries and allowances	565	7 861	8 426	93	11	226	3 145	3 371	93	11
B. Other operating cost	200	799	999	80	1	80	320	400	80	1
Total Recurrent Costs	765	8 660	9 425	92	12	306	3 464	3 770	92	12
Total BASELINE COSTS	50 997	27 208	78 204	35	100	20 399	10 883	31 282	35	100
Physical Contingencies	-	-	-	-	-	-	-	-	-	-
Price Contingencies	20 406	7 190	27 597	26	35	4 354	993	5 347	19	17
Total PROJECT COSTS	71 403	34 398	105 801	33	135	24 753	11 876	36 629	32	117

Table 3: Expenditure accounts by components - totals including contingencies

	(USD '000)		Community Based Financial Services		Policy and Institutional Support and Project Management		
	SACCO Strengthening and Sustainability		Establishment of new community savings and credit groups	CSCG Strengthening, Innovations and Partnerships	Policy, Regulatory and Institutional Environment		
	SACCO Strengthening	Sustainable SACCO Union			Institutional Environment	Project Management	Total
I. Investment Costs							
A. Vehicles	-	-	-	-	-	337	337
B. Equipment and Materials	-	-	-	-	-	153	153
C. Training, studies, and workshops	-	-	-	-	1 963	532	2 496
D. Technical Assistance, Contracted Service Providers	12 327	2 717	9 478	4 456	195	445	29 618
Total Investment Costs	12 327	2 717	9 478	4 456	2 158	1 468	32 603
II. Recurrent Costs							
A. Salaries and allowances	-	-	-	-	-	3 608	3 608
B. Other operating cost	-	-	-	-	-	417	417
Total Recurrent Costs	-	-	-	-	-	4 025	4 025
Total PROJECT COSTS	12 327	2 717	9 478	4 456	2 158	5 493	36 629

Table 4: Project components by year -- totals including contingencies

	Totals Including Contingencies							(USD '000)
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
A. SACCO Strengthening and Sustainability								
SACCO Strengthening	994	1 063	2 768	3 688	2 698	950	165	12 327
Developing a Sustainable SACCO Union	802	846	677	325	67	-	-	2 717
Subtotal	1 796	1 909	3 445	4 013	2 766	950	165	15 044
B. Community Based Financial Services								
Establishment of new community savings and credit groups	416	1 731	2 720	2 477	2 135	-	-	9 478
CSCG Strengthening, Innovations and Partnerships	55	750	786	859	925	998	83	4 456
Subtotal	471	2 480	3 506	3 336	3 060	998	83	13 934
C. Policy and Institutional Support and Project Management								
Policy, Regulatory and Institutional Environment	568	448	490	174	173	146	158	2 158
Project Management	975	635	694	767	895	731	795	5 493
Subtotal	1 543	1 084	1 185	941	1 069	877	953	7 651
Total PROJECT COSTS	3 810	5 473	8 135	8 290	6 894	2 825	1 201	36 629

Table 5: Expenditure accounts by years -- totals including contingencies

	Totals Including Contingencies							(USD '000)
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
I. Investment Costs								
A. Vehicles	160	-	-	-	177	-	-	337
B. Equipment and Materials	153	-	-	-	-	-	-	153
C. Training, studies, and workshops	645	427	489	270	209	182	274	2 496
D. Technical Assistance, Contracted Service Providers	2 435	4 510	7 048	7 411	5 889	2 012	313	29 618
Total Investment Costs	3 393	4 937	7 538	7 681	6 274	2 193	587	32 603
II. Recurrent Costs								
A. Salaries and allowances	378	475	536	546	557	567	549	3 608
B. Other operating cost	40	61	61	62	63	64	66	417
Total Recurrent Costs	417	536	598	609	620	632	614	4 025
Total PROJECT COSTS	3 810	5 473	8 135	8 290	6 894	2 825	1 201	36 629

Table 6: Components by financiers

(USD '000)	GoU		IFAD Loan		IFAD Grant		CCA/WOCCU		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. SACCO Strengthening and Sustainability															
SACCO Strengthening	1 774	14.4	9 110	73.9	-	-	-	-	1 443	11.7	12 327	33.7	2 932	7 621	1 774
Developing a Sustainable SACCO Union	208	7.7	1 258	46.3	1 000	36.8	250	9.2	-	-	2 717	7.4	407	2 102	208
Subtotal	1 982	13.2	10 368	68.9	1 000	6.6	250	1.7	1 443	9.6	15 044	41.1	3 338	9 723	1 982
B. Community Based Financial Services															
Establishment of new community savings and credit groups	1 346	14.2	8 132	85.8	-	-	-	-	-	-	9 478	25.9	2 513	5 620	1 346
CSCG Strengthening, Innovations and Partnerships	633	14.2	3 823	85.8	-	-	-	-	-	-	4 456	12.2	1 141	2 682	633
Subtotal	1 979	14.2	11 955	85.8	-	-	-	-	-	-	13 934	38.0	3 654	8 302	1 979
C. Policy and Institutional Support and Project Management															
Policy, Regulatory and Institutional Environment	372	17.2	1 787	82.8	-	-	-	-	-	-	2 158	5.9	580	1 207	372
Project Management	602	11.0	4 891	89.0	-	-	-	-	-	-	5 493	15.0	4 304	587	602
Subtotal	974	12.7	6 677	87.3	-	-	-	-	-	-	7 651	20.9	4 884	1 793	974
Total PROJECT COSTS	4 935	13.5	29 000	79.2	1 000	2.7	250	0.7	1 443	3.9	36 629	100.0	11 876	19 818	4 935

Table 7: Expenditure accounts by financiers

	GoU		IFAD Loan		IFAD Grant		CCA/WOCCU		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
I. Investment Costs															
A. Vehicles	134	39.9	203	60.1	-	-	-	-	-	-	337	0.9	203	-	134
B. Equipment and Materials	42	27.7	111	72.3	-	-	-	-	-	-	153	0.4	45	66	42
C. Training, studies, and workshops	435	17.4	2 061	82.6	-	-	-	-	-	-	2 496	6.8	706	1 355	435
D. Technical Assistance, Contracted Service Providers	4 073	13.8	22 851	77.2	1 000	3.4	250	0.8	1 443	4.9	29 618	80.9	7 197	18 348	4 073
Total Investment Costs	4 685	14.4	25 225	77.4	1 000	3.1	250	0.8	1 443	4.4	32 603	89.0	8 150	19 768	4 685
II. Recurrent Costs															
A. Salaries and allowances	226	6.3	3 382	93.7	-	-	-	-	-	-	3 608	9.9	3 382	-	226
B. Other operating cost	24	5.7	393	94.3	-	-	-	-	-	-	417	1.1	344	49	24
Total Recurrent Costs	250	6.2	3 775	93.8	-	-	-	-	-	-	4 025	11.0	3 726	49	250
Total PROJECT COSTS (USD '000)	4 935	13.5	29 000	79.2	1 000	2.7	250	0.7	1 443	3.9	36 629	100.0	11 876	19 818	4 935

Table 8: Disbursement accounts by financier

(USD '000)	GoU		IFAD Loan		IFAD Grant		CCA/WOCCU		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
1. Equipment and materials	2 207	15.0	12 505	85.0	-	-	-	-	-	-	14 712	40.2	4 000	8 505	2 207
2. Other investment costs	2 478	13.8	12 720	71.1	1 000	5.6	250	1.4	1 443	8.1	17 892	48.8	4 150	11 264	2 478
3. Operating costs	250	6.2	3 775	93.8	-	-	-	-	-	-	4 025	11.0	3 726	49	250
Total Project Costs	4 935	13.5	29 000	79.2	1 000	2.7	250	0.7	1 443	3.9	36 629	100.0	11 876	19 818	4 935

Table 9: Disbursements by semesters and Government cash flow

Financing Available					Costs to be				(USD '000)
IFAD					Financed		GoU		
IFAD Loan	Grant	CCA/WOCCU	Beneficiaries	Total	Project	Cumulative			
Amount	Amount	Amount	Amount		Costs	Cash Flow	Cash Flow		
1	1 527	138	35	-	1 700	1 905	-205	-205	
2	1 527	138	35	-	1 700	1 905	-205	-411	
3	2 108	164	41	68	2 380	2 736	-356	-767	
4	2 108	164	41	68	2 380	2 736	-356	-1 124	
5	3 175	124	31	176	3 506	4 068	-562	-1 685	
6	3 175	124	31	176	3 506	4 068	-562	-2 247	
7	3 264	47	12	235	3 557	4 145	-588	-2 834	
8	3 264	47	12	235	3 557	4 145	-588	-3 422	
9	2 736	27	7	172	2 941	3 447	-506	-3 927	
10	2 736	27	7	172	2 941	3 447	-506	-4 433	
11	1 167	-	-	60	1 228	1 412	-185	-4 618	
12	1 167	-	-	60	1 228	1 412	-185	-4 803	
13	524	-	-	11	535	601	-66	-4 869	
14	524	-	-	11	535	601	-66	-4 935	
Total	29 000	1 000	250	1 443	31 694	36 629	-4 935	-4 935	

Attachment 2: Detailed cost tables

Table 1. SACCO strengthening and sustainability - base costs

	(USD)	Unit	Quantities								Unit Cost	Base Cost ('000)								Total
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7		
I. Investment Costs																				
A. SACCO Strengthening																				
1. Preparatory and Support Activities																				
Appraisal of potential SACCOs & respective local economies /a		SACCO	700	-	-	-	-	-	-	700	1.500	1 050	-	-	-	-	-	-	1 050	
2. Contracts for SACCO Capacity Building /b																				
a. Financial Literacy Training and Deposit Mobilization																				
Core Training for Cat. A SACCOs		No of SACCOs	-	70	70	60	-	-	-	200	1.400	-	98	98	84	-	-	-	280	
Follow-up for Cat. A SACCOs		No of SACCOs	-	-	70	70	60	-	-	200	800	-	-	56	56	48	-	-	160	
Core Training for Cat. B SACCOs		No of SACCOs	-	50	50	50	-	-	-	150	1.800	-	90	90	90	-	-	-	270	
Follow-up for Cat. B SACCOs		No of SACCOs	-	-	50	50	50	-	-	150	800	-	-	40	40	40	-	-	120	
Subtotal												-	188	284	270	88	-	-	830	
b. SACCO Governance																				
Core Training for Cat. A SACCOs		No of SACCOs	-	70	70	60	-	-	-	200	1.400	-	98	98	84	-	-	-	280	
First follow-up for Cat. A SACCOs		No of SACCOs	-	-	70	70	60	-	-	200	800	-	-	56	56	48	-	-	160	
Second follow-up for Cat. A SACCOs		No of SACCOs	-	-	-	70	70	60	-	200	800	-	-	-	56	56	48	-	160	
Core Training for Cat. B SACCOs		No of SACCOs	-	50	50	50	-	-	-	150	1.800	-	90	90	90	-	-	-	270	
First follow-up for Cat. B SACCOs		No of SACCOs	-	-	50	50	50	-	-	150	1.400	-	-	70	70	70	-	-	210	
Second follow-up for Cat. B SACCOs		No of SACCOs	-	-	-	50	50	50	-	150	1.400	-	-	-	70	70	70	-	210	
Subtotal												-	188	314	426	244	118	-	1 290	
c. Business Development Skills																				
Core Training for Cat. A SACCOs		No of SACCOs	-	70	70	60	-	-	-	200	1.400	-	98	98	84	-	-	-	280	
Follow-up for Cat. A SACCOs		No of SACCOs	-	-	70	70	60	-	-	200	800	-	-	56	56	48	-	-	160	
Core Training for Cat. B SACCOs		No of SACCOs	-	50	50	50	-	-	-	150	1.800	-	90	90	90	-	-	-	270	
Follow-up for Cat. B SACCOs		No of SACCOs	-	-	50	50	50	-	-	150	800	-	-	40	40	40	-	-	120	
Subtotal												-	188	284	270	88	-	-	830	
d. Savings and other Product Development/refinement																				
Core Training for Cat. A SACCOs		No of SACCOs	-	-	70	70	60	-	-	200	1.400	-	-	98	98	84	-	-	280	
Follow-up for Cat. A SACCOs		No of SACCOs	-	-	-	70	70	60	-	200	800	-	-	-	56	56	48	-	160	
Core Training for Cat. B SACCOs		No of SACCOs	-	-	50	50	50	-	-	150	1.800	-	-	90	90	90	-	-	270	
Follow-up for Cat. B SACCOs		No of SACCOs	-	-	-	50	50	50	-	150	800	-	-	-	40	40	40	-	120	
Subtotal												-	-	188	284	270	88	-	830	
e. Financial Management																				
Core Training for Cat. A SACCOs		No of SACCOs	-	-	70	70	60	-	-	200	1.400	-	-	98	98	84	-	-	280	
Follow-up for Cat. A SACCOs		No of SACCOs	-	-	-	70	70	60	-	200	800	-	-	-	56	56	48	-	160	
Core Training for Cat. B SACCOs		No of SACCOs	-	-	50	50	50	-	-	150	1.800	-	-	90	90	90	-	-	270	
Follow-up for Cat. B SACCOs		No of SACCOs	-	-	-	50	50	50	-	150	800	-	-	-	40	40	40	-	120	
Subtotal												-	-	188	284	270	88	-	830	

Table 1: cont.

	(USD)	Unit	Quantities							Unit Cost	Base Cost ('000)							Total
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
f. Strategic Planning																		
Core Training for Cat. A SACCOs		No of SACCOs	-	-	70	70	60	-	-	200	1.400	-	-	98	98	84	-	280
Follow-up for Cat. A SACCOs		No of SACCOs	-	-	-	70	70	60	-	200	800	-	-	-	56	56	48	160
Core Training for Cat. B SACCOs		No of SACCOs	-	-	50	50	50	-	-	150	1.800	-	-	90	90	-	-	270
Follow-up for Cat. B SACCOs		No of SACCOs	-	-	-	50	50	50	-	150	800	-	-	-	40	40	40	120
Subtotal												-	-	188	284	270	88	830
g. Credit Management (Including Default Management)																		
Core Training for Cat. A+ SACCOs		No of SACCOs	-	50	50	50	-	-	-	150	1.400	-	70	70	-	-	-	210
Follow-up for Cat. A+ SACCOs		No of SACCOs	-	-	50	50	50	-	-	150	800	-	-	40	40	-	-	120
Core Training for Cat. A SACCOs		No of SACCOs	-	70	70	60	-	-	-	200	1.400	-	98	98	84	-	-	280
Follow-up for Cat. A SACCOs		No of SACCOs	-	-	70	70	60	-	-	200	800	-	-	56	56	48	-	160
Core Training for Cat. B SACCOs		No of SACCOs	-	50	50	50	-	-	-	150	1.800	-	90	90	90	-	-	270
Follow-up for Cat. B SACCOs		No of SACCOs	-	-	50	50	50	-	-	150	800	-	-	40	40	-	-	120
Subtotal												-	258	394	380	128	-	1 160
h. SACCO Automation/IT																		
Core Training, IT installations for Cat. A+ SACCOs		No of SACCOs	-	-	50	50	50	-	-	150	2.680	-	-	134	134	134	-	402
Follow-up for Cat. A+ SACCOs		No of SACCOs	-	-	-	50	50	50	-	150	1.800	-	-	-	90	90	90	270
Core Training, IT installation for Cat. A SACCOs		No of SACCOs	-	-	70	70	60	-	-	200	2.680	-	-	188	188	161	-	536
Follow-up for IT installation for Cat. A SACCOs		No of SACCOs	-	-	-	70	70	60	-	200	800	-	-	-	56	56	48	160
Subtotal												-	-	322	468	441	138	1 368
i. Others																		
Specialised Technical Assistance		Ls										-	100	100	100	100	100	600
Diploma in Cooperative Financial Services /c		no	-	-	50	50	-	-	-	100	600	-	-	30	30	-	-	60
Subtotal												-	100	130	130	100	100	660
Subtotal												-	922	2 292	2 796	1 899	620	8 628
Subtotal												1 050	922	2 292	2 796	1 899	620	9 678
B. Developing a Sustainable SACCO Union																		
1. Management and Technical Support /d																		
a. CEO & Board Mentor /e		Year	1	1	1	0.25	0.25	-	-	3.5	200.000	200	200	200	50	50	-	700
b. Short-term technical assistance		Days	135	215	130	75	20	-	-	575	957	129	206	124	72	19	-	550
Subtotal												329	406	324	122	69	-	1 250
2. Performance support linked to strategic plan /f		ls										412	378	303	157	-	-	1 250
Subtotal												741	784	627	279	69	-	2 500
Total												1 791	1 706	2 919	3 074	1 968	620	12 178

^a It is estimated that of the 700 appraised SACCOs, 500 will be eligible under PROFIRA

^b Indicative figures and targets, to be adjusted on the basis of the field-based appraisal

^c Staff of 10 SACCOs trained at a time save for the long term (diploma) course in cooperative finance for which the project will support up to 100 SACCO staff, half of them to be women.

^d Option to sign a contract with a consulting firm or partner with international agency specialized in cooperative development, responsible for nurturing UCSCU to sustainability.

ToT & Database devt can be subcontracted but firm remains responsible.

^e 1. CEO/Board Mentor at \$15,000k/month for salaries/benefits/housing allowance + \$20,000/annum travel allowance

^f Performance incentives which would meet any operating losses on a declining scale over a period of five years linked to realizing the UCSCU strategic plan

Table 2. Community based financial services - base costs

	(USD)	Unit	Quantities							Unit	Base Cost ('000)							Total	
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	Cost	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6		Year 7
I. Investment Costs																			
A. Promotion of Community Based Savings and Credit Groups																			
Formation of New Community Savings and Credit Groups /a	no	750	3 000	4 500	3 750	3 000	-	-	15 000	500	375	1 500	2 250	1 875	1 500	-	-	7 500	
CSCG Strengthening, Innovation and Partnerships /b	no	-	600	600	600	600	600	-	3 000	1.000	-	600	600	600	600	600	-	3 000	
Specialised Technical Assistance	Ls										50	50	50	50	50	50	50	350	
Total												425	2 150	2 900	2 525	2 150	650	50	10 850

a/Unit cost based on CSCGs of 25 members @USD20/member. It includes all costs of the Service Provider: mobilising its staff; the mobilisation and formation of CSCGs; all operating costs; costs of registers, passbooks, safe-deposit boxes and other items to be provided as grants to the CSCG; and the supervision and monitoring of each new CSCG for 12-18 months

b/ Unit costs based on CSCGs of 25 members@USD40/member. This cost includes all costs of the Service Provider in Sub-component 2.2 implementation, namely the costs linked to advanced business skills development, provision of advanced financial literacy training, focused linkage creation, support to CSCG registration, partnership building as well as costs of other activities included in the service provider's project proposal

Table 3. Policy and institutional support and project management - base costs

											Base Cost ('000)							
(USD)	Unit	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	Unit Cost	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
I. Investment Costs																		
A. Policy, Regulatory and Institutional Environment /a																		
1. Policy regulatory environment [MoFPED]																		
a. Coordination (Microfinance Forum, stakeholder workshops, retreats)																		
Stakeholder workshops	Workshop	4	-	4	-	-	-	-	8	20.000	80	-	80	-	-	-	-	160
Task Force Retreat	Retreat	1	1	1	1	1	1	1	7	20.000	20	20	20	20	20	20	20	140
MFF or other meetings	Meeting	1	1	1	1	1	1	1	7	2.800	3	3	3	3	3	3	3	20
Trainings and study visits	Ls										25	25	25	25	25	25	25	175
Technical Assistance	Ls										20	20	20	20	20	20	20	140
Equipment	no										40	-	-	-	-	-	-	40
Subtotal											188	68	148	68	68	68	68	675
b. Support for implementing Tier 4 regulation																		
Study tour	Trip	1	-	-	-	-	-	-	1	80.000	80	-	-	-	-	-	-	80
TA to MRFA from other countries (travel, DSA):	Ls	-	1	1	-	-	-	-	2	15.000	-	15	15	-	-	-	-	30
TA (consultants) for establishing MFRA and preparing guidelines:	Ls	1	1	-	-	-	-	-	2	20.000	20	20	-	-	-	-	-	40
Capacity-building to apex organizations	Ls										-	10	10	10	-	-	-	30
Trainings and Technical Assistance	no										25	25	25	25	25	25	25	175
Subtotal											125	70	50	35	25	25	25	355
Subtotal											313	138	198	103	93	93	93	1 030
2. Monitoring and non-prudential regulation [MTIC]																		
a. Computer maintenance, backup and upgrading																		
Contract for computer maintenance and backup	No	1	1	1	1	1	1	1	7	2.857	3	3	3	3	3	3	3	20
Upgrading system (e.g., for on-line entry):	Ls										-	15	15	-	-	-	-	30
Subtotal											3	18	18	3	3	3	3	50
b. SACCO status verification, turnaround and liquidation																		
Verification of dormant SACCOs to update registry /b	Ls										5	5	3	-	-	-	-	13
SGMs, turnaround, liquidation /c	SACCO	60	60	40	20	20	-	-	200	1.000	60	60	40	20	20	-	-	200
Subtotal											65	65	43	20	20	-	-	213
c. Facilitating SACCO forums and networks /d																		
Initial workshops /e	Workshops	20	20	20	-	-	-	-	60	1.200	24	24	24	-	-	-	-	72
Follow-up workshops /f	Workshop	-	15	15	15	15	-	-	60	440	-	7	7	7	7	-	-	26
Subtotal											24	31	31	7	7	-	-	98
d. Training local auditors & DCOs in audit capability /g																		
Consultant to develop training manuals and materials	Ls										24	-	-	-	-	-	-	24
Training /h	Session	1	3	2	-	-	-	-	6	21.000	21	63	42	-	-	-	-	126
Subtotal											45	63	42	-	-	-	-	150
Subtotal											137	176	133	29	29	3	3	511

Table 3 cont

		Quantities								Base Cost ('000)									
(USD)	Unit	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	Unit Cost	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	
3. Implementing National Financial Literacy Policy																			
a. Communications																			
	Ls										30	-	-	-	-	-	-	30	
	Days	80	-	-	-	-	-	-	80	250	20	-	-	-	-	-	-	20	
	Days	15	-	-	-	-	-	-	15	200	3	-	-	-	-	-	-	3	
	Ls										10	-	-	-	-	-	-	10	
Subtotal											63	-	-	-	-	-	-	63	
	b. Sensitization campaigns for youth & women in SACCO catchment areas /j	Campaigns	-	150	150	-	-	-	-	300	500	-	75	75	-	-	-	150	
Subtotal											63	75	75	-	-	-	-	213	
Subtotal											513	389	406	132	122	96	96	1 754	
B. Project Management																			
1. Project Coordination Office																			
	Vehicles- 4WD Double Cabin Pickups	no	3	-	-	-	3	-	-	6	50.000	150	-	-	-	150	-	300	
	Motorcycle	no	1	-	-	-	1	-	-	2	2.000	2	-	-	-	2	-	4	
	Local Area Network	no	1	-	-	-	-	-	-	1	25.000	25	-	-	-	-	-	25	
	Office equipment and furniture	set	1	-	-	-	-	-	-	1	70.000	70	-	-	-	-	-	70	
	Accounting Software	no	1	-	-	-	-	-	-	1	17.500	18	-	-	-	-	-	18	
Subtotal											265	-	-	-	152	-	-	417	
2. Technical Assistance, Training and Studies																			
	Development of IT platform	Ls									30	-	-	-	-	-	-	30	
	External Audits /k	Year	1	1	1	1	1	1	1	7	20.000	20	20	20	20	20	20	140	
	Internal Audits /l	Year	1	1	1	1	1	1	1	7	18.000	18	18	18	18	18	18	126	
	Specialised Procurement Audits /m	Year	1	1	1	1	1	1	1	7	10.000	10	10	10	10	10	10	70	
	Gender strategy preparation and studies	Ls	1	-	-	1	-	-	1	3	15.000	15	-	-	15	-	-	45	
	Staff induction and team building	Ls	1	-	-	-	-	-	-	1	10.000	10	-	-	-	-	-	10	
Subtotal											103	48	48	63	48	48	63	421	
3. Planning, Monitoring, Evaluation and Knowledge Management																			
	M&E system design consultant	Contract	1	-	-	-	-	-	-	1	30.000	30	-	-	-	-	-	30	
	Annual data collection exercise /n	Ls									15	15	15	15	15	15	15	105	
	Analysis of gender and targeting performance	Per year	-	1	1	1	1	1	1	6	5.000	-	5	5	5	5	5	30	
	Communication materials /o	Annual Ls	1	1	1	1	1	1	1	7	25.000	25	25	25	25	25	25	175	
	Start-up workshop / proj launch	workshop	1	-	-	-	-	-	-	1	25.000	25	-	-	-	-	-	25	
	Baseline and Impact (RIMS)	Survey	1	-	-	-	-	-	1	2	30.000	30	-	-	-	-	-	60	
	MTR study and PMU report preparation	Study	-	-	-	1	-	-	-	1	30.000	-	-	-	30	-	-	30	
	PCR study and PMU report preparation	Study	-	-	-	-	-	-	1	1	20.000	-	-	-	-	-	20	20	
	Training for service providers /p	No	1	-	-	-	-	-	-	1	22.000	22	-	-	-	-	-	22	
	Experience sharing workshop /q	No	1	1	1	1	1	1	1	7	12.000	12	12	12	12	12	12	84	
	Assessment of impact and poverty status	Survey	1	-	-	1	-	-	1	3	20.000	20	-	-	20	-	-	60	
Subtotal											179	57	57	107	57	57	127	641	
Subtotal											547	105	105	170	257	105	190	1 479	
Total Investment Costs											1 059	494	511	302	379	201	286	3 232	

Table 3: cont.

	(USD)	Unit	Quantities								Unit Cost	Base Cost ('000)								Total
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7		
II. Recurrent Costs																				
A. Salaries																				
Project Coordinator		pers-year	1	1	1	1	1	1	1	7	51.000	51	51	51	51	51	51	357		
SACCO Development Manager		pers-year	1	1	1	1	1	1	1	7	30.000	30	30	30	30	30	30	210		
SACCO Development Specialist /r		pers-year	1	1	1	1	1	1	-	6	22.000	12	24	24	24	24	-	132		
Community Based Financial Services Manager		pers-year	1	1	1	1	1	1	1	7	30.000	30	30	30	30	30	30	210		
Financial Controller		pers-year	1	1	1	1	1	1	1	7	36.000	36	36	36	36	36	36	252		
Accountants		Person/ year	2	2	2	2	2	2	2	14	18.000	36	36	36	36	36	36	252		
Monitoring and Evaluation Officer		pers-year	1	1	1	1	1	1	1	7	30.000	30	30	30	30	30	30	210		
Communications Officer		pers-year	1	1	1	1	1	1	1	7	22.000	22	22	22	22	22	22	154		
Procurement and Contracts officer		pers-year	1	1	1	1	1	1	1	7	30.000	30	30	30	30	30	30	210		
M&E assistant		pers-year	-	1	1	1	1	1	1	6	18.000	-	18	18	18	18	18	108		
Admin, Records/Filing		pers-year	-	1	1	1	1	1	1	6	5.000	-	5	5	5	5	5	30		
Secretary		pers-year	1	1	1	1	1	1	1	7	6.000	6	6	6	6	6	6	42		
Driver		pers-year	3	3	3	3	3	3	3	21	4.000	12	12	12	12	12	12	84		
Subtotal												295	330	330	330	330	330	306	2 251	
B. NSSF 10% contribution		Is										30	33	33	33	33	33	31	226	
C. Gratuity 15% contribution /s		Is										-	-	50	50	50	50	50	250	
D. Allowances																				
Allow ances /t		pers-day	660	1 320	1 320	1 320	1 320	1 320	1 320	8 580	45	30	59	59	59	59	59	386		
Allow ances (Driver) /u		pers-day	660	1 320	1 320	1 320	1 320	1 320	1 320	8 580	30	20	40	40	40	40	40	257		
Subtotal												50	99	99	99	99	99	99	644	
E. Operating Costs																				
Office rent /v		per-annum	1	1	1	1	1	1	1	7	3.000	3	3	3	3	3	3	21		
Office utilities and sundries /w		per-annum	0.5	1	1	1	1	1	1	6.5	15.000	8	15	15	15	15	15	98		
Office and equipment maintenance		per-annum	1	1	1	1	1	1	1	7	3.000	3	3	3	3	3	3	21		
Vehicle Operating Expenses /x		per-annum	2	3	3	3	3	3	3	20	13.000	26	39	39	39	39	39	260		
Subtotal												40	60	60	60	60	60	400		
Total Recurrent Costs																				
												414	522	572	572	572	572	546	3 770	
Total												1 473	1 016	1 083	874	951	773	832	7 002	

Table 3 cont

- \a First-year costing assumes MOU w ith Ministry of Trade, Industry and Cooperatives and procurement processes for consultancies are in place.
- \b facilitation for field visits, mainly during PYs 1-3
- \c including non-staff costs and expenses for turnaround efforts or to carry out liquidation
- \d Costs of organizing and facilitating local meetings and workshops
- \e Covers 3 staff for 2 days at UGX 120,000/ day plus fuel UGX 400,000, plus venue UGX 300,000 plus for UGX 1.5 million plus materials UGX 80,000
- \f Covers 3 staff for 2 days at UGX 120,000/ day plus fuel UGX 400,000. Participatong SACCOs cover the remaining costs going fow ard
- \g This is now under MTIC. MTIC may choose to partner w ith ICPAU, but it's optional
- \h Assumes 25 participants per 3-day session
- \i (i) tailor messages to SACCOs & VSLAs and design posters & brochures; and (ii) prepare training manuals
- \j targeted at the 300 "intermediate SACCO areas
- \k Yearly contract for audit firm.
- \l Yearly contract for audit firm.
- \m To be done semi annually
- \n some validation on ground, including things such as collecting GPS points once in a w hile, and doing other things that require capacity on ground; can be contracted out
- \o includes magazines, calenders, brochures, flyers Radio and audio-visual prepn & dissemination etc
- \p for SACCO abd CSCG SPs
- \q for SACCOs abd CSCGs
- \r In Y1 the post provision is only for half a year.
- \s Gratuity is paid only after 2 years, upon satisfactory performance.
- \t Includes 6 staff out for 5 days/ month
- \u Includes 6 staff out for 5 days/ month
- \v Space to be provided by GoU just as has been the case under RFSP
- \w Includes internet facilities, stationary and utilities
 (water, electricity, generator fuel).
- \x Y1 budget only for 6 months (equivalent of 2 vehicles). Includes motorbike.

Table 4: SACCO strengthening and sustainability - total costs and financing

	Totals Including Contingencies (USD '000)								Summary Divisions		Financiers (USD '000)				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	Component	Expenditure Account	GoU	IFAD Loan	IFAD Grant	CCA/WOCCU	Ben
I. Investment Costs															
A. SACCO Strengthening															
1. Preparatory and Support Activities															
Appraisal of potential SACCOs & respective local economies /a	994	-	-	-	-	-	-	994	1.1	TA/ Contracted Services	-	994	-	-	-
2. Contracts for SACCO Capacity Building /b															
a. Financial Literacy Training and Deposit Mobilization															
Core Training for Cat. A SACCOs	-	113	118	111	-	-	-	342	1.1	TA/ Contracted Services	54	245	-	-	44
Follow-up for Cat. A SACCOs	-	-	68	74	68	-	-	210	1.1	TA/ Contracted Services	33	150	-	-	27
Core Training for Cat. B SACCOs	-	104	109	119	-	-	-	331	1.1	TA/ Contracted Services	52	237	-	-	42
Follow-up for Cat. B SACCOs	-	-	48	53	57	-	-	158	1.1	TA/ Contracted Services	25	113	-	-	20
Subtotal	-	217	343	356	125	-	-	1 041			163	746	-	-	133
b. SACCO Governance															
Core Training for Cat. A SACCOs	-	113	118	111	-	-	-	342	1.1	TA/ Contracted Services	54	245	-	-	44
First follow-up for Cat. A SACCOs	-	-	68	74	68	-	-	210	1.1	TA/ Contracted Services	33	150	-	-	27
Second follow-up for Cat. A SACCOs	-	-	-	74	80	74	-	227	1.1	TA/ Contracted Services	36	163	-	-	29
Core Training for Cat. B SACCOs	-	104	109	119	-	-	-	331	1.1	TA/ Contracted Services	52	237	-	-	42
First follow-up for Cat. B SACCOs	-	-	85	92	99	-	-	276	1.1	TA/ Contracted Services	43	198	-	-	35
Second follow-up for Cat. B SACCOs	-	-	-	92	99	107	-	299	1.1	TA/ Contracted Services	47	214	-	-	38
Subtotal	-	217	379	562	347	181	-	1 686			264	1 207	-	-	215
c. Business Development Skills															
Core Training for Cat. A SACCOs	-	113	118	111	-	-	-	342	1.1	TA/ Contracted Services	54	245	-	-	44
Follow-up for Cat. A SACCOs	-	-	68	74	68	-	-	210	1.1	TA/ Contracted Services	33	150	-	-	27
Core Training for Cat. B SACCOs	-	104	109	119	-	-	-	331	1.1	TA/ Contracted Services	52	237	-	-	42
Follow-up for Cat. B SACCOs	-	-	48	53	57	-	-	158	1.1	TA/ Contracted Services	25	113	-	-	20
Subtotal	-	217	343	356	125	-	-	1 041			163	746	-	-	133
d. Savings and other Product Development/refinement															
Core Training for Cat. A SACCOs	-	-	118	129	119	-	-	367	1.1	TA/ Contracted Services	57	263	-	-	47
Follow-up for Cat. A SACCOs	-	-	-	74	80	74	-	227	1.1	TA/ Contracted Services	36	163	-	-	29
Core Training for Cat. B SACCOs	-	-	109	119	128	-	-	355	1.1	TA/ Contracted Services	56	254	-	-	45
Follow-up for Cat. B SACCOs	-	-	-	53	57	61	-	171	1.1	TA/ Contracted Services	27	122	-	-	22
Subtotal	-	-	227	375	384	135	-	1 120			175	802	-	-	143
e. Financial Management															
Core Training for Cat. A SACCOs	-	-	118	129	119	-	-	367	1.1	TA/ Contracted Services	57	263	-	-	47
Follow-up for Cat. A SACCOs	-	-	-	74	80	74	-	227	1.1	TA/ Contracted Services	36	163	-	-	29
Core Training for Cat. B SACCOs	-	-	109	119	128	-	-	355	1.1	TA/ Contracted Services	56	254	-	-	45
Follow-up for Cat. B SACCOs	-	-	-	53	57	61	-	171	1.1	TA/ Contracted Services	27	122	-	-	22
Subtotal	-	-	227	375	384	135	-	1 120			175	802	-	-	143

Table 4: cont.

	Totals Including Contingencies (USD '000)								Summary Divisions		Financiers (USD '000)				
									Expenditure						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	Component	Account	GoU	IFAD Loan	IFAD Grant	CCA/WOCCU	Ben
f. Strategic Planning															
Core Training for Cat. A SACCOs	-	-	118	129	119	-	-	367	1.1	TA/ Contracted Services	57	263	-	-	47
Follow-up for Cat. A SACCOs	-	-	-	74	80	74	-	227	1.1	TA/ Contracted Services	36	163	-	-	29
Core Training for Cat. B SACCOs	-	-	109	119	128	-	-	355	1.1	TA/ Contracted Services	56	254	-	-	45
Follow-up for Cat. B SACCOs	-	-	-	53	57	61	-	171	1.1	TA/ Contracted Services	27	122	-	-	22
Subtotal	-	-	227	375	384	135	-	1 120			175	802	-	-	143
g. Credit Management (Including Default Management)															
Core Training for Cat. A+ SACCOs	-	81	85	92	-	-	-	258	1.1	TA/ Contracted Services	40	184	-	-	33
Follow-up for Cat. A+ SACCOs	-	-	48	53	57	-	-	158	1.1	TA/ Contracted Services	25	113	-	-	20
Core Training for Cat. A SACCOs	-	113	118	111	-	-	-	342	1.1	TA/ Contracted Services	54	245	-	-	44
Follow-up for Cat. A SACCOs	-	-	68	74	68	-	-	210	1.1	TA/ Contracted Services	33	150	-	-	27
Core Training for Cat. B SACCOs	-	104	109	119	-	-	-	331	1.1	TA/ Contracted Services	52	237	-	-	42
Follow-up for Cat. B SACCOs	-	-	48	53	57	-	-	158	1.1	TA/ Contracted Services	25	113	-	-	20
Subtotal	-	297	476	501	182	-	-	1 457			228	1 043	-	-	186
h. SACCO Automation/IT															
Core Training, IT installations for Cat. A+ SACCOs	-	-	162	177	190	-	-	529	1.1	TA/ Contracted Services	83	379	-	-	67
Follow-up for Cat. A+ SACCOs	-	-	-	119	128	138	-	384	1.1	TA/ Contracted Services	60	275	-	-	49
Core Training, IT installation for Cat. A SACCOs	-	-	227	247	228	-	-	703	1.1	TA/ Contracted Services	110	503	-	-	89
Follow-up for IT installation for Cat. A SACCOs	-	-	-	74	80	74	-	227	1.1	TA/ Contracted Services	36	163	-	-	29
Subtotal	-	-	388	617	626	211	-	1 843			289	1 320	-	-	235
i. Others															
Specialised Technical Assistance	-	115	121	132	142	153	165	829	1.1	TA/ Contracted Services	130	593	-	-	106
Diploma in Cooperative Financial Services /c	-	-	36	40	-	-	-	76	1.1	TA/ Contracted Services	12	54	-	-	10
Subtotal	-	115	157	172	142	153	165	904			142	648	-	-	115
Subtotal	-	1 063	2 768	3 688	2 698	950	165	11 333			1 774	8 115	-	-	1 443
Subtotal	994	1 063	2 768	3 688	2 698	950	165	12 327			1 774	9 110	-	-	1 443
B. Developing a Sustainable SACCO Union															
1. Management and Technical Support /d															
a. CEO & Board Mentor /e	210	202	191	48	49	-	-	700	1.2	TA/ Contracted Services	0	-	560	140	-
b. Short-term technical assistance	135	208	119	69	19	-	-	550	1.2	TA/ Contracted Services	0	-	440	110	-
Subtotal	345	409	310	118	67	-	-	1 250			0	-	1 000	250	-
2. Performance support linked to strategic plan /f	457	436	366	207	-	-	-	1 467	1.2	TA/ Contracted Services	208	1 258	-	-	-
Subtotal	802	846	677	325	67	-	-	2 717			208	1 258	1 000	250	-
Total	1 796	1 909	3 445	4 013	2 766	950	165	15 044			1 982	10 368	1 000	250	1 443

/a It is estimated that of the 700 appraised SACCOs, 500 will be eligible under PROFIRA

/b Indicative figures and targets, to be adjusted on the basis of the field-based appraisal

/c Staff of 10 SACCOs trained at a time save for the long term (diploma) course in cooperative finance for which the project will support up to 100 SACCO staff, half of them to be women.

/d Option to sign a contract with a consulting firm or partner with international agency specialized in cooperative development, responsible for nurturing UCSCU to sustainability.

ToT & Database devt can be subcontracted but firm remains responsible.

/e 1. CEO/Board Mentor at \$15,000/month for salaries/benefits/housing allowance + \$20,000/annum travel allowance

/f Performance incentives which would meet any operating losses on a declining scale over a period of five years linked to realizing the UCSCU strategic plan

Table 5: Community based financial services - total costs and financing

	Totals Including Contingencies (USD '000)								Summary Divisions		Financiers	
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	Component	Expenditure Account	GoU	IFAD Loan
I. Investment Costs												
A. Promotion of Community Based Savings and Credit Groups												
Establishment of New Community Savings and Credit Groups /a	416	1 731	2 720	2 477	2 135	-	-	9 478	2.1	TA/ Contracted Services	1 346	8 132
CSCG Strengthening, Innovation and Partnerships /b	-	692	725	793	854	921	-	3 985	2.2	TA/ Contracted Services	566	3 419
Specialised Technical Assistance	55	58	60	66	71	77	83	470	2.2	TA/ Contracted Services	67	404
Total	471	2 480	3 506	3 336	3 060	998	83	13 934			1 979	11 955

a/Unit cost based on CSCGs of 25 members @USD20/member. It includes all costs of the Service Provider: mobilising its staff; the mobilisation and formation of CSCGs; all operating costs; costs of registers, passbooks, safe-deposit boxes and other items to be provided as grants to the CSCG; and the supervision and monitoring of each new CSCG for 12-18 months

b/ Unit costs based on CSCGs of 25 members@USD40/member. This cost includes all costs of the Service Provider in Sub-component 2.2 implementation, namely the costs linked to advanced business skills development, provision of advanced financial literacy training, focused linkage creation, support to CSCG registration, partnership building as well as costs of other activities included in the service provider's project proposal

Table 6: Policy and institutional support and project management - total costs and financing

	Totals Including Contingencies (USD '000)							Summary Divisions		Financiers	
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	Component	Expenditure	(USD '000)
										Account	GoU IFAD Loan
I. Investment Costs											
A. Policy, Regulatory and Institutional Environment /a											
1. Policy regulatory environment [MoFPED]											
a. Coordination (Microfinance Forum, stakeholder workshops, retreats)											
Stakeholder workshops	89	-	97	-	-	-	-	185	3.1	Training/ Studies	33 152
Task Force Retreat	22	23	24	26	28	31	33	187	3.1	Training/ Studies	34 154
MFF or other meetings	3	3	3	4	4	4	5	26	3.1	Training/ Studies	5 22
Trainings and study visits	28	29	30	33	35	38	41	234	3.1	Training/ Studies	42 192
Technical Assistance	22	23	24	26	28	31	33	187	3.1	Training/ Studies	34 154
Equipment	44	-	-	-	-	-	-	44	3.1	Training/ Studies	8 36
Subtotal	208	78	178	89	96	104	112	865			156 709
b. Support for implementing Tier 4 regulation											
Study tour	89	-	-	-	-	-	-	89	3.1	Training/ Studies	13 76
TA to MRFA from other countries (travel, DSA):	-	17	18	-	-	-	-	35	3.1	TA/ Contracted Services	5 30
TA (consultants) for establishing MFRA and preparing guidelines:	22	23	-	-	-	-	-	45	3.1	TA/ Contracted Services	6 39
Capacity-building to apex organizations	-	12	12	13	-	-	-	37	3.1	Training/ Studies	5 32
Trainings and Technical Assistance	28	29	30	33	36	38	41	235	3.1	Training/ Studies	33 202
Subtotal	139	81	60	46	36	38	41	441			63 379
Subtotal	347	159	239	135	132	142	153	1 306			218 1 088
2. Monitoring and non-prudential regulation [MTIC]											
a. Computer maintenance, backup and upgrading											
Contract for computer maintenance and backup	3	3	3	4	4	4	5	27	3.1	TA/ Contracted Services	5 22
Upgrading system (e.g., for on-line entry):	-	17	18	-	-	-	-	35	3.1	TA/ Contracted Services	6 29
Subtotal	3	21	22	4	4	4	5	62			11 51
b. SACCO status verification, turnaround and liquidation											
Verification of dormant SACCOs to update registry /b	6	6	4	-	-	-	-	15	3.1	Training/ Studies	3 12
SGMs, turnaround, liquidation /c	66	69	48	26	28	-	-	238	3.1	Training/ Studies	43 196
Subtotal	72	75	52	26	28	-	-	253			46 208
c. Facilitating SACCO forums and networks /d											
Initial workshops /e	27	28	29	-	-	-	-	83	3.1	Training/ Studies	15 68
Follow-up workshops /f	-	8	8	9	9	-	-	34	3.1	Training/ Studies	6 28
Subtotal	27	35	37	9	9	-	-	117			21 96
d. Training local auditors & DCOs in audit capability /g											
Consultant to develop training manuals and materials	27	-	-	-	-	-	-	27	3.1	TA/ Contracted Services	5 22
Training /h	23	73	51	-	-	-	-	146	3.1	Training/ Studies	26 120
Subtotal	50	73	51	-	-	-	-	173			31 142
Subtotal	152	203	161	39	42	4	5	605			109 496

Table 6: cont.

	Totals Including Contingencies (USD '000)								Summary Divisions		Financiers	
									Expenditure		(USD '000)	
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	Component	Account	GoU	IFAD/Loan
3. Implementing National Financial Literacy Policy												
a. Communications												
materials to communicate Financial Literacy Policy messages to SACCOs and VSLAs	33	-	-	-	-	-	-	33	3.1	Training/ Studies	6	27
Consultancies /i	22	-	-	-	-	-	-	22	3.1	TA/ Contracted Services	4	18
Translation	3	-	-	-	-	-	-	3	3.1	TA/ Contracted Services	1	3
Printing	11	-	-	-	-	-	-	11	3.1	Training/ Studies	2	9
Subtotal	70	-	-	-	-	-	-	70			13	57
b. Sensitization campaigns for youth & women in SACCO catchment areas /j	-	86	90	-	-	-	-	177	3.1	Training/ Studies	32	145
Subtotal	70	86	90	-	-	-	-	247			44	202
Subtotal	568	448	490	174	173	146	158	2 158			372	1 787
B. Project Management												
1. Project Coordination Office												
Vehicles- 4WD Double Cabin Pickups	158	-	-	-	174	-	-	332	3.2	VEHICLES_EA	133	199
Motorcycle	2	-	-	-	2	-	-	4	3.2	VEHICLES_EA	1	3
Local Area Network	28	-	-	-	-	-	-	28	3.2	EQMAT_EA	8	19
Office equipment and furniture	77	-	-	-	-	-	-	77	3.2	EQMAT_EA	23	54
Accounting Software	19	-	-	-	-	-	-	19	3.2	EQMAT_EA	6	13
Subtotal	284	-	-	-	177	-	-	461			171	289
2. Technical Assistance, Training and Studies												
Development of IT platform	29	-	-	-	-	-	-	29	3.2	TA/ Contracted Services	5	24
External Audits /k	19	19	18	19	19	19	19	132	3.2	TA/ Contracted Services	24	108
Internal Audits /l	17	17	17	17	17	17	17	119	3.2	TA/ Contracted Services	21	98
Specialised Procurement Audits /m	10	9	9	9	9	9	10	66	3.2	TA/ Contracted Services	12	54
Gender strategy preparation and studies	15	-	-	14	-	-	14	43	3.2	Training/ Studies	8	35
Staff induction and team building	10	-	-	-	-	-	-	10	3.2	Training/ Studies	1	8
Subtotal	100	46	44	59	45	45	60	399			71	327
3. Planning, Monitoring, Evaluation and Knowledge Management												
M&E system design consultant	29	-	-	-	-	-	-	29	3.2	EQMAT_EA	5	24
Annual data collection exercise /n	15	14	14	14	14	14	14	99	3.2	TA/ Contracted Services	18	81
Analysis of gender and targeting performance	-	5	5	5	5	5	5	28	3.2	Training/ Studies	5	23
Communication materials /o	24	24	23	23	23	24	24	165	3.2	Training/ Studies	30	135
Start-up workshop / proj launch	24	-	-	-	-	-	-	24	3.2	Training/ Studies	4	20
Baseline and Impact (RIMS)	29	-	-	-	-	-	29	58	3.2	Training/ Studies	10	47
MTR study and PMU report preparation	-	-	-	28	-	-	-	28	3.2	Training/ Studies	5	23
PCR study and PMU report preparation	-	-	-	-	-	-	19	19	3.2	Training/ Studies	3	16
Training for service providers /p	21	-	-	-	-	-	-	21	3.2	Training/ Studies	4	17
Experience sharing workshop /q	12	11	11	11	11	11	11	79	3.2	Training/ Studies	14	65
Assessment of impact and poverty status	19	-	-	19	-	-	19	57	3.2	Training/ Studies	10	47
Subtotal	174	54	53	99	53	54	121	608			109	499
Subtotal	558	100	97	158	275	99	181	1 468			352	1 115

Table 6: cont.

	Totals Including Contingencies (USD '000)								Summary Divisions				Financiers			
									Expenditure				(USD '000)			
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	Component	Account	GoU	IFAD	Loan			
Total Investment Costs				1 125	548	587	332	449	246	339	3 626				724	2 902
II. Recurrent Costs																
A. Salaries																
Project Coordinator				52	53	54	55	56	57	58	383	3.2	Salaries and Allow ances	-	383	
SACCO Development Manager				30	31	32	32	33	33	34	225	3.2	Salaries and Allow ances	-	225	
SACCO Development Specialist /r				12	25	25	26	26	27	-	141	3.2	Salaries and Allow ances	-	141	
Community Based Financial Services Manager				30	31	32	32	33	33	34	225	3.2	Salaries and Allow ances	-	225	
Financial Controller				36	37	38	39	39	40	41	270	3.2	Salaries and Allow ances	-	270	
Accountants				36	37	38	39	39	40	41	270	3.2	Salaries and Allow ances	-	270	
Monitoring and Evaluation Officer				30	31	32	32	33	33	34	225	3.2	Salaries and Allow ances	-	225	
Communications Officer				22	23	23	24	24	25	25	165	3.2	Salaries and Allow ances	-	165	
Procurement and Contracts officer				30	31	32	32	33	33	34	225	3.2	Salaries and Allow ances	-	225	
M&E assistant				-	19	19	19	20	20	20	117	3.2	Salaries and Allow ances	-	117	
A dmin, Records/Filing				-	5	5	5	5	6	6	32	3.2	Salaries and Allow ances	-	32	
Secretary				6	6	6	6	7	7	7	45	3.2	Salaries and Allow ances	-	45	
Driver				12	12	13	13	13	13	14	90	3.2	Salaries and Allow ances	-	90	
Subtotal				298	340	347	354	361	368	348	2 415				-	2 415
B. NSSF 10% contribution				30	33	33	33	33	33	31	226	3.2	Salaries and Allow ances	226	-	
C. Gratuity 15% contribution /s				-	-	53	54	55	56	57	273	3.2	Salaries and Allow ances	-	273	
D. Allow ances																
Allow ances /t				30	61	62	64	65	66	68	416	3.2	Salaries and Allow ances	-	416	
Allow ances (Driver) /u				20	41	42	42	43	44	45	277	3.2	Salaries and Allow ances	-	277	
Subtotal				50	102	104	106	108	110	113	693				-	693
E. Operating Costs																
Office rent /v				3	3	3	3	3	3	3	22	3.2	Operating Costs	4	18	
Office utilities and sundries /w				8	15	15	16	16	16	16	102	3.2	Operating Costs	5	97	
Office and equipment maintenance				3	3	3	3	3	3	3	22	3.2	Operating Costs	1	21	
Vehicle Operating Expenses /x				26	39	40	40	41	42	43	271	3.2	Operating Costs	14	258	
Subtotal				40	61	61	62	63	64	66	417				24	393
Total Recurrent Costs				417	536	598	609	620	632	614	4 025				250	3 775
Total				1 543	1 084	1 185	941	1 069	877	953	7 651				974	6 677

la First-year costing assumes MOU with Ministry of Trade, Industry and Cooperatives and procurement processes for consultancies are in place.

lb facilitation for field visits, mainly during PYs 1-3

lc including non-staff costs and expenses for turnaround efforts or to carry out liquidation

ld Costs of organizing and facilitating local meetings and workshops

le Covers 3 staff for 2 days at UGX 120,000/ day plus fuel UGX 400,000, plus venue UGX 300,000 plus for UGX 1.5 million plus materials UGX 80,000

lf Covers 3 staff for 2 days at UGX 120,000/ day plus fuel UGX 400,000. Participatong SACCOs cover the remaining costs going forward

lg This is now under MTIC. MTIC may choose to partner with ICPAU, but it's optional

lh Assumes 25 participants per 3-day session

li (i) tailor messages to SACCOs & VSLAs and design posters & brochures; and (ii) prepare training manuals

lj targeted at the 300 intermediate SACCO areas

lk Yearly contract for audit firm.

ll Yearly contract for audit firm.

lm To be done semi annually

ln some validation on ground, including things such as collecting GPS points once in a while, and doing other things that require capacity on ground; can be contracted out

lo includes magazines, calendars, brochures, flyers Radio and audio-visual prep & dissemination etc

lp for SACCO and CSCG SPs

lq for SACCOs and CSCG

lr In Y1 the post provision is only for half a year.

ls Gratuity is paid only after 2 years, upon satisfactory performance.

lt Includes 6 staff out for 5 days/ month

lu Includes 6 staff out for 5 days/ month

lv Space to be provided by GoU just as has been the case under RFSP

lw Includes internet facilities, stationary and utilities

(w ater, electricity, generator fuel).

lx Y1 budget only for 6 months (equivalent of 2 vehicles). Includes motorbike.

Appendix 10

Appendix 10: Economic and financial analysis

Introduction

1. This Appendix presents the financial and economic analysis of PROFIRA, both to determine the viability of expanding outreach of financial services to rural areas and to assess the attractiveness of the project as a whole. The analysis follows recommendations for good practices and is based on the experiences of similar projects in Uganda and other countries. The Appendix is structured as follows: (i) project benefits; (ii) financial analysis; and (iii) benefit-cost analysis, including a sensitivity analysis.

Project benefits

2. The project benefits are expected to lead to increased income, improved food security and reduced vulnerability in rural areas. Benefits would derive from: (i) expanded outreach through improved services and more diversified products; (ii) improved financial services for agricultural related activities through improved capacity of SACCOs to appraise agricultural term investments; (iii) increased economic activity in rural areas through higher profitability and viability of SACCOs and CSCGs; (iv) increases in life-time earnings for those who are enabled to complete their education through savings and loans of project institutions; (v) increased savings as an insurance against poverty hence securing the future livelihoods; (vi) increased awareness of the general public deriving from the financial literacy programmes; (vii) improved consumer protection related to financial services; and (viii) incremental tax revenues as a result of increased volume of taxable income.

3. A review of the benefits and impact of the community savings and credit groups (CSCGs) services indicates most members were able to increase their engagement in micro productive enterprises such as petty trade, fish mongering, dealing in second hand clothes, tailoring, purchase of agriculture inputs, including renting and purchasing land, purchasing small and large ruminants. The CSCG financial viability model shows that the members were able to increase their income by a range of US\$ 18 to US\$ 42 within the first year of the programme – member net incremental saving is between 17-19%.

4. The most important immediate benefits of the SACCO component derive from improved access to financial services, by rural women (reflected in an improved women/men member ratio among the participating SACCOs) as well as by rural men, and the resulting economic impacts of borrowing for business purposes. The selected 500 SACCOs, which would participate in the project would be strengthened, with some 90% achieving full financial sustainability, combined with good governance, and improved management, products and operations. This would put them in a position to grow organically and serve increasing numbers of members.

5. There would be supplemental benefits arising from the other SACCO sub-components, particularly from the activities facilitating improved access and adoption of innovative technologies and methodologies that would enable SACCOs to become more competitive in providing accessible financial services and more cost efficient in providing services and in expanding their outreach through techniques such as branchless banking. Furthermore, under the Policy, Regulatory and Institutional Environment Sub-Component, benefits would accrue from the closing/liquidation of some 200 dormant or moribund SACCOs, which negatively impact on the operations of healthy SACCOs.

6. Un-quantified Benefits. While the benefits of consumption smoothening have not been estimated or included in the economic analysis, they are reported to be significant given that estimated malnutrition accounts for 40 per cent of all child deaths in Uganda. The fact that a majority of the members in these groups are women, many of whom would have access to savings and loan services for the first time, is expected to lead to a significant impact on women given that poor women generally lack decision making power, control over household income, and access to land. Confronted with early marriage, teenage pregnancies, limited control over fertility, and a high prevalence of sexual violence, the challenges to improving their health and nutrition condition are substantial. The Uganda Bureau of Statistics reports that only 35 per cent of women made their own decisions on household purchasing; two in ten made their own decisions regarding their own health care. Women's diets tend to be insufficient and less diverse than men's diets, as cultural traditions

favour food allocation to men. The opportunity to involve women in these groups is expected to enhance their decision-making capacity, improve diets and increase women empowerment.

7. Lastly, the project would generate incremental tax revenues attributable to increased volume of taxable production (VAT) and increased financial services. These incremental financial resources could be available to offset the long-term budgetary allocation for local administration operations (monitoring and regulatory functions).

Financial analysis

8. **Objectives and Approach.** The objectives of the financial analysis are:

- examining the financial viability of the interventions at the individual client or enterprise level and the impact on cash flow and incomes of adopting CSCG and SACCOs members;
- providing an analysis of the clients' capacity to borrow for investment into income-generating activities;
- assessing the financial and operational suitability of the CSCGs and SACCOs;
- setting a basis for the economic analysis.

9. With regards to points (a) and (b), a total number of ten illustrative models were prepared representing the typical investments of CSGs and SACCOS members: four crop models, three livestock models, and three income generating activity (IGA) models, on the basis of financial prices, which can be found in Attachment 1 to this Appendix. All models show the prospective benefits and rates of return derived from access to required financing (through CSCGs and SACCOS).

10. An assessment was then carried out on the financial and operational sustainability of CSCGs and SACCOS. For SACCOs and their apex organization UCSCU, the operation and profitability of a MCash model was assessed to test whether it functioned as a complementary revenue-generating activity, bot for SACCOs and UCSCU.

Key assumptions

11. The parameters for the models are based upon the information gathered during the validation and design missions: interviews with about 150 CSCG members, SACCO's managers and a review of available documents and statistics (Agriculture Statistics 2010) as well as information from the previous and on-going IFAD's projects. In particular, information on input requirements for various operations, capital costs, prevailing wages, yields, farm gate and market prices of agriculture and non-agriculture produce, and farm-to-market transport costs were collected. Conservative assumptions were made both for inputs and outputs.

12. **Prices.** Prices reflect those actually paid/received by the farmer/entrepreneur. These were collected during the field visits, and from national statistics. A list of prices used in the analysis is found in Attachment 1 to this Appendix.

13. **Interest.** The current market interest rate in Uganda for short-term and long-term agricultural/commercial sector lending loans is approximately 28%; for this analysis, the rates of 10% per month as is the prevailing rate applied by CSCGs.

14. **Loans.** The average loan period for CSCGs members was assumed to be 3 months and the repayment within the same period. For this reason, the interest rate applied in the models was 30%.

15. **Taxes.** All SACCOs are liable to pay 30% corporate tax on their profits. A VAT of 18% is levied on all goods and services.

16. **Labour.** In all models it was assumed that family incremental labour requirements are minimal while hired labour would increase. The family labour cost was only computed in the economic budgets. See more details in the next sections.

17. **Farm/Enterprise Characteristics.** Smaller, individual, peasant farms are ranging in area from just below one to 3 acres. Most households keep livestock (including pigs and goats) and a small kitchen garden. Some models assume an existing business that will be expanded on the basis of the availability of finance while others are start-up business. The models show only incremental revenues and costs generated by the new investment.

18. Internal Rate of Return. The selection criterion for the IRR is to accept all sub-projects for which the IRR is above the opportunity cost of capital, i.e. 10%. Using the IRR as the measure, the models' sensitivity to the changes in parameters can be assessed by varying the cost of investments, production costs and revenues.

19. Detailed physical and financial parameters for the models are presented in Attachments 1, 2, and 3 to this Appendix.

Production and trade models

20. In order to assess the impact of the project on the CSCG and SACCO members, who would participate in the provision of financial services, a profile was made of the types of activities that the households would be typically expected to invest in. This profile shows that 20 per cent of the households would spend the savings and loan funds in agriculture, 5 per cent in acquisition of land either through renting in or outright purchase, livestock (20%), several trading activities and other activities (13%), education expenditures (25%) and about 17 per cent that would not be used in any business activity but would the funds would be used for smoothening consumption expenditures as well as for health emergencies.

21. Based on this investment profile, projections were made of the households' returns to the available savings and loan funds. It was assumed a beneficiaries contribution to the investment which averages around 12%. The investments that require a higher investment costs are for piggery and milking cow. These are generally undertaken through SACCOs as the loan amount required is generally above the average loan size that CSCGs could provide to their members.

22. Table 1 shows the Production Summary results and the comparison of income in the 'without' and 'with project' scenarios for the selected crops and livestock. Incremental increases are expected to range from low of UGX 5 400 for goats to a high of UGX 1.3 million for piggery activities. They also present an interesting return to labour. These models relate only to the activities they took the loan for and these are complementary activities.

23. The Summary of the crop models are presented in the following Table 1.

Table 1: Financial Budgets Summary

Item	Groundnut a/	Maize b/	Cassava c/	Pigs d/	Cow e/	Goats f/
Gross Output, UGX						
WOP	375 000	270 000	210 000	125 000	-	-
WP	750 000	540 000	420 000	1 500 000	91 900	41 400
Incremental	375 000	270 000	210 000	1 375 000	91 900	41 400
Total Inputs, UGX						
WOP	253 000	195 000	112 500	8 000	-	-
WP	506 000	407 200	285 000	46 000	7 000	26 000
Incremental	253 000	212 200	172 500	38 000	7 000	26 000
Gross Margin, UGX						
WOP	122 000	75 000	97 500	117 000	-	-
WP	244 000	132 800	135 000	1 454 000	84 900	15 400
Incremental	122 000	57 800	37 500	1 337 000	84 900	15 400
Gross Margin, US\$						
WOP	49	30	39	47	0	0
WP	98	53	54	582	34	6
Incremental	49	23	15	535	34	6
Returns to Family Labour, UGX						
WOP	2773	1500	1857	2340	0	0
WP	4477	2948	3286	29080	29080	2130
Incremental	1705	1448	1429	26740	29080	2130

Note: WOP-without project, WP-with project at full production

a/ Purchase of 0.5 ha of land; WOP 0.5 ha

b/ Use of improved seeds (1 ha)

c/ Rental of 0.5 ha of land; WOP 0.5 ha

d/ Purchase of 35 pigs and 2 boars; WOP 5 pigs

e/ Purchase of 1 dairy cow; WOP 0

f/ Purchase of 1 goat; WOP 0

24. Table 2 shows the Estimated Costs and Annual Net Benefits while Table 3 presents the Financial Results and Switching Values³⁵ for each of the model.

25. The main result of the financial analysis is a relatively significant increase in gross and net returns from each model compared to without sub-project situation. All models record positive net present values (NPVs) over a ten-year period and positive internal rate of returns (IRRs), well above the opportunity cost (10%). Most the investments payback period is just below two years. The switching values (Table 3) show that the majority of these investments would be commercially viable even if benefits decreased by 15-30% and investment costs increased by 50%. One model is highly sensitive to changes in prices, land acquisition for groundnut. This model presents a complementary activity, hence a partial model, so the output and inputs price volatility could be offset by revenues generated by other activities. The Financial Internal Rates of Return (FIRRs) and NPVs are highly attractive ranging from 18% to 105% proving the value of these low financial investments/small loans that yielded quick turn over to poor women and men engaged in income generating activities. Particularly, community managed financial services have shown conclusively that they are a potent pathway for reaching the poor and helping them out of poverty.³⁶

26. The analysis of the credit cash flow underlines how important it is to have a sound financial management of their revenues. During the field visits, this emerged to be the strongest asset of the CSLAs methodology versus the SACCOs, where members were not always provided with training/assistance to improve their financial and planning skills.

³⁵ The switching values show percentage by which the costs would need to rise or benefits decrease before the NPV reached zero, associated with each of the values (at 10% financial opportunity costs as a prevailing deposit rate in UGX).

³⁶ For more details, please see WP3.

Table 2: Estimated Costs and Annual Net Benefit (UGX)

Model	Investment costs (UGX)			Annual Net Benefits-after financing			IRR-after financing (%)	NPV-after financing UGX
	Loans	BEN Contribution	Total	WOP Project	WP -Full Develop	Incremental		
Production Models								
Groundnut land acquisition	320 000	80 000	400 000	122 000	244 000	122 000	20.3%	228010
Imrpoved seed maize	50 000	50 000	100 000	75 000	132 800	57 800	69.1%	192857
Land rental (cassava)	60 000	50 000	110 000	97 500	135 000	37 500	152.2%	150850
Purchase land (maize, g/nut and cassava)	500 000	100 000	600 000	59 250	223 300	164 050	18.8%	183684
Milk cow model	300 000	50 000	350 000	-	84 900	84 900	27.1%	182548
Goat model	14 000	10 000	24 000	-	15 400	15 400	55.4%	46044
Piggery Activity	2 000 000	117 000	2 117 000	117 000	1 454 000	1 337 000	57.2%	6808376
Trade Models			-			-		
Sewing Machine	150 000	-	150 000	15 000	54 000	39 000	30.3%	97 879
Second hand clothes trading (Kenya)	150 000	25 000	175 000	-	29 000	29 000	84.9%	83 233
Fish Mongering	70 000	30 000	100 000	-	100 000	100 000	105.6%	317 610
Average	361 400	51 200	375 091	48 575	247 240	180 605	62%	829109
	96%	14%	110%					

Table 3: Financial Results and Switching Values (UGX)

Model	Investment costs (MT)			Annual Net Benefits-after financing			IRR-before financing (%)	IRR-after financing (%)	NPV-before financing UGX	NPV-after financing UGX
	Loans	Beneficiary Contribution	Total	WOP Project	WP -Full Develop	Incremental				
Production Models										
Groundnut land acquisition	320000	80000	400000	62500	149000	86500	21%	20%	135544	228010
Imrpoved seed maize	50000	50000	100000	84500	109800	25300	44%	69%	884	192857
Land rental (cassava)	60000	50000	110000	97500	135000	37500	57%	152%	1775	150850
Purchase land (maize, g/nut and cassava)	500000	100000	600000	193691	466482	272791	15%	19%	9092	183684
Milk cow model	300000	50000	350000	-	84900	84900	36%	27%	313040	182548
Goat model	14000	10000	24000	-	15400	15400	115%	55%	95357	46044
Piggery Activity	2000000	117000	2117000	117000	1454000	1337000	69%	57%	7118656	6808376
Trade Models									-	-
Sewing Machine	150000	-	150000	15000	54000	39000	55%	30%	149,969	97,879
Second hand clothes trading (Kenya)	150000	25000	175000	-	29000	29000	31%	85%	74,374	83,233
Fish Mongering	70000	30000	100000	-	100000	100000	56%	106%	302,135	317,610
Average	361400	51200	412600	57019	259758	202739	50%	62%	745530	829109

CSCGS and SACCO financial viability

27. One of the objectives of this analysis is to assess the financial and operational suitability of the Community Savings and Credit Groups (CSCGs) and Savings and Credit Cooperatives (SACCOs).

28. CSCGs. A financial analysis was carried out on the most common and successful community-managed approach in Uganda to forming community savings and credit groups,³⁷ to test if the initial investment could be recouped and if members would really benefit from it despite the small size of the loans. Based on evidence about the share values per week of these groups, there were identified 3 models and their parameters as well as the results are presented in Table 4. Even when the share value is as low as 1500 UGX (0.6 cent US\$), the group manages to generate small incremental savings for their members. One of the success factor of this model lies on the development of the savings culture “putting money aside to avoid being spent immediately”. Table 5 presents the number of people who would benefit from the formation of new CSCGs promoted by the project based on the profile explained in an earlier paragraph (§20).

Table 4: Summary of CSCG financial viability

Item	Model 1	Model 2	Model 3
Cost of setting up per CSCG/member (UGX)	50000	50000	50000
Share Value per member per week (UGX)	5000	2500	1500
IRR	87%	33%	9%
Member net earnings USD	106	42	21
Member net incremental saving	18	8	5
Member net incremental saving in %	17%	19%	23%

Table 5: Number and phasing of members benefitting from new CSCG

Number of members	%	18750	75000	105000	86250	75000	360000
	investment	Year 1	Year 2	Year 3	Yea 4	Year 5	Total
Loan per activity	20%	3750	15000	21000	17250	15000	72000
Agriculture	20%	3750	15000	21000	17250	15000	72000
Acquisition of new Land	5%	937.5	3750	5250	4312.5	3750	18000
Livestock	20%	3750	15000	21000	17250	15000	72000
Fish Trading	5%	937.5	3750	5250	4312.5	3750	18000
Second hand clothes	3%	562.5	2250	3150	2587.5	2250	10800
grocery stores	5%	937.5	3750	5250	4312.5	3750	18000
Education expenditures	25%	4687.5	18750	26250	21562.5	18750	90000
health	2%	375	1500	2100	1725	1500	7200
consumption	15%	2812.5	11250	15750	12937.5	11250	54000
Total	100%	18750	75000	105000	86250	75000	360000

29. **SACCOs.** The 500 SACCOs selected would be grouped into the two categories: Category A – stronger SACCOs; and Category B – intermediate SACCOs. An analysis of the two categories of SACCOS was carried out with the following assumptions:

- Number of active SACCOS supported: 500
- Estimated average loan size: US\$ 180 for strong SACCO, US\$ 100 for intermediate SACCO
- 90% of project supported SACCOs attain financial sustainability by the end of the project
- Dropout rate of 10% at least by the end of 5 years
- Share capital increase by 10% (in real terms, i.e., net of inflation)
- Voluntary savings increases by 10% annual growth
- Loan portfolio: 10% annual growth assuming higher growth in 2nd & 3rd years, then diminishing annual growth

³⁷ Village Savings and Loans Association, a model developed by CARE international.

30. Table 6 below shows the SACCOs expected outputs at the end of the project. The analysis confirms that the financial sustainability can be fully achieved by the end of the project provided that they are effectively managed and governed. Category A reaches full sustainability in Year 4 while Category B only a year later.

Table 6: SACCOS financial performance *

Stronger SACCOs	WOP UGX (000)	WP				
		Y1	Y2	Y3	Y4	Y5-10
Share capital UGX Million	30290000	31804500	38165400	45798480	50378328	55416161
Savings portfolio UGX mil	108500000	113925000	136710000	164052000	180457200	198502920
Membership	1104	1159	1391	1669	1836	2020
Loan portfolio	83950000	88147500	105777000	126932400	139625640	153588204
PAR > 30 days**	16%	13%	11%	9%	7%	7%
OSS *	78%	84%	90%	96%	104%	113%
Total net income	(9,832,390)	(8,245,545)	(5,710,659)	(2,549,456)	2,606,949	8,671,763

Intermediate SACCOs	WOP UGX (000)	Y1	Y2	Y3	Y4	Y5-10
Share capital UGX Million	7050000	7402500	8512875	10215450	12258540	13484394
Savings portfolio UGX mil	9780800	10269840	11810316	14172379	17006855	18707541
Membership	317	333	383	459	551	606
Loan portfolio	9518200	9994110	11493227	13791872	16550246	18205271
Gross loan portfolio	12043600	12645780	14542647	17451176	20941412	23035553
PAR > 30 days**	37%	30%	20%	15%	10%	8%
OSS ***	65%	71%	82%	90%	98%	107%
Total net income	(2,462,643)	(2,292,815)	(1,587,510)	(899,547)	(194,271)	712,585

*WOP-without project, WP-with project.

**Portfolio at risk (PAR)

*** OSS - Total operating income/total operating costs.

31. Lastly, a MCash model was developed to test what benefits SACCOs and the SACCOs apex union (UCSCU) can achieve if SACCOs are to become MCash agents and UCSCU an aggregator. It is a cost-effective and timely opportunity to link the underserved rural population to the formal finance system as opposed to branching out.

32. A clear advantage for SACCOs is to establish linkages and expand their client base, who is not necessarily cooperative members. The MCash models are found to be rather attractive financially – both for the SACCOs and for UCSCU – generating 18% and 38% IRRs respectively. Given the limited contribution to the initial investment costs (30%), this complementary activity ensures increasing revenues, consolidating relationships with members, reaching out to new members and be more visible at all levels.

33. Assuming that innovative technologies attract mostly younger people, this activity could contribute to an increase in youth employment in rural areas. The cash flow analysis indicates a shortfall in revenues in the first two years for both models. Being partial models it can be reasonably assumed that those shortfalls can be offset by the revenues generated from the core business and those incremental revenues in following years can more than compensate for these.

34. The benefits generated from this new activity were not included in the SACCOs financial viability or in the economic analysis. Detailed assumptions and calculations are found in Attachment 3 to this Appendix.

Economic analysis

NPV =US\$ 12.0 million; ERR =15%

35. **Beneficiaries.** In assessing the number of project beneficiaries, it is estimated that there would be some 750 000 members of SACCOs and CSCGs participating in the project; however, the number is reduced when taking into account the following: (i) of the total SACCOs supported, 90% would become fully sustainable institutions, thus 216,000 out of 300 000 households would benefit fully³⁸; and (ii) from the total of 15 000 CSCGs established and 3 000 mature CSCGs assisted, representing 450 000 members, the total incremental households benefiting from the project would be 360 000, as 20% of members are assumed to come from the same households³⁹. Thus, it is estimated that in total, for both the SACCO and CSCG interventions, about 576 000 households would benefit fully from the project⁴⁰.

36. **Key parameters.** The period of analysis is 15 years to account for the phasing and gestation period of the proposed interventions. The scenario presented in the economic analysis is conservative; the analysis that appears below is indicative and demonstrates the scope of profitability originated from the conditions prevailing at the time of the preparation.

37. Price estimates for tradable commodities have been based on the World Bank's Global Commodity Price Projections. All local costs including unskilled labour and other non-traded goods were converted into their approximate economic values using a Standard Conversion Factor (SCF) of 0.82 to discount the 18 percent tax (VAT). The derivation and a summary of economic prices are presented in Attachment 4 to this Appendix. All values are given in constant 2012 prices.

38. **Benefit stream.** The analysis attempts to identify quantifiable benefits that relate directly to the activities undertaken following implementation of the components, or that could be attributed to the project's implementation.

39. The incremental quantifiable benefit stream comprises the following main three elements: (i) CSCG operations; (ii) education benefits; and (iii) SACCO support.

40. In calculating the overall benefits from the first element (CSCGs operations), the following was taken into account:

- Based on the profile of the investments likely to be implemented, it was assumed the following: 20% of members would invest in agriculture, 20% in livestock, and 5% in both land acquisition and small businesses.
- The benefit stream was based on the financial models presented in the previous section. The incremental net economic benefits were multiplied by the number of direct CSCGs beneficiaries, following a gradual increase of such benefits over the period of seven years (table 5.5, Appendix 5).
- No financing flows have been undertaken in the calculations as they are either already reflected in the project costs or represent transfer payments (loans and taxes).

41. With regards to education benefits the following assumptions were made:

- It is estimated that at least 20-25% of the money saved by CSCGs members is used to retain children in schools. The benefit of this is the increase in life-time earnings for those who are enabled to complete their education through savings and loans provided to the family by the associations.
- In order to compute the benefit of this investment, the differential in the income of those employed in the agriculture sector was compared with the salary of those who were employed

³⁸ About 300 000 members – 150 000 existing and 150 000 new members.-600 members /SACCOx500SACCOs X90% sustainable SACCOsX80%assuming 20% are from the same household.=216,000 beneficiaries under SACCO component.

³⁹18 000 CSCGs x 25 members/CSCG x 80% = 360 000.

⁴⁰While there is expected to be some households that are members of both CSCGs and SACCOs, the numbers are expected to be small – though there is no data available – and have not been taken into account here. Only a limited portion of the participating SACCOs would be in the same areas as the CSCGs supported.

in other sectors. This differential was reported to be UGX 52,000 per month and used in the economic analysis on the assumption that this represented the salary difference of those dropping out versus those completing their secondary grade education. It was then calculated the net incremental benefits which start accruing from Y6 considering the gradual increase of such benefits as follows:

Year 6	Year 7	Year 8	Year 9	Year 10	Year 11-15
10%	20%	40%	60%	60%	60%

42. For the SACCOs support element, the benefits stream was based on:

- An estimated number and volume of loans for each category of SACCOs
- An average profit rate by type of investment of the financial models (39%), on the basis of economic prices including a 20% failure loan rate
- It was estimated a dropout rate of 10% (as implied by the statement that 90% would stay in the program till the end), at least by the end of 5 years. If any of those initially selected go dormant in the first year or so of support, they could be replaced. It was also assumed that 90% of SACCO would achieve operational sustainability.

43. The summary of economic benefits is presented in Attachment 4, while the details of the calculations of benefit streams are presented in Attachment 5.

44. Cost Stream. The incremental economic costs have been calculated by the removal of price contingencies and taxes/duties. Replacement of vehicles and equipment were assumed for Year 5, Year 10 while recurrent costs were assumed at 40% from Year 8.

45. Summary. Given the above benefit and cost streams, the base case economic rate of return (ERR) is estimated at 15%. The base case net present value (NPV) of the Project's net benefit stream, discounted at 10%, is US\$ 12.0 million. The summary of economic analysis is presented in Table 8.

46. Sensitivity Analysis. Economic returns were tested against changes in benefits and costs and for various lags in the realisation of benefits. In relative terms, the ERR is more sensitive to changes in benefits than in costs. In absolute terms, these changes do not have a significant impact on the ERR, and the economic viability is not threatened by either a 20% decline in benefits or by an over 50% increase in costs (see Table 8). A fall in total Project benefits by 20% and an increase in total Project costs by the same proportion would reduce the base ERR to about 12%. Only a decrease of benefits by over 30% would make the investment unviable with a negative ERR. A one-year delay in Project benefits reduces the IRR to 14%. With a two-year delay in Project benefits, the IRR falls to approximately 12%. These changes have not a significant impact on the ERR and NPV. The results are presented in the following table:

Table 7: Project Economic Analysis (US \$) -Constant 2012 values
(US 000)

(US 000)			(constant 2012 values)										
			PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8	PY9	PY10	PY11-15
Project Benefits													
Incremental Benefits CSCGs			0	166	669	1294	2082	2676	3427	4287	4431	4431	4431
Incremental Benefits for Education			-450	-2250	-4950	-7200	-9000	-8541	-6563	1647	5391	6739	6739
Incremental Benefits from SACCOs			0	911	3688	10429	4520	4409	4409	4409	4409	4409	4409
Project Net Benefits			-450	-1174	-593	4523	-2398	-1455	1274	10343	14232	15580	15580
Total Project Net Benefits			-450	-1174	-593	4523	-2398	-1455	1274	10343	14232	15580	15580
Project Costs													
Investment Costs			3445	4969	7579	7765	6337	2268	743	0	0	0	0
Replacement of Equipment			0	0	0	0	177		0	0	0	177	0
Recurrent Costs			402	494	517	523	529	536	521	208	208	208	208
Total Project Costs			3847	5463	8096	8288	7043	2804	1264	208	208	385	208
Total Project Incremental Net Benefits			-4297	-6637	-8689	-3765	-9441	-4259	10	10135	14023	15194	15371
IRR 15%													
NPV @10% (US 000) 12 204													
Project Benefit Stream			-450	-1174	-593	4523	-2398	-1455	1274	10343	14232	15580	15580
NPV @ 10% 39 245													
Project Cost Stream			3847	5463	8096	8288	7043	2804	1264	208	208	385	208
NPV @ 10% 27 041													
Project Net Incremental Benefits			-4297	-6637	-8689	-3765	-9441	-4259	10	10135	14023	15194	15371
NPV @ 10% 12 204													
Switching Values			Appraisal Value	Switching Value	% Change								
Incremental Benefits			39245	27041	31%								
Incremental Costs			27041	14837	45%								

Table 8: Project Sensitivity Analysis

[illegible]

Attachments to Appendix 10: Economic and Financial Analysis

Attachment 1: Financial Prices and Summary Crop Budgets

Table 1.1:	Financial and Economic Prices
Table 1.2:	Area planted for selected food crops, 2008-2010 (ha)
Table 1.3:	Production for selected food crops, 2008-2010 (tonnes)
Table 1.4:	Production for selected crops (tonne/ha)
Table 1.5:	Crop Budgets (in UGX/ha)

Attachment 2: Financial Models (agriculture and IGAs)

Table 2.1:	Groundnut Crop Model - Acquisition of 0.5 ha of land
Table 2.2:	Improved Seed Maize Crop Model
Table 2.3:	Cassava Crop Model - Land rental (0.5 ha)
Table 2.4:	Expand Farm land model 1.5 to 2.5 acres (0.6ha to1.011ha)
Table 2.5:	Cow model
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Table 2.7:	Piggery Activity Model
Table 2.8:	IGA Model - Sewing Machine
Table 2.9:	IGA Model - Second hand clothes trading
Table 2.10:	IGA Model - Fish Mongering
Table 2.11:	Summary of the financial models in UGX
Table 2.12:	Summary of the financial models in USD (UGX/USD 2 500)
Table 2.13:	Summary of the financial results and switching values

Attachment 3: CSCGs and SACCO Financial Viability

Table 3.1:	CSCG financial viability model
Table 3.2:	Phasing of CSCG, members and households covered
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Table 3.5:	Balance sheet and Profit and Loss (P&L) for SACCOS category A (UGX)
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Table 3.8:	M cash for SACCOS
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Attachment 4: Economic Prices and Models (agriculture and IGAs)

Table 4.1:	Economic Prices
Table 4.2:	Derivation of Financial & Economic Prices-Maize
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Table 4.4:	Derivation of Financial & Economic Prices- DAP
Table 4.5:	Economic Crop Budgets (in UGX/ha)
Table 4.6 :	Summary of the economic models in UGX
Table 4.7:	Summary of the economic models in USD (UGX/USD 2 500)
Table 4.8:	Summary of the economic results and switching values

Attachment 5: Economic Analysis

Table 5.1:	Project Economic Analysis
Table 5.2:	Sensitivity Analysis of the Total Project ERR (USD 000)
Table 5.3:	Project Economic Costs
Table 5.4:	Aggregated benefits for Community Savings and Credit Groups (CSCGs)
Table 5.5:	Education benefits from CSCGs
Table 5.6:	Phasing of SACCOS
Table 5.7:	Estimated Benefits from SACCO Support
Table 5.8:	Assumptions for Estimating Benefits from SACCOS Support

Attachment 1 to Appendix 10: Financial Prices and Summary Crop Budgets

Table 1.1: Financial and Economic Prices

	1USD:UGX CF	2500 0.82	Financial
	Unit	UGX	
Outputs			
Livestock			
Milk	litre	1 000	
Manure	tonne	500	
Boar pigs	kg	100 000	
Cow	head	300 000	
Goat	head	10 000	
Chicken (4 months)	unit	20 000	
Fish	kg	4 000	
Field Crops			
Beans (active commercial area)	kg	1 500	
Cassava (village)	bag	1 500	
Cassava Flour	kg	700	
Maize	kg	600	
Maize (active commercial area)	kg	650	
Ground Nut	kg	2 500	
Investments			
Motorcycle price	each	2 400 000	
Agricultural Services			
Slashing	acre	15 000	
Ploughing	acre	60 000	
Planting	acre	10 000	
Spraying	acre	20 000	
Weeding	acre	20 000	
harvesting	acre	10 000	
Cassava Grinding	bag	1 500	
Inputs			
Fertilizers, Pesticides, etc.			
NPK	Kg	2 000	
Urea	Kg	1 300	
Potash	Kg	1 600	
Fertilizer for Maize	litre	3 000	
Inputs			
Seed			
Ground Nut Seed	Kg	4 000	
Cassava Cuttings	bag	1 500	
Improved seeds	Kg	5 000	
Maize Seed (local market in Busia)	Kg	2 000	
Other Costs			
Diesel	litre	3 500.0	
Vehicle Hire /a	lumpsum	200 000	
Rent of shop/"stall" /b	year	800 000	
Veternary Visit (village)	visit	20 000	
Return Trip to Kenya by motorcycle	each	4 000	
Labour			
Family labour	day	0	
Hired labour	day	3 000	
Land Tax	ha		

a/ Kampala-Bujinja area one way with inputs (active commercial area)

b/ active commercial area.

Table 1.2: Area planted for selected food crops, 2008-2010 (ha)

Crop	2008/0		2009	2010
	2008	9, UCA		
Plantain banana	919	916	942	978
Cereals				
Millet	196	250	192	167
Maize	1 052	1 014	942	1 032
Sorghum	285	399	340	355
Rice	68	75	86	87
TOTAL	1 602	1 739	1 560	1 642
Root Crops				
S/potatoes	427	440	463	442
Irish	31	33	35	36
Cassava	846	871	777	794
TOTAL	1 304	1 344	1 275	1 271
Pulses				
Beans	651	618	616	633
Field peas	30	44	42	28
Cow peas	17	24	28	24
Pigeon peas	26	30	31	32
TOTAL	725	715	718	717
Others				
Gnuts	383	345	369	394
Soya beans	31	36	45	45
Simsim	165	176	192	198
TOTAL	579	557	605	637

Source: Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and Uganda bureau of Statistics.

Table 1.3: Production for selected food crops 2008-2010 (tonnes)

Crop	2008/09,		2009	2010
	2008	UCA		
Plantain banana	4 229	4 300	4 522	4 594
Cereals				
Millet	275	277	250	268
Maize	2 315	2 362	2 355	2 374
Sorghum	342	351	374	391
Rice	178	183	206	218
TOTAL	3 110	3 173	3 185	3 251
Root Crops				
S/potatoes	1 794	1 819	1 943	1 987
Irish	147	154	162	167
Cassava	2 876	2 894	2 952	3 017
TOTAL	4 817	4 867	5 057	5 171
Pulses				
Beans	912	929	925	949
Field peas	15	16	17	17
Cow peas	9	10	11	12
Pigeon peas	10	11	13	13
TOTAL	946	966	966	991
Others				
Gnuts	230	237	258	276
Soya beans	22	23	27	27
Simsim	99	101	115	119
TOTAL	351	361	400	422

Source: Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and Uganda bureau of Statistics.

Table 1.4: Production for selected crops (tonne/ha)

Crop	2008/0		2009	2010
	2008	9, UCA		
Plantain banana	4.6	4.7	4.8	4.7
Cereals				
Millet	1.4	1.1	1.3	1.6
Maize	2.2	2.3	2.5	2.3
Sorghum	1.2	0.9	1.1	1.1
Rice	2.6	2.4	2.4	2.5
Root Crops				
S/potatoes	4.2	4.1	4.2	4.5
Irish	4.7	4.7	4.6	4.6
Cassava	3.4	3.3	3.8	3.8
Pulses				
Beans	1.4	1.5	1.5	1.5
Field peas	0.5	0.4	0.4	0.6
Cow peas	0.5	0.4	0.4	0.5
Pigeon peas	0.4	0.4	0.4	0.4
Others				
Gnuts	0.6	0.7	0.7	0.7
Soya beans	0.7	0.6	0.6	0.6
Simsim	0.6	0.6	0.6	0.6

Source: Derived from previous tables.

Table 1.5: Crop Budgets (in UGX/ha)

Items	Unit	Maize (in UGX/ha)			Ground nut (in UGX/ha)			Cassava (in UGX/ha)		
		Unit			Unit			Unit		
		Price	Qty	Total	Price	Qty	Total	Price	Qty	Total
Operating costs										
Inputs										
Seeds	kg	5 000	10	50 000	4 000	8	32 000	1 500		-
DAP/NPK	kg									
Urea	kg	3 000	2	7 200			-			
Sub-total Inputs				57 200			32 000			-
Other costs										
Ploughing	UGX/ha	60 000	2.4	144 000	60 000	2.4	144 000			-
Planting	UGX/ha	-	2.4	-	10 000	2.4	24 000			-
Spraying	UGX/ha	-	2.4	-	20 000	2.4	48 000			-
Weeding	UGX/ha	20 000	2.4	48 000	20 000	2.4	48 000			-
harvesting	UGX/ha	10 000	2.4	24 000	10 000	2.4	24 000			-
Slashing	UGX/ha		2.4	-	15 000	2.4	36 000			-
Self-consumption	kg	600	270	162 000	2 500	60	150 000	700	300	210 000
Milling services	bag							1 500	6.00	9 000
Transport	bag							1 000	6.00	6 000
Sub-total Inputs				378 000			474 000			225 000
Land rental										60 000
Labour										-
Sub-total labour	day	-	100	-	88			105		
Total production costs				435 200			506 000			285 000
Revenues										
Main product	kg	600	900	540 000	2 500	300	750 000	700	600 a/	420 000
Total revenues				540 000			750 000			420 000
Gross margin										
Gross margin at harvest	UGX/day			104 800			244 000			135 000
Return on Family labour	UGX/ha			1 048			2 773			1 286

a/ Cassava flour ratio 2:1 (6 bags of tubes =3 bags of flour per acre (one bag=100kg)

Attachment 2 of Appendix 10: Financial Models

Table 2.1: Groundnut Crop Model - Acquisition of 0.5 ha of land

Yields and inputs	Unit	Price UGX	WOP (0.5 ha)	With Project (1 ha)		
				Y1	Y2	Y3-10
Main Production	kg	2 500	150	200	250	300
Land acquisition 0.5 ha	ls	400 000		1		
Operating Inputs						
Seeds	Kg	4 000	4	8	8	8
Self-consumption (20%)	kg	2 500	30	40	50	60
Labour						
Family labour	day		44	88	88	88
Ploughing	ha	144 000	0.5	1	1	1
Planting	ha	24 000	0.5	1	1	1
Spraying	ha	48 000	0.5	1	1	1
Slashing	ha	36 000	0.5	1	1	1
Weeding	ha	48 000	0.5	1	1	1
harvesting	ha	24 000	0.5	1	1	1
FINANCIAL BUDGET (In UGX ha)			WOP	With Project		
				Y1	Y2	Y3-10
Revenue			375 000	500 000	625 000	750 000
Investment/ Land acquisition				400 000		
Input costs						
Seeds			16 000	32 000	32 000	32 000
Self-consumption			75 000	100 000	125 000	150 000
Sub-total Input costs			91 000	532 000	157 000	182 000
Income (Before Labour Costs)			284 000	-32 000	468 000	568 000
Labour costs						
Labour			162 000	324 000	324 000	324 000
Total Production costs			253 000	856 000	481 000	506 000
Income (After Labour Costs)			122 000	-356 000	144 000	244 000
Incremental Gross Income (after labour)			-	-478 000	22 000	122 000
Return on Family labour			2 773	-2 909	3 057	4 477
Incremental Return on Family labour				-5 682	284	1 705
NPV @10% (UGX)			230 196			
IRR			21.1%			
Benefit/Cost Ratio				1.5	0.6	3.1
						1.5
Financing Analysis						
Investments	UGX	400 000				
Repayment Period	years	1				
Grace Period	years	0				
Interest Rate	%	30.0				
Beneficiary Contribution	%	20				
Loan	UGX	320 000				
Long-term loan			WOP	With Project		
				Y1	Y2	Y3-10
Principal Repayments		320 000		320 000		
Interest Repayments		96 000		96 000	-	
Total Loan Repayments		416 000		416 000	-	
Loan Outstanding				-	-	

Table 2.1 cont..

Cash Flow Analysis

Cash Flow Analysis		WOP	With Project		
Items			Y1	Y2	Y3-10
Inflow					
Production Revenues		375 000	500 000	625 000	750 000
Short-term Loan		0	320 000		
Beneficiary's Contribution from own savings		0	100 000		
Total Inflow		375 000	920 000	625 000	750 000
Outflow					
Production Costs		253 000	856 000	481 000	506 000
<i>Repayment of Loans</i>					
Short-term loan		0	320 000	0	0
<i>Repayment of Interest on Loans</i>					
Short-term loan		0	96 000	0	0
Total Outflow		253 000	1 272 000	481 000	506 000
Net Income after Financing		122 000	-352 000	144 000	244 000
Taxes	5	%	6 100	0	7 200
Net Income after Tax			115 900	-352 000	136 800
Incremental Production Revenues			500 000	625 000	750 000
	NPV @10% (UG:	4 277 847			
Incremental Total Inflow			920 000	625 000	750 000
	NPV @10% (UG:	4 659 665			
Incremental Production Costs			856 000	481 000	506 000
	NPV @10% (UG:	3 274 994			
Incremental Investments			400 000		
	NPV @10% (UG:	363 636			
Incremental Outflow			1 019 000	228 000	253 000
	NPV @10% (UG:	2 098 600			
Incremental Net Income			-467 900	20 900	115 900
	NPV @10% (UG:	228 010			
	FIRR	20.3%			

Switching Values	Appraisal Value	Switching Value	% Change
Incremental Revenues	4 277 847	4 277 847	-5.3%
Incremental Inflows	4 659 665	4 659 665	-4.9%
Incremental Production Costs	3 274 994	3 274 994	7.0%
Incremental Investments	363 636	363 636	62.7%
Total Incremental Outflows	2 098 600	2 098 600	10.9%

Table 2.2: Improved Seed Maize Crop Model

Yields and inputs (1 ha)	Unit	Price UGX	WOP	With Project		
				Y1	Y2	Y3-10
Main Production	kg	600	450	600	700	900
Investment	kg	50 000		1		
Operating Inputs						
Improved seeds	Kg	5 000	-	10	10	10
Local seeds	kg	2 000	10			
Fertilizer	litre	3 000	-	2.4	2.4	2.4
Self-consumption (30%)	kg	600	135	180	210	270
Labour						
Family labour	day		50	100	100	100
Ploughing	ha	144 000	1.0	1	1	1
Wedding	ha	20 000	1.0	1	1	1
Harvesting	ha	24 000	1.0	1	1	1
FINANCIAL BUDGET (In UGX ha)			WOP	With Project		
				Y1	Y2	Y3-10
Revenue			270 000	360 000	420 000	540 000
Investment/ Initial start up with improved seed				50 000		
Input costs						
Seeds			-		50 000	50 000
Local seeds			20 000			
Fertilizer			-	7 200	7 200	7 200
Self-consumption			81 000	108 000	126 000	162 000
Sub-total Input costs			101 000	165 200	183 200	219 200
Income (Before Labour Costs)			169 000	194 800	236 800	320 800
Labour/ a			94 000	188 000	188 000	188 000
Total Production costs			195 000	353 200	371 200	407 200
Income (After Labour Costs)			75 000	6 800	48 800	132 800
Incremental Gross Income (after labour)			-	-68 200	-26 200	57 800
Return on Family labour			1500	1148	1748	2948
Incremental Return on Family labour				-352	248	1 448
NPV @10% (UGX)	7 248					
IRR	44.0%					
Benefit/Cost Ratio			1.4	1.0	3.1	1.3

a/ Labour in the WOP is taken half because of the less agronomic demands such as non- application of fertilisers, less yields, etc.

Financing Analysis

Investments	UGX	50 000
Repayment Period	years	1
Grace Period	years	0
Interest Rate	%	30.0
Beneficiary Contribution	%	
Loan	UGX	50 000

Long-term loan

	WOP	With Project		
		Y1	Y2	Y3-10
Principal Repayments	50 000	50 000		
Interest Repayments	15 000	15 000	-	
Total Loan Repayments	65 000	65 000	-	
Loan Outstanding		-	-	

Table 2.2: Improved Seed Maize Crop Model (cont ..)

Cash Flow Analysis				
Items	WOP	With Project		
		Y1	Y2	Y3
Inflow				
Production Revenues	270 000	360 000	420 000	540 000
Short-term Loan	0	50 000		
Beneficiary's Contribution from own savings	0	50 000		
Total Inflow	270 000	460 000	420 000	540 000
Outflow				
Production Costs	195 000	353 200	371 200	407 200
<i>Repayment of Loans</i>				
Short-term loan	0	50 000	0	0
Short-term loan		0	0	0
<i>Repayment of Interest on Loans</i>				
Short-term loan	0	15 000	0	0
Short-term loan		0	0	0
Total Outflow	195 000	418 200	371 200	407 200
Net Income after Financing	75 000	41 800	48 800	132 800
Taxes	5	% 3 750	2 090	2 440
Net Income after Tax		71 250	39 710	46 360
Incremental Production Revenues			90 000	150 000
NPV @10% (UGX)	1 396 223			
Incremental Total Inflow			190 000	150 000
NPV @10% (UGX)	1 487 132			
Incremental Production Costs			158 200	176 200
NPV @10% (UGX)	1 225 034			
Incremental Investments			50 000	
NPV @10% (UGX)	45 455			
Incremental Outflow			223 200	176 200
NPV @10% (UGX)	1 284 125			
Incremental Net Income			-31 540	-24 890
NPV @10% (UGX)	192 857			
FIRR	69.1%			
Switching Values	Appraisal Value	Switching Value	% Change	
Incremental Revenues	1 396 223	1 396 223	-13.8%	
Incremental Inflows	1 487 132	1 487 132	-13.0%	
Incremental Production Costs	1 225 034	1 225 034	15.7%	
Incremental Investments	45 455	45 455	0.0%	
Total Incremental Outflows	1 284 125	1 284 125	15.0%	

Table 2.3: Cassava Crop Model - Land rental (0.5 ha)

Yields and inputs (1 ha)	Unit	Price UGX	WOP (0.5 ha)	With Project (1 ha)		
				Y1	Y2	Y3-10
Cassava Flour /ha	kg	700	300	350	500	600
Investment (land rental 0.5 ha)	ls	60 000		1.0		
Operating						
own seeds	Kg					
Self-consumption (50%)	kg	700	150	175	250	300
Milling services /b	bag	1500	3	4	5	6
Transport	bag	1000	3	4	5	6
Land rental	ha	120000		0.5	0.5	0.5
Labour						
Family labour	day	0	53	105	105	105
a/ Cassava flour ratio 2:1 (6 bags of tubes =3 bags of flour per acre (one bag=100kg)						
b/ 1500 UGX per bag (100kg).						
FINANCIAL BUDGET (In UGX ha)			WOP	With Project		
				Y1	Y2	Y3-10
Cassava flour (ratio 2:1)			210 000	245 000	350 000	420 000
Investment/ Initial land rental				60 000		
Input costs						
Seeds			-	-	-	-
Self-consumption			105 000	122 500	175 000	210 000
Milling services			4 500	5 250	7 500	9 000
Transport			3 000	3 500	5 000	6 000
Land rental			-	-	60 000	60 000
Sub-total Input costs			112 500	191 250	247 500	285 000
Labour			-	-	-	-
Total Production costs			112 500	191 250	247 500	285 000
Income (After Labour Costs)			97 500	53 750	102 500	135 000
Incremental Gross Income (after labour)			-	-43 750	5 000	37 500
Return on Family labour			1857	1679	2643	3286
Incremental Return on Family labour				-179	786	1 429
NPV @10% (UGX)			7 643			
IRR			57.2%			
Benefit/Cost Ratio				1.9	1.3	3.1
						1.5

Financing Analysis

<i>Investments</i>	UGX	60 000				
<i>Repayment Period</i>	years	1				
<i>Grace Period</i>	years	0				
<i>Interest Rate</i>	%	30.0				
<i>Beneficiary Contribution</i>	%					
<i>Loan</i>	UGX	60 000				
			WOP	With Project		
				Y1	Y2	Y3-10
Long-term loan						
<i>Principal Repayments</i>		60000		60 000		
<i>Interest Repayments</i>		18000		18 000	-	
<i>Total Loan Repayments</i>		78000		78 000	-	
<i>Loan Outstanding</i>				-	-	
Short-term Loan						
<i>Working Capital (2-month operating costs for 6 months)</i>						
<i>Interest Repayment</i>	19	%	0			

Table 2.3: Cassava Crop Model - Land rental (0.5 ha) (cont ..)

Cash Flow Analysis					
Items		WOP	With Project		
			Y1	Y2	Y3-10
Inflow					
Production Revenues		210000	245000	350000	420000
Short-term Loan		0	60 000		
Beneficiary's Contribution from own savings		0	50 000		
Total Inflow		210 000	355 000	350 000	420 000
Outflow					
Production Costs		112500	191250	247500	285000
Repayment of Loans					
Short-term loan		0	60000	0	0
Repayment of Interest on Loans					
Short-term loan		0	18000	0	0
Total Outflow		112500	269250	247500	285000
Net Income after Financing		97500	85750	102500	135000
Taxes	5	%	4 875	4 288	5 125
Net Income after Tax		92625	81463	97375	128250
Incremental Production Revenues			35 000	140 000	210 000
NPV @10% (UGX)	1 073 417				
Incremental Total Inflow			145 000	140 000	210 000
NPV @10% (UGX)	1 173 417				
Incremental Production Costs			78 750	135 000	172 500
NPV @10% (UGX)	943 719				
Incremental Investments			60 000		
NPV @10% (UGX)	54 545				
Incremental Outflow			156 750	135 000	172 500
NPV @10% (UGX)	1 014 628				
Incremental Net Income			-11 163	4 750	35 625
NPV @10% (UGX)	150 850				
FIRR	152.2%				
Switching Values		Appraisal Value	Switching Value	% Change	
Incremental Revenues		1 073 417	1 073 417	-14.1%	
Incremental Inflows		1 173 417	1 173 417	-12.9%	
Incremental Production Costs		943 719	943 719	16.0%	
Incremental Investments		54 545	54 545	276.6%	
Total Incremental Outflows		1 014 628	1 014 628	14.9%	

Table 2.4: Expand Farm land model 1.5 to 2.5 acres (0.6ha to1.011ha)

	Unit	WOP	With Project				
		1 to 10	1	2 to 10			
Cropping Intensity	Percent	160	160	160			
Existing Technology							
Groundnut	acre	0.5	1.0				
maize	acre	0.5	1.0				
cassava	acre	0.5	0.5				
Sub-total Existing Technology		1.5	2.5				
PRODUCTION AND INPUTS	Unit	Prices UGX	WOP	With Project			
				Y1	Y2	Y3	Y4-10
Main Production							
groundnut	kg	2 500	80	100	120	140	160
maize	kg	650	150	200	300	300	300
cassava (ratio 2:1 for flour)	kg	1500	150	175	250	300	300
Investment Costs							
Land acquisition	ls	500000		1			
Production Cost							
Self-consumption groundnut (20%)	kg	2500	16	20	24	28	32
Self-consumption maize (30%)	kg	600	45	60	90	90	90
Self-consumption cassava(50%)	kg	700	75	87.5	125	150	150
groundnut seeds	Kg	4 000	4	8	8	8	8
maize seeds	Kg	5 000	-	10	10	10	10
Fertilizer	litre	3 000	-	2	2	2	2
Milling services /b	bag	1 500	2	2	3	3	3
Transport	bag	1 000	2	2	3	3	3
Labour							
Ploughing	acre	144 000	1	1.5	1.5	1.5	1.5
Planting	acre	24 000	1	1.5	1.5	1.5	1.5
Spraying	acre	48 000	1	1.5	1.5	1.5	1.5
Slashing	acre	36 000	1	1.5	1.5	1.5	1.5
Weeding	acre	48 000	1	1.5	1.5	1.5	1.5
harvesting	acre	24 000	1	1.5	1.5	1.5	1.5
Family labour	day	3000	173	163	284	284	284
FINANCIAL BUDGET (AGGREGATED)	(In UGX)		WOP	With Project			
				Y1	Y2	Y3	Y4-10

Table 2.4: Expand Farm land model 1.5 to 2.5 acres (0.6ha to1.011ha) (cont ..)

Revenue				
groundnut	200 000	250 000	300 000	350 000
maize	97 500	130 000	195 000	195 000
cassava (ratio 2:1 for flour)	225 000	262 500	375 000	450 000
Total Revenue	522 500	642 500	870 000	995 000
Investment Cost				
Land acquisition		500 000		
Production Cost				
Self-consumption	119 500	147 250	201 500	229 000
groundnut seeds	16 000	32 000	32 000	32 000
maize seeds	-	50 000	50 000	50 000
Fertilizer	-	7 200	7 200	7 200
Milling services /b	2 250	2 625	3 750	4 500
Transport	1 500	1 750	2 500	3 000
Family labour	-	-	-	-
Hired labour	324 000	486 000	486 000	486 000
Sub-Total Production Cost	463 250	1 226 825	782 950	811 700
Net Income before Financing	59 250	-584 325	87 050	183 300
Incremental Net Income (before financing)		-643 575	27 800	124 050
Returns per Family-Day of Labour	342	-3 583	307	647
NPV @10% (UGX	3 983			
IRR	14.6%			
Benefit/Cost Ratio	1.1	0.5	1.1	1.2
Financing Analysis				
Investments	UGX	500 000		
Repayment Period	years	2		
Grace Period	years	1		
Interest Rate	%	30.0		
Beneficiary Contribution	%			
Loan	UGX	500 000		
Long-term loan				
Principal Repayments	500000	250 000	250 000	
Interest Repayments	300000	150 000	150 000	
Total Loan Repayments	800000	400 000	400 000	
Loan Outstanding		250 000	-	

Table 2.4: Expand Farm land model 1.5 to 2.5 acres (0.6ha to1.011ha) (cont ..)

Cash Flow Analysis

Items	WOP	With Project			
		Y1	Y2	Y3	Y4-10
Inflow					
Production Revenues	522500	642500	870000	995000	1045000
Long-term Loan		500 000			
Beneficiary's Contribution from own savings		100 000			
Total Inflow	522 500	1 242 500	870 000	995 000	1 045 000
Outflow					
Production Costs	463250	1226825	782950	811700	821700
Repayment of loan					
Short-term loan	0	250 000	250 000	0	0
Repayment of Interest on Loans					
Short-term loan	0	150000	150000	0	
Total Outflow	463250	1476825	1032950	811700	821700
Net Income after Financing	59250	-234325	-162950	183300	223300
Taxes	10 %	5 925	0	18 330	22 330
Net Income after Tax	53 325	-234 325	-162 950	164 970	200 970
Incremental Production Revenues	NPV @10% (UGX,	2 662 433	120 000	347 500	472 500
Incremental Total Inflow	NPV @10% (UGX,	3 207 888	720 000	347 500	472 500
Incremental Production Costs	NPV @10% (UGX,	2 531 278	763 575	319 700	348 450
Incremental Investments	NPV @10% (UGX,	454 545	500 000		
Incremental Outflow	NPV @10% (UGX,	2 985 823	1 013 575	369 700	348 450
Incremental net income	NPV @10% (UGX,	183 684	-287 650	-216 275	111 645
	FIRR	18.8%			

Switching Values	Appraisal Value	Switching Value	% Change
Incremental Revenues	2 662 433	2 478 749	-7%
Incremental Inflows	3 207 888	3 207 888	-6%
Incremental Production Costs	2 531 278	2 531 278	7%
Incremental Investments	454 545	454 545	40%
Total Incremental Outflows	2 965 162	2 965 162	6%

Table 2.5: Cow model

Table 2.5: Cow model						
YIELDS AND INPUTS	Unit	Price	WOP	With Project		
				Y1	Y2	Y3-10
Main Production						
Milk	litre	1 000		2	5	8
Manure	tonne	500		3	3	3
Culled cow	head	15 000		0.16	0.16	0.16
Yearling bull	head	200 000		0.4	0.4	0.4
Investment						
cow	head	300 000		1.		
Operating Inputs						
Concentrates	kg	100		50	50	50
Veterinary Service and AI	UGX	2 000		1	1	1
Labour	day	-		100	100	100

FINANCIAL BUDGET (UGX)	WOP	With Project		
		Y1	Y2	Y3-10
Revenue				
Milk	-	2 000	5 000	8 000
Manure	-	1 500	1 500	1 500
Culled cow	-	2 400	2 400	2 400
Yearling bull	-	80 000	80 000	80 000
Sub-total Revenue	-	85 900	88 900	91 900
Investment				
cow		300 000		
Input costs				
Concentrates	-	5 000	5 000	5 000
Veterinary Service and AI	-	2 000	2 000	2 000
Sub-total Input costs	-	307 000	7 000	7 000
Labour costs				
Labour	-	-	-	-
Total production costs	-	307 000	7 000	7 000
Income (After Labor Costs)	-	-221 100	81 900	84 900
Incremental Gross Income (after labour)	-	-221 100	81 900	84 900
NPV @10% (UGX)		313 040		
IRR		35.6%		
Benefit/Cost Ratio				
Financing Analysis				
Investments	UGX	300 000		
Repayment Period	years	1		
Grace Period	years	0		
Interest Rate	%	30.0		
Beneficiary Contribution	%			
Loan	UGX	300 000		
Long-term loan				
Principal Repayments		300000	300 000	
Interest Repayments		90000	90 000	-
Total Loan Repayments		390000	390 000	-
Loan Outstanding			-	-

Table 2.5: Cow model (cont ..)

Cash Flow Analysis

Cash Flow Analysis		Items	WOP	With Project			
				Y1	Y2	Y3-10	
Inflow							
		Production Revenues	0	85900	88900	91900	
		Long-term Loan	0	300 000			
		Beneficiary's Contribution from own savings	0	50 000			
		Total Inflow	0	435 900	88 900	91 900	
Outflow							
		Production Costs	0	307000	7000	7000	
		<i>Repayment of Loans</i>					
		Short-term loan	0	300000	0	0	
		<i>Repayment of Interest on Loans</i>					
		Short-term loan	0	90000	0	0	
		Total Outflow	0	697000	7000	7000	
		Net Income after Financing	0	-261100	81900	84900	
	5	Taxes	%	0	0	4 095	4 245
		Net Income after Tax		0	-261100	77805	80655
		Incremental Production Revenues		85 900	88 900	91 900	
		NPV @10% (UGX)	556 752				
		Incremental Total Inflow		435 900	88 900	91 900	
		NPV @10% (UGX)	874 934				
		Incremental Production Costs		307 000	7 000	7 000	
		NPV @10% (UGX)	315 739				
		Incremental Investments		300 000			
		NPV @10% (UGX)	272 727				
		Incremental Outflow		697 000	7 000	7 000	
		NPV @10% (UGX)	670 285				
		Incremental Net Income		-261 100	77 805	80 655	
		NPV @10% (UGX)	182 548				
		FIRR	27.1%				

Switching Values	Appraisal Value	Switching Value	% Change
Incremental Revenues	556 752	556 752	-32.8%
Incremental Inflows	874 934	874 934	-20.9%
Incremental Production C	315 739	315 739	57.8%
Incremental Investments	272 727	272 727	66.9%
Total Incremental Outflow	670 285	670 285	27.2%

Table 2.6: Goat Activity Model

			WOP	With Project				
YIELDS AND INPUTS	Unit	Price UGX		Y1	Y2	Y3	Y4-10	
Main Production								
Goat	head	10 000		1	2	3	4	
Meat	head	7000		0.2	0.2	0.2	0.2	
Investment	ls	7000		2.				
Operating Inputs								
Small Ruminants	UGX	6000		1	1	1	1	
labour	day	1000		10	15	20	20	
FINANCIAL BUDGET (In UGX)			WOP	With Project				
				Y1	Y2	Y3	Y4-10	
Revenue								
Goat				10 000	20 000	30 000	40 000	
Meat				1 400	1 400	1 400	1 400	
Sub-total Revenue				11 400	21 400	31 400	41 400	
Investment								
Input costs				14 000				
Small Ruminants				6 000	6 000	6 000	6 000	
Income (Before Labor Costs)				5 400	15 400	25 400	35 400	
Labor costs								
labour				10 000	15 000	20 000	20 000	
Total Production Costs				30 000	21 000	26 000	26 000	
Income (After Labor Costs)				-18 600	400	5 400	5 400	
Incremental Gross Income (after labour)				-18 600	19 000	24 000	24 000	
Return on Family labour				-1 860	27	270	270	
Incremental Return on Family labour					1 887	2 130	2 130	
NPV @10% (UGX)			95 357					
IRR			114.5%					
Benefit/Cost Ratio			1.6					
Financing Analysis								
Investments			UGX	14 000				
Repayment Period			years	1				
Grace Period			years	0				
Interest Rate			%	30.0				
Beneficiary Contribution			%					
Loan			UGX	14 000				
				WOP	With Project			
					Y1	Y2	Y3	Y4-10
Long-term loan								
Principal Repayments			14000		14 000			
Interest Repayments			4200		4 200	-		
Total Loan Repayments			18200		18 200	-		
Loan Outstanding					-	-		
Short-term Loan								
Working Capital (2-month operating costs for 6 months)								
Interest Repayment			19	%	0			

Table 2.6: Goat Activity Model (cont ..)

Cash Flow Analysis

Cash Flow Analysis		WOP	With Project				
Items			Y1	Y2	Y3	Y4-10	
Inflow							
Production Revenues		0	11400	21400	31400	41400	
Long-term Loan		0	14 000				
Beneficiary's Contribution from own savings		0	10 000				
Total Inflow		0	35 400	21 400	31 400	41 400	
Outflow							
Production Costs		0	30000	21000	26000	26000	
<i>Repayment of Loans</i>							
Short-term loan		0	14000	0	0	0	
<i>Repayment of Interest on Loans</i>							
Short-term loan		0	4200	0	0	0	
Total Outflow		0	48200	21000	26000	26000	
Net Income after Financing		0	-12800	400	5400	15400	
Taxes	5	%	0	0	20	270	770
Net Income after Tax		0	-12800	380	5130	14630	
Incremental Production Revenues			11 400	21 400	31 400	41 400	
NPV @10% (UGX)	203 070						
Incremental Total Inflow			35 400	21 400	31 400	41 400	
NPV @10% (UGX)	224 888						
Incremental Production Costs			30 000	21 000	26 000	26 000	
NPV @10% (UGX)	159 263						
Incremental Investments			14 000				
NPV @10% (UGX)	12 727						
Incremental Outflow			48 200	21 000	26 000	26 000	
NPV @10% (UGX)	175 808						
Incremental Net Income			-12 800	380	5 130	14 630	
NPV @10% (UGX)	46 044						
FIRR	55.4%						

Switching Values	Appraisal Value	Switching Value	% Change
Incremental Revenues	203 070	203 070	-22.7%
Incremental Inflows	224 888	224 888	-20.5%
Incremental Production Costs	159 263	159 263	28.9%
Incremental Investments	12 727	12 727	361.8%
Total Incremental Outflows	175 808	175 808	26.2%

Table 2.7: Piggery Activity Model

Public 2.17: Piglet Activity Model						
Yields and inputs	Unit	Price UGX	WOP	With Project		
				Y1	Y2	Y3 - 10
Main Production						
Piglet /a	head	50 000	5	5	40	60
Investment (35 pigs- 2 boars)		2 000 000		1		
Operating Inputs						
Feed (maize brown)	kg	200	15	15	120	180
Veterinary Service	UGX	1	5 000	10 000	10 000	10 000
Labour	day		50	50	50	50
a/ 8- 12 piglet for each boar/year						
		Price UGX	WOP	With Project		
FINANCIAL BUDGET (in UGX)				Y1	Y2	Y3 - 10
Revenue						
Piglet (50% of stock)			125 000	125 000	1000 000	1500 000
Sub- total Revenue			125 000	125 000	1000 000	1500 000
			-	2 000 000		
Input costs						
Feed (maize brown)			3 000	3 000	24 000	36 000
Veterinary Service			5 000	10 000	10 000	10 000
Sub- total Input costs			8 000	13 000	34 000	46 000
Income (Before Labour Costs)			117 000	112 000	966 000	1454 000
Labour			-	-	-	-
Total Production Costs			8 000	2 013 000	34 000	46 000
Income (After Labour Costs)			117 000	- 1888 000	966 000	1454 000
Incremental Gross Income (after labour)				- 2 005 000	849 000	1337 000
Return on Family labour			2 340	- 37 760	19 320	29 080
Incremental Return on Family labour				- 40 100	57 080	9 760
NPV @10% (UGX)	7 118 656					
IRR	69.2%					
Benefit/Cost Ratio						
Financing Analysis						
Investments	UGX	2 000 000				
Repayment Period	years	2				
Grace Period	years	0				
Interest Rate	%	30.0				
Beneficiary Contribution	%					
Loan	UGX	2 000 000				
			WOP	With Project		
				Y1	Y2	Y3 - 10
Long- term loan						
Principal Repayments		2000000		1000 000	1000 000	
Interest Repayments		1200000		600 000	600 000	
Total Loan Repayments		3200000		1600 000	1600 000	
Loan Outstanding				1000 000	-	
Short- term Loan						
Working Capital (2- month operating costs for 6 months)						
Interest Repayment	19	%	0			

Table 2.7: Piggery Activity Model (cont ..)

Cash Flow Analysis

Items	WOP	With Project		
		Y1	Y2	Y3 - 10
Inflow				
Production Revenues	125 000	125 000	1000 000	1500 000
Long- term Loan	0	2 000 000		
Beneficiary's Contribution from own savings	0	117 000	117 000	
Total Inflow	125 000	2 242 000	1 117 000	1500 000
Outflow				
Production Costs	8 000	2 013 000	34 000	46 000
Repayment of Loans				
Short- term loan	0	1000 000	1000 000	0
Repayment of Interest on Loans				
Short- term loan	0	600 000	600 000	0
Total Outflow	8 000	3 613 000	1634 000	46 000
Net Income after Financing	117 000	- 1371000	- 517 000	1454 000
Taxes	5 %	5 850	0	72 700
Net Income after Tax		111 150	- 517 000	1381300
Incremental Production Revenues		0	875 000	1375 000
NPV @10% (UGX)	10 101765			
Incremental Total Inflow		2 117 000	992 000	1375 000
NPV @10% (UGX)	12 123005			
Incremental Production Costs		2 005 000	26 000	38 000
NPV @10% (UGX)	2091347			
Incremental Investments		2 000 000		
NPV @10% (UGX)	18 18182			
Incremental Outflow		3 605 000	1626 000	38 000
NPV @10% (UGX)	4868207			
Incremental Net Income		- 1482 150	- 628 150	1270 150
NPV @10% (UGX)	6808376			
FIRR	57%			

Switching Values	Appraisal Value	Switching Value	% Change
Incremental Revenues	10 101 765	10 101 765	- 67.4%
Incremental Inflows	12 123 005	12 123 005	- 56.2%
Incremental Production Costs	209 134 7	209 134 7	325.5%
Incremental Investments	18 181 82	18 181 82	374.5%
Total Incremental Outflows	486 820 7	486 820 7	139.9%

Table 2.8. IGA Model - Sewing Machine

Item	Unit	Unit Price UGX	Without Project	With Project			
				Y1	Y2	Y3-10	Y4
School Uniforms	unit	8 000	12	20	30	25	25
Inputs							
Investments							
Sewing machine	unit	150000		1			
Material	ls	100000			0		
Operating							
Rental sewing machin	UGX/month	3000	12	12	12	12	12
Material	lumpsum	40000			1	1	1
Services: sewing mac	%		10	10	20	20	20
Tailor trainee	UGX/month	10000	3	4	4	4	4
Financial Budget (UGX)							
			Without Project	With Project			
				Y1	Y2	Y3-10	Y4
Main Production							
School Uniforms			96 000	160 000	240 000	200 000	200 000
Sub-total Revenues			96 000	160 000	240 000	200 000	200 000
Inputs							
Investments				150 000	0		
Operating							
Rental sewing machine			36 000	36 000	36 000	36 000	36 000
Material			0	0	40 000	40 000	40 000
Services: sewing machine maintenance			15 000	15 000	30 000	30 000	30 000
Tailor trainee			30 000	40 000	40 000	40 000	40 000
Total Operating Costs			81 000	91 000	146 000	146 000	146 000
Total Production Costs			81 000	241 000	146 000	146 000	146 000
Gross Income			15 000	-81 000	94 000	54 000	54 000
Incremental Net Income (before financing)				-96 000	79 000	39 000	39 000
NPV @10% (UGX)			149 969				
IRR			54.5%				
Benefit/Cost Ratio			1.4				
Financing Analysis							
Investments	UGX	150 000					
Repayment Period	year	1					
Grace Period							
Interest Rate	%	30.0					
Beneficiary Contribution	%						
Loan	UGX	150000					
			Without Project	With Project			
				Y1	Y2	Y3-10	Y4
Principal Repayments			150 000	150 000			
Interest Repayments			45 000	45 000			
Total Loan Repayments			195 000	195 000			
Loan Outstanding				0	0	0	

Table 2.8. IGA Model - Sewing Machine (cont ..)

Cash Flow Analysis

Cash Flow Analysis			Without Project				With Project			
Items			Without Project	Y1				Y2	Y3-10	Y4
<i>Inflow</i>										
Production Revenues			96 000	160 000	240 000	200 000	200 000			
Short-term Loan			0	150 000						
Beneficiary's Contribution from own savings			0							
Total Inflow			96 000	310 000	240 000	200 000	200 000			
<i>Outflow</i>										
Production Costs			81 000	241 000	146 000	146 000	146 000			
<i>Repayment of Loans</i>										
Short-term Loan				150 000		0		0		
<i>Repayment of Interest on Loans</i>										
Short-term Loan				45 000		0		0		
Total Outflow			81 000	436 000	146 000	146 000	146 000			
Net Income after Financing			15 000	-126 000	94 000	54 000	54 000			
Taxes (Profit tax) 5 %			750	0	4 700	2 700	2 700			
Net Income after Tax			14250	-126000	89300	51300	51300			
Incremental Production Revenues				64 000	144 000	104 000	104 000			
NPV @10% (UGX) 635 729										
Incremental Total Inflow				214 000	144 000	104 000	104 000			
NPV @10% (UGX) 772 093										
Incremental Production Costs				160 000	65 000	65 000	65 000			
NPV @10% (UGX) 485 760										
Incremental Investments				150 000						
NPV @10% (UGX) 136 364										
Incremental Outflow				355 000	65 000	65 000	65 000			
NPV @10% (UGX) 663 033										
Incremental Net Income				-140 250	75 050	37 050	37 050			
NPV @10% (UGX) 97 879										
FIRR 30.3%										

Switching Values	Appraisal Value	Switching Value	% Change
Incremental Revenues	635 729	537 850	-15.40%
Incremental Inflows	772 093	674 213	-12.68%
Incremental Production Costs	485 760	387 881	20.15%
Incremental Investments	136 364	38 484	71.78%
Total Incremental Outflow	663 033	565 154	14.76%

Table 2.9. IGA Model - Second hand clothes trading

Item	Unit	Unit Price UGX	Without Project	With Project			
				M1	M2	M3	M4- 10
Sales (25 item based on an average cost per <i>Investment</i>	unit	4 840	0	96 800	121 000	121 000	121 000
First equipment purchase <i>Operating</i>	Is	150 000		1			
Purchase of 2nd hand clothes	Is	60 000		0	1	1	1
Transport by motorbike	trip	4 000		8	8	8	8
Financial Budget (UGX)							
			Without Project	With Project			
				M1	M2	M3	M4- 10
Main Production							
Sales (25 item based on an average cost per item)			0	96 800	121 000	121 000	121 000
<i>Sub-total Revenues</i>			0	96 800	121 000	121 000	121 000
Inputs							
<i>Investments</i>				150 000			
Operating							
Purchase of 2nd hand clothes			0	0	60 000	60 000	60 000
Transport by motorbike			0	32 000	32 000	32 000	32 000
<i>Sub-total Operating Costs</i>			0	32 000	92 000	92 000	92 000
Total Production Costs			0	182 000	92 000	92 000	92 000
Gross Income			0	- 85 200	29 000	29 000	29 000
Incremental Net Income (before financing)				- 85 200	29 000	29 000	29 000
NPV @10% (UGX)			74 374				
IRR			31.1%				
Benefit/Cost Ratio			1.3				
Financing Analysis							
<i>Investments</i>	UGX	150 000					
<i>Repayment Period</i>	months	3					
<i>Grace Period</i>							
<i>Interest Rate</i>	%	10.0					
<i>Beneficiary Contribution</i>	%						
<i>Loan</i>	UGX	150 000					
			Without Project	With Project			
				M1	M2	M3	M4- 10
<i>Principal Repayments</i>		150 000		50 000	50 000	50 000	
<i>Interest Repayments</i>		45 000		15 000	15 000	15 000	
<i>Total Loan Repayments</i>		195 000		65 000	65 000	65 000	
<i>Loan Outstanding</i>				100 000	50 000	-	-
Short-term Loan							
<i>Working Capital (2-month operating costs for 6 months)</i>							
<i>Interest Repayment</i>	20 %			0	0	0	

Table 2.9. IGA Model - Second hand clothes trading (cont ..)

Cash Flow Analysis

Items		Without Project	With Project			
			M1	M2	M3	M4- 10
<i>Inflow</i>						
Production Revenues		0	96800	121000	121000	121000
Short-term Loan		0	150 000			
Beneficiary's Contribution from own savings		0	0	25 000	25 000	
Total Inflow		0	246 800	146 000	146 000	121000
<i>Outflow</i>						
Production Costs		0	182000	92000	92000	92000
<i>Repayment of Loans</i>						
	Short-term Loan		50000	50000	50000	
<i>Repayment of Interest on Loans</i>						
	Short-term Loan		15000	15000	15000	
Total Outflow		0	247 000	157 000	157 000	92 000
Net Income after Financing		0	-200	-11000	-11000	29000
Taxes (Profit tax)	5 %	0	0	0	0	1450
Net Income after Tax		0	-200	-11000	-11000	27550
Incremental Production Revenues			96 800	121000	121000	121000
	NPV @10% (UGX)	721493				
Incremental Total Inflow			246 800	146 000	146 000	121000
	NPV @10% (UGX)	897 300				
Incremental Production Costs			182 000	92 000	92 000	92 000
	NPV @10% (UGX)	647 118				
Incremental Investments			150 000			
	NPV @10% (UGX)	136 364				
Incremental Outflow			247 000	157 000	157 000	92 000
	NPV @10% (UGX)	808 764				
Incremental Net Income			-200	-11000	-11000	27 550
	NPV @10% (UGX)	83 233				
	FIRR	84.9%				
Switching Values	Appraisal Value	Switching Value	% Change			
Incremental Revenues	721493	638 260	- 11.54%			
Incremental Inflows	897 300	814 067	- 9.28%			
Incremental Production Costs	647 118	563 885	12.86%			
Incremental Investments	136 364	53 131	61.04%			
Total Incremental Outflows	808 764	725 531	10.29%			

Table 2.10. IGA Model - Fish Mongering

Item	Unit	Unit Price UGX	Without Project	With Project			
				M1	M2	M3	M4-10
Main Production							
Smoked fish a/	basket/month	100 000	0	1	2	3	4
Inputs							
Investments							
Start up capital for smoked fish	Is	60000		1			
basket, scale	Is	10000		1			
Operating							
Purchase of smoked fish	month	80000		1	2	3	3
Transport (74 kms return)	Is/month	20000		1	2	3	3

a/ weekly average purchase of two basket = equivalent to 80,000 UGX.

b/ Price of industrial ice (6 UGX/kg); the use of ice increases over the years (proportion of 1/3 in Y1, 2/3 afterwards)

c/ 120 km per day; 4 litres of fuel per 100 km; 52,5 UGX per litre

d/ 4 UGX per kilo, by open truck or minibus

e/ Without project only 1 assistant in the market (15 days/month). With project 2 assistants at landing site and market (10 days/month).

Financial Budget (UGX)

		Without Project	With Project			
			M1	M2	M3	M4- 10
Main Production						
	Smoked fish	0	100000	200000	300000	400000
	<i>Sub-total Revenues</i>	0	100000	200000	300000	400000
Inputs						
	<i>Investments</i>		70000			
	<i>Operating</i>					
	Purchase of smoked fish	0	80000	160000	240000	240000
	Transport (74 kms return)	0	20000	40000	60000	60000
	<i>Sub-total Operating Costs</i>	0	100000	200000	300000	300000
	Total Production Costs	0	170000	200000	300000	300000
	Gross Income	0	- 70000	0	0	100000
	Incremental Net Income (before financing)		- 70000	0	0	100000
	NPV @10% (UGX)	302135				
	IRR	56.1%				
	Benefit/Cost Ratio	1.3				

Table 2.10. IGA Model - Fish Mongering (cont ..)

Financing Analysis

<i>Investments</i>	UGX	70 000					
<i>Repayment Period</i>	month	3					
<i>Grace Period</i>	month						
<i>Interest Rate</i>	%	10.0					
<i>Beneficiary Contribution</i>	%	0					
<i>Loan</i>	UGX	70000					
			Without Project	With Project			
				M1	M2	M3	M4- 10
<i>Principal Repayments</i>		70 000		23333	23333	23333	
<i>Interest Repayments</i>		21000		7000	7000	7000	
<i>Total Loan Repayments</i>		91000		30333	30333	30333	0
Production Revenues			0	100000	200000	300000	400000
Short-term Loan			0	70 000			
Beneficiary's Contribution			0	30 000			
Total Inflow			0	200 000	200 000	300 000	400 000
Outflow							
Production Costs			0	170000	200000	300000	300000
<i>Repayment of Loans</i>							
Short-term Loan				23333	23333	23333	
<i>Repayment of Interest on Loans</i>							
Short-term Loan				7000	7000	7000	
Total Outflow			0	200 333	230 333	330 333	300 000
Net Income after Financing			0	-333	-30333	-30333	100000
Taxes (Profit tax)	5 %		0	0	0	0	0
Net Income after Tax			0	-333	-30333	-30333	100000
Incremental Production Revenues				100 000	200 000	300 000	400 000
NPV @10% (UGX)		1944 679					
Incremental Total Inflow				200 000	200 000	300 000	400 000
NPV @10% (UGX)		2 035 588					
Incremental Production Costs				170 000	200 000	300 000	300 000
NPV @10% (UGX)		1642 544					
Incremental Investments				70 000			
NPV @10% (UGX)		63 636					
Incremental Outflow				200 333	230 333	330 333	300 000
NPV @10% (UGX)		17 17 978					
Incremental Net Income				-333	-30 333	-30 333	100 000
NPV @10% (UGX)		317 610					
FIRR		105.6%					

Switching Values	Appraisal Value	Switching Value	% Change
Incremental Revenues	1944 679	1627 069	- 16.33%
Incremental Inflows	2 035 588	17 17 978	- 15.60%
Incremental Production Costs	1642 544	1324 934	19.34%
Incremental Investments	63 636	-253 973	499.10%
Total Incremental Outflows	17 17 978	1400 368	18.49%

Table 2.11 - Summary of the financial models in UGX

Model	Investment costs (UGX)			Annual Net Benefits-after financing			IRR-after financing (%)	NPV-after financing UGX
	Loans	BEN Contribution	Total	WOP Project	WP -Full Develop	Incremental		
Production Models								
Groundnut land acquisition	320 000	80 000	400 000	122 000	244 000	122 000	20.3%	228010
Improved seed maize	50 000	50 000	100 000	75 000	132 800	57 800	69.1%	192857
Land rental (cassava)	60 000	50 000	110 000	97 500	135 000	37 500	152.2%	150850
Purchase land (maize, g/nut and cassava)	500 000	100 000	600 000	59 250	223 300	164 050	18.8%	183684
Milk cow model	300 000	50 000	350 000	-	84 900	84 900	27.1%	182548
Goat model	14 000	10 000	24 000	-	15 400	15 400	55.4%	46044
Piggery Activity	2 000 000	117 000	2 117 000	117 000	1 454 000	1 337 000	57.2%	6808376
Trade Models								
Sewing Machine	150 000	-	150 000	15 000	54 000	39 000	30.3%	97 879
Second hand clothes trading (Kenya)	150 000	25 000	175 000	-	29 000	29 000	84.9%	83 233
Fish Mongering	70 000	30 000	100 000	-	100 000	100 000	105.6%	317 610
Average	361 400	51 200	375 091	48 575	247 240	180 605	62%	829109
	96%	14%	110%					

\a WOP-without project, WP-with project at full production

Table 2.12 - Summary of the financial models in USD (UGX/USD 2 500)

Model	Investment costs (USD)			Annual Net Benefits-after financing			Incremental annual net benefits per 1 USD invested	IRR-before financing (%)	IRR-after financing (%)	NPV-before financing USD	NPV-after financing USD
	Loans	Beneficiary Contribution	Total	WOP Project	WP -Full Develop	Incremental					
Production Models											
Groundnut land acquisition	128	32	160	49	98	35	0.2	21%	20%	92	91
Improved seed maize	20	20	40	30	53	42	0.4	44%	69%	3	77
Land rental (cassava)	24	20	44	39	54	15	0.3	57%	152%	3	60
Purchase land (maize, g/nut and cassava)	200	40	240	24	89	120	0.5	15%	19%	2	73
Milk cow model	120	20	140	0	34	34	0.2	36%	27%	125	73
Goat model	6	4	10	0	6	6	0.6	115%	55%	38	18
Piggery Activity	800	47	847	47	582	506	0.6	69%	57%	2847	2723
Trade Models											
Sewing Machine	60	0	60	6	22	16	0.2	55%	30%	60	39
Second hand clothes trading (Kenya)	60	10	70	0	12	48	0.7	31%	85%	30	33
Fish Mongering	28	12	40	0	40	11	0.3	56%	106%	121	127
Average	145	20	150	19	99	83	0.4	50%	62%	332	332
	96%	14%	110%								

\a WOP-without project, WP-with project at full production

2500

Table 2.12 - Summary of the financial models in USD (UGX/USD 2 500)

Model	Investment costs (USD)			Annual Net Benefits-after financing			Incremental annual net benefits per 1 USD invested	IRR-before financing (%)	IRR-after financing (%)	NPV-before financing USD	NPV-after financing USD
	Loans	Beneficiary Contribution	Total	WOP Project	WP -Full Develop	Incremental					
Production Models											
Groundnut land acquisition	128	32	160	49	98	35	0.2	21%	20%	92	91
Improved seed maize	20	20	40	30	53	42	0.4	44%	69%	3	77
Land rental (cassava)	24	20	44	39	54	15	0.3	57%	152%	3	60
Purchase land (maize, g/nut and cassava)	200	40	240	24	89	120	0.5	15%	19%	2	73
Milk cow model	120	20	140	0	34	34	0.2	36%	27%	125	73
Goat model	6	4	10	0	6	6	0.6	115%	55%	38	18
Piggery Activity	800	47	847	47	582	506	0.6	69%	57%	2847	2723
Trade Models											
Sewing Machine	60	0	60	6	22	16	0.2	55%	30%	60	39
Second hand clothes trading (Kenya)	60	10	70	0	12	48	0.7	31%	85%	30	33
Fish Mongering	28	12	40	0	40	11	0.3	56%	106%	121	127
Average	145	20	150	19	99	83	0.4	50%	62%	332	332
	96%	14%	110%								

\a WOP-without project, WP-with project at full production

Table 2.13 - Summary of the financial results and switching values

Model	NPV - after financing (UGX)	NPV - after financing (USD)	IRR - after financing (%)	Switching Values % *				
				Incremental Revenues	Incremental Inflows	Incremental Production Costs	Incremental Investment Costs	Incremental Outflows
Production Models								
Groundnut land acquisition	228 010	91	20%	-5%	-5%	7%	63%	11%
Imrpoved seed maize	192 857	77	69%	-14%	-13%	16%	0%	15%
Land rental (cassava)	150 850	60	152%	-14%	-13%	16%	277%	15%
Purchase land (maize, g/nut and cassava)	183 684	73	19%	-7%	-6%	7%	40%	6%
Milk cow model	182 548	73	27%	-33%	-21%	58%	67%	27%
Goat model	46 044	18	55%	-23%	-20%	29%	362%	140%
Piggery Activity	6 808 376	2 723	57%	-67%	-56%	326%	374%	140%
Trade Models								
Sewing Machine	97 879	39	30%	-15%	-13%	20%	72%	15%
Second hand clothes trading (Kenya)	83 233	33	85%	-12%	-9%	13%	61%	10%
Fish Mongering	317 610	127	106%	-16%	-16%	19%	499%	18%

* The switching values show percentage by which the costs would need to rise or benefits decrease before the NPV reached zero, associated with each of the values (at 10% financial opportunity costs as a prevailing deposit in Uganda Schelling)

Attachment 3 of Appendix 10: CSCGs and SACCOs Financial Viability

Table 3.1 CSCG financial viability model

Exchange rate 1 USD=	UGX	2 500
Cost of setting up per CSCG/member	USD	20
Average number of member per CSCG	no	25
Total Cost per CSCG	USD	500

Average share value@5000 UGX (USD 2) per member per week

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total/year
Cost of setting CSCG	500												
Savings	225	225	225	225	225	225	225	225	225	225	225	225	2 700
Cumulative savings	225	450	675	900	1 125	1 350	1 575	1 800	2 025	2 250	2 475	2 700	17 550
interest on loan @10%				90	113	135	158	180	203				878
default rate @5%				45	56	68	79	90	101				439
Net savings (minus default)	-275	225	225	270	281	293	304	315	326	225	225	225	2 639
IRR	87%												
Member saving end cycle USD	106												
Member net incremental saving	18												
Member net incremental saving in %	17%												

Average share value@2500 UGX (USD 1) per member per week

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total/year
Cost of setting CSCG	500												
Savings a/	113	113	113	113	113	113	113	113	113	113	113	113	1 350
Cumulative savings	113	225	338	450	563	675	788	900	1 013	1 125	1 238	1 350	8 775
interest on loan @10%				45	56	68	79	90	101				439
default rate @5%				14	17	20	24	27	30	34	37	41	243
Net savings (minus default)	-388	113	113	144	152	160	168	176	183	79	75	72	1 046
IRR	33%												
Member saving end cycle USD	42												
Member net incremental saving	8												
Member net incremental saving in %	19%												

Average share value@1000 UGX (USD 0.4) per member per week

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 13-20
Cost of setting CSCG	500												
Savings a/	45	45	45	45	45	45	45	45	45	45	45	45	45
Cumulative savings	45	90	135	180	225	270	315	360	405	450	495	540	162
interest on loan @10%				18	23	27	32	36	41				
default rate @5%				9	11	14	16	18	20				
Retained earnings												378	
Net savings (minus default)	-455	45	45	54	56	59	61	63	65	45	45	45	45
IRR	9%												
Member net earnings USD	21												
Member net incremental saving	5												
Member net incremental saving in %	23%												

Summary of CSCG financial viability

item	Model 1	Model 2	Model 3
Cost of setting up per CSCG/member (UGX)	50000	50000	50000
Share Value per member per week (UGX)	5000	2500	1500
IRR	87%	33%	9%
Member net earnings USD	106	42	21
Member net incremental saving	18	8	5
Member net incremental saving in %	17%	19%	23%

*per member per week

Table 3.2: Phasing of CSCG, members and households covered

CSCGs		Year 1	Year 2	Year 3	Yea 4	Year 5	Year 6	Year 7	Total
Formation of New CSCGS	15 000 CSCGs	750	3 000	4 500	3 750	3 000			15 000
Graduation & Linkage of Existing CSCGs	3 000 CSCGs		600	600	600	600	600		3 000
Members Covered									
Formation of New CSCGS	25 members	18 750	75 000	112 500	93 750	75 000			375 000
Graduation & Linkage of Existing CSCGs	25 members	-	15 000	15 000	15 000	15 000	15 000		75 000
									450 000
Households covered *									
Formation of New CSCGS	0.8 HHs	15 000	60 000	90 000	75 000	60 000	-	-	300 000
Graduation & Linkage of Existing CSCGs	0.6 HHs	-	9 000	9 000	9 000	9 000	9 000		45 000
*deducting those benefiting twice									345 000

Table 3.3: members benefitting from formation of New CSCG

Number of members		18750	75000	105000	86250	75000	360000
	%						
Loan per activity	investment	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Agriculture	20%	3750	15000	21000	17250	15000	72000
Acquisition of new Land	5%	937.5	3750	5250	4312.5	3750	18000
Livestock	20%	3750	15000	21000	17250	15000	72000
Fish Trading	5%	937.5	3750	5250	4312.5	3750	18000
Second hand clothes	3%	562.5	2250	3150	2587.5	2250	10800
grocery stores	5%	937.5	3750	5250	4312.5	3750	18000
Education expenditures	25%	4687.5	18750	26250	21562.5	18750	90000
health	2%	375	1500	2100	1725	1500	7200
consumption	15%	2812.5	11250	15750	12937.5	11250	54000
Total	100%	18750	75000	105000	86250	75000	360000

Table 3.4: Summary of SACCOS Financial Analysis

Financial Performance Stronger SACCOS	WOP	WP									
		Y1	Y2	Y3	Y4	Y5-10	Y6	Y7	Y8	Y9	Y10
Share capital UGX Million	30290000	31804500	38165400	45798480	50378328	55416161	60957777	67053555	73758910	81134801	89248281
Savings portfolio UGX million	108500000	113925000	136710000	164052000	180457200	198502920	218353212	240188533	264207387	290628125	319690938
Membership	1104	1159	1391	1669	1836	2020	2222	2444	2688	2957	3253
Loan portfolio	83950000	88147500	105777000	126932400	139625640	153588204	168947024	185841727	204425900	224868489	247355338
Incremental Loan portfolio		5%	17%	17%	9%	9%	9%	9%	9%	9%	9%
PAR > 30 days**	16%	13%	11%	9%	7%	7%	7%	7%	7%	7%	7%
Operating Sustainability (OSS) *	78%	84%	90%	96%	104%	113%	115%	115%	115%	115%	115%
Total Operating Income	35680220	44399631	51065057	58946254	67620302	77418668	84380757	84380757	92818832	102100716	112310787
Total Operating costs	45512610	52645176	56775717	61495710	65013353	68746905	73322105	73322105	80654315	88719747	97591722
Total net income	(9832390)	(8245545)	(5710659)	(2549456)	2606949	8671763	11058652	11058652	12164517	13380969	14719066

Intermediate SACCOS	WOP	Y1	Y2	Y3	Y4	Y5-10	Y6-10	Y7	Y8	Y9	Y10
Share capital UGX Million	7050000	7402500	8512875	10215450	12258540	13484394	14832833	16316117	17947728	19742501	21716751
Savings portfolio UGX million	9780800	10269840	11810316	14172379	17006855	18707541	20578295	22636124	24899736	27389710	30128681
Membership	317	333	383	459	551	606	667	734	807	888	976
Loan portfolio	9518200	9994110	11493227	13791872	16550246	18205271	20025798	22028378	24231215	26654337	29319771
Incremental Loan portfolio		0	0	0	0	0	9%	9%	9%	9%	9%
Gross loan portfolio	12043600	12645780	14542647	17451176	20941412	23035553	25339108	27873019	30660321	33726353	37098988
PAR > 30 days**	37%	30%	20%	15%	10%	8%	8%	8%	8%	8%	8%
Operating Sustainability (OSS) *	65%	71%	82%	90%	98%	107%	110%	110%	110%	110%	110%
Total Operating Income	4652753	5735391	7132440	8431803	9667360	1085633	12062182	12653738	13919112	15311023	16842125
Total Operating costs	7115396	8028206	8719950	9331349	9861632	10373048	10944268	11552485	12707734	13978507	15376358
Total net income	(2462643)	(2292815)	(1587510)	(899547)	(194271)	712585	1117914	1101252	1211378	1332515	1465767

* Total operating income/total operating costs.

** Balance of outstanding loan with arrears/gross loan portfolio.

	WOP no	WP										Total
		Y1	Y2	Y3	Y4	Y5	Y6-10	Y7	Y8	Y9	Y10	
No of loans strong SACCOS	84	88	106	127	140	154	169	186	204	225	247	1729
incremental		4	18	21	13	14	15	17	19	20	22	163
No of loans												
Intermediate Saccos	10	10	11	14	17	18	20	22	24	27	29	202
incremental		0	1	2	3	2	2	2	2	2	3	20

Table 3.5: Balance sheet and Profit and Loss (P&L) for SACCOS category A (UGX)

Busiu SACCO (E. District)								
	Un Audited	Projected						
	Actual	Y1	Y2	Y3	Y4	Y5	Y6	Y7
Balance Sheet								
Asset								
Cash & equivalents	16 558 400	18 214 240	20 035 664	22 039 230	24 243 153	26 667 469	29 334 216	32 267 637
Current Accounts	57 515 125	59 240 579	61 017 796	62 848 330	64 733 780	66 675 793	68 676 067	70 736 349
Total liquid assets	74 103 525	81 513 878	89 665 265	98 631 792	108 494 971	119 344 468	131 278 915	144 406 806
Net Fixed Asset	13 149 590	24 321 020	24 175 520	23 869 973	23 668 311	23 454 550	23 076 904	23 076 904
Gross Fixed Asset	15 921 000	27 231 000	27 231 000	27 231 000	27 231 000	27 231 000	27 231 000	27 231 000
Accumulated Depreciation	(2 771 410)	(2 909 981)	(3 055 480)	(3 361 027)	(3 562 689)	(3 776 450)	(4 154 096)	(4 154 096)
Net Loan Portfolio	81 431 500	85 503 075	152 603 690	123 124 428	135 436 871	148 980 558	163 878 614	180 773 316
Loan Portfolio	83 950 000	88 147 500	105 777 000	126 932 400	139 625 640	153 588 204	168 947 024	185 841 727
Loan Loss Reserve	(2 518 500)	(2 644 425)	(3 173 310)	(3 807 972)	(4 188 769)	(4 607 646)	(5 068 411)	(5 068 411)
Other Asset								
Total Asset	242 758 140	268 792 791	347 497 936	330 513 753	356 577 086	385 122 838	416 244 716	451 261 013
Liability								
Saving Deposits	108 503 400	113 925 000	136 710 000	164 052 000	180 457 200	198 502 920	218 353 212	240 188 533
Loan	83 950 000	88 147 500	105 777 000	126 932 400	139 625 640	153 588 204	168 947 024	185 841 727
External Credit - Apex/Bank Institutions	8 900 000	2 300 000	2 300 000	2 300 000	2 300 000	2 300 000	2 300 000	2 300 000
Other Liabilities	3 430 551	4 430 551	4 430 551	4 430 551	4 430 551	4 430 551	4 430 551	4 430 551
Total Liability	204 783 951	208 803 051	249 217 551	297 714 951	326 813 391	358 821 675	394 030 787	432 760 811
Equity								
Share Capital	30 290 000	31 804 500	38 165 400	45 798 480	50 378 328	55 416 161	60 957 777	67 053 555
Statutory and legal reserve	5 325 000	5 325 000	5 325 000	5 325 000	5 325 000	5 325 000	5 325 000	5 325 000
Retained Earnings (Current Year)	(9 832 390)	(8 245 545)	(5 710 659)	(2 549 456)	2 606 949	8 671 763	11 058 652	11 058 652
Retained Earnings (Precious Years)		(9 832 390)	(18 077 935)	(23 788 594)	(26 338 050)	(23 731 101)	(15 059 338)	(4 000 686)
Total Equity	25 782 610	19 051 566	19 701 806	24 785 430	31 972 227	45 681 823	62 282 091	79 436 520
Equity + Liability	230 566 561	227 854 617	268 919 357	322 500 381	358 785 618	404 503 498	456 312 878	512 197 331
	12 191 579	(40 938 174)	(78 578 579)	(8 013 372)	2 208 532	19 380 660	40 068 163	60 936 318

Table 3.5: Balance sheet and Profit and Loss (P&L) for SACCOS catgory A (UGX) (cont ..)

Busiu SACCO (E. District)								
	Un Audited	Projections						
Profit & Loss	actual	Y1	Y2	Y3	Y4	Y5	Y6	Y7
Income								
Income from Loan	21 732 220	22 818 831	27 382 597	32 859 117	38 773 758	45 753 034	50 328 337	52 844 754
Income from Processing Fee	4 028 000	4 430 800	5 316 960	6 380 352	7 656 422	9 034 578	9 938 036	10 434 938
Delinquent Penalty Interest Income from Loans	1 420 000	2 900 000	2 958 000	3 017 160	3 077 503	3 139 053	3 296 006	3 460 806
Fees (loan unrelated)		4 450 000	5 117 500	5 885 125	6 767 894	7 580 041	8 338 045	8 754 947
Insurance premium for Loans		1 120 000	1 176 000	1 234 800	1 296 540	1 361 367	1 402 208	1 472 318
Income from other sources	8 500 000	8 680 000	9 114 000	9 569 700	10 048 185	10 550 594	11 078 124	11 632 030
Total Income (A)	35 680 220	44 399 631	51 065 057	58 946 254	67 620 302	77 418 668	84 380 757	84 380 757
Expenditure								
Personnel Expenditure (B)	9 484 700	10 433 170	11 476 487	12 165 076	12 894 981	13 668 680	14 488 800	14 488 800
Salary & Wages	9 484 700	10 433 170	11 476 487	12 165 076	12 894 981	13 668 680	14 488 800	14 488 800
Financial Expenditure (C)	5 458 500	5 584 425	6 260 310	7 049 322	7 592 187	8 181 234	8 820 679	8 820 679
Loan Loss Provision	2 518 500	2 644 425	3 173 310	3 807 972	4 188 769	4 607 646	5 068 411	5 068 411
Other financial costs	2 940 000	2 940 000	3 087 000	3 241 350	3 403 418	3 573 588	3 752 268	3 752 268
Operating Expenditure (D)	30 569 410	36 627 581	39 038 920	42 281 311	44 526 185	46 896 991	50 012 626	50 012 626
Governance	8 700 000	10 440 000	11 484 000	12 632 400	13 390 344	14 193 765	15 613 141	15 613 141
Marketing	966 000	1 159 200	1 275 120	1 402 632	1 486 790	1 575 997	1 733 597	1 733 597
Administration	10 932 000	13 118 400	13 774 320	15 151 752	16 060 857	17 024 509	17 875 734	17 875 734
Depreciation	2 771 410	2 909 981	3 055 480	3 361 027	3 562 689	3 776 450	4 154 096	4 154 096
Provision for risk assets	7 200 000	9 000 000	9 450 000	9 733 500	10 025 505	10 326 270	10 636 058	10 636 058
Total Expenditure (E=B+C+D)	45 512 610	52 645 176	56 775 717	61 495 710	65 013 353	68 746 905	73 322 105	73 322 105
Net Operating Income (F= A-E)	(9 832 390)	(8 245 545)	(5 710 659)	(2 549 456)	2 606 949	8 671 763	11 058 652	11 058 652
Total Income F	(9 832 390)	(8 245 545)	(5 710 659)	(2 549 456)	2 606 949	8 671 763	11 058 652	11 058 652
Incremental income		1 586 846	4 121 731	7 282 934	12 439 339	18 504 153	20 891 042	20 891 042
Operational Self Sustainability (OSS)	78%	84%	90%	96%	104%	113%	115%	115%

	year 1	Year 2
Salary (USD)	4 591	4 866
Admins	5 247	5 510
	9 838	10 376

Table 3.6: Balance sheet and Profit and Loss (P&L) for SACCOS catgory B (UGX)

Lira Palwo (N. District)								
	Un Audited	Projected						
	Oct-12	Y1	Y2	Y3	Y4	Y5	Y6	Y7
Balance Sheet								
Asset	Actual							
Cash & equivalents	902 700	992 970	1 092 267	1 201 494	1 321 643	1 453 807	1 599 188	1 759 107
Current Accounts	50 000	51 500	53 045	54 636	56 275	57 964	59 703	61 494
Total liquid assets			-	-	-	-	-	-
Net Fixed Asset	5 015 000	5 325 000	5 325 000	5 325 000	5 325 000	5 325 000	5 325 000	5 325 000
Gross Fixed Asset	5 015 000	5 208 750	5 208 750	5 208 750	5 208 750	5 208 750	5 208 750	5 208 750
Accumulated Depreciation		116 250	116 250	116 250	116 250	116 250	116 250	116 250
Net Loan Portfolio	9 232 654	9 694 287	11 148 430	13 378 116	16 053 739	17 659 113	19 425 024	21 367 526
Loan Portfolio	9 518 200	9 994 110	11 493 227	13 791 872	16 550 246	18 205 271	20 025 798	22 028 378
Loan Loss Reserve	(285 546)	(299 823)	(344 797)	(413 756)	(496 507)	(546 158)	(600 774)	(660 851)
Other Asset								
Total Asset	15 200 354	16 063 757	17 618 742	19 959 246	22 756 657	24 495 884	26 408 915	28 513 127
Liability								
Saving Deposits	9 780 800	10 269 840	11 810 316	14 172 379	17 006 855	18 707 541	20 578 295	22 636 124
Loan	9 518 200	9 994 110	11 493 227	13 791 872	16 550 246	18 205 271	20 025 798	22 028 378
External Credit - Apex/Bank Institutions		10 000 000	10 000 000	10 000 000	10 000 000	10 000 000	10 000 000	10 000 000
Other Liabilities								
Total Liability	19 299 000	30 263 950	33 303 543	37 964 251	43 557 101	46 912 811	50 604 092	54 664 502
Equity								
Share Capital	7 050 000	7 402 500	8 512 875	10 215 450	12 258 540	13 484 394	14 832 833	16 316 117
Statutory and legal reserve	-	140 960	140 960	140 960	140 960	140 960	140 960	140 960
Retained Earnings (Current Year)		(2 292 815)	(1 587 510)	(899 547)	(194 271)	712 585	1 117 914	1 101 252
Retained Earnings (Previous Years)		-	(2 292 815)	(3 880 325)	(4 779 871)	(4 974 143)	(4 261 558)	(3 143 644)
Donations	4 990 000	5 290 000	5 290 000	5 290 000	5 290 000	5 290 000	5 290 000	5 290 000
Total Equity	12 040 000	10 540 645	10 063 510	10 866 539	12 715 357	14 653 796	17 120 150	19 704 685
Equity + Liability	31 339 000	40 804 595	43 367 053	48 830 790	56 272 459	61 566 607	67 724 242	74 369 187
	(16 138 646)	24 740 839	25 748 311	28 871 544	33 515 801	37 070 724	41 315 327	45 856 060

Table 3.6: Balance sheet and Profit and Loss (P&L) for SACCOS category B (UGX) (cont ..)

Lira Palwo (N. District)								
	Un Audited	Projections						
Profit & Loss	Actual	Y1	Y2	Y3	Y4	Y5	Y6	Y7
Income								
Income from Loan	3 176 000	3 334 800	4 001 760	4 802 112	5 522 429	6 350 793	6 985 872	7 335 166
Income from Processing Fee	591 553	621 131	714 301	857 161	985 735	1 133 595	1 246 955	1 309 302
Delinquent Penalty Interest Income from Loans		50 000	57 500	60 375	63 394	66 563	69 892	73 386
Fees (loan unrelated)	885 200	929 460	1 068 879	1 282 655	1 475 053	1 696 311	1 865 942	1 959 239
Insurance premium for Loans		800 000	840 000	966 000	1 110 900	1 277 535	1 315 861	1 381 654
Income from other sources (Mcash)			450 000	463 500	509 850	560 835	577 660	594 990
Total Income (A)	4 652 753	5 735 391	7 132 440	8 431 803	9 667 360	11 085 633	12 062 182	12 653 738
Expenditure								
Personnel Expenditure (B)	2 000 000	2 200 000	2 420 000	2 565 200	2 719 112	2 882 259	3 055 194	3 238 506
Salary & Wages	2 000 000	2 200 000	2 420 000	2 565 200	2 719 112	2 882 259	3 055 194	3 238 506
Financial Expenditure (C)	285 546	299 823	344 797	413 756	496 507	546 158	600 774	660 851
Loan Loss Provision	285 546	299 823	344 797	413 756	496 507	546 158	600 774	660 851
Interest Paid on Loans			-	-	-	-	-	-
Operating Expenditure (D)	4 829 850	5 528 383	5 955 153	6 352 393	6 646 012	6 944 631	7 288 300	7 653 128
Governance	495 100	594 120	712 944	784 238	831 293	889 483	978 432	1 076 275
Marketing	58 500	70 200	84 240	92 664	98 224	105 100	115 609	127 170
Administration	1 660 000	1 992 000	2 191 200	2 410 320	2 554 939	2 682 686	2 816 820	2 957 661
Depreciation	116 250	122 063	134 269	147 696	156 557	172 213	189 434	208 378
Provision for risk assets	2 500 000	2 750 000	2 832 500	2 917 475	3 004 999	3 095 149	3 188 004	3 283 644
Total Expenditure (E=B+C+D)	7 115 396	8 028 206	8 719 950	9 331 349	9 861 632	10 373 048	10 944 268	11 552 485
Net Operating Income (F= A-E)	(2 462 643)	(2 292 815)	(1 587 510)	(899 547)	(194 271)	712 585	1 117 914	1 101 252
Total Income F	(2 462 643)	(2 292 815)	(1 587 510)	(899 547)	(194 271)	712 585	1 117 914	1 101 252
Incremental income		169 828	875 133	1 563 096	2 268 371	3 175 227	3 580 557	3 563 895
Operational Self Sustainability (OSS)	65%	71%	82%	90%	98%	107%	110%	110%

	year 1	Year 2
Salary (USD)	968	1 026
Admin (USD)	1 506	1 577
Financial Expert		
Total	2 474	2 603

Table 3.7: Summary of the financial models

2500

Model	IRR-before financing	IRR-after financing	NPV-before financing	NPV-after financing	Average IRR
Production Models					
Groundnut land acquisition	21%	20%	230196	228010	
Imrpoved seed maize	44%	69%	7248	192857	
Land rental (cassava)	57%	152%	7643	150850	
Purchase land (maize, g/nut and cassava)	15%	19%	3983	183684	65%
Milk cow model	36%	27%	313040	182548	
Goat model	115%	55%	95357	46044	
Piggery Activity	69%	57%	7118656	6808376	47%
Average agriculture			0	0	57%
Trade Models					
Sewing Machine	55%	30%	149969	97879	
Second hand clothes trading (Kenya)	31%	85%	74374	83233	
Fish Mongering	56%	106%	302135	317610	
Average trade					95%
Average	50%	62%	754 782	753 736	56%

	Agri- culture	Trade	Other busi- ness	Educaton	Con- sump- tion
Distribution of Loans over Portfolio	35%	30%	5%	15%	15%
Profit rate	57%	95%	85%	0%	0%

exchange rate 2500
earning 0.95

Table 3.8. M cash for SACCO

Item	Unit	Unit Price UGX	Without Project	With Project			
				Y1	Y2	Y3	Y4-4
<i>Daily transactions</i>				63	130	202	203
<i>Annual Revenues (median)</i>				3807000	6868800	10149300	9421920
<i>Annual SACCO Revenues (95%/transaction, 1 agent)</i>				3616650	6525360	9641835	8950824
Total number of Mcash clients/agent to be attended				3240	6480	9720	10368
<i>Initial investment</i>							
POS machine payment	Is	2000000		1			
Pre-deposited liquidity of agent	Is	2000000		1			
<i>Annual operating costs</i>							
1 additional full-time staff - Mcash cashier a/	pers.-year	4500000		1	1	1	1
Travel cost for cashier b/	month	217600		6	12	12	12
Sensitization event@\$1/pers.; 20 pax/month c/	event	0		6	6	3	1
Data inputting cost (harmonize system) d/	Is	0		1	1	1	1
Commission of 5%/transaction for Mcash cashier e % per year	% per year	0		3616650	6525360	9641835	8950824
Motorbike maintenance (total price 5mio;10%p.a.)	year	0		1	1	1	1

a/ base salary and commission of 5%/transaction - 15,000/day acc. to Mcash

b/ fuel@3400/l; 4/day x 5 days = 20l or x 4 days = 16l per week; SACCO has a motorbike

c/ inform clients/rural communication

d/ to harmonize the SACCO and Mcash system (cashier will need to be trained) - 200,000

e/ in Y1 used to participate in training course at UCSCU

Financial Budget (UGX)

	Without Project	With Project			
		Y1	Y2	Y3	Y4-4
<i>Main source of incremental income</i>					
<i>Annual SACCO Revenues (95%/transaction, 1 agent)</i>	0	3616650	6525360	9641835	8950824
<i>Sub-total Revenues</i>	0	3616650	6525360	9641835	8950824
<i>Inputs</i>					
<i>Investments</i>					
POS machine payment	2000000		0	0	0
Pre-deposited liquidity of agent	2000000				
<i>Sub-total Investment Costs</i>	4000000		0	0	0
<i>Operating</i>					
1 additional full-time staff - Mcash cashier a/	4500000	4500000	4500000	4500000	4500000
Travel cost for cashier b/	1305600	2611200	2611200	2611200	2611200
Sensitization event@\$1/pers.; 20 pax/month c/	0	0	0	0	0
Data inputting cost (harmonize system) d/	0	0	0	0	0
Commission of 5%/transaction for Mcash cashier e/	0	0	0	0	0
Motorbike maintenance (total price 5mio;10%p.a.)	0	0	0	0	0
<i>Sub-total Operating Costs</i>	0	5805600	7111200	7111200	7111200
<i>Total Production Costs</i>	0	9805600	7111200	7111200	7111200
<i>Gross Income</i>	0	-6188950	-585840	2530635	1839624
<i>Incremental Net Income (before financing)</i>		-6188950	-585840	2530635	1839624

NPV @10% (UGX) 2 519 641

IRR 18.7%

Benefit/Cost Ratio 1.1

Financing Analysis

Investments	UGX	4 000 000					
Repayment Period	year	2					
Grace Period		0					
Interest Rate /f	%	13.0					
Beneficiary Contribution	%	30					
Loan	UGX	4000000					
			Without Project	With Project			
				Y1	Y2	Y3	Y4
Principal Repayments	4 000 000		2000000	2000000			
Interest Repayments	1 040 000		520000	520000			
Total Loan Repayments	5 040 000		2520000	2520000		0	0
Loan Outstanding			2000000	0		0	0
Short-term Loan							
Working Capital (2-month operating costs for 6 months)							
Interest Repayment	%		0	0		0	

Table 3.8. M cash for SACCO (cont ..)

Cash Flow Analysis						
Items		Without Project	With Project			
			Y1	Y2	Y3	Y4
Inflow						
Production Revenues		0	3616650	6525360	9641835	8950824
Long-term Loan		0	4000000			
Beneficiary's Contribution		0	1200000			
Total Inflow		0	8816650	6525360	9641835	8950824
Outflow						
Production Costs		0	9805600	7111200	7111200	7111200
Repayment of Loans						
	Long-term Loan		2000000	2000000	0	0
	Short-term Loan		0	0	0	0
Repayment of Interest on Loans						
	Long-term Loan		520000	520000	0	0
	Short-term Loan		0	0	0	0
Total Outflow		0	12325600	9631200	7111200	7111200
Net Income after Financing		0	-3508950	-3105840	2530635	1839624
Taxes g/	30 %	0	0	0	759191	551887
Net Income after Tax		0	-3508950	-3105840	1771445	1287737
Incremental Production Revenues			3616650	6525360	9641835	8950824
NPV @10% (UGX)			48 664 341			
Incremental Total Inflow			8816650	6525360	9641835	8950824
NPV @10% (UGX)			53 391 613			
Incremental Production Costs			9805600	7111200	7111200	7111200
NPV @10% (UGX)			46 144 700			
Incremental Investments			4000000			
NPV @10% (UGX)			3 636 364			
Incremental Outflow			12325600	9631200	7111200	7111200
NPV @10% (UGX)			50 518 254			
Incremental Net Income			-3508950	-3105840	1771445	1287737
NPV @10% (UGX)			284 322			
FIRR			11.2%			
Switching Values		Appraisal Value	Switching Value	% Change		
Incremental Revenues		48 664 341	48 380 018	-0.58%		
Incremental Inflows		53 391 613	53 107 291	-0.53%		
Incremental Production Costs		46 144 700	45 860 378	0.62%		
Incremental Investments		3 636 364	3 352 041	7.82%		
Total Incremental Outflows		50 518 254	50 233 932	0.56%		

f/ SACCOs that access loans from the government owned Microfinance Support Center (MSC), do so at 9% for Agricultural Loans and 13% for Commercial Loans. Subsidized rates considering that market rates from Private Commercial banks would be higher, about 28% per annum

g/ SACCOs are liable to pay the 30% corporate tax on their profits. UCSCU as their mouth piece and advocate is trying to lobby for exemptions for the small SACCOs but this battle is not yet won. Making losses exempts you from corporate tax.

exchange rate 1 USD 2500
earning 0.05

Table 3.9: M cash (Cost for UCSCU/aggregator)

earns 5% of each transaction

Item	Unit	Unit Price UGX	Without Project	With Project			
				Y1	Y2	Y3	Y4-10
<i>Daily transactions</i>				63	130	202	203
<i>Annual Revenues (total)</i>				3807000	6868800	10149300	9421920
<i>Annual UCSCU Revenues (5%/transaction, 1 agent)</i>				190350	343440	507465	471096
<i>Total annual revenues</i>	15	15	0	2855250	5151600	7611975	7066440
<i>Total annual revenues</i>	20	35	0	6662250	12020400	17761275	16488360
<i>Total annual revenues</i>	10	45	0	8565750	15454800	22835925	21199320
<i>Total annual revenues</i>	5	50	0	9517500	17172000	25373250	23554800
50							
Total number of clients attended by one Mcash agent				3240	6480	9720	10368
<i>Initial investment</i>							
Inscription fee (one-off)	ls	5000000		1			
Develop start-up kit; promote new function	ls	5000000		1			
<i>Annual operating costs</i>							
1-day course for SACCOs (cashier, new agent)	person	100000		30	40	20	10
1 additional UCSCU full-time staff b/	pers.-year	5000000		1	1	1	1
Purchase receipt roll @ UGX1500 (annual) c/	ls	1500		30	70	90	100
Group insurance for 10 POS-devices (annual)	ls	500000		2	4	5	5
Repair and maintenance services d/	ls	200000		1	1	2	2
Miscellaneous monitoring cost (annual)	ls	3000000		1	1	1	1

a/ e.g. 2 participants per SACCO@USD 20 each; refresher training on-site USD 20 per participant

b/ base salary of UGX 4,500,000 plus 10% NSSF

c/ distribute cash register paper rolls through regional centres (bulk purchase); 1 agent needs 2 rolls/year

d/ in 7 months only 2 POS (UGX 2mio) broke out of 100+ = quota of 3%/year need repair (10% of initial price)

Financial Budget (UGX)

	Without Project	With Project			
		Y1	Y2	Y3	Y4-10
Main source of incremental income					
5% of each transaction per agent (in total 50 Mcash agents)	0	2855250	12020400	22835925	23554800
<i>Sub-total Revenues</i>	0	2855250	12020400	22835925	23554800
Inputs					
<i>Investments</i>					
Inscription fee (one-off)	5000000				
Develop start-up kit; promote new function	5000000				
<i>Sub-total Investment Costs</i>	10000000				
<i>Operating</i>					
1-day course for SACCOs (cashier, new agent) a/	3000000	4000000	2000000	1000000	
1 additional UCSCU full-time staff b/	5000000	5000000	5000000	5000000	
Purchase receipt roll @ UGX1500 (annual) c/	45000	105000	135000	150000	
Group insurance for 10 POS-devices (annual)	750000	1750000	2250000	2500000	
Repair and maintenance services d/	102857	240000	308571	342857	
Miscellaneous monitoring cost (annual)	3000000	3000000	3000000	3000000	
<i>Sub-total Operating Costs</i>	0	11897857	14095000	12693571	11992857
Total Production Costs	0	21897857	14095000	12693571	11992857
Gross Income	0	-19042607	-2074600	10142354	11561943
Incremental Net Income (before financing)		-19042607	-2074600	10142354	11561943
NPV @10% (UGX) 33859089					
IRR 38%					
Benefit/Cost Ratio 1.6					

Table 3.9: M cash (Cost for UCSCU/aggregator) (cont ..)
Financing Analysis

Investments		UGX	10000000					
Repayment Period		year	2					
Grace Period		year	0					
Interest Rate e/		%	28					
Beneficiary Contribution		%	30					
Loan		UGX	10000000					
				Without Project	With Project			
					Y1	Y2	Y3	Y4-10
Principal Repayments			10000000		5000000	5000000		
Interest Repayments			5600000		2800000	2800000		
Total Loan Repayments			15600000		7800000	7800000	0	0
Loan Outstanding					5000000	0	0	0
Short-term Loan								
Working Capital (2-month operating costs for 6 months)								
Interest Repayment		%			0	0	0	0
Cash Flow Analysis								
Items				Without Project	With Project			
					Y1	Y2	Y3	Y4-10
Inflow								
Production Revenues				0	2855250	12020400	22835925	23554800
Long-term Loan				0	10000000			
Beneficiary's Contribution				0	3000000			
Total Inflow				0	15855250	12020400	22835925	23554800
Outflow								
Production Costs				0	21897857	14095000	12693571	11992857
Repayment of Loans								
Long-term Loan					5000000	5000000	0	0
Short-term Loan					0	0	0	0
Repayment of Interest on Loans								
Long-term Loan					2800000	2800000	0	0
Short-term Loan					0	0	0	0
Total Outflow				0	29697857	21895000	12693571	11992857
Net Income after Financing				0	-13842607	-9874600	10142354	11561943
Taxes f/				0	0	0	3042706	3468583
Net Income after Tax				0	-13842607	-9874600	7099648	8093360
Incremental Production Revenues					2855250	12020400	22835925	23554800
NPV @10% (UGX)				115843613				
Incremental Total Inflow					15855250	12020400	22835925	23554800
NPV @10% (UGX)				127661795				
Incremental Production Costs					21897857	14095000	12693571	11992857
NPV @10% (UGX)				81984524				
Incremental Investments					10000000			
NPV @10% (UGX)				9090909				
Incremental Outflow					29697857	21895000	12693571	11992857
NPV @10% (UGX)				95521715				
Incremental Net Income					-13842607	-9874600	7099648	8093360
NPV @10% (UGX)				16274552				
FIRR				25.3%				
Switching Values				Appraisal Value	Switching Value	% Change		
Incremental Revenues				115843613	99569061	-14.05%		
Incremental Inflows				127661795	111387243	-12.75%		
Incremental Production Costs				81984524	65709973	19.85%		
Incremental Investments				9090909	-7183643	179.02%		
Total Incremental Outflows				95521715	79247163	17.04%		

e/ SACCOs that access loans from the government owned Microfinance Support Center (MSC), do so at 9% for Agricultural Loans and 13% for Commercial Loans. Market rates from Private Commercial banks are about 28% per annum because it is exempt but probably because they have been loss making anyways. Making losses exempts you from corporate tax.

Rationale for model

The MCash model points out what benefits SACCOs and UCSCU can accrue if SACCOs become MCash agents and UCSCU an aggregator providing specialized services to the SACCO (agents) on behalf of MCash. It is a cost-effective and timely opportunity to link the underserved rural population to the formal finance system.

MCash is a platform provider which allows clients to: (i) transfer money with the help of; (ii) deposit cash with and; (iii) take out cash from a designated MCash agent. Transfers can be undertaken through any mobile phone network to another MCash account (private person or commercial bank, which is of particular relevance e.g. in case of school fee payments or re-stocking of merchandise). In contrary to other existing systems, such as MTN, the MCash client does not need to possess a mobile phone. It is the MCash agent who has a portable device, which prints a transaction statement on-site upon finalization of the transaction. That way the client can be sure that the account has been credited or debited instantly. This operation adds to the safety of this type of banking.

The rationale for elaborating this model is that the agent activity can be a revenue-generating activity for both, the SACCO and UCSCU. It is foreseen to employ one additional staff member at SACCO level and one at UCSCU level. With the understanding that innovative technologies attract mostly younger people, this activity contributes to an increase in youth employment in rural areas.

The additional advantage at SACCO level is that this banking operation allows SACCOs to establish linkages with persons who are not necessarily cooperative members. The incremental benefit for the SACCO when former non-member MCash clients become a SACCO member is not considered in this model and only adds to the profitability of this additional business.

Becoming a MCash aggregator gives UCSCU the opportunity to offer additional services to its member cooperatives, e.g. in form of repair services or group insurance. This adds to its attractiveness and intensity of interactions with its members.

Following a discussion with the MCash Marketing and Business Development Officer (Mr. David Gonahasa), MCash would provide the following services to a potential aggregator and cover respective costs: (i) provision of initial start-up kit for SACCO agents to distribute and use (e.g. t-shirt, flyer); (ii) initial training of trainers for UCSCU and; (iii) initial training of 2 representatives per SACCO together with the new UCSCU trainer.

Assumptions of model

The model operates with 2 scenarios, which are presented below. The general conclusion is that the activities at SACCO level are very sensitive to the number of transaction and production costs. Assumptions with regard to the daily transaction cost were kept conservatively so that it is likely that agents are able to expand their client base in order to recover their costs. Given the assumptions of annual agent recruitment, the activity is a fairly stable source of income for UCSCU.

Interest rates on the start-up credit for SACCOs are assumed at 13% and 28% for UCSCU. Both institutions pay a corporate income tax of 30% when they make a profit.

As indicated by the MCash Marketing and Business Development Officer UCSCU, as any aggregator, will be compensated by a 5% commission on each agent transaction.

Under the given assumptions of outreach, 16% or 22% of the Ugandan population will be reached by this service after ten years of service provision.

Both scenarios assume daily transactions of 63 in year 1, 130 in year 2, 202 in year 3 and 203 in years 4-10. The distinguishing variable is the number of days per week, on which the agent travels to meet clients. Scenario 1 is based on an agent who travels to villages 5 days per week. In scenario 2 it is only 4 days per week and on the 5th day, clients come to the office of the SACCO to meet the agent. The factor computed by the ratio of transactions compared to number of enrolments in year 1 is kept constant in each year. Respective growth rates in transactions that are applied uniformly to all types of transactions are 20% in year 2, 30% in year 3, and 30% in years 4-10.

The assumption for the incremental number of MCash agents is that 15 are recruited in year 1, 20 in year 2, 10 in year 3 and 5 in years 4-10. At UCSCU level, the NPV is positive in both scenarios with a FIRR of 55,7% or 25,3% respectively. At SACCO level, both scenarios lead to a positive NPV and a FIRR of 26,9% or 11,2% respectively.

Under the assumption that both, SACCOs as well as UCSCU contribute with 30% from savings etc. to the initial investment cost this activity is a very good way to general revenues, pay taxes, consolidate relationships with members, reach out to new members and be more visible at all levels.

Attachment 4 of Appendix 10: Economic Prices and Models

Table 4.1: Economic Prices

	1USD:UGX CF	2500 0.82	Economic
	Unit	UGX	
Outputs			
Livestock			
Milk	litre	820	
Manure	tonne	410	
Boar pigs	kg	82000	
Cow	head	246000	
Goat	head	8200	
Chicken (4 months)	unit	16400	
Fish	kg	3280	
Field Crops			
Beans (active commercial area)	kg	1230	
Cassava (village)	bag	1230	
Cassava Flour	kg	574	
Maize	kg	732	
Maize (active commercial area)	kg	793	
Ground Nut	kg	2050	
Investments			
Motorcycle price	each	1968000	
Agricultural Services			
Threshing	acre	12300	
Ploughing	acre	49200	
Planting	acre	8200	
Spraying	acre	16400	
Weeding	acre	16400	
harvesting	acre	8200	
Cassava Grinding	bag	1230	
Inputs			
Fertilizers, Pesticides, etc.			
NPK	Kg	1044	
Urea	Kg	679	
Potash	Kg	1596	
Fertilizer for Maize	litre	1566	
Inputs			
Seed			
Ground Nut Seed	Kg	3280	
Cassava Cuttings	bag	1230	
Improved seeds	Kg	4100	
Maize Seed (local market in Busia)	Kg	1640	
Other Costs			
Diesel	litre	2870	
Vehicle Hire /a	lumpsum	164 000	
Rent of shop/"stall" /b	year	656 000	
Veternary Visit (village)	visit	16 400	
Return Trip to Kenya by motorcycle	each	3 280	
Labour			
Family labour	day	3000	
Hired labour	day	2460	

a/ Kampala-Bujinja area one way with inputs (active commercial area)

b/ active commercial area.

Table 4.2 Derivation of Financial & Economic Prices-Maize

Maize Import Price	Unit	Financial	Economic ¹
World Bank Price Projection average of 2010-2012 in 1990 prices, F.O.B. ²	US\$/mt	288.60	288.60
MUV 2012		1.90	1.90
Price in 2012 prices	US\$/mt	548.34	548.34
Plus:			
- Transport, insurance and freight to Mombasa	US\$/mt	30	30
- Marketing Charges	US\$/mt	27	27
Border C.I.F. Mobasa price	US\$/mt	606	606
15% quality adjustment for US Maize	US\$/mt		
US Gulf Maize average grade	US\$/mt	606	606
Transport, handling and insurance to from US to Monbasa	US\$/mt	32	32
F.O.B. US's Maize	US\$/mt	574	574
Transport, handling and insurance to Kenya	US\$/mt	32	32
US Gulf Maize's C.I.F. Kenya	US\$/mt	606	606
UGX equivalent (\$US1=2500)	UGX/mt	48158	48158
- VAT (18%)	UGX/mt		
- Marketing charges (2,5%)	UGX/mt	1204	1084
Wholesale border price	UGX/mt	49362	49241
- Transport to regional market ³	\$/ton-km	2306	2075
- Transport to farmgate ⁴	\$/ton-km	1463	1317
- Marketing charges (5%)	UGX/mt	2468	2221
- On-farm storage and handling	UGX/mt	10	9
Farm Gate Import Price	UGX/mt	47726	47769
	UGX/kg	48	48
Local price of Maize	UGX/kg	21.0	21.0
Conversion Factor		2.27	

1/ SFC 0.9, CF.

2/ US Gulf, Source: World Bank, Global Commodity Markets, September 2012 (latest available)

3/ 580 km @ \$ 0.05/mt/km

4/ 23 km @ \$ 0.8/ton-km

Table 4.3: Derivation of Financial & Economic Prices - Ammonia Nitrate

Urea Import Price	Unit	Financial	Economic ¹
Urea, FOB Ukraine	\$/mt	416.40	416.40
Plus:			
- Transport, insurance and freight to Kenya	\$/mt	30	30
- Marketing Charges	\$/mt	10	10
Border C.I.F. price	\$/mt	457	457
UGX equivalent (\$US1=2500)	UGX/mt	36316	36316
- VAT (18%)	UGX/mt		
Wholesale border price	UGX/mt	37224	37134
- Transport to regional market	UGX/mt	2306	2075
- Transport to farmgate	UGX/mt	1463	1317
- Marketing charges (5%)	UGX/mt	931	838
Farm Gate Import Price	UGX/mt	41923	40525
	UGX/kg	42	41
% of nutrient in urea		46%	46%
Farm gate price of N from urea		91	88
Local price of AN	UGX/kg	46	46
Conversion Factor		1.92	

1/ SFC 0.9, CF.

2/ US Gulf, Source: World Bank, Global Commodity Markets, Sept 2012 (latest available)

3/ 580 km @ \$ 0.05/mt/km

4/ 23 km @ \$ 0.8/ton-km

Table 4.4: Derivation of Financial & Economic Prices- DAP

DAP Import Price	Unit	Financial	Economic ¹
World Bank Price Projection average of 2010-2012 in 1990 prices, F.O.B. ²	\$/mt	538	538
MUV 2012		2	2
Price in 2012 prices	\$/mt	1022	1022
Plus:			
- Transport, insurance and freight to Kenya	\$/mt	70	70
- Marketing Charges	\$/mt	26	26
Border C.I.F. price	\$/mt	1118	1118
UGX equivalent (\$US1=2500)	UGX/mt	88862	88862
- VAT (18%)	UGX/mt		
- Marketing charges	UGX/mt	2222	1999
Wholesale border price	UGX/mt	91083	90861
- Transport to regional market ³	\$/ton-km	2306	2075
- Transport to farmgate ⁴	\$/ton-km	1463	1317
- Marketing charges (5%)	UGX/mt	2277	2049
Farm Gate Import Price	UGX/mt	97128	94252
	UGX/kg	97	94
% of nutrient in DAP		46%	46%
Farm gate price of P025 from DAP		211	205
Local price of DAP	UGX/kg	94	94
Conversion Factor		1.00	

1/ SFC 0.9, CF.

2/ US Gulf, Source: World Bank, Global Commodity Markets, Sept 2012 (latest available)

3/ 580 km @ \$ 0.05/mt/km

4/ 23 km @ \$ 0.8/ton-km

Table 4.5: Economic Crop Budgets (in UGX/ha)

Items	Unit	Maize (in UGX/ha)			Ground nut (in UGX/ha)			Cassava (in UGX/ha)		
		Unit Price	Qty	WOP Total	Unit Price	Qty	WOP Total	Unit Price	Qty	WOP Total
Operating costs										
Inputs										
Local seeds	kg	1 640	10	16 400	3 280	8	26 240	1 230		-
DAP/NPK	kg									
Urea	kg	1 566	2	3 759			-			
Sub-total Inputs				20 159			26 240			-
Other costs										
Ploughing	UGX/ha	49 200	2.4	118 080	49 200	2.4	118 080			-
Planting	UGX/ha	-	2.4	-	8 200	2.4	19 680			-
Spraying	UGX/ha	-	2.4	-	16 400	2.4	39 360			-
Weeding	UGX/ha	12 300	2.4	29 520	12 300	2.4	29 520			-
harvesting	UGX/ha	-	2.4	-	16 400	2.4	39 360			-
Slashing	UGX/ha	8 200	2.4	19 680	10 000	2.4	24 000			-
Self-consumption	kg	732	180	131 707	2 050	60	43 902	574	300	172 200
Milling services	bag							1 230	8	9 840
Transport	bag							1 000	8	8 000
Sub-total Inputs				298 987			313 902			172 200
Labour										-
Sub-total labour	day	3 000	100	300 000	3 000	88	264 000		105	
Total production costs				619 147			604 142			172 200
Revenues										
Main product	kg	732	900	658 537	2 500	300	750 000	574	600 a/	344 400
Total revenues				658 537			750 000			344 400
Gross margin										
Gross margin at harvest	UGX/day			39 390			145 858			172 200
Return on Family labour	UGX/ha			394			1 657			1 640

a/ Cassava flour ratio 2:1 (6 bags of tubes =3 bags of flour per acre (one bag=100kg)

Table 4.6 : Summary of the economic models in UGX

Model	Investment costs (MT)			Annual Net Benefits-after financing			2500 IRR- before financing (%)	IRR-after financing (%)	NPV- before financing UGX	NPV-after financing UGX
	Loans	Beneficiary Contribution	Total	WOP Project	WP -Full Develop	Incremental				
Production Models										
Groundnut land acquisition	320000	80000	400000	62500	149000	86500	21%	20%	135544	228010
Imrpoved seed maize	50000	50000	100000	84500	109800	25300	44%	69%	884	192857
Land rental (cassava)	60000	50000	110000	97500	135000	37500	57%	152%	1775	150850
Purchase land (maize, g/nut and cassava)	500000	100000	600000	193691	466482	272791	15%	19%	9092	183684
Milk cow model	300000	50000	350000	-	84900	84900	36%	27%	313040	182548
Goat model	14000	10000	24000	-	15400	15400	115%	55%	95357	46044
Piggery Activity	2000000	117000	2117000	117000	1454000	1337000	69%	57%	7118656	6808376
Trade Models										
Sewing Machine	150000	-	150000	15000	54000	39000	55%	30%	149 969	97 879
Second hand clothes trading (Kenya)	150000	25000	175000	-	29000	29000	31%	85%	74 374	83 233
Fish Mongering	70000	30000	100000	-	100000	100000	56%	106%	302 135	317 610
Average	361400	51200	412600	57019	259758	202739	50%	62%	745530	829109
	96%	14%	110%							

\a WOP-without project, WP-with project at full production

Table 4.7 - Summary of the economic models in USD (UGX/USD 2 500)

Model	Investment costs (USD)			Annual Net Benefits-after financing			Incremental annual net benefits per 1 USD invested	IRR-before financing (%)	IRR-after financing (%)	NPV-before financing USD	NPV-after financing USD
	Loans	Beneficiary Contribution	Total	WOP Project	WP -Full Develop	Incremental					
Production Models											
Groundnut land acquisition	128	32	160	25	60	35	0.2	21%	20%	54	52
Imrpoved seed maize	20	20	40	34	44	10	0.3	44%	69%	0	42
Land rental (cassava)	40	20	44	39	54	15	0.3	57%	152%	1	42
Purchase land (maize, g/nut and cassava)	200	40	240	77	187	109	0.5	15%	19%	4	388
Milk cow model	120	20	140	0	34	34	0.2	36%	27%	125	73
Goat model	6	4	10	0	6	6	0.6	115%	55%	38	18
Piggery Activity	800	47	847	47	582	535	0.6	69%	57%	2847	2723
Trade Models											
Sewing Machine	60	0	60	6	22	16	0.3	55%	30%	60	35
Second hand clothes trading (Kenya)	60	10	70	0	12	12	0.2	31%	85%	30	33
Fish Mongering	28	12	40	0	40	40	1.0	56%	106%	121	127
Average	146	20	165	23	104	81	0.4	50%	62%	298	321
	89%	12%	101%								

\a WOP-without project, WP-with project at full production

Table 4.8: Summary of the economic results and switching values

Model	NPV - after financing (UGX)	NPV - after financing (USD)	IRR - after financing (%)	Switching Values % *				
				Incremental Revenues	Incremental Inflows	Incremental Production Costs	Incremental Investment Costs	Incremental Outflows
Production Models								
Groundnut land acquisition	228010	91	20%	-2%	-2%	2%	10%	3%
Improved seed maize	192857	77	69%	-24%	-18%	33%	94%	23%
Land rental (cassava)	150850	60	152%	-2%	-2%	2%	21%	2%
Purchase land (maize, g/nut and cassava)	183684	73	19%	-36%	-30%	57%	192%	44%
Milk cow model	182548	73	27%	-33%	-21%	58%	67%	27%
Goat model	46044	18	55%	-23%	-20%	29%	362%	26%
Piggery Activity	6808376	2723	57%	-67%	-56%	>100%	>100%	>100%
Trade Models								
Sewing Machine	97879	39	30%	-18%	-15%	23%	84%	18%
Second hand clothes trading (Kenya)	83233	33	85%	-12%	-9%	13%	61%	10%
Fish Mongering	317610	127	106%	-16%	-16%	19%	>100%	18%

* The switching values show percentage by which the costs would need to rise or benefits decrease before the NPV reached zero, associated with each of the values (at 10% financial opportunity costs as a prevailing deposit in Uganda Schelling)

Attachment 5 of Appendix 10: Economic analysis

Table 5.1: Project Economic Analysis

		(constant 2012 values)									
(US 000)		PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8	PY9	PY10 PY11-15
Project Benefits											
Incremental Benefits CSCGs		0	166	669	1294	2082	2676	3427	4287	4431	4431
Incremental Benefits for Education		-450	-2250	-4950	-7200	-9000	-8541	-6563	1647	5391	6739
Incremental Benefits from SACCOs		0	911	3688	10429	4520	4409	4409	4409	4409	4409
Project Net Benefits		-450	-1174	-593	4523	-2398	-1455	1274	10343	14232	15580
Total Project Net Benefits		-450	-1174	-593	4523	-2398	-1455	1274	10343	14232	15580
Project Costs											
Investment Costs		3445	4969	7579	7765	6337	2268	743	0	0	0
Replacement of Equipment		0	0	0	0	177		0	0	0	177
Recurrent Costs		402	494	517	523	529	536	521	208	208	208
Total Project Costs		3847	5463	8096	8288	7043	2804	1264	208	208	385
Total Project Incremental Net Benefits		-4297	-6637	-8689	-3765	-9441	-4259	10	10135	14023	15194
IRR 15%											
NPV @10% (US 000) 12 204											
Project Benefit Stream		-450	-1174	-593	4523	-2398	-1455	1274	10343	14232	15580
Project Cost Stream		3847	5463	8096	8288	7043	2804	1264	208	208	385
Project Net Incremental Benefits		-4297	-6637	-8689	-3765	-9441	-4259	10	10135	14023	15194
NPV @ 10% 12 204											

Switching Values	Appraisal Value	Switching Value	% Change
Incremental Benefits	39245	27041	31%
Incremental Costs	27041	14837	45%

Table 5.2: Sensitivity Analysis of the Total Project ERR (USD 000)

Year	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Y11-15	ERR	NPV /a
Benefits	-450	-1 174	-593	4 523	-2 398	-1 455	1 274	10 343	14 232	15 580	15 580		
Benefits +10%	-495	-1 291	-653	4 975	-2 638	-1 601	1 401	11 378	15 655	17 138	17 138		
Benefits +20%	-540	-1 408	-712	5 428	-2 878	-1 746	1 529	12 412	17 078	18 696	18 696		
Benefits -10%	-405	-1 056	-534	4 071	-2 158	-1 310	1 146	9 309	12 809	14 022	14 022		
Benefits -20%	-360	-939	-475	3 619	-1 918	-1 164	1 019	8 275	11 385	12 464	12 464		
Benefits -30%	-135	-352	-178	1 357	-719	-437	382	3 103	4 270	4 674	4 674		
Project Costs	3 847	5 463	8 096	8 288	7 043	2 804	1 264	208	208	385	208		
Costs+10%	4 232	6 009	8 906	9 117	7 747	3 084	1 390	229	229	424	229		
Costs+20%	4 616	6 556	9 715	9 946	8 452	3 365	1 517	250	250	462	250		
Costs+50%	5 771	8 195	12 144	12 432	10 565	4 206	1 896	313	313	578	313		
Net cash flow													
base scenario	-4 297	-6 637	-8 689	-3 765	-9 441	-4 259	10	10 135	14 023	15 194	15 371	15%	12 204
Costs+10%	-4 682	-7 183	-9 499	-4 594	-10 145	-4 539	-117	10 114	14 003	15 156	15 350	14%	9 500
Costs+20%	-5 066	-7 729	-10 308	-5 422	-10 850	-4 820	-243	10 093	13 982	15 117	15 330	13%	6 796
Benefits +10%	-4 342	-6 754	-8 749	-3 313	-9 681	-4 405	137	11 169	15 447	16 752	16 929	17%	16 128
Benefits +20%	-4 387	-6 871	-8 808	-2 860	-9 921	-4 550	265	12 204	16 870	18 310	18 487	18%	20 053
Benefits -10%	-4 252	-6 519	-8 630	-4 217	-9 201	-4 114	-118	9 101	12 600	13 636	13 813	14%	8 279
Benefits -20%	-4 207	-6 402	-8 571	-4 669	-8 961	-3 968	-245	8 066	11 177	12 078	12 255	12%	4 355
1 year lag in benefit	-3 847	-5 913	-9 270	-8 881	-2 520	-5 202	-2 719	1 065	10 135	13 846	15 371	14%	8 636
2 years lag in benefit	-3 847	-5 463	-8 546	-9 462	-7 636	1 719	-3 662	-1 663	1 065	9 958	14 023	12%	5 393

a/ Net Present Value (NPV), @10%.

Sensitivity Analysis (15-year period)	Base case	Costs		Benefits				Benefits Lag	
		+10%	+20%	+10%	+20%	-10%	-20%	1 year	2 years
ERR	15%	14%	13%	17%	18%	14%	12%	14%	12%
NPV @ 10% (000'USD)	12 204	9 500	6 796	16 128	20 053	8 279	4 355	8 636	5 393
Discount rate	10%								

Table 5.3: Project Economic Costs

Expenditure Accounts by Years - Totals Including Contingencies (USD '000)

	PY1	PY2	PY3	PY4	PY5	PY6	PY7	Total
I. Investment Costs								
A. Vehicles	160	-	-	-	177	-	-	337
B. Equipment and Materials	157	-	-	-	-	-	-	157
C. Training, studies, and workshop	685	446	512	329	241	219	386	2 818
D. Technical Assistance	2443	4523	7067	7436	5919	2049	357	29 794
Total Investment Costs	3 445	4 969	7 579	7 765	6 337	2 268	743	33 106
II. Recurrent Costs								
A. Salaries and allowances	356	420	439	439	439	439	417	2 949
B. Other operating cost	46	74	78	84	90	97	104	573
Total Recurrent Costs	402	494	517	523	529	536	521	3 522
Total PROJECT COSTS	3 847	5 463	8 096	8 288	6 866	2 804	1 264	36 628

Components by Years - Totals Including Contingencies (USD '000)

	PY1	PY2	PY3	PY4	PY5	PY6	PY7	Total
1. SACCO Strengthening and Sustainab	1 796	1 909	3 445	4 013	2 766	950	165	15 044
2. Community Based Financial Services	471	2 480	3 506	3 336	3 060	998	83	13 934
3. Project Management	1 581	1 074	1 144	939	1 041	856	1 015	7 650
Total PROJECT COSTS	3 848	5 463	8 095	8 288	6 867	2 804	1 263	36 628

Table 5.4: Aggregated benefits for Community Savings and Credit Groups (CSCGs)

Model	Annual Net Benefits-after financing (USD)			% investment	Average incremental (USD)
	WOP Project	WP -Full Develop	Incremental		
Groundnut land acquisition	25	60	35	5%	72
Purchase land (maize, g/nut and cassava)	77	187	109	5%	
Improved seed maize	34	44	10	20%	10
Milk cow model	0	34	34	20%	20
Goat model	0	6	6	20%	
Sewing Machine	6	22	16	5%	14
Second hand clothes trading (Kenya)	0	12	12	3%	
Fish Mongering	0	40	40	5%	40

CSCGs members	no	Year 1	Year 2	Year 3	Yea 4	Year 5	Yea 5	Year 6	Yea 6-10	
	% investment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 15
Agriculture	20%	18975	76659	154077	255024	359766	517638	698280	728640	
Acquisition of new Land	5%	33683	136081	273510	452706	638639	918886	1239553	1293446	
Livestock	20%	37613	151955	305414	505512	713133	1026069	1384140	1444320	
Fish Mongering	5%	56250	227250	418500	648000	720000	720000	720000	720000	
Second hand clothes/sewing machine	3%	19125	77265	142290	220320	244800	244800	244800	244800	
Incremental net benefits	1	165646	669210	1293790	2081562	2676338	3427393	4286773	4431206	
Programme Costs										
Investment Costs		471 000	2 480 000	3 506 000	3 336 000	3 060 000	998 000	83 000		
TOTAL -		470 999	-2 314 354	- 2 836 790	- 2 042 210	- 978 438	1 678 338	3 344 393	4 286 773	4 431 206
ERR	24%									

Table 5.5: Education benefits from CSCGs

		1USD= UGX					2500				
Education expenditures		Year 1	Year 2	Year 3	Yea 4	Year 5					
Total CSCG members		15 000	60 000	90 000	75 000	60 000					
CSCGs members borrowing money	25%	3750	15000	22500	18750	15000					
UGX											
Education benefits per member in US\$		Year 1	Year 2	Year 3	Yea 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10-15
Income differential phasing							10%	20%	40%	60%	60%
Investment costs		120	120	120	120	120					
Revenues from income differential							25	50	100	150	150
Total incremental benefits		- 120	- 120	- 120	- 120	- 120	25	50	100	150	150
ERR	9%										
a: Based on the Employment and Earnings Survey by Uganda Bureau of Statistics, which reported a monthly income differential of UGX 52,000 between those working n the agriculture sector compared to the median salary in other sectors of the economy.											
Aggregated Education benefits in USD		Year 1	Year 2	Year 3	Yea 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Incremental Annual Income (USD)	25%	3750	15000	22500	18750	15000					
Phasing of development, %		0%	0%	0%	0%	0%	10%	20%	40%	60%	60%
Investment costs		-450 000	-2 250 000	-4 950 000	-7 200 000	-9 000 000					
Revenues from income differential							-8 540 640	-6 562 800	1 647 360	5 391 360	6 739 200
Total incremental benefits		-450 000	-2 250 000	-4 950 000	-7 200 000	-9 000 000	-8 540 640	-6 562 800	1 647 360	5 391 360	6 739 200
ERR	3%										

Table 5.6: PHASING of SACCOS

Number of SACCOS	Y1	Y2	Y3	Y4-15	Y5	Y6	Y7	Y8	Y9	Y10	Y11	Y12	Total
SACCOS A and A+ cumulative	-	120	120	110	350	350	350	350	350	350	350	350	350
SACCOS B cumulative	-	50	50	50	150	150	150	150	150	150	150	150	150

Table 5.7: Estimated Benefits from SACCO Support

SACCOS A	Unit	Y1	Y2	Y3	Y4	Y5	Y6 \d	Y7-15	Y8	Y9	Y10	Y11	Y12	Y13	Y14	Y15
No. supported			120	240	350	350	90	90	90	90	90	90	90	90	90	90
Average loan size	(USD)		200	200	220	220	240	240	240	240	240	240	240	240	240	240
Incremental no. of loans	/a	-	19 200	76 800	196 000	84 000	84 000	84 000	84 000	84 000	84 000	84 000	84 000	84 000	84 000	84 000
Total volume of loans disbursed p.a.	(USD)	-	3 840 000	15 360 000	43 120 000	18 480 000	20 160 000	20 160 000	20 160 000	20 160 000	20 160 000	20 160 000	20 160 000	20 160 000	20 160 000	20 160 000
Return on investment	/b	40%	-	5 385 616	21 542 466	60 475 985	25 918 279	28 274 487	28 274 487	28 274 487	28 274 487	28 274 487	28 274 487	28 274 487	28 274 487	28 274 487
Net return generated	(USD)	0	1545616	6182466	17355985	7438279	8114487	8114487	8114487	8114487	8114487	8114487	8114487	8114487	8114487	8114487
SACCOS B	Unit	Y1	Y2	Y3	Y4	Y5	Y6-15	Y7	Y8	Y9	Y10	Y11	Y12	Y13	Y14	Y15
No. supported			50	100	150	150	135	135	135	135	135	135	135	135	135	135
Average loan size	(USD)		80	100	120	140	140	140	140	140	140	140	140	140	140	140
Incremental no. of loans	/a	-	2 500	10 000	26 250	11 250	11 250	11 250	11 250	11 250	11 250	11 250	11 250	11 250	11 250	11 250
Total volume of loans disbursed p.a.	(USD)	-	200 000	1 000 000	3 150 000	1 575 000	1 575 000	1 575 000	1 575 000	1 575 000	1 575 000	1 575 000	1 575 000	1 575 000	1 575 000	1 575 000
Return on investment	/b	40%	-	280 501	1 402 504	4 417 889	2 208 944	2 208 944	2 208 944	2 208 944	2 208 944	2 208 944	2 208 944	2 208 944	2 208 944	2 208 944
Net return generated	(USD)	0	80501	402504	1267889	633944	633944	633944	633944	633944	633944	633944	633944	633944	633944	633944
Phasing of SACCOS development	Unit	Y1	Y2	Y3	Y4	Y5	Y6-15	Y7	Y8	Y9	Y10	Y11	Y12	Y13	Y14	Y15
		0%	100%	100%	100%	100%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Overall benefit stream US\$ /c	(USD)	0	910626	3687583	10429369	4520445	4409209	4409209	4409209	4409209	4409209	4409209	4409209	4409209	4409209	4409209

\a Includes loans for non-productive purposes and loans with different levels of profit rates (see assumptions in Table 5.7).

\b Average (see (see assumptions in Table 5.7).

SACCOS members need to make fixed deposits/shares taxing their returns.

\c Includes 20% loan failures.

\d It is estimated a dropout rate of 10% (as implied by the statement that 90% would stay in the program till the end), at least by the end of 5 years . If any of those initially selected go dormant in the first year or so of support, they could be replaced.

It was assumed that only 75% of project SACCOS would achieve operational sustainability

Table 5.8: Assumptions for Estimating Benefits from SACCOs Support

Type of Financial Institution	Total No. of Incremental Loans	Average Loan Size (USD)	Average Loan Size (UGX)	Distribution of New Loans							Distribution of Loans over Portfolio							Profit rate					Rate of Failure
				PY1	PY2	PY3	PY4	PY5	PY6	PY7	Agri-culture	Trade	Other business	Educa-tion	Con-sump-tion	Total	Productive Loans	Agri-culture	Trade	Other business	Educa-tion	Average	
				0%	10%	20%	35%	15%	10%	10%													
				Cumulative No. of Loans																			
SACCOs A	1 600	200	500 000	-	160	320	560	240	160	160	35%	30%	5%	15%	15%	100%	70%	57%	74%	30%	0%	40%	20%
SACCOs B	500	80	200 000	-	50	100	175	75	50	50	35%	30%	5%	15%	15%	100%	70%	57%	74%	30%	0%	40%	20%
Total	2 100			-	210	420	735	315	210	160	35%	30%	5%	15%	15%	100%	70%	Average Success Rate					80%

	WOP	WP										Total
		Y1	Y2	Y3	Y4	Y5	Y6-10	Y7	Y8	Y9	Y10	
No of loans strong SACCOs incremental	168	176	212	254	279	307	338	372	409	450	495	3 459
total SACCOs	0	8	44	86	111	139	170	204	241	282	327	1 612
cumulative		41303	46542	51196	53312	58643	64507	70958	78054	85859	94445	644 818
No of loans Intermediate S incremental	48	50	57	69	83	91	100	110	121	133	147	1 009
total SACCOs	0	2	10	21	35	43	53	63	74	86	99	486
cumulative		4878	5372	6321	45513	52133	57347	63081	69389	76328	83961	464 324
rounded												
No of loans strong SACCOs	190	195	230	280	310	340	370	410	450	500	550	3800
No of loans Intermediate Sacco	38	40	46	55	66	73	80	88	97	107	117	807

Appendix 11: Draft project implementation manual (PIM)

PIM available as separate volume

Appendix 12

Appendix 12: Compliance with IFAD policies

1. The project is consistent with and supportive of the key IFAD policies and strategies that concern a project such as PROFIRA that focuses on rural finance, specifically: Policy on Gender Equality and Women's Empowerment, Partnership Strategy, Innovation Strategy, Strategy for Knowledge Management, Targeting Policy: Reaching the Rural Poor, Rural Finance Policy, and Environmental and Natural Resource Management.

2. **Policy on Gender Equality and Women's Empowerment.** The project activities, implementation arrangements and M&E system have been designed in compliance with the Framework for Mainstreaming Gender in PMD operations.

- **CSCGs.** The Community-based Financial Services Component will support the establishment of new community based savings and credit groups (CSCGs), whose membership is 70-75% female. There is an extremely high demand among village women for participating in the establishment of CSCGs. The CSCG model (based on the successful village savings and credit association (VSLA) approach, is very well suited to poor women, because the minimum savings per week required to be a member are as low as US\$ 0.20 cents and linked to members buying between one and five shares, thus allowing flexibility while minimizing the obstacle for entry by the poor. The group uses the accumulated savings to give small loans (of US\$ 10-50) to its members for a maximum of 1-3 months at an average interest rate of 10% per month. Usually 100% of group members successfully take and repay loans during each annual cycle. At the end of the annual cycle, there is an action audit and all the accumulated funds (savings plus interest on loans) are shared out equally among group members according to how many minimum shares they saved each week. The target for women's participation in CSCGs will be a minimum of 70%.
- **SACCOs.** The participation of women in the SACCOs, which is at a considerably lower level than it is in CSCGs, will initially focus under the project on cooperatives which display good governance and financial sustainability. These cooperatives will be provided support in conducting gender audits and in adopting gender mainstreaming strategies to attract women members. SACCOs will need a minimum of 20% women among individual members to qualify for project support. The end of project target for women's membership in SACCOs will be 30% for individual members and 50% overall including women who join as members of groups. SACCOs will also be required to track the percentage female representation among active savers and active borrowers. A proactive policy for youth participation will also be adopted with specific targets for those between 18 to 30 years of between 10% and 15%. CSCG and SACCO contractors will be required to track and report annually on achievement of targets for women's and youth's participation.

3. **Partnership Strategy.** Through Component 1 (SACCOs: Strengthening and Sustainability), partnerships will be developed to facilitate the support to UCSCU. It is proposed that an international agency specialized in cooperative development, with strong experience in the management and operation of financial cooperatives, will partner with IFAD and government in providing technical and management support to Uganda Cooperative Savings and Credit Union (UCSCU). Through Component 2 (Community Based Financial Services), the project will work in partnership with the Services Providers to gather the information available in Uganda on VSLAs in order to create a virtual hub on this specific area. The project will also work in partnership with the MIX Market to share information and data.

4. **Innovation Strategy.** The operational framework of the Initiative for Mainstreaming Innovation in IFAD defines innovation as "a process that adds value or solves a problem in new ways". But, what makes a product, idea or approach an innovation. To be considered innovative, it needs to be: (i) new to its context of application – the novelty may refer to country context, scale, domain, discipline or line of business; (ii) useful and cost-effective in relation to a goal – innovation must have positive value for its users who in the case of IFAD means helping the rural poor to better overcome poverty; and (iii) able to "stick" after pilot testing – an innovation is a product, idea or technology with the

potential for wide adoption, which it demonstrates through pilot testing. The innovative aspects in the project are summarized below:

5. **Component 1.** Through this component, the three innovative concepts will apply: (i) new to context of application: an entire sector, rural SACCOs, will be brought up to a status where the SACCOs can be regulated and supervised by a Regulatory Authority; SACCOs in a similar IFAD-supported programme in Ethiopia have been under regulation and supervision of the central bank of that country; (ii) cost effective in relation to a goal: costs for consolidation and stabilization of 500 SACCOs translate to less than US\$ 37 per active member when considering only direct SACCO support activities, and to around US\$ 51 per beneficiary considering all direct and indirect SACCO related investment activities, an attractive cost for establishing an ongoing financial institution to serve rural households; and (iii) able to stick: wide adoption of SACCO development activities built on an earlier IFAD-supported project; also driven by private sector SACCO support stakeholders that are active in the sector with or without the project. Furthermore, the approach adopted to transform UCSCU into a business rather and government focused institution, based on benchmarks linked to its five year Strategic Plan, will be very innovative and have a marked and lasting impact on the sector.

6. **Component 2.** This Component supports the CSCG service providers to further develop their operational methods, both to cover a greater proportion of low-income rural households and to introduce new, innovative approaches to the working methods of the service providers. If PROFIRA will be successful in this initiative, these new approaches to community-based finance will then be replicated in wider areas either under new IFAD-supported interventions or under other types of funding arrangements. Component 2.2 will make a major commitment to develop innovative ways for expanding the scope of mature CSCGs.

7. **Through both Components 1 and 2.** The fact that the service provider contracts will be re-tendered in the middle of the project with renewal based on performance and impact is innovative and will create an opportunity for the project to facilitate scaling up. This implies that when the first round of contracts come to an end, a number of mid-term studies will be done (poverty, targeting, social impact), and will feed into the assessment of service provider performance and into the TORs of the next contracts. In terms of data management, the introduction of “common keys” for easy referencing of SACCOs and VSLAs will give the opportunity for the different bodies (AMFIU, UCA, MTIC, VSLA service providers) to use the same ID for the SACCOs/groups. This will make data sharing much easier. Regarding SACCOs, the institutions will use the registration ID from MTIC. This approach is an innovation in the sense that currently it is almost impossible to identify the same SACCO in the different systems.

8. **Strategy for Knowledge Management.** The knowledge management arrangements for PROFIRA are consistent with the guidelines provided in the IFAD Strategy for Knowledge Management. The project provides for initiatives to facilitate the institutionalisation of knowledge management practices. An M&E, learning and impact unit will be established to ensure the collection of both qualitative and quantitative data, synthesis of the data into knowledge, packaging this into relevant knowledge materials depending on the target audience, and sharing/disseminating them widely. This will ensure that the cycle of data collection, synthesis, packaging, sharing and using this knowledge/experiences and then gathering further data for continuous, improved project management, is not broken. Conscious efforts must be made to ensure transformation of information into lessons, and the use of these lessons learnt for more efficient project implementation, requiring flexible implementation and consultations. The project budget includes funding for: data collection tools, knowledge management products, communication and dissemination, using various knowledge sharing and communication tools and channels.

9. **Targeting Policy: Reaching the Rural Poor.** The project activities, implementation arrangements and M&E system have been designed in compliance with the IFAD targeting strategy. The types of components that PROFIRA has developed and the activities within them take into account the needs of smallholder farmers, women and the youth and are likely to be particularly attractive to the IFAD target group. The fact that the weekly savings amounts and the loans provided are small, as is the incremental income that can be gained from the micro-enterprise activities initiated by the loans made available to CSCG members, means that the CSCGs will be of relatively limited interest to the richer members of the community, thus this project activity will be largely self-targeting. A review of the current membership of community based organizations by a Progress out of Poverty Index (PPI) designed for Uganda shows that 74% of the members of these organizations have an

income of less than US\$ 2 per day. To assess the poverty status of project participants, the project will finance a series of panel surveys of a sample of SACCO and CSCG members to assess their poverty status at project start-up in their community, at the mid-term review and at project completion. In addition, socio-economic baseline survey and two socio-economic impact surveys will be undertaken as an input to the MTR and PCR. This information will be used by the M&E unit to track progress out of poverty

10. **Rural Finance Policy.** The IFAD policy paper on rural finance was issued in 2009. The policy paper applies six guiding principles in its rural finance interventions that are incorporated into the design of PROFIRA:

11. **Support access to a variety of financial services.** PROFIRA will support the two key institutions that serve rural communities. Through the support to SACCOs the project will enable more rural households to get access to these institutions (to some 150 000 additional members), with the membership in project-supported SACCOs targeted to double over the seven year project period; and by supporting the establishment of CSCGs, the project will support some 375 000 poor members of rural communities to join these savings and credit institutions. Furthermore, the second CSCG sub-component will assist in establishing linkages between CSCGs and their members with a range of higher level financial institutions such as banks and microfinance deposit taking institutions, as well as SACCOs.

- *Promote a wide range of financial institutions, models and delivery channels* >> the project is promoting both SACCOs and CSCGs and the linkages between the CSCGs and higher level financial institutions will help to strengthen the rural finance system in general.
- *Support demand-driven and innovative approaches* >> as mentioned above in response to IFAD's Innovation Policy, the project will actively promote innovation both in products and approaches to facilitate more efficient and more accessible financial services for rural communities.
- *Encourage – in collaboration with private sector partners – market-based approaches that strengthen rural financial markets, avoid distortions in the financial sector and leverage IFAD's resources* >> one of the main thrusts of the project is to facilitate the financial sustainability of SACCOs and their apex organization, UCSCU, to be able to operate efficiently in the market and thereby be able to maintain their operations and continue to provide support to their members.
- *Develop and support long-term strategies focusing on sustainability and poverty outreach* >> the project will work together with the Ministry of Finance, Planning and Economic Development (MFPED) and with the Bank of Uganda (BoU) to facilitate the implementation of the priority national policies of financial inclusion and financial literacy. A specific sub-component focuses on this: 'Policy, Regulatory and Institutional Environment'.
- *Participate in policy dialogues that promote an enabling environment for rural finance* >> the support for financial inclusion and financial literacy will both involve the project management team working directly with the policy makers in MFPED with a close collaboration with BoU and the Ministry of Trade, Industry and Cooperatives (MTIC).

12. **Environmental and natural resource management (ENRM).** The goal of the ENRM policy is to enable poor rural people to escape from and remain out of poverty through more-productive and resilient livelihoods and ecosystems. The purpose is to integrate the sustainable management of natural assets across the activities of IFAD and its partners. The project will conduct a Social and Economic Assessment to address the relevant social and economic impacts and risks of the proposed project. While there will be no direct environmental impact arising from the project, and no foreseen negative indirect impact, the Social and Economic Assessment will include some environmental aspects and if there as necessary propose mitigation and management measures relevant and appropriate to the nature and scale of the project in order to enable small farmers and micro-enterprises to play a positive role in natural resources.

Attachment 1

Environmental and social review note

Description of project and components

1. The development objective of the project is: *Sustainable financial services enable rural poor to undertake economic activities and meet important household expenditures*. The principal target groups for PROFIRA are: (i) the financially excluded (defined as rural women, men and youths who earn money but do not use any financial services – formal or informal); (ii) members of mature community savings and credit groups (CSCGs) who have successfully saved and borrowed within their informal group for at least 3 years, but do not yet make use of formal financial institutions; and (iii) women and men who belong to rural SACCOs that are not yet operationally self-sustaining but have the potential to become sustainable. The project will be implemented nation-wide. However, the choice of geographic location will be determined based on a rigorous set of criteria by the PMU at the beginning of project implementation with relative poverty ranking being the key criterion in the selection of districts.

2. The project comprises three investment components. Component 1: SACCO strengthening and sustainability aims to enable existing SACCOs to provide enhanced levels of services to members. Sub-component 1.1 targets 500 existing rural SACCOs that are not yet operationally self-sufficient but have the potential to be sustainable. The target is that at least 75% of the 500 project-supported SACCOs attain operational self-sufficiency by the end of the project. Sub-component 1.2 aims at developing a sustainable SACCO union that is able to cover 100% of its operating expenses within 5 years. Sub-component 1.3 aims at strengthening the regulatory framework for SACCOs. Component 2: Community Based Financial Services, aims to increase the outreach of sustainable and dynamic community services in poor and underserved areas. Sub-component 2.1 will establish 15 000 new CSCGs with 375 000 members (70% female). Sub-component 2.2 will strengthen 3 000 existing mature CSCGs that have been saving and lending successfully for at least three years, by providing advanced financial literacy, business development services and exposure to higher level financial services. Component 3: Project Management, supports the two main components and aims at enhancing impact through M&E, learning, communication, and knowledge management.

3. The project will be implemented over seven years and have an estimated project cost of US\$ 34 million, with IFAD financing of US\$ 28 million. The government agency responsible for the project will be the *Ministry of Finance, Planning and Economic Development* (MFPED), with its Microfinance Department taking responsibility for day-to-day management oversight. MFPED will provide policy direction and coordinate with other ministries and agencies, with the Cooperative Department of the *Ministry of Trade, Industry and Cooperatives* (MTIC) playing an important supporting role.

Major site characteristics

4. Uganda is a land-locked country, over 1 000 km from the nearest seaport in Mombasa in Kenya. Uganda is one of the three countries bordering Lake Victoria and internal water bodies cover about 20% of the area of the country. The topography varies from mountain ranges to hilly, with extensive grasslands and flatter areas in the north. Rainfall along Lake Victoria reaches about 2200 mm and declines to 400 mm in the northern parts of the country. With bimodal rainfall (long and short rains), most of the country has two crop seasons; for some crops, production in the north is limited to one long season.

5. **Population.** Population is estimated to be about 35 million and is growing at 3.3% per year. In the last 20 years, population density doubled to 124 persons/km² and is expected to double again over the next 20 years. Fifty-eight percent of the population is under 18 and life expectancy is 54 years. About 86% of the population currently lives in rural areas, but urbanization is expected to reach 35% in the next 15 years. The adult literacy rate is 70%, and one third of the labour force has only primary school education. The unskilled labour force is growing at about 3.7% per annum, and is currently mainly absorbed by the agricultural sector. HIV/AIDS adult prevalence rates remain at about 6%.

6. **Agriculture.** The agricultural sector accounts for about 15% of GDP and employs about 75% of the total labour force, a number that is increasing as the population grows. More than 70% of farming is still in the subsistence sector. About 40% of the land area of the country is considered arable and about 30% is currently being cropped, mostly in the southern parts of the country. Agriculture provides about 50% of exports and a large share of the raw materials for industry. Food crops (plantains, cassava, sweet potato and maize) dominate, followed by cash crops (coffee, sugar, tobacco, tea, oil seeds and cotton), while non-traditional export crops (cut flowers and fish) are also important. Yields remain at subsistence level for most food crops and are mediocre for cash crops. About three quarters of agricultural households derive their livelihoods from low-input rain fed agriculture on holdings of less than 1.5 ha.

7. **Rural Poverty.** Uganda's sustained growth in the past two decades has continued to be rewarded with strong poverty reduction. But compared to other African countries, Uganda's poverty rate seems to be low for its level of income (Tsimpo and Rasmussen 2011). Poverty remains mainly a rural phenomenon, with 34% of the rural population and 9.1% of the urban population falling under the national poverty line. While the incidence has reduced significantly, dropping from almost 56.4% in 1992/93 to 38.8% in 2002 and 24.5% in 2009/10, the reduction in the total number of poor is less significant because of the increase in the population. The poorest areas of the country are in the north, where 80% of the population is living under the poverty line. However, because of population density, the greatest numbers of poor people are found in the eastern and central areas, with only 20-40% of the population living below the poverty line, but a poverty density eight to ten times higher than in the North. Food shortages and nutritional deficiencies are common in some parts of the country, mainly following seasonal patterns, and about 40% of deaths among children are due to malnutrition. Calorie intake is only 1970 calories per person per day, compared to the FAO recommendation of 2300 calories per person per day.

8. **Oil.** Substantial oil reserves were discovered in the Lake Albert Rift Basin in 2006. Oil production is expected to start in 2016, generating revenue of about US\$ 2 billion per year (equivalent to about 15-20% of GDP) for 20 years. The future challenge is to use oil revenue to reduce poverty and rural-urban inequalities, and ensure lasting growth for a rapidly increasing population in the post-oil economy. A major challenge for the economy will be avoiding appreciation of the exchange rate, which will undermine the competitiveness of agriculture. Known as "Dutch disease", this happens when natural resource exports lead to a strengthened exchange rate, which reduces the competitiveness of exports on regional and international markets. This problem could increase rather than decrease the urban-rural income gap.

Issues in natural resource management

9. **Soil fertility.** The rate of soil fertility depletion in Uganda is among the highest in Sub-Saharan Africa. A study of eight districts representing the six major agro-ecological and farming system zones of the country⁴¹ shows that about 1.2% of the nutrient stock stored in the topsoil is being mined each year. The cost of replacing the depleted nutrients is estimated to be equivalent to about one-fifth of the household income obtained from agricultural production. Although fertilizer use has increased from 0.37 kg/ha in 2000 to 1 kg/ha, it is still very low compared to 6 kg/ha in Tanzania, 16 kg/ha in Malawi and 31 kg/ha in Kenya. Low fertilizer use is attributable to its high cost and risks stemming from weather and crop prices. Increased use of fertilizer could help combat negative cultivation practices aimed at increasing fertility such as cutting and burning.

10. **Accelerating natural resource degradation.** About half of Uganda is affected by severe land degradation characterized by soil erosion and nutrient depletion from unsustainable land use. Since 1990s, forest cover has declined by about 40%, and fish catches have been declining since 2004. Wetland areas have decreased by about 20% in the past ten years, increasing the severity of flooding events. The quality and quantity of water resources are being affected because of increased water demand and the vagaries of weather variability and climate change.⁴² Energy demands place pressure on the country's forest and wood resources and will increase as population grows. Biomass accounts for 92% of energy consumption while fossil fuels account for 7% and electricity only 1%.

⁴¹ Linkages between Land Management, Land degradation and poverty in Sub-Saharan Africa – the case of Uganda, IFPRI Research Report 159, 2008.

⁴² Uganda - Country environmental analysis: environment and its governance in crisis, World Bank, October 2011

About 70% of the total energy consumed is for residential activities, and most is wood used for cooking.

11. **Climate change.** Uganda has seen an increase in the variability and amount of rainfall over the past ten years, and a rise in extreme climate events, which have included drought, flooding, landslides, collapsing structures and windstorms. Climate change analysis for the past ten years shows a decrease in rainfall of about 8% and an increase in temperature of 0.7-1.5o C. These changes can largely be attributed to in-country human activities that have reduced the resilience of the ecosystem, rather than being a consequence of global climate.⁴³

12. **Institutional context.** The Ministry of Water and Environment (MWE) is responsible for water supply and sanitation and the environment and natural resource management. The National Environmental Management Authority (NEMA) is responsible for compliance and enforcement of the existing legal and institutional framework for natural resource management. Environmental and natural resource management is decentralised to local governments under the Local Government Act of 2000. There is some lack of clarity between the regulatory role of NEMA and the role of local governments. Planning for natural resource management has come under pressure because of the splintering of districts and the need for environmental impact assessments for the development of oil and gas deposits. While environmental screening is required for large-scale investments in infrastructure and mining, there is no formal requirement for environmental screening of micro-loans to private individuals in the rural finance sector.

Potential environmental impacts and risks

13. Although Uganda faces issues of increased population pressure on natural resources, oil and natural gas exploitation in sensitive natural environments, soil fertility depletion, land degradation and climatic variability, there is little connection between these environmental threats and the actions of PROFIRA. PROFIRA is not an agricultural development project and is not promoting any changes in land use, soil management, livestock numbers, natural resource management, rural infrastructure or intensification of fertilizer or pesticide use. It is concerned with increasing the geographic coverage of community-based savings and credit groups and enhancing the sustainability of existing SACCOs. PROFIRA is also not an environmental project and its objective is not to sensitize rural people to environmental risks or to promote environmentally sustainable soil or land management practices.

14. According to IFAD operational statement #10 on Rural Financial Services, which forms an integral part of the IFAD guideline on Environmental and Social Impact Assessment, the principal concern is with the potential environmental impacts of credit (i.e. the fear that loans might support productive activities in rural areas, some of which might degrade the environment as a result of the use of inappropriate natural resource management practices). Savings, insurance and money transfer do not have any adverse environmental impacts and need not concern us. With regard to credit, the potential environmental impact depends on the size of loans and the loan purpose.

15. **Component 1 – SACCO support and sustainability** - is not expected to have any significant adverse environmental impacts, because the SACCO model is savings-based and project support is concerned mainly with institutional strengthening and attainment of operational self-sufficiency. With regard to credit, the main thrust will be to reduce the share of portfolio at risk and to adjust the volume of SACCO lending to a more prudent ratio in relationship to member savings and share capital. The average size of SACCO loans is relatively small (US\$250). The largest loans are around US\$2 000. Loans are mainly used for consumption smoothing, education expenses and quick-turnover purposes such as trading, with only 11% used for production. Most of the uses that are potentially directly detrimental to the environment (such as establishment of leather tanneries or mines or quarries or logging) are ruled out by the loan small sizes.

16. **Component 2 – Community-based financial services** does not pose any environmental risks, because the activity is savings-based and savings do not have any adverse environmental effects. The average amount saved by a typical group member is less than US\$0.50 cents per week or about US\$15 per week for a 30-member group. The maximum loan from the accumulated savings to any group member is US\$ 100. Roughly 50% of loans are used for consumption smoothing or children's education, 40% for petty trading in agricultural and non-agricultural products and less than

⁴³ A climate trend analysis of Uganda, USAID, June 2012

10% for crops, livestock and fisheries. A review of the environmental impacts of microfinance programmes⁴⁴ implemented at six sites in Tanzania and Kenya concluded that, of the models reviewed, the VSLA model (on with the PROFIRA CSCG model is based) performed the best and will appear to be the best suited for enhancing financial, social and environmental sustainability in rural areas. CARE Tanzania now uses the VSLA approach as the entry point for delivery of other support related to improving health, education, water, sanitation or environment.

Potential social impacts and risks

17. **Social risk.** The principal social risk perceived by the donor community in Uganda is that an IFAD project for Financial Inclusion in rural areas could inadvertently lead government to interfere in the financial sector in response to political pressure from the highest levels of government. Government views financial inclusion as one of the pillars of its Prosperity for All strategy, which has been used to justify giving hand-outs of free inputs to farmers. The risk of political interference is present for both components – the IFAD support to SACCO sustainability and the support for expansion and deepening of community savings and credit groups. Something similar already happened to the ongoing Rural Financial Services Project (RFSP). RFSP was originally designed in 2002 as a demand-driven project aimed at providing support to a broad array of rural micro-finance institutions. However, in 2006 the Government launched a rural finance policy that focused exclusively on SACCOs and called for local politicians to help establish one SACCO in every sub-county, largely without regard for bottom-up cooperative principles or for local demand for a SACCO or for chances of becoming self-sustaining. In response to top-down political interference in the rural finance sector and cooperative movement, all donors pulled out, with the exception of IFAD. IFAD decided to stay, and to redesign RFSP to fit the new government policy, on the grounds that it will have greater policy influence from within a project than it will have had if it had cancelled the project.

18. **Policy and political risks.** Today there are two sets of policy risks – one affecting the SACCOs and the other affecting the CSCGs. The risk affecting the SACCOs is that government could again – in the run-up to the 2016 elections – shift its policy and start pumping subsidized credit through the SACCO system. That is the minor of the two risks because the SACCOs have in the meantime account for only 2% of countrywide access to rural financial services according to the latest FINSCOPE survey 2009 and thus represent a less attractive target for political leverage. If there were to be an injection of government-subsidized funds to the SACCOs, it could undermine their financial and operational self-sustainability, undercut efforts to increase membership and savings, reduce repayment discipline and increase the share of portfolio at risk. It could also lead to elite capture and/or collapse of many of the smaller SACCOs. As a consequence, many small shareholder members could lose their savings and share capital, including the members of CSCGs, which the SACCO subsector is targeting as a quick way of increasing membership and savings deposits.

19. The second (and much greater) risk is that government could interfere in a top-down way in the highly vibrant and rapidly expanding sector of support to informal community-based savings and credit groups (CSCGs). Already, there are worrisome signs that high-level political figures in Uganda are thinking of ways to capture the CSCGs and to inject public funds as a way of bolstering support for the ruling political party. A paragraph to this effect was inserted in an initial draft of the MFPED policy paper on self-help groups, which is currently under discussion, by Cabinet. IFAD urged government to remove the statement from the policy paper. Political interference the CSCG sector could have disastrous social effects for the over 900 000 poor rural women and men who are currently saving small weekly amounts and successfully lending their accumulated savings to members of their small group. The main social risks are elite capture and/or collapse of CBSGs due to politically motivated injection of outside funds. IFAD has notified government in writing that it will cancel the CSCG component if there is a politically motivated public injection of funds into the CSCGs. Based on lessons from what happened to RFSP, when government interfered with the SACCOs, PROFIRA will launch a proactive communication strategy targeted at decision makers and opinion leaders, explaining the dangers of political interference and that IFAD will respond to interference by cancelling the affected component(s).

⁴⁴ Microfinance and environmental sustainability at selected sites in Tanzania and Kenya - Robert Wild, Altemius Millinga and James Robinson, August 2008 - LTS International, Care and WWF

Environmental category

20. In line with IFAD Guidelines on Environmental Assessment, the project is classified as Category B, since all projects involving agricultural lending through financial intermediaries are mapped to this category. However, given the fact there will be no direct impact on production and the facts that the savings-based approach, the tiny average size of loans, and their use mainly for income smoothing, education expenses and petty trading, environmental impacts from micro-loans are expected to be negligible. However, the social risk that a politically motivated injection of external funds in the community-based savings and credit groups could cause elite capture by politicians and subsequent collapse of the groups is very real. It needs to be monitored by the PMU and IFAD on a continuing basis. In the run-up to the 2016 elections, a similar but less probable risk exists that the government could reverse its existing policies, by politically motivated injection of external funds in the SACCOs, thereby undermining their chances of achieving operational and financial self-sufficiency.

21. **Social risk mitigation strategy.** Social risks of political interference with SACCOs will be directly monitored by the PMU based on reports from UCSCU and contractors. Social risk related to government interference with CSCGs will be monitored indirectly by the PMU based on reports from contractor service providers. The contracts to be awarded to the winning bidders will explicitly require each contractor to report twice yearly on risks of political interference and its consequences. If, in the run up to elections, political interference begins to emerge as a serious issue, the PMU's M&E, Learning and Impact Unit will organize one of the planned annual experience-sharing workshops with all CSCG contractors to discuss the threat and agree on ways of dealing with it.

22. **Role of IFAD missions.** During the course of its supervision and implementation support missions, IFAD will regularly review the relevant environmental assessment documents and implementation of recommended measures for a set of randomly selected SACCO loans. Supervision missions will also be required to monitor and regularly report on social risks associated with possible political interference in the CSCGs and SACCOs.

Further information required to complete the screening and scoping

23. None

Appendix 13

Appendix 13: Contents of the Project Life File

Project development timeline for PROFIRA

- Request from Government (16 May 2012)
- Identification Report – Investment Opportunities for IFAD in the Rural Finance Sector (June-July 2012)
- PROFIRA Concept Note
- Aide Memoire PROFIRA first design mission (October 2012)
- PROFIRA first Design Report (December 2012)
- Aide Memoire second design mission (February 2013)
- PROFIRA second Design Report (May 2013)
- PROFIRA final Design Report (August 2013)
- PROFIRA President's Report (September 2013)

Review

- Minutes of CPMT review of Identification Report (24 July 2012)
- OSC Minutes (September 2012)
- Minutes of PROFIRA design task force meetings (September – October 2012)
- Minutes of CPMT review of first Design Report (November 2012)
- Quality Enhancement Memorandum (November 2012)
- Quality Enhancement Panel Minutes (December 2012)
- Minutes of Task Force meetings (January 2013)
- Comments from Government on second Design Report (May 2013)
- IFAD response to comments from Government (June 2013)
- Minutes of CPMT review of second Design Report (May 2013)
- PROFIRA Quality Assurance Report (July 2012)
- Quality Assurance final recommendations (July 2012)

Knowledge base

- IFAD Supervision Reports RFSP
- IFAD Guidelines for Project Design
- Finscope Report 2009
- Bank of Uganda Financial Inclusion Strategy 2012
- Microfinance Policy and Regulatory Framework in Uganda 2005-2015

Task force (in-country)

- Maxwell Adea / Moses Kaggwa, Commissioner for Microfinance, MFPED (Ministry of Finance Planning & Economic Development)
- Henry Mbaguta, Assistant Commissioner for Microfinance, MFPED (Ministry of Finance Planning & Economic Development)
- Fred Mwesigye, Commissioner for Cooperatives, MTIC (Ministry of Trade, Industry and Cooperatives)
- Mackay Aomu, Deputy Director Commercial Banking Department, Bank of Uganda
- Billy Butamanya, Deputy General Secretary, UCA (Uganda Cooperative Alliance)
- David Baguma, Executive Director, AMFIU (Association of Microfinance Institutions of Uganda)
- Yasin Nnume Abubacar, Board Chairman, UCSCU (Uganda Cooperative Savings and Credit Union Limited)
- Emmanuel Kikoni, Executive Director, UBA (Uganda Bankers Association)
- Sutapa Choudhury, Economic Adviser, DfID

- Christopher Musoke, Growth Advisor, DfID
- Robert Ocaya, Coordinator Agri Finance, GIZ
- Saliya Kanathigoda, Programme Advisor, GIZ

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- Périn Saint Ange, Regional Director
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- Edward Heinemann, Senior Policy Advisor
- Jonathan Agwe, Technical Advisor, Rural Finance
- Eloisa de Villalobos, Technical Advisor

Controller's and Financial Services Division (CFS)

- Bernardino Fortuna, Finance Officer

Design team

The project design process was steered by a national Task Force, chaired by the Commissioner for Microfinance (see composition above). The RFSP team (Lance Kashugyera, Project Coordinator; Colin Agabalinda, Operations Manager; Jackie Naggayi, M&E Officer and Ambrose Ayesigwe, Financial Manager) contributed extensively. IFAD staff from both headquarters (Alessandro Marini, Country Programme Manager; and Jonathan Agwe, Lead Technical Advisor) and the Uganda Country Office (Carole Idriss-Kanago, Associate Country Programme Manager; Line Kaspersen, Associate Programme Officer; and Ann Turinayo, Communications and Knowledge Management Consultant) were also heavily involved in the process. Several experts contributed at different stages, including: Howard Johnson, design team leader; Jorma Ruotsi, rural finance specialist; Rauno Zander, SACCO specialist; William Steel, rural finance and policy/institutions specialist; Paul Duncan, SACCO and apex organizations specialist; Alice Carloni, socio-economist and targeting specialist; Lisa Paglietti, economist; Maliha Hussein, rural finance and targeting specialist; Andrew Obara, rural finance and SACCO specialist; and Davis Atugonza, financial management specialist.