

Republic of Uganda

Project for Financial Inclusion in Rural Areas (PROFIRA)

Supervision report

Main report and appendices

Mission Dates: 18 – 29 April 2016
Document Date: 12-May 2016
Project No. 900-UG
Report No: 4073-UG

East and Southern Africa Division
Programme Management Department

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Abbreviations and acronyms

AMFIU	Association of Microfinance Institutions in Uganda
BoU	Bank of Uganda
CSCG	Community Savings and Credit Groups
FSD	Financial Services Department
GoU	Government of Uganda
GIZ	German Society for International Cooperation
IFAD	International Fund for Agricultural Development
MFPED	Ministry of Finance, Planning and Economic Development
MTIC	Ministry of Trade, Industry and Cooperatives
RFSP	Rural Financial Services Programme
SACCO	Savings and Credit Cooperative
UCA	Uganda Cooperative Alliance
UCSCU	Uganda Cooperative Savings and Credit Union
UGX	Uganda Shilling
USD	United States Dollar
UWESO	Uganda Women's Effort to Save Orphans
VSLA	Village Savings and Loan Association
WB	World Bank

PROFIRA

Supervision Report

Mission dates: 18-29 April 2016

A. Introduction

1. The Project for Financial Inclusion in Rural Areas (PROFIRA) entered into force in November 2014. It is implemented by the Ministry of Finance, Planning and Economic Development over a period of 7 years for a total cost of USD 36.6 million and financing as follows: an IFAD loan of USD 29 million; an IFAD grant of USD 1 million to the Canadian Cooperative Association (CCA) to provide technical assistance and institutional support to the Uganda Cooperative Savings and Credit Union (UCSCU); Government counterpart financing equivalent to USD 4.9 million; contribution by beneficiary SACCOs equivalent to USD 1.4 million; and contribution in technical assistance by CCA equivalent to USD 250,000. The project development objective is to *sustainably increase the access to and use of financial services by the rural poor*.

2. An IFAD supervision and implementation support mission¹ was held from 18 to 29 April 2016 with the objective to review the implementation progress of the project, the implementation of the recommendations from previous missions and the status of execution of the AWPB 2015/16 and to provide the necessary implementation support as required. The mission spent four days in the districts of Arua, Kole and Lira, visiting the operations of some of the service providers selected for the establishment of savings and credit groups and the rest of the time in Kampala, meeting and interacting with several stakeholders, including the Permanent Secretary/Secretary to the Treasury, the Commissioner and Assistant Commissioner, Financial Services Department, Ministry of Finance, Planning and Economic Development (MFPED), the Commissioner for Co-operatives Development from the Ministry of Trade, Industry and Co-operatives (MTIC), the Board and staff of UCSCU and other relevant stakeholders from the sector, including the service providers selected for the provision of training services to SACCOs in the six key areas. The mission would like to thank the GoU and all other partners for their collaboration and support.

B. Overall Assessment of Project Implementation

3. Consistent progress has been made in the last few months to finalize the procurement processes for the seventeen contracts for service providers to support SACCOs and Community-based Savings and Credit Groups (CSCGs). While all these procurements have suffered important delays compared to the initial plan, it is to be noted that this has been largely due to overly optimistic planning at project inception combined with the actual complexity of the services procured, as well as some inefficiencies in the processes at the early stages of the project. However, procurement has considerably improved after the first few months of the project, resulting in considerable improvements in the efficiency and timeliness of the various processes.

4. The four contracts for establishment of new CSCGs have been signed recently. The eight contracts for capacity building of SACCOs are reasonably expected to be signed before the end of the financial year, while four of the five contracts for CSCG strengthening will be signed between August and September of this year. By the first quarter of the next financial year, therefore, the Project will finally have started actual investment on the ground on both components. The competence and good track-record of the selected bidders and the quality of the technical proposals are quite reassuring in terms of the expected quality of the services. This augurs well for the quick pick up of the disbursement rate, which is currently at a moderately satisfactory rate of 12.3% after 17 months of implementation. The disbursement profile of similar IFAD-financed projects indicates that after two years of implementation, satisfactory disbursement should be above 16%.

¹ The mission was led by Mr Alessandro Marini, IFAD Country Director and included: Mr. William Steel, Rural Finance Specialist; Mr Jorma Ruotsi, Rural Finance Specialist, Mr. Davis Atugonza, Financial Management Specialist; and Ms. Line Kaspersen, M&E Specialist.

5. The support to UCSCU in the implementation of its Business Plan towards financial self-sustainability is proceeding, with both elements of technical assistance provided by CCA and provision of budgetary support through performance-based incentives properly working. As a result, UCSCU continues to make consistent progress in institutional reform and improvement of its financial management systems. The cumulative operational self-sufficiency for the first three quarters, however, is at a moderately satisfactory level of 27%, short of the 33% target for the year. The cumulative operating deficit already exceeds the target for the whole financial year 2015/16. UCSCU management remains confident, however, that the annual targets can still be met through strong performance in the last quarter, with a special focus on mobilization of membership fees to improve the revenue side.

6. The Tier 4 Microfinance Institutions Bill is in its final stages of discussion in Parliament. With a new Parliament coming in July, it is important that the Bill be passed by the current Parliament before the end of May, to capitalize on the work done so far and avoid delays for its approval. Meanwhile, the Development Assistance and Regional Cooperation Department should work with the Financial Services Department to proactively coordinate the interested development partners and create a coherent framework for support to the implementation of the new regulatory framework. More proactiveness is also needed by the Department of Cooperatives, Ministry of Trade, Industry and Cooperatives, in setting up an appropriate data system for maintaining and regularly updating data and information on the SACCO sector.

7. The Project Management Unit is fully staffed with competent and motivated professionals in all key areas. The working environment is very conducive in terms of office space and equipment as well as in terms of team spirit and collaboration among different units. All systems for financial management, procurement and monitoring and evaluation are in place and properly managed to effectively and efficiently support the work of the technical units.

C. Project Implementation Progress

Component 1 – SACCO strengthening and sustainability

Sub-Component 1.1 – SACCO Strengthening

8. **Target numbers.** A total of 334 SACCOs have been selected as meeting the stated sustainability and other eligibility criteria for training in the 6 key areas, as well as training in credit and default management, and an additional 119 only for training in credit and default management (of which a revised target of 50 will receive support in strengthening their Management Information Systems - MIS). Furthermore, it is expected that an additional 50 SACCOs will be selected for “turnaround” and receive both training packages, as well as further support from MTIC. Turnaround SACCOs will make up the gap between the 453 SACCOs initially identified as meeting PROFIRA criteria and the overall target of 500. Since these SACCOs will receive training in six key areas as well as credit and default management, the original target for training in both will be exceeded, with a corresponding reduction in the original target for credit and default management only. The original overall target of 500 SACCOs can therefore be reached (see table below).

Category	No. of SACCOs selected	Design Target	Training support	Status
A	119	150	C&D (10-20 also to receive MIS)	Already selected
B	334	350	P6; C&D	Already selected
Subtotal	453			
Turnaround	50		P6; C&D; MTIC	Selection on-going
Total	503	500		

Key: C&D = Credit and Default Management; P6 = package of 6 training areas; MIS = revised packages of individualized management information systems; MTIC = additional interventions by Department of Cooperatives

9. **Package of 6 key training areas.** Procurement of service providers for the four lots of training in six key areas is nearly complete. Contract signing is expected by the end of June. Three of the four successful bidders are apex organizations serving the sector: UCSCU, the Uganda Cooperative Alliance (UCA), and the Association of Microfinance Institutions of Uganda (AMFIU). All bidders have agreed to coordinate with each other and with UCSCU in implementation. The service providers should provide preliminary training manuals along with the inception reports, subject to revision following the needs assessments of the selected SACCOs. To ensure quality and consistency, PROFIRA will engage the Uganda Cooperative College of Kigumba (UCCCK) to lead a committee to review the training materials with the aim to produce “best practice” manuals for each of the training areas, drawing on the best modules from the existing materials. **Agreed actions:** (i) sign contract with the four service providers by end of June 2016; (ii) service providers to produce the inception report, together with draft training materials, by end of August 2016.

10. **Credit and default management.** Although the bidding and evaluation process has been completed, procurement issues have arisen due to major gaps between the budgeted allocation and the financial offer of some of the best qualified bidders. These issues are in the process of being sorted out in consultation with IFAD and the PPDA. Given the prevailing situation in the market, a variation of up to 50% above the current total budget allocation as envisaged at design is considered acceptable. **Agreed actions:** Submit by 15 May 2016 the evaluation report for the four lots to IFAD for No Objection, with the aim to sign the related contracts by the end of June.

11. **Management Information Systems (MIS).** PROFIRA has undertaken an in-depth needs assessment on MIS of 82 SACCOs that were tentatively identified as eligible for PROFIRA support under this activity. The survey found that only 71 of those SACCOs actually have a functional MIS system in place and such system is not installed in over 50% of their branches. Furthermore, hardware was indicated as the primary need by the majority of the SACCOs, followed by interconnectivity for branches; only 17 SACCOs expressed a desire for refresher training. In light of these findings, it is considered that the proposed design of providing training to 100 SACCOs and training plus MIS software to 50 SACCOs among them is unlikely to respond to their actual needs and ensure value-for-money in terms of preparing these SACCOs for prudential supervision and reporting.

12. A revised approach is therefore proposed to enable each SACCO to tailor the MIS support package to its specific needs, through a more flexible and demand-driven matching grant arrangement. Eligible SACCOs should be allowed to develop a proposal in collaboration with their preferred MIS service provider, with the cost to be shared between the SACCO and PROFIRA. Service providers would be pre-qualified according to specified criteria and eligible expenditures for equipment, software installation and licensing, training, and other relevant items would likewise be specified. In order to gain some experience with the new approach envisaged the PMU will undertake a limited pilot exercise with 10-20 SACCOs. This would require engaging short-term support to assist with the technical review of the proposals and the verification of installations. For subsequent scaling up, management of the fund could be outsourced, either through procurement or, preferably, through partnership with an agency qualified to manage such funds.

13. **Turnaround SACCOs.** The concept of “turnaround” SACCOs refers to SACCOs that had once achieved a high degree of sustainability, but had fallen back due to specific problems such as mismanagement, poor governance, embezzlement or non-repayment of loans. It was considered that some such cases could be fairly quickly restored to sustainability through actions such as change in management or board (usually requiring a Special General Meeting called by the Registrar of Cooperatives), accompanied by training such as the packages being offered by PROFIRA. PROFIRA has provided MTIC with a provisional list of SACCOs, which MTIC is to investigate for suitability as “turnaround” SACCOs. About 50 SACCOs should be selected under this category, paying attention to criteria such as being the only SACCO in a sub-county. These will be included in the SACCOs to receive the PROFIRA training packages, with additional special actions by the Department of Cooperatives to address their underlying governance, management or other problems. This exercise must be completed by the end of June, to allow for these SACCOs to be added to the contracts of the

selected training providers. **Agreed action:** MTIC and PMU to agree on a list of 50 SACCOs to be targeted for turnaround, by 30 June 2016.

Agreed action	Responsibility	Agreed date
Sign contract with the service providers for six key areas	PMU	30 Jun 2016
Produce inception report for 6 key areas (with draft training materials)	SPs	31 Aug 2016
Submit to IFAD evaluation report for credit and default management	PMU	15 May 2016
Sign contract with the service providers for credit and default management	PMU	30 Jun 2016
Select 50 SACCOs for "turnaround"	MTIC, PMU	30 Jun 2016

Sub-Component 1.2 – Developing a SACCO Union

14. **Technical assistance by CCA (IFAD Grant No 200000266).** The provision of technical assistance to UCSCU through the grant to the Canadian Cooperative Association (CCA) has continued successfully. So far CCA undertook general advisory and mentorship missions by the by the CCA Lead Advisory and Mentorship Team (LAMP), one MIS assessment mission in coordination with WOCCU and one mission by a technical expert to focusing on the development of the Central Financial Facility. The support provided so far focussed on UCSCU's real financial position, streamlining and prioritizing UCSCU's business plan, revising UCSCU's organizational structure and recommending resolutions to improve UCSCU's engagement with and financial support from members. CCA has also provided a Gender Adviser on short-term assignment during the period January-June 2016. The partnership continues to be highly appreciated by UCSCU Management and Board, especially in terms of institutional reform (such as human resource management), culture change and skills improvement.

15. **UCSCU Business Plan.** The Business Plan and five-year projected budget have been reviewed, as agreed during the last supervision mission. The mission endorses UCSCU's revised financial projections showing the progression to operational self-sufficiency by the year 2018/19. **Agreed actions:** Amend Annex 1 of the MoU between UCSCU and MFPED with the approved revised projections. It is noted that these revisions will have no impact on Annex 2 of the MoU, given that UCSCU's own revised cash flow projections maintained these thresholds as the maximum possible subventions for each successive year.

16. **Progress towards sustainability.** UCSCU continues to make steady progress in institutional reform, with technical support from CCA. Nevertheless, it suffered a setback in the first quarter of 2016 in terms of financial self-sufficiency. During January-March 2016, the operational self-sufficiency (OSS) ratio was only 13%, against a target of 33% for the financial year 2015/16. This was attributable in part to the national elections, which caused delays in holding annual general meetings (AGMs) of SACCOs, which must approve budgets before funds can be spent on dues, training and other services provided by UCSCU. The cumulative OSS for the first three quarters remains however at a moderately satisfactory level of 27% and UCSCU management is confident that the 33% target for the year can still be met through strong performance in the last quarter.

17. The operating deficit (net of the PROFIRA grant) through March 2016 already exceeds the revised target deficit for 2015/16 in the revised Business Plan. As shown in the table below, by 31 March 2016, UCSCU had posted a loss of UGX 756 million after nine months, which, if annualised on linear basis, could reach a billion by the end of the financial year. It is to be noted that if the actual net deficit for 2015/16 will exceed the target of UGX 696 million, the PROFIRA grant for 2016/17 will be reduced as per MOU.

UCSCU revised financial projections and performance up to 31 March 2016 (UGX, million)

	2014/15	2015/16	2016/17	2017/18	2018/19
Operating revenue (Target)	264	342	614	921	1,270
Recurrent expenditure (Target)	839	1,038	1,031	1,232	1,194
(Deficit)/ Surplus- (Target)	(575)	(696)	(399)	(311)	76.3
(Deficit)/ Surplus- (Actual)	(575)	(756)*			
OSS (Target)- %	31	33	61	75	106
OSS (Actual)-%	31	27			

* Year to date up to 31 March 2016, annualized loss assuming linear increase would reach UGX 1.01 billion

18. The largest area of revenue shortfall to date is members' contributions. The importance of achieving the target for membership and payment of dues and statutory obligations, as an indicator of commitment by the SACCOs themselves, cannot be over emphasized. Business income has performed relatively well. But operating expenses have been over budget, in part because of lack of budget controls for the first half of the year, in part because of staff downsizing taking longer than expected. A robust system of staff performance targets and evaluation has now been put in place as a basis for completing the staff downsizing process in a transparent, orderly fashion. **Agreed actions:** UCSCU to undertake a major campaign to obtain SACCO membership fees and dues during the final quarter.

19. **Performance-based incentives.** With respect to the agreed process for disbursement of the incentives to UCSCU on a quarterly basis, it was noted that the agreed endorsement of the quarterly reports by CCA should come more regularly. Since the approval of the subvention for the next fiscal year will depend in part upon having an audited financial statement, as well as progress towards meeting targets, the importance of getting an early start on the audit was stressed. **Agreed action:** The sitting external auditors to undertake interim audit even before year end with the aim to complete the final audit by 31 July 2016.

20. **Need for coordination of training of SACCOs.** UCSCU faces two major challenges in raising cost recovery from the training it provides: (i) the perception of SACCOs that UCSCU is still a quasi-government agency that should thus provide training for free, as under RFSP; and (ii) competition from other agencies and donor programmes that provide free or highly subsidized training to SACCOs, including PROFIRA and other organizations such as the Institute of Banking and Financial Services, MSCL, FAO, etc.. While such trainings can help to strengthen the SACCO sector as a whole, it is important that training for SACCOs be adequately coordinated to minimize duplication and make SACCOs aware as to what training is available on a subsidized or free basis, and what training they are expected to pay for, especially when offered by UCSCU. With PROFIRA about to launch a nationwide program of training for selected SACCOs, it would be appropriate for UCSCU and PROFIRA to take the lead in obtaining information from key agencies and service providers on plans to offer training and capacity building services training. **Agreed action:** UCSCU and PMU to consult with the relevant agencies and organizations to coordinate plans for SACCO training during 2016/17.

21. **UCSCU financial management.** Since the last mission there has been an improvement in the UCSCU financial management environment. The mission reviewed the operation of the Pastel accounting system and found it satisfactory with the posting of data and the bank reconciliations up-to-date. The recommendation of CCA to adopt a cost centre approach (i.e. separate financial tracking of CFF and other revenue centres) is fully endorsed by the mission. UCSCU received an unqualified audit opinion on its financial statements for the year ended 30 June 2015, audited by a private audit firm. The quality of the audit and financial statements is satisfactory. In the spirit of the MoU for the PROFIRA/ GoU, a substantive Internal Auditor has been recruited as part of the agenda to strengthen UCSCU's systems and control environment. The mission, however, noted the lack of strong budget controls. The key control is only in terms of comparing budget vs. actual. **Agreed action:** UCSCU should put in place proactive controls such as ensuring funds availability on individual budget lines before commitments and payments are processed.

Agreed action	Responsibility	Agreed date
Amend Annex 1 of MoU between UCSCU and MFPED	MFPED/UCSCU	30 May 2016
Ensure payment of membership fees and dues	UCSCU	30 Jun 2016
Ensure 2015/16 Audit is finalized	UCSCU	31 Jul 2016
Coordinate information on SACCOs' training	UCSCU/PMU	Continuous
Put in place proactive budget control systems	UCSCU	30 Jun 2016

Component 2 – Community Based Financial Services

22. **Sub-component 2.1 – Establishment of new CSCGs.** In the past six months, the contracting of the service providers for Sub-component 2.1 was finalised. Contracts for all four regions have been signed. **Agreed actions:** The SPs will submit their inception reports by end of May 2016, followed by an Inception Workshop to be organized by the PMU in June 2016. The actual field operations are expected to start in July 2016. The table below summarises the results of this procurement.

	West Nile	Mid-North	North-East	Eastern
Selected Service Provider	Consortium: CREAM/FURA	Consortium: Mid-North and Acholi Private Sector Development Centres	CARE, with sub-contractor: Karamoja Private Sector Development Centre	CARE, with sub-contractor: UWESO
Contract value: UGX million	2,907.8	3,370	1,700	2,700
Contract value: USD	881,160	1,021,000	515,000	818,000
No. of groups	1,900	2,100	1,000	2,500
No. of members	47,500	52,500	25,000	62,500
Unit cost/member	USD 18.6	USD 19.5	USD 20.6	USD 13.1

23. The selected service providers are among the top support organisations in community-based finance in Uganda, all with significant performance records in CSCG promotion in rural communities. Further, PROFIRA's secondary target to develop the capacities of local institutions has been well achieved, as for West Nile and Mid-North Regions the consortia of two local institutions won the contracts without any international partners. Also in the other two regions, while the main contractor will be CARE Uganda (the main CSCG international promoter in the country), the field operations are sub-contracted to experienced local institutions. The average contract prices are below the prices projected at project design and well within the accepted standards for this type of operations in the region. Finally, the winning bids, while predominantly aiming at greater outreach and increased financial inclusion, also include many innovative approaches that aim at the development of the new groups as sustainable parts of the financial sector.

24. In the bids submitted for this sub-component, the regions to be covered by each SP are large, encompassing several districts and sub-counties. In order to achieve the expected implementation effectiveness, efficiency and impact, a focused, clustered approach is required when selecting the actual area of coverage, sub-counties and villages, to avoid spreading the activities very thin over a large area. The inception reports by the SPs are expected to elaborate strategically in this respect, with a solid rationale and justification of the areas to be targeted within the overall region, based on considerations such as the on-going interventions by other organizations, the degree to which some areas are already served by other financial institutions and the need to maintain some concentration of the intervention for cost-effectiveness and impact. At the same time, while encouraging CSCG formation based on existing agricultural and social groups, the service providers will have to take due care to avoid double counting of already existing CSCGs as "PROFIRA achievements".

25. **Sub-component 2.2 – CSCGs Strengthening, Innovation and Partnerships.** For the four core regions, 26 organisations expressed interest to implement this sub-component. After shortlisting, 14 full project proposals were received. The bidders include the most experienced international and local CSCG promoters. **Agreed actions:** The technical proposals will be evaluated by the PMU during the first two weeks of May 2016 and then submitted to IFAD for No Objection by 31 May 2016, with the target of signing the contracts latest by the end of August 2016.

26. For Region 5, outside the four core regions, 25 districts were selected on the basis of the agreed indicators based on poverty levels and under-development of financial services. **Agreed actions:** The advertising for the Eols for a service provider in this area will take place in mid-May 2016, with the objective of signing the contract latest by the end of December 2016. This contract will complete the first round of contracting of service providers for Component 2 operations.

27. **Networking.** In the coming five years, PROFIRA will be the leading supporter of community-based financial arrangements in Uganda. Its network of service providers holds a critically important knowledge base on appropriate CSCG development approaches and methods for Uganda. This network will generate great opportunities for mutual learning, with significant potential benefits for the whole PROFIRA operation. PROFIRA management will need to develop and promote appropriate methods and channels to facilitate this mutual learning process through interventions such as semi-annual service provider workshops; exchange visits between service providers from different regions; and focused exchange visits for group leaders both within and between the regions. PROFIRA should start planning for the above type of activities, starting from the AWPB for 2016/17.

Agreed action	Responsibility	Agreed date
Produce inception reports for establishment of CSCGs (sub-comp. 2.1)	SPs	30 May 2016
Organise inception workshop	PMU	30 Jun 2016
Start operations on ground for establishment of CSCGs	SPs	30 Jul 2016
Submit technical report for CSCG strengthening (sub-comp. 2.2) in core regions for IFAD No Objection	PMU	31 May 2016
Sign contracts for CSCG strengthening in core regions	PMU	30 Aug 2016
Advertise for Eols for CSCG strengthening in region 5	PMU	15 May 2016
Sign contracts for CSCG strengthening in region 5	PMU	31 Dec 2016

Component 3 – Policy and Institutional Support and Project Management

Sub-component 3.1 – Policy, regulatory and institutional environment

28. **Tier 4 MFI Bill.** The Tier 4 Microfinance Institutions Bill went through a first reading in Parliament. Advisory support by the Bank of Uganda (BoU), technical support from development partners and efforts to work with the Parliamentary Committees have facilitated this process. The mission team met with the Parliamentary staff to discuss the final envisaged amendments, taking into account the outcomes of the benchmarking mission team in Ghana in November 2015, the suggestions by the recent World Bank mission and the remarks by Members of Parliament. The envisaged amendments are adequate to minimize the issues that have been raised. Although the schedule is tight, it is expected that the Bill be passed before the ninth Parliament adjourns. The mission would like to emphasize the high importance of finalizing Parliament approval by the end of May. **Agreed action:** MFPED to fast track the process for the approval of the Bill by 31 May 2016.

29. **Implementation of Tier 4 Bill and coordination of development partners.** Besides ensuring passage by Parliament as key priority, MFPED has a key role to play pursuing the support from the various development partners for the implementation of the envisaged regulatory framework, both for technical assistance in the near term and for an investment project for capacity-building of both regulators and MFIs in the longer term. Strong and proactive leadership by the Department of Development Assistance and Regional Cooperation in effectively coordinating the development partners that have showed interest is critical in this respect.

30. **Institutional strengthening for strategy and policy making.** With the passage of the Tier 4 MFI Bill imminent, it is critical for MFPED to begin preparing a new policy and strategy document to guide the way forward for microfinance and financial inclusion, to succeed the current Rural Financial Services Strategy. To lay the basis for strategic development and oversight of the process of implementing the Tier 4 legislation, it would be appropriate to build the capacity of a core team of experts from MFPED, MTIC, Bank of Uganda and the First Parliamentary Council. **Agreed action:** PROFIRA will fund the participation of a team to the Boulder Microfinance Training Program, with the expected output of a road map for developing a policy and strategic framework to support financial inclusion and implementation of Tier 4 regulation.

31. **Census and database.** Collection of data on existing institutions operating under Tier 4 is a key starting point for any attempts to regulate the sector. The plans for a census of all MFIs other than SACCOs have not yet been concretized; a funding and implementation partner is being sought by MFPED. PROFIRA has however agreed to fund the completion of the SACCO census to include Kampala region, in collaboration with MTIC and UCSCU, which will allow having a complete and

accurate data set for the whole SACCO sector. However, while data collection on SACCOs is undertaken jointly by PROFIRA and MTIC, using MTIC questionnaires and the District Cooperative Officers as entry point at District Level, the MTIC SACCO database has not yet been populated with the existing data collected for the other four regions, nor is MTIC's software able to accommodate the census data in its current format. As of to date, the data from the SACCO census are kept only in the PROFIRA data systems, which is not a sustainable solution for the sector. Completion of the SACCO census and undertaking of the MFI census should be contingent on formulation of a clear strategy and responsibility for populating, maintaining and analysing the data collected. **Agreed action:** Through the responsible department, MFPED should ensure that there is a mechanism in place to cater for maintenance of the census data on SACCOs and MFIs.

32. **SACCO Register.** MTIC began issuing compliance letters to dormant SACCOs before the end of 2015 and is continuing the exercise. SACCOs that never went beyond their provisional registration have been given 90 days to comply with the requirements for permanent registration. A few have responded that they intend to comply. For the others, the de-registration process will require: (a) advertisement in the newspapers; (b) appointing a liquidator to investigate the assets and creditors, and undertake liquidation if warranted; and (c) gazetting the action. These actions have to be included in the work plan budget for PROFIRA support to MTIC, in order to clean up the Register of SACCOs before the advent of the Uganda Microfinance Regulatory Authority (UMRA). **Agreed action:** MTIC to submit an action plan and budget for continuing the process of compliance, liquidation and de-registration, for inclusion in the PROFIRA 2016/17 AWPB, by 15 May 2016.

Agreed action	Responsibility	Agreed date
Ensure approval of the Bill	MFPED	31 May 2016
Finance training in Boulder for inter-institutional team	PMU	15 Aug 2016
Agree on responsibilities for SACCOs and MFIs data base	MFPED/MTIC/UBOS	30 Sep 2016
Submit budget for SACCO de-registration process to PROFIRA	MTIC	15 May 2016

Sub-component 3.2 – Project management

33. **Project staff.** The process for the recruitment of the only remaining staff (two drivers and one M&E officer) is well advanced and is expected to be completed by end of June 2016.

34. **Project oversight committee.** The Project Oversight Committee meets regularly as per its ToRs. The POC met once since the last supervision mission, in October 2015.

35. **Planning and budgeting.** As of 31 March 2016, the 2015/16 Annual Work Plan and Budget (AWPB) execution stands at 27%, due to the delays in all the major contracts for service provision. Execution at the end of the financial year, however, is projected at approximately 60%, as most of these contracts will be signed and the first instalments disbursed. Some adjustments to the AWPB 2015/16 were proposed by the PMU and endorsed by the mission, resulting in the following budget line increases by the respective amounts: (i) office furniture & fittings - UGX 15 million; (ii) Desktop computers and UPS - UGX 124.5 million; (iii) AC units and installation - UGX 5 million; (iv) SACCO census - UGX 190 million; (v) SACCO KM & Learning reflection fora - UGX 17.95 million; (vi) Study tours for legislators and staff training - UGX 100 million, (vii) Staff induction and team building - UGX 60 million; and (viii) staff salaries - UGX 167.41 million. The AWPB 2016/17, which is in principle due by 30 April 2016, will need to incorporate the recommendations of this mission. Therefore the new deadline for submission will be 31 May 2016.

36. **Project implementation manual (PIM).** The PMU has finalized the PIM, integrating the consolidated comments sent by IFAD after the last supervision mission. The mission considers the revised PIM as adequate.

37. **Communication.** Validation of the Communication Strategy has been done through various internal PMU meetings since the initial draft of October 2015. Unfortunately, the envisaged support by IFAD could not materialize because of lack of the necessary expertise in the country office. The mission has reviewed the final draft of the document. The next step is to validate the draft at a stakeholder workshop, after which the Strategy will be finalized. In addition, an outcome-based action

plan for FY2016/17 will be developed. **Agreed action:** The final communication strategy, along with a prioritized workplan and budget for FY 2016/17, will be in place by 31 May 2016.

38. **Knowledge management.** In the near future, there will be the need to professionally document the innovations and successes of PROFIRA and present them to the wider public. Various financial fora and publications in Uganda provide opportunities for this. Outside Uganda, the IFAD networks and the wider UN and development sites offer useful channels to reach a much wider public and make these documented experiences “common goods” also globally.

Monitoring and evaluation

39. **Log-frame and results framework.** The Results Framework as finalised in January 2016, following completion of the Log-Frame in May 2015, is almost fully populated with baseline figures and annual output and outcome level targets. The indicators have been reviewed and found adequate and easy to report on by the service providers on a semi-annual basis. Targets for SACCO support and group establishment have been translated into the contractual agreements of the service providers. Data collection templates have been developed well in time for contract signing, entailing that service providers will be able to use the templates right from the beginning of their work. Performance targets of both UCSCU and CCA are integrated in the Results Framework and reporting formats have been adhered to by UCSCU for the past 2 quarters.

40. **Baseline.** A competent consulting company was contracted on 1 March 2016 to conduct a household level baseline survey, which will lay the foundations for impact level reporting. The work is progressing according to schedule, with data collection scheduled to be completed by the end of April. A draft report, to be validated in a stakeholder workshop, is expected by early June. **Agreed action:** Finalize baseline report by 30 June 2016.

41. **MIS system.** The process for procurement of a Management Information System (MIS) has been delayed due to the fact that no bids were received during the first tender. After re-launching, one valid bid was received and its technical quality was found acceptable. The installation of the system is becoming urgent, as it will have to be fully operational for easy data flow and aggregation, as soon as service providers will start preparing regular performance reports. **Agreed actions:** The PMU will contract the service provider by 30 June 2016 with the aim to have an operational M&E system in place by 30 September 2016.

42. **Performance monitoring for CSCGs.** As agreed during the last mission, the SAVIX tool for monitoring of performance at group level is the only one identified in the market that can handle large volumes of data (envisaged 18,000 groups with up to 20 performance indicators) and provide the automated aggregation and analysis options required by the project. The system is already widely used with success by the majority of service providers both in Uganda and internationally. It is maintained as an open source system by VSL Associates since 1995. However, technical support is required to set up system interfaces with the service providers as well as to train the PMU and those implementing partners who may not already be using it. According to the PPDA, single sourcing for the procurement of consultancy services is justified when only one consultant is able to provide the services due to unique skills and/or when there is need for continuity. Both conditions apply in this case given that several of the service providers contracted are already using SAVIX. Furthermore, sole sourcing is in the interest of economy and efficiency, as developing a project-specific database would be a much more costly option. The mission considers that it is therefore fully justified to contract VSL Associates Ltd through single sourcing to implement the SAVIX system for all service providers and ensure direct interface with the PMU. The cost for a retainer contract to ensure continuity of service provision over 6 years has been estimated at about USD 80,000. **Agreed action:** The PMU will develop the Request for Proposal (RFP) for single sourcing for approval by contracts committee and submission to IFAD for No Objection by 31 May 2016, with the intent to start service provision by 31 July 2016.

Agreed action	Responsibility	Agreed date
Finalize Communication Strategy	PMU	31 May 2016
Finalize impact baseline study	PMU	30 Jun 2016
Contract the MIS service provider	PMU	30 Jun 2016
Submit RFP for single-sourcing for SAVIX for IFAD No Objection	PMU	31 May 2016
Sign contract with VSL Associates for implementation of SAVIX	PMU	31 Jul 2016

D. Fiduciary aspects

43. **Financial management.** The PMU continues to use IFMS as a disbursement tool and Pastel for the detailed project accounting requirements. With the continuous improvement, IFMS is proving to be very efficient in payment processing, with the required elements of segregation of duties. However, some work is still needed before it can handle project accounting demands, completely replacing the Pastel accounting system. Since the last mission, there have been impressive improvements in setting up Pastel: all key financial reports in all dimensions have now been pre-set and can be easily printed; both expenditure and disbursement accounts are now in use; and posting of data is up to date including bank reconciliations. The mission has discussed with the PMU some further improvements to be introduced. **Agreed actions:** (i) Continue to work with the Accountant General's office to implement the IFMS project module version by 30 September 2016 with a view of eventually replacing Pastel; and (ii) set up in Pastel imprest/advance control accounts and introduce commitment control as a critical budget control feature.

44. **Disbursement of IFAD Loan.** As of 31 March 2016 disbursement of the IFAD loan, including the initial advance of USD 2 million, is at 12.3% through four withdrawal applications. Actual loan utilization, excluding the initial advance, is at 5.7%, as very limited investment activities have taken place. If commitments are included, in particular for contracts whose procurement process is very advanced and for which disbursements are expected before year end, the disbursement level is expected to increase to 18%. The Programme is still highly liquid. Out of the USD 2 million initial advance 80% (USD 1.65 million) is available at the Bank of Uganda and 20% (USD 346,000) is in a withdrawal application (WA5) already submitted to IFAD. The liquidity level is sufficient to meet projected payments over the next 3 months. The PMU has been advised, however, to constantly monitor the projected expenditures against the level of the initial advance, as in the next few months disbursements are expected to increase considerably with the inception of all major contracts for service provision. When necessary, a request for increase of the advance should be sent to IFAD in line with the Letter to the Borrower (LTB).

45. **Disbursement of IFAD Grant.** The grant disbursement level stands at 28%, being the initial advance of USD 280,000. Posted expenditures, however, amount to USD 335,412 above the initial advance. CCA will be submitting a claim to IFAD in line with the Grant Agreement. Such figures will need to be captured in the PROFIRA financial system for the project to be able to report on the totality of the financing plan in a consolidated manner. **Agreed action:** regularly journalise and post CCA transactions in Pastel accounting system.

46. **SOE spot check.** A SOE spot check has been done on a 40% sample across expenditure categories of WAs 4 and 5 and the mission confirms the existence of the underlying supporting documents.

47. **Counterpart funds.** Actual expenditures on the account of counterpart contribution are cumulatively USD 129,250 or 2.62% of the total financing agreement target of US\$ 4.9 million. This is due to the overall low level of disbursement of the project. There is however sufficient budget provision for the project, as UGX 1.67 billion (equivalent to more than USD 500,000) are available for 2015/16 through the IFMS as and when the need for counterpart funding arises.

48. **Compliance with loan covenants.** The project is in full compliance with the due loan covenants and on-track for the compliance with the other covenants, except for the completion of the baseline survey, originally due by 31 August 2015, then subsequently postponed to 31 March 2016 and now realistically expected by 30 June 2016. This delay, however, is not affecting in any way the actual implementation of the project.

49. **Procurement.** Proper templates for the key procurement and contract management tools (procurement plan, contract register and contract monitoring forms), duly adapted to the national context, are in place and regularly updated. The procurement filing is adequate, although the cross-referencing among different tools should be improved. The PROFIRA contracts committee continues to meet promptly and regularly, which is a major factor in ensuring the efficiency of procurement processes. The quality of the various documents at the different steps of the procurement processes (tender documents, evaluation reports, Contract Committee reports, minutes of negotiations and the overall No Objection requests) is outstanding and could be considered as best practice.

50. All major procurements have however suffered important delays compared to the initial plan. Out of the eighteen major consultancy services contracts (eight for capacity building of SACCOs, nine for the establishment and strengthening of CSCGs and one for the baseline survey), whose procurement process was planned to take between 5 and 6 months, only five have been signed as of to date, taking between twelve and thirteen months. For the other thirteen procurement processes still on-going it is expected that they will be reasonably completed in an average of fourteen to fifteen months. The reasons are various. First of all considerable over optimism at planning stage, as in the national context one could not reasonably expect to complete such complex procurement processes in less than nine to ten months. Second, the complexity of the services required and thus of the proposals presented, which implied longer time than expected for the technical and financial evaluation of proposals, as well as for their negotiations. Finally, there has been some inefficiency in the procurement processes in the first half of 2015, which are now however solved.

51. Ex-post procurement checks were done on some of the processes under the threshold for IFAD prior review.² The mission is satisfied with the quality of the processes and the supporting documents.

52. **Audit.** The contracting of an internal audit firm has been finalised. The firm is working on the annual audit plan/ inception report to be submitted by end of April 2016. The first external audit will be due on 31 December 2016 and cover the four months of operations of FY 2014/15 from the date of first disbursement in March 2015 and full FY 2015/16. The process of selection of the external auditors is proceeding. The Auditor General has invited private external audit firms to bid. The terms of reference were already cleared with IFAD. **Agreed action:** Follow-up with the Auditor General Office to ensure the external auditors are appointed before the end of the financial year.

Agreed action	Responsibility	Agreed date
Implement the IFMS project module	PMU	30 Sep 2016
Set up in Pastel imprest/advance control accounts	PMU	Immediate
Journalise and post CCA transactions in Pastel	PMU	Immediate
Ensure appointment of external auditors	PMU	30 Jun 2016

E. Conclusion

A summary of the main actions agreed is provided at the end of each section above. It is agreed that the next IFAD Supervision and Implementation Support Mission will take place in October 2016. This Aide Memoire was discussed and agreed upon in a wrap up meeting on 29 April 2016, chaired by Ms Maris Wanyera, Commissioner, Development Assistance and Regional Cooperation Department. The mission members, as well as the PMU and relevant staff from MFPED also participated in the meeting. IFAD and the Government of Uganda endorse the findings of the mission.

² Procurement of desktop computers and printers (UGX 133.6 million); procurement of services for staff medical insurance (UGX 90 million); and procurement of services for internal audit (UGX 117.8 million).

Appendix 1: Summary of project status and ratings

Basic Facts

Country	Uganda	Project ID	1630 [1100001630]	Loan/DSF/Grant/ASAP FI No.	2000000236
Project	Project for Financial Inclusion in Rural Areas			Top-up Loan/DSF/Grant/ASAP FI No.	
Date of Update	23-May-2016				
Supervising Inst.	IFAD				
No. of Supervisions	3	No. of Implementation Support/Follow-up missions	1		
Last Supervision	29-Apr-2016	Last Implementation Support/Follow-up mission	29-May-2015		

					USD million	Disb. rate %
Approval	19-Sep-2013			Total financing	35.38	
Agreement	24-Nov-2014	Effectiveness lag	14.4	IFAD Total	29.00	
Entry into force	24-Nov-2014	PAR value	-----	IFAD loan	29.00	14
First disbursement	04-Mar-2015			DSF grant		
MTR		Last amendment		IFAD grant		
Original completion	31-Dec-2021	Last audit		ASAP grant	0.00	0
Current completion	31-Dec-2021			Domestic Total	6.38	
Current closing	30-Jun-2022			Beneficiaries	1.44	0
No. of extensions	0			National Govern	4.93	3
				External Cofinancing Total		

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	4	5	1. Quality of project management	5	5
2. Acceptable disbursement rate	3	4	2. Performance of M&E	4	4
3. Counterpart funds	5	5	3. Coherence between AWPB & implementation	4	3
4. Compliance with financing covenants	5	5	4. Gender focus	4	4
5. Compliance with procurement	5	4	5. Poverty focus	4	4
6. Quality and timeliness of audits	4	4	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	4	4
			8. Climate and environment focus	4	4
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Sub-Comp. 1.1 - SACCO Strengthening		4	1. Institution building (organizations, etc.)	4	4
2. Sub-Comp. 1.2 - Developing a SACCO Union		4	2. Empowerment	4	4
3. Comp. 2 - Community Based Financial Services	4	4	3. Quality of beneficiary participation	4	4

4. Sub-comp. 3.1 - Policy, regulat. and inst. framew.	4	4. Responsiveness of service providers	4	4
		5. Exit strategy (readiness and quality)		
		6. Potential for scaling up and replication	4	4

B.5 Justification of ratings

PMU fully staffed with competent and motivated professionals. Working environment very conducive in terms of office space and equipment. All systems for financial management, procurement and monitoring and evaluation in place and properly managed to effectively and efficiently support the technical units. Setting up of the Pastel accounting system has been further improved. Some good progress is being made in fully mainstreaming the project into the Government's Integrated Financial Management System (IFMS). Disbursement rate at the lowest limit of moderately satisfactory as per IFAD Project Disbursement Profile, but expected to improve considerably in the next quarter with the beginning of the contracts for service providers. Counterpart funds timely available. Compliance with all main loan covenants, except M&E system and baseline, which are slightly delayed, but this will not affect project implementation. Rating for procurement is average between very satisfactory quality of procurement documents and moderately unsatisfactory pace, with important delays. Project management is proactive in addressing implementation issues and creating proper team spirit and collaboration among different units. Execution of the 2015/16 AWPB is moderately unsatisfactory at 27%, due to the delays in all the major contracts for service provision. Execution at the end of the financial year, however, is projected at approximately 60%, as most of these contracts will be signed and the first instalments disbursed. The M&E system is being set up to report at different levels: logframe and results framework finalized; impact baseline survey will be completed by end of June. As actual reporting has not started, however, a conservative rating of 4 has been taken. Start of activities on the ground for sub-comp. 1.1 and comp. 2 expected in fourth quarter of FY 2015/16. Given that no major activities have started on the ground ratings under B.3 and B.4 have been kept conservatively at 4.

Overall Assessment and Risk Profile

	Last	Current
C.1 Physical/financial assets	4	4
C.2 Food security	4	4
C.3 Quality of natural asset improvement and climate resilience	4	3
C.4 Overall implementation progress (Sections B1 and B2)	4	4

Rationale for implementation progress rating

Activities in some components have already started (1.2 and 3.1), while in all others are expected to start soon (last quarter of FY 2015/16), with the related complex procurement processes for the recruitment of the required service providers in their final stages. The competence and good track-record of the shortlisted bidders and the quality of the technical proposals are quite reassuring in terms of the expected quality of the services. While it is reasonable to expect that the project will achieve above 80% of its outputs and outcomes, given the fact that no activity on the ground has started for any of the major investment components, a conservative rating of 4 has been considered.

C.5 Likelihood of achieving the development objectives (section B3 and B4)	4	4
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Rationale for development objectives rating

Albeit at early stages of implementation, there are no reasons to doubt about the likelihood of the project to achieve outcomes and objectives as agreed at project design. All key outputs in terms of SACCOs and CSCGs are fully achievable. However, for the same reasons discussed above under C.4, a conservative rating of 4 has been considered.

C.6 **Risks** Short description of major risks for each section and their impact on achievement of development objectives and sustainability

Fiduciary aspects	While IFMS is proving to be very efficient in payment processing, with the required elements of segregation of duties, some work is still needed before it can handle project accounting demands, completely replacing the Pastel accounting system. For the time being, a parallel accounting system (Pastel) will be maintained until IFMS will be able to produce the necessary financial reports.
Project implementation progress	Delays in finalizing impact level baseline survey. Moderate risk as final report is expected by 30 June 2016, in time for beginning of first contracts for service delivery
Outputs and outcomes	Operating Self-Sufficiency (OSS) for UCSCU the first three quarters is at 27%, below the target of 33% for the year. Furthermore, the operating deficit through March 2016 already exceeds the revised target deficit for the whole FY 2015/16 in the revised Business Plan.
Sustainability	None at this stage

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Budget ceilings in IFMS	Fully align project budgeting with GoU budgeting and ensure realistic budget provisions	continuous	Done for 2015/16
Financial reporting through IFMS	Fully code IFMS and run test period to ensure proper financial reporting	30 Sep 2015 + 6 months	IFMS coded and proved very efficient payment system, but financial reporting still to be sorted.
Disbursement rate	Sign contracts with Service Providers for sub-comp. 1.1 and 2.1	End-March 2016	Delayed, new deadline end-June 2016.
M&E	Complete impact baseline survey	End-June 2016	
UCSCU	Get back on track with Operational Self-Sufficiency (OSS) targets	End-June 2016	

Additional observations

Appendix 2: Log-frame and updated results framework

Results Hierarchy	Indicators	Means of Verification	Risks (R) & Assumptions (A)
<u>Goal</u> Increased income, improved food security and reduced vulnerability in rural areas	<ul style="list-style-type: none"> - At least 20% of the rural poor in the selected project intervention areas with improvements in assets³ ownership index and food security at project completion - 20% reduction in the prevalence of child malnutrition⁴ in rural households (data disaggregated by gender) at project completion - Improved Women's Empowerment in Agriculture Index (WEAI)⁵. 	<ul style="list-style-type: none"> - Household Level Baseline - Mid-term Review - Impact Study - Project Completion Study 	(A) Political stability
<u>Development Objective/Outcome</u> Sustainably increase the access to and use of financial services by the rural poor	<u>Outreach</u> <ul style="list-style-type: none"> - 750,000 men, women and youth are active⁶ members of project supported SACCOs and CSCGs <u>Usage</u> <ul style="list-style-type: none"> - 300,000 members of project supported SACCOs (500+) (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 - At least 80% of project supported SACCOs offer at least 2 savings and 3 loan products to their members - 375,000 members of newly created CSCGS (15,000) actively save in groups (70% women, 15% youth) with increasing amounts of weekly savings and annual pay-outs in each annual cycle - 75,000 members of mature⁷ CSCGS (3,000) have access to improved financial services and have availed themselves at least one such service (credit, savings or insurance) <u>Sustainability</u> <ul style="list-style-type: none"> - At least 90% of project supported SACCOs attain operational sustainability (OSS 100%) by 	<ul style="list-style-type: none"> - M&E data (Results Framework) - Service Provider Reports - UCSCU Annual Report 	(A) Dynamic economy creates opportunities for investment in enterprises and other income generating activities (A) Conducive Tier 4 regulation passed (R) MTIC not able to provide effective regulation/support to SACCOs (R) Self Help Group policy paper allows injection of external government financing into community savings and credit groups (R) Project supported SACCOs not able to attain financial sustainability (R) Failure of UCSCU to attain operational sustainability after five years undermines

³ Assets – will be measured in terms of: - (i) financial assets (e.g. incomes, savings, capital, etc.); (ii) agricultural production assets (e.g. land/farm size, machinery and equipment, farm structures); (iii) physical assets (housing conditions, household items, transport facilities, etc.); and (iv) human assets (i.e. education levels, food security and nutrition).

⁴ Child malnutrition measures by (i) underweight, (ii) stuntedness, and (iii) wasting

⁵ The Women's Empowerment in Agriculture Index measures the role of women in (i) decisions about agricultural production; (ii) access to, and decision making power over production resources; (iii) control over use of income (including credit); (iv) leadership in the community; (v) and time use.

⁶ Active member refers to one that is fully paid-up in the SACCO or CSCG.

⁷ A mature CSCG has the following characteristics: - (i) at least 2 cycles successfully completed; (ii) savings volumes and lending performance justify its need for further development and linkages; (iii) good governance and management practices; (iv) up to date record keeping; (v) Group has expressed a clear interest and provided sound justification, with clear achievable targets for participating in sub-component 2.2 operations.

Results Hierarchy	Indicators	Means of Verification	Risks (R) & Assumptions (A)
	project end - 70% of CSCGs formed are operational after 3 years. - UCSCU has sustainability of operating income, covering 100% of operating expenses by PY5		conducive environment for SACCOs
Component 1. SACCO Strengthening and Sustainability			
<u>Outputs</u>			
0.1.1 Potential of existing SACCOs to establish sustainable operations enhanced	1.1.1 At least 350 existing strong and intermediate SACCOs trained in six thematic areas ⁸ addressing needs over the project implementation period. 1.1.2 All targeted beneficiary SACCOs (500+) are trained in credit and default management over the project implementation period. 1.1.3 At most 150 existing strong and intermediate SACCOs facilitated ⁹ to automate their Management Information Systems (MIS) over the project period.	- M&E data - Service Provider Reports	(A) Adequate allocation and timely release of funds
0.1.2 UCSCU enabled/facilitated to develop into a sustainable SACCO Union	1.2.1. UCSCU provided with technical support in the areas of (i) developing a change management plan, (ii) institutional re-engineering, (iii) piloting new business focused initiatives, (iv) developing of income generating activities, and (v) strengthening the MIS and database. 1.2.2. UCSCU provided with financial support in form of performance-based incentives, which will fund the annual operating loss as specified in the UCSCU Strategic Plan over a period of five (5) years of the project period.	- Progress Reports from CCA - UCSCU Annual Report	(A) Adequate allocation and timely release of funds
Component 2. Community Based Financial Services			
<u>Outputs</u>			
0.2.1 CSCGs formalised and registered	2.1.1 15,000 CSCGs (with at least 375,000 members) established, and trained in Group Savings and Credit Methodology over the project period.	- 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
0.2.2 Mature CSCGs assisted to expand their operations	2.2.1 Provided focused training and promoted innovations, linkages and partnerships amongst 3000 mature CSCGS (with at least 75,000 members) over the project period.		
Component 3. Policy and Institutional Support and Project Management			
<u>Output</u>			
0.3.1 Contributed to the creation of a conducive environment for the development of inclusive financial services in rural areas	3.1.1 MFPED supported to facilitate its role of overall coordination for the rural finance sector during the project period. 3.1.2 Assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs during the project period. 3.1.3 Partner with Bank of Uganda to implement the National Financial Literacy Strategy.	- Project progress reports	(R) The proposed institutions fail to plan and take advantage of the support they are eligible for under the project in a timely manner

⁸ Six thematic areas namely: - (i) Financial Literacy; (ii) SACCO Governance; (iii) Business Development Skills; (iv) Savings and other Product Development/Refinement; (v) Financial Management; and (vi) Strategic Planning

⁹ Facilitation in this case may involve (i) assisting a SACCO to acquire a software for automating its MIS; or if the SACCO already had one – it will be assisted to upgrade equipment, if required and obtain refresher training to improve its financial management and prepare for eventual prudential regulation.

Results Hierarchy	Indicators	Means of Verification	Risks (R) & Assumptions (A)
o.3.2 Project Management	3.2.1 A Project Management Unit (PMU) established and operationalized with the following key functions: - (i) project management and administration; (ii) supervision and management of a series of contracts with service providers; (iii) planning, reporting and communication (M&E and Knowledge Management); (iv) financial management, procurement and governance.	<ul style="list-style-type: none"> - PMU periodic reports - Project periodic department reports - Project consolidated progress reports 	

PROFIRA RESULTS FRAMEWORK (Populated with Baseline Data as at 26th April, 2016)

OBJECTIVE	PERFORMANCE INDICATOR			INFORMATION SOURCE	BASELINE JUNE 2015	TARGET JUNE 2016	TARGET JUNE 2017	TARGET JUNE 2018	TARGET JUNE 2019	TARGET JUNE 2020	TARGET JUNE 2021
DEVELOPMENT OBJECTIVE/ OUTCOME											
<u>Sustainably</u> increase the <u>access to</u> and <u>use</u> of financial services by the rural poor	<u>Outreach and Usage</u>		RIMS Indicators								
	A	Number of fully paid-up members in supported SACCOs	1 st Level	SACCO Census	714,873	750,617	786,360	857,848	929,335	1,000,822	1,072,310
	B	% of fully paid-up female members in supported SACCOs	1 st Level								
	C	% of fully paid-up youth members in supported SACCOs	1 st Level								
	D	%age of project supported SACCOs that offer at least 2 savings and 3 loan products to their members	1 st Level								
	E	Number of members in the newly established CSCGs	1 st Level	Service Providers' Annual Reports	0	37,500	140,625	187,500	225,000	328,125	375,000
	F	% of female members in the newly established CSCGs	1 st Level		0	26,250	98,438	131,250	157,570	229,688	262,500
	G	% of youth members in the newly established CSCGs	1 st Level		0	11,250	42,187	56,250	67,430	98,437	112,500
	H	Number of members in the supported mature CSCGs	1 st Level		0	7,500	28,125	37,500	45,000	65,625	75,000
	I	% of female members in the supported mature CSCGs	1 st Level		0	5,250	19,688	26,250	31,500	45,938	52,500
	J	% of youth members in the supported mature CSCGs	1 st Level		0	2,250	8,438	11,250	13,500	19,688	22,500
	K	Total Share Capital in supported SACCOs (UG Shs million)	1 st Level	SACCO Census	60,472	63,496	66,519	72,566	78,614	84,661	90,708
	L	Total savings in supported SACCOs (UG Shs million)	1 st Level		90,425	94,946	99,468	108,510	117,553	126,595	135,638
	M	Total loan portfolio in supported SACCOs (UG Shs million)	1 st Level		151,180	158,739	166,298	181,416	196,534	211,652	226,770
	N	Cumulative savings in newly established CSCGs (UG Shs million)	1 st Level	Service Providers' Annual Reports	0						
	O	Cumulative loan value in newly established CSCGs (UG Shs million)	1 st Level		0						
	P	Cumulative savings in supported mature CSCGs (UG Shs million)	1 st Level		0						
	Q	Cumulative loan value in supported mature CSCGs (UG Shs million)	1 st Level		0						
	R	% of CSCG members operating viable Income Generating Activities	1 st Level		0						
	S	Number of SACCOs with UCSCU membership		UCSCU Annual Reports	1,253	1,253	1,253	1,253	1,253		
	T	Number of SACCOs that have renewed their membership through making annual subscriptions and statutory contributions to UCSCU			112	200	300	350	400		
	<u>Sustainability</u>										
	U	% of supported SACCOs with OSS>100%	2 nd Level	SACCO Census	85.9%	90%	100%	100%	100%	100%	100%
	V	% of CSCGs formed that are still operational after three years of support	2 nd Level	Service Providers' Annual Reports				80%			80%
	W	UCSCU OSS		UCSCU Audited Financial Statements	31%	33%	61%	75%	100%		
OUTPUTS											

OBJECTIVE	PERFORMANCE INDICATOR		INFORMATION SOURCE	BASELINE JUNE 2015	TARGET JUNE 2016	TARGET JUNE 2017	TARGET JUNE 2018	TARGET JUNE 2019	TARGET JUNE 2020	TARGET JUNE 2021
1.1. Potential of existing SACCOs to establish sustainable operations enhanced	1.1.1	Number of SACCOs trained in six thematic areas ¹⁰ on demand	- Service Provider Reports to PMU	-	70	210	350			
	1.1.2	Number of SACCOs provided with continuous technical assistance		-		70	210	350		
	1.1.3	Number of SACCOs provided with refresher training in the six thematic areas	- Consolidated Report from SACCO Development Unit	-			100	210	350	
	1.1.4	Number of SACCOs trained in credit and default management		-	70	330	500			
	1.1.5	Number of SACCOs provided with continuous technical assistance		-		70	330	500		
	1.1.6	Number of SACCOs provided with refresher training in credit and default management		-			150	300	500	
	1.1.7	Number of SACCOs assisted to acquire software for automating their Management Information Systems (MIS) over the project period.		-		30	50			
	1.1.8	Number of SACCOs that already have a software that will be assisted to upgrade equipment, if required and obtain refresher training to improve their financial management and prepare for eventual prudential regulation over the project period		-		40	60	100		
1.2. UCSCU enabled/facilitated to develop into a sustainable SACCO Union	1.2.1	Financial support (Amt. in Uganda Shillings) provided to UCSCU to fund its annual operating loss.	UCSCU Business Plan 2014/15 – 2018/19	1,176,000,000	997,434,725	772,432,324	483,670,625			
	1.2.2	Management Information System improved for data processing and timely financial reporting; and a standardised reporting system instituted.	CCA Progress Reports							
	1.2.3	New business model developed shifting focus from external funding to member owned, controlled and self-financing								
	1.2.4	UCSCU organogram, job placements, byelaws, apex structure and reporting systems to improve communication reviewed								
	1.2.5	Field Services Manual and SACCO Performance Standards Developed								
	1.2.6	Field Staff trained on their roles and responsibilities								
	1.2.7	CFF accounts separated from operating accounts; sound policies developed; new products and services introduced and marketed.								
	1.2.8	UCUSCU facilitated to capitalise and launch its CFF.								
	1.2.9	UCSCU BOD, Staff and SACCOs trained and sensitized on CFF operations								
	1.2.10	Competitive pricing system introduced								
	1.2.11	Core group of internal auditors trained and equipped with audit tools								
2.1. CSCGs established	2.1.1	Number of CSCGs established, trained and provided with technical assistance in use of the Village Savings and Loan Association (VSLA) methodology	- Service Provider Reports to PMU		1,500	5,625	7,500	9,000	13,125	15,000
	2.1.2	Number of members in established CSCGs trained in basic financial literacy modules	- Consolidated Report from SACCO			65,625	131,250		196,875	262,500 ¹¹
	2.1.3	Number of members in established CSCGs trained in basic business skill development modules				65,625	131,250		196,875	262,500

¹⁰ Six thematic areas namely: - (i) Financial Literacy; (ii) SACCO Governance; (iii) Business Development Skills; (iv) Savings and other Product Development/Refinement; (v) Financial Management; and (vi) Strategic Planning

¹¹ This is 70% of the total targeted members with this type of support.

OBJECTIVE	PERFORMANCE INDICATOR		INFORMATION SOURCE	BASELINE JUNE 2015	TARGET JUNE 2016	TARGET JUNE 2017	TARGET JUNE 2018	TARGET JUNE 2019	TARGET JUNE 2020	TARGET JUNE 2021
2.2. Mature CSCGs equipped to expand their operations	2.2.1	Number of mature CSCGs provided with focused training and are exposed to more advanced financial services through innovations, linkages and establishing partnerships	Development Unit		300	1,125	1,500	1,800	2,625	3,000
	2.2.2	Number of members in mature CSCGs trained in advanced financial literacy modules				18,750	37,500		56,250	75,000 ¹²
	2.2.3	Number of members in mature CSCGs trained in advanced business skill development modules				18,750	37,500		56,250	75,000
3.1. Contributed to the creation of a conducive environment for the development of inclusive financial services in rural areas	A/ MFPED supported to facilitate its role of overall coordination for the rural finance sector during the project period (See Note 4)		Progress Report from FSD/MFPED							
	B/ Assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs during the project period (See Note 5)		Progress Report from DCD/MTIC							
	3.1.1	Facilitate turn-around activities to support SACCOs facing difficulty in their operations		20	30	40	50	50	50	
	C/ Partner with Bank of Uganda to implement the National Financial Literacy Strategy (See Note 6)		Progress Report from BOU							
3.2. Project Management	3.2.1	Quality of Project Management and Administration	IFAD PSR ratings – Implementation Support Mission Reports	4	4	4	4	4	4	4
	3.2.2	Quality of Financial Management		4	4	4	4	4	4	4
	3.2.3	Performance of M&E, Communication and KM		4	4	4	4	4	4	4
	3.2.4	Compliance with Procurement Guidelines		4	4	4	4	4	4	4
	3.2.5	Likelihood of achieving SACCO Component outputs and outcomes		4	4	4	4	4	4	4
	3.2.6	Likelihood of achieving CSCG Component outputs and outcomes		4	4	4	4	4	4	4

NOTES:

1. The following calculations will also be made on a semi-annual basis: -
 - i. Share capital, savings and loan portfolio per SACCO
 - ii. Share capital, savings and loan portfolio per member
 - iii. Share capital, savings and loan portfolio per SACCO supported over a given period
 - iv. Share capital, savings and loan portfolio per member supported over a given period
2. The following data will also be provided on a semi-annual basis: -
 - i. Geographical location of the supported CSCGs
 - ii. Cumulative savings and loan value per CSCG
 - iii. Average savings and loan value per CSCG member
 - iv. Cumulative savings and loan value per CSCG supported over a given period
 - v. Average savings and loan value per CSCG member supported over a given period
 - vi. Cumulative savings and loan value (disaggregated by gender and type of support) in CSCGs

¹² This is 100% of the total targeted members with this type of support.

- vii. Usage of the loans taken by CSCG members
 - viii. % of CSCG members that are also individual members to SACCOs
3. Regular assessments on the quality of trainings provided to SACCOs and CSCGs by the service providers will be made and shared in the project progress reports. Feedback will be provided to service providers during regional reflection forums, or during contract management meetings.
4. In terms of reporting on the projects efforts to support the Financial Services Department (MFPED) to facilitate its role of overall coordination for the rural finance sector; progress on the following interventions will be reported on in the period under review:
- i. The FSD/MFPED facilitated to hold consultative meetings for the review and elaboration of the financial services strategy; developing the Financial Inclusion Policy; and for establishing Tier IV Regulation and the Regulatory Authority.
 - ii. The FSD/MFPED facilitated to undertake study tours for developing the Financial Inclusion Policy; and for establishing Tier IV Regulation and the Regulatory Authority.
 - iii. Promoted the revitalisation of the Uganda Microfinance Forum through facilitating stakeholder workshops.
5. In terms of reporting on the projects efforts to assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs; progress on the following interventions will be reported on in the period under review:
- i. The Department of Cooperative Development (MTIC) facilitated to operationalise and upgrade its computer systems used to maintain the SACCO registry and database.
 - ii. The Department of Cooperative Development (MTIC) facilitated to update the SACCO registry through field based verification on the status of SACCOs.
 - iii. Initiation and operationalisation of local and regional SACCO forums funded. These will be used to provide information on new regulations and stimulate exchange of knowledge and good practices.
6. In terms of reporting on the partnership with Bank of Uganda to implement the National Financial Literacy Strategy; progress on the following interventions will be reported on in the period under review:
- i. BOU facilitated to develop and translate Financial Literacy Materials into local languages of the Project Implementation Area.
 - ii. BOU facilitated to multiply/produce copies of available Financial Literacy Material for distribution in the Project Implementation Area.
 - iii. BOU facilitated to prepare training manuals to tailor national messages to SACCOs and CSCGs.
 - iv. BOU facilitated to conduct sensitization campaigns in relatively poor communities in catchment areas of SACCOs and CSCGs being supported under the project.

Appendix 3: Summary of key actions to be taken within agreed timeframes

Action Area	Action Agreed	Date	Whom
Component 1 – SACCOs Strengthening and Sustainability	Sign contract with the service providers for six key areas	PMU	30 Jun 2016
	Produce inception report for 6 key areas (with draft training materials)	SPs	31 Aug 2016
	Submit to IFAD evaluation report for credit and default management	PMU	15 May 2016
	Sign contract with the service providers for credit and default management	PMU	30 Jun 2016
	Select 50 SACCOs for "turnaround"	MTIC, PMU	30 Jun 2016
	Amend Annex 1 of MoU between UCSCU and MFPED	MFPED/UCSCU	30 May 2016
	Ensure payment of membership fees and dues	UCSCU	30 Jun 2016
	Ensure 2015/16 Audit is finalized	UCSCU	31 Jul 2016
	Coordinate information on SACCOs' training	UCSCU/PMU	Continuous
	Put in place proactive budget control systems	UCSCU	30 Jun 2016
Component 2 – Community Based Financial Services	Produce inception reports for establishment of CSCGs (sub-comp. 2.1)	SPs	30 May 2016
	Organise inception workshop	PMU	30 Jun 2016
	Start operations on ground for establishment of CSCGs	SPs	30 Jul 2016
	Submit technical report for CSCG strengthening (sub-comp. 2.2) in core regions for IFAD NO	PMU	31 May 2016
	Sign contracts for CSCG strengthening in core regions	PMU	30 Aug 2016
	Advertise for Eols for CSCG strengthening in region 5	PMU	15 May 2016
	Sign contracts for CSCG strengthening in region 5	PMU	31 Dec 2016
Sub-comp. 3.1 – Policy, Regulatory and Institutional Environment	Ensure approval of the Bill	MFPED	31 May 2016
	Finance training in Boulder for inter-institutional team	PMU	15 Aug 2016
	Agree on responsibilities for SACCOs and MFIs data base	MFPED/MTIC/UBOS	30 Sep 2016
	Submit budget for SACCO de-registration process to PROFIRA	MTIC	15 May 2016
Project Management	Finalize Communication Strategy	PMU	31 May 2016
	Finalize impact baseline study	PMU	30 Jun 2016
	Contract the MIS service provider	PMU	30 Jun 2016
	Submit RFP for single-sourcing for SAVIX for IFAD No Objection	PMU	31 May 2016
	Sign contract with VSL Associates for implementation of SAVIX	PMU	31 Jul 2016
Fiduciary Aspects	Implement the IFMS project module	PMU	30 Sep 2016
	Set up in Pastel imprest/advance control accounts	PMU	Immediate
	Journalise and post CCA transactions in Pastel	PMU	Immediate
	Ensure appointment of external auditors	PMU	30 Jun 2016

Appendix 4: Physical progress measured against AWP&B, including RIMS indicators

Component & objective	Indicator and Activity	Unit	FY 2015/16			Cumulative Actual	Appraisal Target	%
			AWP&B Target June 2016	Actual	%			
Component 1: SACCOs strengthening and sustainability								
Output 1.1: Potential of existing SACCOs to establish sustainable operations	1.1.1 At least 350 existing strong and intermediate SACCOs trained in six thematic areas	SACCOs	70	0	0%	0	350	0%
	1.1.2 All targets beneficiary SACCOs are trained in credit and default management	SACCOs	100	0	0%	0	500	0%
	1.1.3 At most 150 strong and intermediate SACCOs facilitated to automate their MIS system Milestones: <ul style="list-style-type: none">SACCOs assisted to acquire software for MIS automationSACCOs which already have software assisted to upgrade equipment / obtain financial management refresher training / prepare for prudential regulation	SACCOs	30	0	0%	0	150	0%
			10	0	0%	0	50	0%
			20	0	0%	0	100	0%
	Additional milestones: <ul style="list-style-type: none">Conduct SACCO Census for 112 DistrictsShortlist of SACCOs developedUp to 8 contracts signed with service providersMoUs signed between SACCOs and service providers	Districts SACCOs Contracts MoUs	112	109	97%	109	112	97%
500			453	91%	453	500	91%	
8			0	0%	0	8	0%	
500			0	0%	0	500	0%	
Output 1.2: UCSCU enabled/ facilitated to develop a sustainable SACCO union	1.2.1 UCSCU provided with technical support in the areas of (i) developing a change management plan, (ii) institutional re-engineering, (iii) piloting new business-focused initiatives, (iv) developing income generating activities and (v) strengthening the MIS and database. Milestones: <ul style="list-style-type: none">Developing new products and servicesReviewing and updating UCSCU bye-laws		Done	Done	100%	Completed		
		Services Reviews	Continuous 1	Continuous 1	100%			
	1.2.2 UCSCU provided with financial support in form of performance-based incentives, which will find the annual operating loss as specified in the UCSCU Strategic Plan. Milestones: <ul style="list-style-type: none">Quarterly financial statements producedSemi-annual performance reportsAppraisal reports from CCA	UGX	997,434,725	748,076,045				
		Reports	4	3	75%			
		Reports	2	1	50%			
	Reports	2	1	50%				
Component 2: Community based financial services								
Output 2.1: CSCGs formalised and registered	2.1.1 15000 CSCGs (with at least 375,000 members) established, and trained in Group Savings and Credit methodology Milestones: <ul style="list-style-type: none">Groups established in North EastGroups established in West NileGroups established in Mid-NorthGroups established in EasternGuidelines on CSCG shared with service providers	Groups	1500	0	0%	0	15000 (first 3 yrs: 7500)	0%
		Groups	124	0	0%	0		0%
		Groups	330	0	0%	0	620	0%
		Groups	431	0	0%	0	1649	0%
		Groups	615	0	0%	0	2157	0%
			Done	100%	Done	3074	100%	

	<ul style="list-style-type: none"> - Performance indicators identified - Capacity Assessment reports undertaken - Inception / KML reports - Technical backstopping reports 			Done	100%	Done		100%
				-	0%	-		0%
				-	0%	-		0%
				-	0%	-		0%
<i>Output 2.2: Mature CSCGs assisted to expand their operations</i>	2.2.1 Provided focused training and promoted innovations, linkages and partnerships amongst 3000 mature CSCGs (with at least 75,000) Milestones: <ul style="list-style-type: none"> - Groups strengthened North East - Groups strengthened West Nile - Groups strengthened Mid-North - Groups strengthened Eastern - Groups strengthened elsewhere 	Groups	300	0	0%	0	3000 (first 3 yrs: 1500)	0%
		Groups	60	0	0%	0	300	0%
		Groups	60	0	0%	0	300	0%
		Groups	60	0	0%	0	300	0%
		Groups	60	0	0%	0	300	0%
		Groups	60	0	0%	0	300	0%
Component 3: Policy and institutional support and project management								
<i>Output 3.1: Contributed to the creation of a conducive environment for the development of inclusive financial services in rural areas</i>	3.1.1 MFPED supported to facilitate its role of overall coordination for the rural finance sector Milestones: <ul style="list-style-type: none"> - Meetings on Tier IV - Study Tour abroad for International benchmarking - Retreats for legislators - Establish regional financial inclusion fora 		Approved 2 1 -	1 st reading Done Done -	25% 100% 100% 0%	Approved	Approved	25% 100% 100% 0%
	3.1.2 Assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs during the project period. Milestones: <ul style="list-style-type: none"> - Up to date database in place - Active regional SACCO forums - Turn-around SACCO activities initiated 		Continuous Continuous	Continuous Continuous Done	0% 0% 100%			0% 0% 100%
	3.1.3 Partner with Bank of Uganda to implement National Financial Literacy Strategy Milestones: <ul style="list-style-type: none"> - Dialogue with GIZ 		Continuous	Done				
	3.1.4 Establish Other Partnerships Milestones: <ul style="list-style-type: none"> - MoU with Ministry of Trade, Industry and Cooperatives – MTIC - MoU with Uganda Cooperative College – Kigumba - Partner with Financial Sector Deepening 		1 1	Drafts produced	50% 50%			100% 100%
<i>Output 3.2: Project Management</i>	3.2.1 A PMU established and operationalised with the following functions: (1) project management and administration, (2) supervision and management of a series of contract with service providers, (3) planning, reporting and communication (M&E, KM) and (4) financial management, procurement and governance Milestones: <ul style="list-style-type: none"> - Finalise PIM - Project Oversight Committee established 		1 1 1	Done Done On-going				

	<ul style="list-style-type: none"> - Baseline data established - Data management system in place - KM&L forums being held - IFAD PSR ratings 4 		1 4 4	On-going - 5	0% 125%			
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Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

Table 5A: Disbursement performance by financier as at 31 March 2016 (USD'000)

Financier	Appraisal	Actual	% Actual
IFAD Loan/a	29,001	3,313	11.4
Government	4,935	129	2.6
IFAD grant	1,000	280	28
CCA/WOCCU	250	-	-
Beneficiaries	1,443	-	-
Total	36,629	3,722	10.2

a/ in SDR terms the disbursement is 12.3% the SDR has been weakening

Table 5B: Financial performance by financier by compared using actual loan utilization (excluding initial advance) as at 31 March 2016 (USD'000)

Component	IFAD loan			GoU			IFAD grant			CCA/WOCCU			Beneficiaries			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
A. SACCO strengthening and sustainability																		
1.1 SACCO strengthening	9,110	155	1.7	1,774	-	-	-	-	-	-	-	-	1,443	-	-	12,327	155	1.3
1.2 Developing a sustainsble SACCO Union	1,258	568	45.1	208	-	-	1,000	335	34%	250	-	-	-	-	-	2,716	903	33.2
Sub-total	10,368	723	7.0	1,982	-	-	1,000	335	34%	250	-	-	1,443	-	-	15,043	1,058	7.0
2. Community based financial services																		
2.1 Establishment of new community savings and credit group	8,132	9	0.1	1,346	-	-	-	-	-	-	-	-	-	-	-	9,478	9	0.1
2.2 CSGC Strengthening, innovations and partnerships	3,823	69	1.8	633	-	-	-	-	-	-	-	-	-	-	-	4,456	69	1.5
Sub-total	11,955	78	0.7	1,979	-	-	-	-	-	-	-	-	-	-	-	13,934	78	0.6
3. Policy and institutional support and project management																		
3.1 Policy, regulatory and institutional enviroment	1,787	259	14.5	372	0.25	0.07	-	-	-	-	-	-	-	-	-	2,159	259	12.0
3.2 Project management	4,891	599	12.3	602	129.25	21.47	-	-	-	-	-	-	-	-	-	5,493	729	13.3
Sub-total	6,678	858	12.8	974	129.49	13.27	-	-	-	-	-	-	-	-	-	7,652	987	12.9
Total	29,001	1,659	5.7	4,935	129.25	2.62	1,000	335	34%	250	-	-	1,443	-	-	36,629	2,123	5.8

Table5 C: Loan 900 status of available funds as at 31st March 2016 (SDR'000)

Code	Category description	Allocated	Disbursed up to WA 5	% Disbursed up to WA 5	WA- In progress	Projected loan utilization	Projected loan utilization (%)	Projected available balance
123202	Equipment and material	190	28	15%	1	28	15%	162
123203	Other investment costs	14,910	325	2%	153	479	3%	14,431
123204	Operating costs	2,270	584	26%	95	679	30%	1,591
123205	Unallocated	1,930	-	-		-	0%	1,930
	Total	19,300	937	5%	249	1,186	6%	18,114
270001	Authorised allocation	-	1,437	-				
	Total	19,300	2,374	12%				

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
B (6)	There shall be a designated account (USD) and operational account (UGX) both in the Bank of Uganda		Complied	
B (7)	The borrower shall provide counterpart financing to cover taxes and duties estimated at USD 4,900,000		Not yet due	Compliant with respect to counterpart financing due as of today
E (1 a)	The borrower shall constitute a PMU acceptable to the Fund and in accordance with schedule 1	Condition of withdrawal	Complied	
E (1 b)	No withdrawal shall be made under subcomponent 1.2, prior to approval of IFAD grant as specified in schedule 1	Condition of withdrawal	Complied	
Schedule 3 (1)	Ensure that the strategic and policy environment is conducive for the project investment (in particular: Tier IV regulatory framework and no public interference with CSCG operations).	Continuous	Complied	
Schedule 3 (2)	The borrower shall ensure that a Project Implementation Manual (PIM) shall be submitted to the Fund for its comments and No Objection	Within 9 months from entry into force (31 Aug 2015)	Complied	
Schedule 3 (3)	A project Oversight Committee (POC) shall be established to be chaired by MFPED with members from Public and Private Institutions.	Within 6 months from entry into force (31 May 2015)	Complied	
Schedule 3 (4)	The borrower shall establish a PROFIRA contracts committee	Within 6 months from entry into force (31 May 2015)	Complied	
Schedule 3 (6)	Establish a planning monitoring and evaluation system (PM&E)	Within 12 months from entry into force (30 Nov 2015)	Delayed (on-going)	Logframe and results framework completed. For baseline see below. Reporting tool for CSCG (Savix) to be established by 31 July. MIS to be set up by 30 September
Schedule 3 (6)	Baseline survey	Within 9 months from entry into force (31 Aug 2015)	Deadline postponed to 31 March 2016	Delayed. Outcome and output baseline on-track. Impact survey on-going, expected to be completed by 30 June 2016. Delay does not affect project implementation.

Appendix 7: Follow-up on agreed actions

Area	Agreed action	Responsible	Date	Status
Comp. 1.1 (SACCO)	Finalise selection of beneficiary SACCOs for Eastern and Northern Regions	PMU	31 Oct 2015	Done. Total No. of SACCOs selected (responding to criteria) still falls short by 47 with respect to target of 500. Additional 50 SACCOs will be selected from 'Turnaround' category (see below) by 30 June 2016
	Complete technical and financial evaluation for Western and Central regions	PMU	30 Nov 2015	Technical Evaluations completed on 28/11/15 (C&D) and 21/11/15 (Six Areas). Financial Evaluations (C&D and 6 areas) completed on 30.03.16. In the final stages of contracting. Implementation will begin before end of financial year
	Send RFPs to shortlisted SPs for Eastern and Northern Regions	PMU	30 Nov 2015	Done. RFP Document (Six Areas and C&D) issued on 28.09.15.
	Investigate potential turnaround SACCOs and select eligible ones	MTIC PMU	31 Jan 2016	List of 50 eligible SACCOs generated from Census. Action plan developed with MTIC.
Comp. 1.2 (UCSCU)	Release first quarter tranche for 2015/16 (UGX 249.25 M) to UCSCU	PMU	31 Oct 2015	Done.
	Revise financial projections for 2015/16-2018/19	UCSCU	30 Nov 2015	Done.
	Prepare sensitivity analysis for budget for 20% revenue shortfall	UCSCU	30 Nov 2015	Done.
	Agree on revenue-based criterion for triggering performance incentive	UCSCU / CCA / PMU	31 Dec 2015	To be reviewed after Yr 1.
Comp. 2.1 (establishm.)	Complete evaluation of financial proposals and submit to IFAD for NO	PMU	30 Nov 2015	Financial Evaluation Report completed on 11.12.15 sent to IFAD for NO on 18.12.15.
	Sign contracts with SPs	PMU	15 Feb 2016	Contracts signed on 20 April 2016.
Comp. 2.2 (linking)	Finalise shortlist for four core regions (including IFAD NO)	PMU/ IFAD	15 Nov 2015	Completed. Evaluation Report for EOI completed on 28.10.15. IFAD NO to Shortlist issued on 16.12.15.
	Issue RFP for four core regions	PMU	1 Dec 2015	Completed. RFP issued on 22 nd February 2016. Technical and financial proposals received. Evaluation slated for 25 th to 29 th April 2016.
	Sign contracts for four core regions	PMU	30 Jun 2016	Currently at technical evaluation stage. Contract signing scheduled by 30 June 2016.
	Launch the Eol for the fifth region	PMU	30 Nov 2015	Delayed. List of 25 districts identified. Eol to be launched by 15 May 2016
Comp. 3.1 (policy)	Submit draft Bill of Parliament	MFPED	31 Dec 2015	Submitted to parliament and gazetted on 23 December 2015. Bill approved on 3 May 2016.

	Benchmarking visit to Ghana	PMU	15 Dec 2015	Undertaken in November 2015.
	Issue specific notices to SACCOs that are out of compliance	MTIC	31 Dec 2015	Informed by SACCO census, action plan in place for delivery (with MTIC). Letters being served.
	Complete nationwide census of SACCOs to update the Register	MTIC	30 Jun 2016	Only 3 districts remaining, Kampala, Kalangala and Buvuma. Expected finalised by June 2016.
	Draft MoU MTIC/MFPED	MTIC/PMU	30 Nov 2015	Draft available. The draft MOUs were informally shared with IFAD for prior comments, to be reviewed during mission.
	Officially request DPs to support DS on roadmaps for Tier IV	MFPED	15 Nov 2015	GOU wrote a letter to DPs on 10 th Nov 2015, soliciting for: - Financial Support; Technical Assistance; and Identification of Key activities to support the Tier IV process
Comp. 3.2 (mgt)	Propose formula for annual adjustments of nominal salaries of PMU staff	MFPED	31 Dec 2015	Discussions with PS/ST initiated, desired results not yet forthcoming
	Advertise for M&E Officer	PMU	15 Nov 2015	Shortlisting being done.
	Provide consolidated comments to final draft of the PIM	IFAD	15 Nov 2015	Comments received from IFAD
	Finalise PIM based on comments received	PMU	31 Dec 2015	Final PIM in place, targets and SACCO MIS implementation modalities to be further developed
	Provide technical support for COM strategy	IFAD	31 Dec 2015	Not done due to a COM specialist not being available in the IFAD country office as envisaged. Management has discussed the draft internally.
	Finalise log-frame and results framework and submit to IFAD	PMU	31 Oct 2015	Log-Frame Finalised (August 2015), and Results Framework Finalised (January 2016). Outcome level baseline data still to be completed, including setting annual targets.
	Finalise procurement for impact baseline survey	PMU	31 Dec 2015	Procurement has been finalised and the contract was signed on 1 March. Data collection is undergoing. A first draft report expected by 6 June, the final by 30 June.
	Finalise TOR for MIS development	PMU	31 Oct 2015	TOR has been finalised.
	Launch procurement process for MIS	PMU	31 Dec 2015	Procurement has been launched, and is at technical evaluation stage.
Fiduciary	Issue RFP for VSL Associates for MIS interface with SAVIX	PMU	31 Dec 2015	RFP has not been finalised due to uncertainty of process and outcome.
	Set standard project financial reports in Pastel	PMU	30 Oct 2015	Done
	Revise the Chart of Accounts to extend to expenditure category level	PMU	30 Oct 2015	Done
	Share with PMU SoEs and financial reports for	CCA	Continuous	Happens continuously

	grant expenditures			
	Recast the AWPB 2015/16	PMU	15 Nov 2015	Awaiting comments from Mission
	Retrospectively journalise and report on full GoU contribution	PMU	15 Nov 2015	Done
	Introduce in the RFPs a price variation clause	PMU	20 Nov 2015	Addendum issues and inserted. Final contracting processes on going.

Appendix 8: Mission Terms of Reference

TO: Mr William Steel, rural finance specialist
Mr Jorma Ruotsi, rural finance specialist
Mr Davis Atugonza, financial management specialist
Ms Line Kaspersen, monitoring and evaluation specialist

FROM: Alessandro Marini,
IFAD Country Director and Team Leader

DATE:

SUBJECT: Terms of Reference. Supervision and Implementation Support mission for the Project for Financial Inclusion in Rural Areas (PROFIRA, 900-UG), 18-29 April 2016.

Background

1. The Project for Financial Inclusion in Rural Areas (PROFIRA) was approved by the IFAD Board in September 2013 and signed in November 2014. The Project Management Unit (PMU) has concluded most procurement processes and contracted the service providers for implementation of components 1 and 2. Actual activities on the ground are expected to start during the month of April
2. A grant for technical support to UCSCU through CCA was also approved by IFAD in January 2014 and the related Grant Agreement between CCA and IFAD has been signed. CCA has already started to provide technical assistance to UCSCU
3. The principles for Tier IV regulation were approved by the Cabinet in June 2013, which was a very important first step for the creation of a conducive policy environment for PROFIRA investment. The Microfinance Bill has been approved by Cabinet and submitted to Parliament. Discussions have started between the Department of Financial Services and interested partners for supporting the implementation of the new regulatory framework after approval of the Bill by Parliament.

Mission objectives and outputs

4. From 18 to 29 April 2016 an IFAD Supervision and Implementation Support mission will visit PROFIRA to assess the implementation status of the project. The overall objectives of the mission are to review the implementation progress of the project, the implementation of the recommendations from previous missions and the status of execution of the AWPB 2015/16 and to provide the necessary implementation support to the PMU. Particular focus will be on the following key areas:
 - The status of preparations of services providers for the implementation of activities related to the two main PROFIRA components;
 - The status of implementation of the technical assistance grant to UCSCU;
 - Policy dialogue with MFPED on the implementation of the new microfinance regulatory framework;
 - The setting up of the project M&E system;
 - The overall financial management of the project.
5. The main expected outputs are:
 - An Aide Memoire summarising the main findings and agreed actions of the mission, to be discussed with Government, agreed upon and signed;
 - A Management Letter highlighting the main issues and recommendations of the mission, to be sent to Government within 10 days of the end of the mission;

- A supervision report, following IFAD template, compiling all the different contributions and outputs of the mission.

Individual tasks and responsibilities

6. Each team member will be assigned individual tasks and responsibilities to contribute to the objectives of the mission, as specified here below, and will be expected to contribute to the main outputs of the mission in his/her respective areas as requested by the team leader.

7. **Mr Alessandro Marini, IFAD Country Director and team leader.** He will be responsible for coordinating the team members to ensure that the mission reaches its objectives and responds to its terms of reference in a professional, efficient, effective and timely manner. This includes coordinating, reviewing and managing the contributions of team members and working closely with them to ensure proper quality of the final outputs. He will be responsible for drafting: (i) the mission's aide-memoire with inputs from the different team members; and (ii) the Management letter at the end of the mission. Besides his overall task of leading the mission, he will:

- Review the overall execution of the AWPB 2015/16, with the appropriate inputs from the other team members with respect to activities in their respective technical areas;
- Review the status of implementation of key loan covenants;
- Review the procurement systems and templates used by the project, including the procurement plan, contract monitoring forms and contract register;
- Undertake an ex-post review on a sample of procurement processes and procurements below the No Objection threshold;
- Assess the adequacy of the project management systems put in place, including the overall project staffing, project equipment, etc.

8. He will prepare and present the mission Aide Memoire at a wrap-up meeting at the Ministry of Finance, Planning and Development at the end of the mission and ensure timely delivery of inputs from mission members prior to departure from the country. Within 10 days of the end of the mission, he will prepare a Management Letter to Government, highlighting the main issues and recommendations of the mission. He will also be responsible to assemble the final supervision report following IFAD's template.

9. **Mr William Steel, rural finance specialist.** Within the overall objectives of the mission, he will be responsible for reviewing the implementation progress of component 1 and sub-component 3.1. In particular, he will:

- Review the final results of the data collection and analysis for the selection of the SACCOs to be supported by PROFIRA and validate the final results;
- Discuss with the service providers contracted for the provision of capacity building services to SACCOs their implementation plans and provide recommendations as appropriate;
- Assess the progress made in identifying and supporting turn-around SACCOs;
- Review the status of implementation of the technical assistance provided by CCA to UCSCU;
- Assess the status of implementation by UCSCU of its Business Plan and the realism of the revised financial projections for 2015/16-2018/19;
- Assist the Country Director in discussing with the Department of Financial Services the way forward for the operationalization of the new microfinance regulatory framework and how PROFIRA and IFAD could best support this process;
- In close coordination with the M&E specialist review the proposed outcomes, outputs, targets and indicators for these components.

10. He will contribute to the final Aide Memoire and Supervision Report in relation to the above areas, following the IFAD document template and formatting. He will also prepare a brief technical note summarizing the findings in his area of competence, including time bound recommendations for action.

11. **Mr Jorma Ruotsi, rural finance specialist.** Within the overall objectives of the mission, he will be responsible for reviewing the implementation progress of component 2. In particular, he will:

- Review the status of the procurement process for the selection of the service providers for CSCG strengthening, innovation and partnership (sub-component 2.2);
- Discuss with the service providers contracted for CSCG establishment (sub-component 2.1) their implementation plans and provide recommendations as appropriate;
- In close coordination with the M&E specialist review the proposed outcomes, outputs, targets and indicators for this component.

12. He will contribute to the final Aide Memoire and Supervision Report in relation to the above areas, following the IFAD document template and formatting. He will also prepare a brief technical note summarizing the findings in his area of competence, including time bound recommendations for action.

13. **Mr Davis Atugonza, financial management specialist.** Within the overall objectives of the mission, he will be responsible for reviewing the financial management and fiduciary aspects of the project. In particular, he will:

- Assess the established capacity and systems for financial management;
- Review the progress made to mainstream the project into the Government's Integrated Financial Management System;
- Assess the adequacy of the installed project accounting software, including to duly capture the totality of counterpart funds;
- Review the envisaged arrangements for external and internal audit;
- Carry out spot-checks on Statement of Expenditures;
- Undertake financial management assessment ratings in accordance with IFAD risk-based disbursement guidelines;
- Provide inputs on fiduciary PSR ratings.

14. He will contribute to the final Aide Memoire and Supervision Report in relation to the above areas, following the IFAD document template and formatting. He will also prepare a brief technical note summarizing the findings in his area of competence, including the risk-based FMAQ form and the SoE spot-check evidence as annexes.

15. **Ms Line Kaspersen, M&E specialist.** Within the overall objectives of the mission, she will be responsible for reviewing the M&E aspects. In particular, she will:

- Review the logframe and results framework and, in consultation with the other members of the team, provide the necessary inputs to the PMU;
- Review the status of implementation of the M&E system, including the collection of baseline data at different levels of the results framework and the setting up of the project MIS;
- Review the status of the MTIC database on SACCOs and make recommendations on the support to be provided by PROFIRA in this respect.

16. She will contribute to the final Aide Memoire and Supervision Report in relation to the above areas, following the IFAD document template and formatting. She will prepare a brief technical note summarizing the findings in her area of competence, including time bound recommendations for action.

Technical Annexes

Annex 1: Subcomponent for MIS Support to SACCOs

Background

1. The original concept of PROFIRA support to SACCOs was to establish a “SACCO Capacity Building Fund [with] matching grants [that] could be used to procure capacity building services from those training institutions that offer the most suitable services for the needs of each SACCO” (Identification Report, 2012). The initial scope was to reach about 300 SACCOs. In the design process, the request by Government to increase the number of SACCOs led to the introduction of a subcomponent to provide training in Management Information Systems (MIS) to an additional 150 SACCOs, as a way of including more, presumably stronger SACCOs at relatively modest cost compared to a full array of capacity-building modules. It was also recognized that strengthening MIS capabilities would help to prepare SACCOs for eventual licensing and supervision by the Uganda Microfinance Regulatory Authority (UMRA) that is to be established under the Tier 4 Microfinance Institutions Bill (currently before Parliament).
2. There was, at the time, no empirical basis for establishing a realistic target of the number of SACCOs that would be in a position to benefit from MIS training. Based on experience under RFSP, in which it proved impossible to find the targeted number of SACCOs that were ready to install MIS software, the PROFIRA subcomponent design allowed that some 50 of the 150 targeted SACCOs might need additional support (hardware as well as software) in order for the MIS training to make sense.
3. To prepare adequately for implementation of the MIS subcomponent, and to avoid the mistakes of RFSP in this area, the PROFIRA PMU has undertaken an in-depth “Needs Assessment on Management Information Systems” (February 2016). This was based on intensive follow-up of 167 SACCOs identified through the SACCO Census as potentially eligible for support under the MIS subcomponent, either with existing software or potentially ready to install software (which will be receiving training in Credit and Default Management (and in some cases, a package of six additional training modules). This note proposes a revised approach to the MIS subcomponent in response to the detailed information provided in this needs assessment and also to respond to developments in the regulatory and competitive environment.

Regulatory and Competitive Environment

4. Under the Tier 4 MFI Bill, UMRA would be responsible for supervising an upper tier of perhaps 200-300 relatively large SACCOs (apart from a few of the largest ones, which would be licensed by the Bank of Uganda [BoU] under an amended Microfinance Deposit-Taking Institutions [MDI] Act). The number it can effectively supervise will depend in part on its budget and in part on the efficiency with which it can undertake off-site supervision. During the Benchmarking tour to Ghana, it was learned that the major challenge to the Bank of Ghana in supervising MFIs was the poor reporting capabilities of the MFIs, and the excessive cost of undertaking on-site supervision to obtain the data needed for effective prudential supervision. At the same time, the 140 Rural and Community Banks in Ghana (which bear some resemblance to the SACCO system in Uganda) has been fully digitally networked, such that the ARB Apex Bank can readily monitor transactions throughout the system in real time, as well as the performance of each Rural Bank. This requires that each institution be adequately computerized, its branches fully networked, and the whole system networked to a central point. Such a system should be the desired goal for UMRA if it is to be able to undertake its supervisory role cost-effectively. Ultimately, it would be desirable for the entire SACCO system to have such a capability, but even networking the top 200-300 SACCOs would be an ambitious, albeit feasible and highly desirable medium-term goal.
5. The advent of mobile and agency banking represents a significant competitive challenge to SACCOs, but also an opportunity. Commercial banks can now reach rural clients without incurring the cost of a brick-and-mortar presence. For example, the Housing Finance Bank’s M-Cash program offers “an e-wallet that can be accessed through the different HFB branches and M-Cash agents in

Uganda.”¹³ Many SACCOs act as mobile money agents, but this does not necessarily bring them new members and does not offer the range of services available through e-banking. On the other hand, Equity Bank, through the Integrated Financial Inclusion Project, is working directly with SACCOs to install an MIS system that enables its members to link to the rest of the financial system through MasterCard, as well as different mobile money operators. Although relatively expensive at present, such networked MIS systems that integrate SACCOs into the financial system may be critical for the survival, let alone growth of SACCOs operating in competitive markets where commercial banks, MDIs, or their agents are present.

Key Findings

6. The most critical findings of the in-depth study, which necessitate a re-thinking of the MIS subcomponent, are:

- Only 71 of the eligible SACCOs (not 82 as initially indicated from the Census) have functioning MIS systems (10 different systems).
- Among those, only 60 out of 130 branches have MIS systems – i.e., even these 71 SACCOs would need new software installed in 70 branches to have a fully functional MIS system.
- Choice of MIS system is fluid: “many SACCOs visited were using more than one MIS, in the process of moving to another MIS, or using an MIS different from the first MIS installed” (including some that had abandoned the MIS system provided under RFSP).

7. This means, first, that the design target of providing only MIS training to 100 SACCOs with fully functioning MIS systems is not feasible; and, second, even the 71 SACCOs that have functioning MIS systems would not benefit fully from the training without extending additional software and hardware to their branches. In addition, there are another 85 SACCOs that would be eligible for MIS support, but only if it includes software and hardware, as well as training.

8. Furthermore, the intended approach of signing framework contracts with four service providers to provide refresher and advanced training to SACCOs using their systems will not be adequate because:

- Only 61 SACCOs are using the top four MIS packages;
- A number of these are in the process of migrating to another system, or want to.

9. In addition, training is not perceived as the primary MIS need by the SACCOs themselves. The top five needs identified by the 71 SACCOs with existing MIS systems were:

- Hardware (56 SACCOs)
- Branch MIS and interconnectivity (25)
- Training/refresher training (17)
- License fee subsidy/support (10)
- Mobile money integration (5)

10. Thus, in order to meet the felt needs of the targeted SACCOs, it is apparent that a more flexible approach will be needed. One option suggested in the study report is the matching grant approach, which corresponds to what was in the original project concept.

MIS Specifications and Demand

11. Branch interconnectivity is clearly a priority going forward – for ease of complying with regulatory reporting requirements, as well as for more effective SACCO management. Mobile money integration is also an important priority, and capability to link with the rest of the financial system and provide an e-wallet will become increasingly important, especially for those SACCOs operating in competitive markets. The MIS Needs Assessment looked at the capabilities and costs of the different systems that are in use. Only two of the four leading MIS systems currently provide branch

¹³ <http://www.itnewsafrika.com/2012/05/m-cash-uganda-in-venture-to-initiate-e-bank-scheme/>

interconnectivity, although the other two claim that they could do so. It may be noted that the need for hardware may be associated with branch interconnectivity, to overcome infrastructural inadequacies of the mobile networks in some areas. Most MIS developers are moving to integrate mobile money support modules into their systems

12. It must be recognized that branch interconnectivity, system networking, and integration with mobile money and the interbank switch come at a significant cost. The annual licensing fee for the most sophisticated system is UGX 26 million, as against around UGX 4 million for four of the systems, and UGX 2 million for the cheapest. Even if the substantial up-front costs of installation are fully covered, many SACCOs may not initially opt for the most sophisticated system because they would not be able to afford the subsequent annual fees. Hence, even though the regulator may eventually wish to insist that the SACCOs it supervises be fully networked, it would be premature and counterproductive to impose such a requirement at present. It should be an option with strong incentives, but other less expensive options should also be available, with the expectation that systems can be upgraded in the future, as needed. This means that qualified systems should at least have the capability for such upgrades.

13. Based on experience, technical support is important to trouble-shoot and ensure effective operation and utilization of MIS system. Hence MIS service providers should be expected to demonstrate the ability to provide technical support as needed, or as part of the licensed package.

14. The report notes that the 11 SACCOs interviewed that did not have an MIS in place were actively investigating what systems would be suitable for them. Thus there is an indication that a growing number of SACCOs are ready to move from manual to automated MIS system. This no doubt applies also to the other 85 SACCOs that were identified as meeting the criteria for PROFIRA support with MIS systems. Thus, the total potential demand for MIS support among PROFIRA-supported SACCOs is on the order of:

- 61 SACCOs already using one of the four most common MIS system, with MIS installed in 60 branches but no MIS in 34 branches (candidates for extending MIS installation into all branches, networking, and, in some cases, integration with mobile money and payments systems);
- 10 SACCOs using some other MIS system (one of which is capable of networking), with 36 branches, none with MIS installed (possible candidates for migration to another system with greater capabilities of networking, or expanding existing system to all branches and networking).
- 96 SACCOs with no operating MIS system (candidates for basic MIS system to be installed in all branches, likely accompanied by hardware and other software).

Proposed Reorientation

15. Under these circumstances, and conditional on adequate budget being available (since the cost will exceed that of training alone), it is proposed to modify the objectives of the MIS subcomponent as follows:

- 150 SACCO head offices and branches trained in their MIS system;
- 50 SACCOs supported to have MIS systems operating in all their branches (with or without networking).

16. Three packages are proposed, with cost-sharing (to be determined based on further details on costs and budget available):

- **Basic:** Software license and training (PROFIRA would pay a certain percentage of the combined cost of one year's software license plus training/retraining of staff involved with existing MIS system).
- **Expanded Basic:** includes MIS installed in branches and additional virus and other software as needed, as well as one year's license and staff training. (Preferably the existing MIS software, but migration to another system could be considered.)

- **Networking:** Installation of hardware and systems required for all branches to be fully networked, in addition to the Expanded Basic package

17. This approach would be undertaken as a pilot to provide information and experience that will be needed to prepare for implementation of the Tier 4 MFI Act. It is anticipated that a project of some sort will be needed to bring SACCO MIS systems up to the level suitable for prudential reporting, without which the task of UMRA in supervising SACCOs would be daunting and not cost-effective. While the approximate costs of software licensing and training are known, follow-up with the service providers will be needed to ascertain estimated additional costs for packages (2) and (3).

18. It is envisaged that a successful pilot would form the basis for successive scaling up, for example as follows:

- **Pilot:** With existing budget of \$1.3 million, invite up to 25 pre-qualified PROFIRA SACCOs to submit proposals for packages as indicated above; selection of a representative number of each type of package to gain experience, until the initial budget is exhausted. (Expectation: up to 20 SACCOs served.)
- **Initial scaling up:** Seek supplementary PROFIRA funds from IFAD (e.g., on the order of \$5 million, depending on actual cost experience in the Pilot) in order to scale the number of PROFIRA SACCOs assisted to install MIS systems in all branches up to 50.
- **Expanded fund:** Seek additional funding from bilateral donors (perhaps \$10-20 million) and other sources to add another 100 SACCOs (with priority to PROFIRA-supported SACCOs, which will also be receiving complementary training in Credit and Default Management).
- **Continued fund:** As UMRA and its regulatory/supervisory requirements are being established, obtain funding through a multi-donor supported project to make sure that the 250-300 SACCOs expected to be supervised as well as licensed by UMRA are able to provide the required reports for prudential supervision (i.e, assist an additional 100-150 SACCOs to install and network MIS in all branches).

19. With respect to training, discussions with the software providers raised the point that it would often be desirable for training to go beyond just technical training of those using the software to sensitization of Board and SupCo members of what MIS systems can provide by way of information useful for overseeing operations of the SACCO, and of members of SACCOs as to the potential value to them as consumers of branch interconnectivity, integration with mobile money, links to the rest of the financial system, and e-banking, to begin building demand for more sophisticated MIS and information technology systems in the future.

Implementation

20. Requirements for implementing this approach include:

- Minimum specifications for eligibility of a MIS system and provider, including: compatibility with PMT (as a proxy for being compatible with regulatory reporting requirements); capability to integrate mobile money; and (at least for the networking package), full networking capability and potential for e-banking.
- Specification of what types of expenditures are eligible, including: software purchase/licensing (including updating anti-virus and other software); software installation; hardware (computer, printer, UPS, interconnectivity boosters).
- Flexibility in the design of each individual package. Since each SACCO would negotiate a package with their preferred MIS provider, it would be essential for PROFIRA to engage a technically competent person to evaluate the proposals and make recommendations, as well as to have a formal approval process.
- A system for the SACCO to deposit its contribution with PROFIRA (or in an account for the SACCO Capacity Building Fund), which would then pay the service provider (including the PROFIRA contribution); some such system is needed to minimize the incentive for inflation of costs by the service provider.

21. As the approach is scaled up, it will be essential to have a professional fund manager who can handle both the technical and the financial aspects of a matching grant fund where each proposal may be designed differently, and where verification of successful installation requires some technical capability. This could either involve partnership with an institutional fund manager such as aBi Trust, or procurement of a fund manager (i.e., a competent consulting firm). Unless an institutional partner can be found that is willing to take on the pilot phase, it may be necessary for the PMU to undertake the initial pilot, engaging technical support for review and verification of systems as needed.

22. Framework contracts with qualified service providers would be necessary if management is done through the PMU. In the case of a fund manager, preferably selection and contracting can be delegated to the fund manager, based on specified criteria; the scope for doing so will need to be investigated in terms of procurement and disbursement requirements. Another question to be investigated is whether payments to service providers can be made through the fund manager, or must be made directly from PROFIRA upon recommendation by the fund manager.

Costing

23. In order to estimate about how many SACCOs could initially be supported within the existing budget for the MIS activity, the PMU should seek from the leading service providers a range of estimates for providing the following packages to their existing clients (based on a typical size and number of branches of these clients):

Basic:

- Software license (one year);
- Training for MIS system users;
- Sensitization of Board, SupCo and SACCO members.

Expanded Basic: In addition to the above:

- Installation of MIS in all branches;
- Average cost per branch of supplying basic computerization hardware (computers, printer, UPS)
- Additional associated license fees (one year);
- Upgrading virus and other key software.

Networking: In addition to the above:

- Basic costs of networking all branches of a SACCO;
- Additional costs of overcoming inadequate telecom coverage, if needed;
- Annual costs of mobile network coverage;
- Additional cost of mobile money integration;
- Additional cost of integration into payments system.

24. Cost-sharing by the SACCO should probably be in the range of 20-30%. A basic principle is that the SACCO should be able to bear the on-going costs of licensing fees and networking.

Annex 2: Community based financial institutions

Introduction

1. The Government of Uganda and the International Fund for Agricultural Development (IFAD) have jointly designed the Project for Financial Inclusion in Rural Areas (PROFIRA). This 7-year development project is supported by an IFAD loan of around USD 30 million. The overall *goal* of PROFIRA is to increase income, improve food security and reduce vulnerability in rural areas. Its *development objective* is to substantially increase access to and use of financial services by the poor rural population. PROFIRA aims to achieve its goal and objective through the implementation of three operational components: (a) SACCO Strengthening and Sustainability, (b) Community Based Financial Services and (c) Policy and Institutional Support.

2. Component 2 of PROFIRA, Community Based Financial Services, aims at a major impact in financial inclusion in rural Uganda. With Sub-component 2.1, PROFIRA will contract service providers (SPs) to form approximately 15,000 new community savings and credit groups (CSCGs) with approximately 375,000 members, over the seven-year project period, broadly using the VSLA methodology. Many of these groups are already operational ones but “new” in the sense that with PROFIRA support, they would start to operate savings and credit activities in a systematic manner.

3. With Sub-component 2.2, the operations of approximately 3,000 mature CSCGs (75,000 members) will be further developed through focused training, innovations and linkages, to facilitate for more advanced financial inclusion. The total contributions from the IFAD loan to Component 2 activities is around USD 11 million.

4. At the time of this mission, both Sub-components 2.1 and 2.2 were at advanced stages of the critical procurement processes for the first contracts with the service providers for the field implementation of the Component. This Technical Annex documents the current stages of the progress achieved and the agreements made to ensure a successful component implementation when the field operations commence in the coming months.

Selection of Service Providers for Sub-Component 2.1 and Start-up of Field Operations

5. To select the service providers for the CSCG Establishment Sub-Component 2.1, the Evaluation Committee of PROFIRA sat during 21-24 September 2015 and evaluated the proposals according to the earlier agreed criteria (see previous reports). In all four regions, various bidders received technical scores well above the agreed Pass Mark of 70. The technical evaluation results were discussed in the PROFIRA Contracts Committee on 8 October 2015, and the Contracts Committee approved the results of the technical evaluation. The opening of the financial proposals took place on 3 November 2015 and the winning service provider was selected for each of the four regions. Importantly, in each area, after adding the points from the financial proposal, the eventual winner was an organisation that also received the highest points in the technical evaluation, which can be regarded as a positive result for the future implementation efforts from this extended procurement process.

6. After solving tax-related issues related to these contracts, the Contracts Committee of PROFIRA approved the results of the selection process on 17 December 2015. IFAD provided its no-objection on the results on 19 January 2016 and the Contract Committee approved the draft contracts on 5 February 2016. Following this, the agreed mini due diligence reviews were conducted by PROFIRA on the winning institutions, with positive results. After issues mainly related to the method of the performance-based payments were solved, IFAD eventually gave a no-objection for the draft contracts on 6 April 2016. The Solicitor General's review of the contracts was completed by 20 April 2016 and the service provider contracts for Sub-component 2.1 were finally signed between PROFIRA and the winning institutions during the second week of this Technical Support Mission.

7. Table 1 summarises the result of the process to select the service providers for the first 3-year contracts of Sub-component 2.1. The Mission's key findings arising from this selection process were discussed in detail with PROFIRA and are briefly summarised below.

Table 1: First Four Sub-Component 2.1 Contracts

REGION	West Nile	Mid-North	North-East	Eastern
Selected Service Provider	Consortium: CREAM/FURA	Consortium: Mid-North and Acholi Private Sector Development Centres	CARE, with sub-contractor: Karamoja Private Sector Development Centre	CARE, with sub-contractor: UWESO
Contract value: UGX	2,907,828,000	3,370,074,000	1,700,000,000	2,700,000,000
Contract value: USD	881,160	1,021,000	515,000	818,000
Number of Groups	1,900	2,100	1,000	2,500
Number of Members	47,500	52,500	25,000	62,500
Contact Price per Member	USD 18.6	USD 19.5	USD 20.6	USD 13.1

8. Firstly, following both the Uganda Government rules and the IFAD procurement practices, contracting service providers for PROFIRA takes a substantial amount of time, in practice one year from the request of Expressions of Interest to the signing of contracts. While this time can be slightly shortened in the future biddings, it was agreed that advertisements for the Eols for all second phase contracts of Component 2 will be published at least one year before the expected date of the signing of the contracts with service providers. This is necessary in order to complete the implementation activities well before the project Closing Date.

9. Secondly, in the view of the Mission, the selected service providers represent the top support organisations in community-based finance in Uganda, all with significant performance records in VSLA/CSCG promotion in rural communities. This augers well for the implementation of this large-scale financial inclusion activity of PROFIRA.

10. Thirdly, the PROFIRA secondary target to develop the capacities of local institutions has been achieved well, as for West Nile and Mid-North Regions, the consortia of two local institutions won the contracts without any international partners. Even in the other two regions, while the main contractor will be CARE Uganda (the main VSLA promoter in the country), the field operations will be sub-contracted to experienced local institutions, Karamoja Private Sector Development Centre and Uganda Women's Effort to Save Orphans (UWESO), which is one of IFAD's traditional partners in microfinance in Uganda.

11. Fourthly, the targets set on the contact price per group member were fully reached. The PROFIRA budget is based on the contact price of USD 20 per CSCG member. This average target price was reached only in the contract in the logistically complicated North East Region, the rest of the financial proposals in the winning bids were priced below this target level. In the CARE contract for the Eastern Region, the contact price is only USD 13, which would be a low figure in a VSLA operation in any African country. These good results mean that (a) the ambitious target of directly engaging 375,000 new rural households in the CSCG operations can be reached with the Sub-component 2.1 budget and (b) money that is saved through lower than expected contact prices can be allocated to other appropriate Component 2-related activities.

12. Fifthly, the developed procurement rules for Sub-component 2.1 were effective in blocking out the excessively high financial bids that were received by some of the bidders. Furthermore, the rule agreed that one service provider can only win contracts in two regions proved to be both appropriate and relevant in order to have a good institutional mix to implement this important large-scale field operation.

13. Sixth, the winning bids, while predominantly aiming at greater outreach and increased financial inclusion, also include many innovative approaches that aim at the development of the new groups as sustainable parts of the financial sector (see more in Section 4 below). These innovations concern the selected approaches in areas such as financial linkages, business development services (BDS) and the promotion of gender justice in microfinance interventions. All these approaches link the groups well to the planned Sub-component 2.2 operations, in which these new groups can take part during the second phase of Component 2 implementation during the last three years of PROFIRA.

14. All the selected service providers already have detailed implementation plans particularly for the first year of their operations. They will submit their Inception Reports to PROFIRA in May 2016, which will also be the basis for the first payment to these contractors. These Inception Reports will include detailed outreach plans, which are expected to justify the selection of focal districts and sub-counties for the planned operations. In June 2016, PROFIRA will organise a 3-day residential Inception Workshop for the relevant senior staff of the selected service providers, to agree on the key aspects of the Sub-component 2.1 implementation, including the important M&E and financial management issues. After this workshop and the required procurement and recruitment activities by the service providers, the actual mobilisation, training and savings and credit operations in villages are expected to take off in July-August 2016.

15. In the implementation of Component 2, the regions covered by each service provider are large. Therefore, to achieve the expected implementation effectiveness, efficiency and impact, a focused, clustered approach is required when selecting the target districts, sub-counties and villages, to avoid spreading the component activities very thin over a large area. At the same, while encouraging CSCG formation under Sub-component 2.1 based on existing agricultural and social groups, the PROFIRA staff will through periodical field visits follow-up that no double counting of already existing VSLAs as "PROFIRA achievements" takes place.

Selection of Service Providers for Sub-Component 2.2

16. The selection of Service Providers for Sub-Component 2.2 was intentionally started later than in the case of Sub-component 2.1, partly because the bidding institutions are mostly the same for both activities. The procurement documents for this activity were largely finalised during the previous IFAD support mission, followed by the work conducted on them by the PROFIRA team. The key change made from the original design approach was the inclusion of the fifth contracting area to Sub-component 2.2, covering selected districts outside the four core Component 2 regions.

17. The issuing of the call for Expressions of Interest for the four core regions for Sub-component 2.2 took place on 1 October 2015, with a submission date at 23 October 2015. A total of 26 institutions responded, including practically all the key CSCG promoters in Uganda. The Requests for Proposals were sent on 22 February 2016 to nine institutions, with a deadline of 28 March 2016. Eight organisations responded, covering altogether 14 proposals for different regions. The technical evaluation of these proposals will take place in the beginning of May 2016, after this Technical Support Mission. The selection of the four winning bidders is expected to take place in early June 2016, with the projected contract signing date at the end of August 2016. With this schedule, the Inception Reports from the selected contractors would be submitted by the end of September 2016 and would be available for the next Technical Support Mission, planned for October 2016.

18. During the first phase of Sub-component 2.2 implementation, the target is to engage 300 mature CSCGs per region through focused training, innovations and linkages in more advanced financial activities, now in five regions. This would mean direct support to some 37,500 households. Because of the more advanced nature of the operations, the average contact price is budgeted at USD 40 per engaged member.

19. For Region 5, it was agreed in 2015 that the following three criteria will be used in this selection process for eligible districts:

1. Their poverty level should be above the level to be set by PROFIRA based on the Uganda National Household Survey 2012/13 results

2. They receive no or only limited PROFIRA support under Component 1 for SACCO development
3. There is an adequate number of mature CSCGs that are required for Sub-component 2.2 implementation.

20. The four core regions of Component 2 cover 52 of the total 112 districts in Uganda. Of the remaining 60, 27 were pre-selected for Sub-component 2.2 activities based on their poverty level and SACCO support to be provided by PROFIRA. These 27 districts were visited in November-December 2015 by PROFIRA, particularly to check the current CSCG activity in these areas. Based on this review, 25 districts were qualified as areas, in which the Region 5 activities of Sub-component 2.2 could be implemented. This selection process was finalised in February 2016. The eligible districts in Region 5 for Sub-component 2.2 activities are: Luuka, Namutumba, Bugiri, Namayingo, Iganga, Kayunga, Buyende, Kamuli, Masindi, Luweero, Nakaseke, Kiryandongo, Masaka, Kalungu, Bukomansimbi, Gomba, Mpigi, Ssembabule, Lyantonde, Hoima, Ntoroko Bundibugyo, Kiboga and Kyankwanzi.

21. The next step is to contract the service provider for Region 5. After discussions between the PROFIRA Management and the Mission, the following approach was agreed on:

- One contract would be issued to cover service provision to 300 mature CSCGs.
- The bidding institutions would for their proposals select a focused implementation area from among the 25 pre-qualified districts for the Sub-component 2.2 implementation. This is to avoid spreading out the activities too thin over a large implementation area.
- The contract period for this activity in Region 5 would be three years.

22. During the Mission, the advertisement for the Expressions of Interest (Eols) were prepared for Region 5. The target would be to advertise for the Eols by mid-May 2016, with the deadline at 10 June 2016. This would make it possible to target the signing date of the Region 5 contracts to be latest at the end of October 2016.

Innovation, Networking and Knowledge Management

23. The Mission visited the institutions of the two local consortia that won the Sub-component 2.1 bids in West Nile (Foundation for Urban and Rural Advancement FURA and CREAM) and Mid-North (Private Sector Development Centres in Mid North and Acholi). Both are long-time implementation partners of CARE Uganda and experienced VSLA promoters in their area of operations. Both presented well-prepared implementation plans for their partnership with PROFIRA, which will form a key part of their Inception Reports.

24. During the discussions it became clear these service providers are planning to apply in their Sub-component 2.1 implementation various advanced, innovative approaches. In case of FURA/CREAM in West Nile, these include the training in "Savings with Purpose" approach, which teaches the group members to select the best and most profitable projects to invest their savings and loans in. Results of this type of methods in other countries have produced excellent results on enterprise performance and household incomes. Further, FURA/CREAM will include in its training of new CSCGs the Gender Action Learning System (GALS) approach. This method emphasises the gender-balanced road to economic development goals and the role of gender justice in economic interventions. Like with other approaches such as household mentoring, the implementers report significant gains in the performance of household enterprises after GALS training. Clearly, the number of men in CSCGs has substantially increased after applying the GALS approach in CREAM-established groups.

25. In Mid-North and Acholi, the selected implementers of Sub-component 2.1 are not using the above-type of approaches but are much more advanced in financial linkages than FURA/CREAM. Their linkage approach includes close cooperation with a number of commercial banks but also potentially very important links with leading microfinance institutions such as Pride and FINCA, for whom the trained members of mature CSCGs are ideal clients. As a new form of linkages, the Bank of Africa is currently piloting in Mid-North its "Bank-on-the-Wheels" mobile banking services. These

services include special, fee-free deposit accounts for CSCGs and in the future, also tailored loan products for these financial groups.

26. In the coming five years, PROFIRA will be the leading supporter of community-based financial arrangements in Uganda. Its network of service providers and their sub-contractors holds a critically important knowledge base on appropriate CSCG development approaches and methods for Uganda. Furthermore, the number of community-based financial groups in the PROFIRA network will gradually increase towards nearly 20,000, and the number of group members towards 400,000. This large network will create great opportunities for mutual learning, with significant potential benefits for the whole PROFIRA operation. It was agreed that the PROFIRA management will develop appropriate methods and channels for this mutual learning process and include in its implementation approach interventions of the following type:

- Semi-annual service provider workshops, for exchange of views and focused presentations on innovative and effective ways of developing the CSCG approach
- Exchange visits between service providers from different regions, to learn from each other and to apply the innovative approaches in the other regions covered by Component 2 of PROFIRA
- Focused exchange visits for group leaders both within the regions and between the regions, to learn and benefit from the results of such methods as GALS, Savings with Purpose and different types of linkage activities
- Mini-projects with service providers to document successful innovations and present the documentation for other organisations in the PROFIRA network.

27. Related to the above, there is also a need to professionally document the innovations and successes of this PROFIRA intervention and present them to the wider public. Various local financial fora and publications in Uganda provide opportunities for this. Outside Uganda, the IFAD networks and the wider UN and development sites offer useful channels to reach a much wider public and make these documented experiences “common goods” also globally.

28. It was agreed that PROFIRA includes sufficient allocations in its budgets for the above type of activities, starting from the AWPB for 2016/17. Funding for this will be available from the savings recently made when contracting service providers for Sub-component 2.1 activities.

Monitoring, Reporting and Evaluation

29. When the Component 2 activities are now gradually moving from the contracting phase to actual field implementation, urgent attention is required in the coming months on the finalising of the monitoring, reporting and impact evaluation activities for Component 2. During the Mission, IFAD’s M&E Expert assisted the Community Based Financial Services Manager (CBFSM) and the Monitoring, Evaluation and Knowledge Management Manager in the preparation for these operations. As a result of the work done earlier, the logframe, the PROFIRA Result Framework and the related reporting indicators have been agreed on. The current status of the overall M&E and the impact evaluation arrangements is described in a separate Annex of this report.

30. The service providers report quarterly on their progress to PROFIRA. It was agreed that the M&E experts of PROFIRA visit in May/June 2016 all the selected service providers of Sub-component 2.1 and agree on the detailed manner that the required data is presented by them and then transferred to PROFIRA. The same would be done, with different indicators, when the service providers of Sub-component 2.2 are known. The smooth functioning of this activity is crucial also because after the submission of the Inception Reports, the payments to service providers are made based on their accurate quarterly reporting on the number of the CSCGs they work with.

31. When the quarterly reporting by the service providers starts, the CBFSM will establish a schedule of quarterly field visits to each service provider. In addition to the overall review of the progress achieved in each region, the CBFSM will use these visits to verify that the reports on the number of established groups are accurate and reflect the genuine progress in the number of additional people included in the operations of these community-based financial arrangements.

PROFIRA Staff Capacity Building

32. As a large, nationwide project with a long implementation period, PROFIRA needs to provide appropriate opportunities to its own senior staff to up-date and improve their professional skills. Relevant high-quality training is available in the management of the support operations related to community-based financial services. The Coady International Institute of St. Francis Xavier University of Canada organises regional short courses that fit well to the requirements of PROFIRA. The programmes are intended for senior-level managers from Africa and Asia, representing large-scale Government programmes, NGOs and government regulators that link with CSCG operations for financial inclusion.

33. For Africa, the next such 2-week course will be organised by Coady Institute in early 2017 in Addis Ababa. The course fees are reasonable and can be covered with funding from the PROFIRA budget. It is recommended that the Community Based Financial Services Manager of PROFIRA takes part in this course in 2017. The required finance allocation should be included in the PROFIRA AWPB of 2016/2017.

Budgeting for Component 2

34. PROFIRA is currently in a process of finalising its 2016/17 AWPB. For Component 2, it is critically important that adequate funding for all the planned activities are included in this AWPB. The funding requirements for the Sub-component 2.1 contracts are already known. For the Sub-component 2.2 operations, they can be reasonably accurately projected based on the estimated average contract price of USD 40 per member. To these contract costs should added the projected costs of the networking and review meetings, exchange visits and knowledge management activities that have been discussed above, as well as the PROFIRA staff training costs that are related to Component 2 operations.

Annex 3: Monitoring and Evaluation

Introduction

1. Monitoring and Evaluation efforts of PROFIRA is generally performing well, with indicators (at output and outcome level) identified for each sub-component in the Results Framework, and translated into the contractual agreements of the service providers. Data collection templates have been developed well in time of contract signing, entailing that service providers will be able to use the templates from the beginning of their work. Information flow, stakeholder and reporting matrixes and diagrams have been developed. The next critical steps are to have a Management Information System (MIS) in place for easy data flow and aggregation, as service provider reports will start coming.

Monitoring and evaluation

2. **M&E officer.** As agreed in the previous mission, an M&E officer is currently being recruited. The shortlisting exercise was done during the mission, balancing M&E experience as well as data management and analytical capacity. **Agreed action.** The recruitment is expected to be finalized by end of June.

3. **M&E system.** The PIM has been finalized, with only a few technical issues to be agreed upon. The log-frame was finalized in May 2015, and the Results Framework on 13 January 2016. It is almost fully populated with baseline figures and annual output and outcome level targets. The indicators have been reviewed and found adequate and reportable on semi-annual basis. Targets for SACCO support and group establishment follow the contractual agreements and workplans, while others are based on assumptions, such as increase in savings amounts and membership. Performance targets of both UCSCU and CCA are integrated in the Results Framework and reporting formats have been adhered to by the partners for the past 2 quarters.

4. **Baseline study.** Friends Consult was contracted on 1 May 2016 to conduct the household level baseline study, which will furnish impact level reporting. The work is progressing according to schedule, with data collection (using tables for easy compilation and analysis) scheduled for 14-26 April. A draft report, to be validated in a stakeholder workshop is expected by 6 June, and the final report by 30 June.

5. **Gender.** Results Framework indicators are gender and age disaggregated, with the requirements embedded in the contractual arrangements. In addition to gender disaggregation, affirmative action in selection of participants will be used, targeting 30% women and 15% youth under component 1, and 70% women and 15% youth under component 2.

6. **Project MIS.** Procurement for a company to set up the IT infrastructure for a project Management Information System is on-going. For Component 1, the system will be able to capture performance per SACCO, while for Component 2 it will cover aggregate information from the service providers. Additionally, various project administration elements will be captured. Under Component 1, the system will be compatible and linked to the SAVIX system to be used by service providers (see section below). The RFP and EOI for the Auditor General for IT projects was approved by Contracts Committee on 25 January 2016. However, no proposals were received. A second shortlist was compiled using market knowledge and information from partners like VODP2. 2 bids were received, one of which late. Technical evaluation was done during the mission, and the quality of the bid found acceptable. **Agreed action.** The PMU will work closely with the winning bidder to have an operational M&E system by 30 September 2016.

7. **RIMS.** While the last mission report contained an annex on RIMS reporting, figures for PROFIRA baseline, targets and actuals were not ready at the time of RIMS reporting. This caused some confusion as to what to input in the system, and is described in more detail in Attachment 2.

Communication

Validation of the Communications Strategy has been done through various internal stakeholder meetings since the initial draft of October 2015. Unfortunately the envisaged IFAD support has not materialised. The mission has reviewed the final draft and is content that the relevant stakeholder analysis and potential tools have been identified. The next steps are to validate the final draft at a stakeholder workshop, after which the strategy will be finalized. In addition, an outcome-based action plan for FY2016/17 will be developed. As core communication functions, two main areas have been identified as 1) Communication Support Items (such as brochures, displays and continued training of staff) and 2) Support to MFPED (such as Tier IV related communication, organizing events and speech writing). Joint PMU communication outcomes have been defined as 1) Promotion of financial inclusion messages, mainly related to savings, credit and governance issues (using tools such as radio and posters) and 2) Harmonized approaches with service providers (including ensuring integration of activities into contracts, promotion of start-up, branding and review of materials). **Agreed actions.** The final communications strategy, along with a prioritized workplan and budget for FY 2016/17 will be in place by 31 May 2016.

MTIC

MTIC SACCO database. The MTIC SACCO database plays an important role for MTIC as a prudential supervisor. While more advanced MIS systems are being sought after to monitor in real time the performance of more advanced SACCOs, the database still has an important role to play for the remainder of the SACCOs, for the MTIC core functions of registration, and for their role to inform stakeholders about the presence and performance of SACCOs. For purposes of managing a large dataset like the SACCO census, excel falls short and a functional database is required.

In the last year of RFSP implementation, MTIC was supported to develop a database for the SACCO register. The database is operational but not yet fully populated and data input lags have been observed. SACCO statements are submitted in hard copy and data input is a continuous process. For the 2015 census, SPSS was used by PROFIRA and MTIC is yet to input this data into the database.

Given the lack of populating the database, MTIC relies on manual excel spreadsheets and reference to hard copies of data in undertaking its regulatory role. This means that MTIC cannot easily report on the capitalization of SACCOs in 2015, but can follow-up on SACCOs under investigation, for example. There is a general perception that though processes are manual, data is available and can be provided, albeit with time lag.

For purposes of SACCO performance monitoring under PROFIRA, data collection is undertaken jointly, using MTIC questionnaires and the DCO entry point at District Level. Given the delays observed at MTIC, data input, compilation and analysis of the 2015 SACCO Census was done by PROFIRA using SPSS. For general performance monitoring of PROFIRA supported SACCOs, service providers will be providing the PMU with information, while for the sector wide approach, the MTIC database remains the point of reference. This can be used to benchmark PROFIRA-SACCO performance and plays a critical role in the implementation of Tier IV. **Agreed action.** PROFIRA will continue to support MTIC in data collection and data entrants as requested by MTIC. A methodology (including IT considerations) for the 2016 SACCO Census will be agreed upon between PROFIRA and MTIC by 31 December 2016.

Attachment 1: SAVIX

The SAVIX. The Savings Groups Information Exchange (SAVIX) is an on-line database (comparable to MIX Markets for SACCOs), where implementers of savings groups approaches can input and track data on group performance. As indicated on the website www.savingsgroups.com, “The SAVIX is a reporting system that provides transparent and standardised data on community-managed microfinance. The online reporting system collects and validates financial and operational data from over 75,000 savings groups in all regions of the developing world and the agencies that promote them. Benchmarking and informed decision-making are critical to achieve high-quality programme results and the aim of the site is to facilitate analysis, develop norms and improve performance sector-wide.” Other relevant web-sites are the www.thesavix.org and www.vsla.net.

The basic tool is the “Savings Groups Management Information System” (SG-MIS) which can be used directly by an implementer. The implementer can afterwards choose whether to share it to the online SAVIX. The MIS has a function called “Private Network Tool”, which allows monitoring of programs across multiple MIS. A new release has just come out, which contains a number of innovations demanded by the field. The system allows individual organisations to create their own MIS instances and to populate these instances with multiple projects. This facilitates the aggregation of individual project data within an organisation and permits its aggregation, using user-selected pre-configured metrics. A master network can be created that allows an umbrella organisation to select individual projects from all of the partners (through invitation) and this network also allows for the network manager to aggregate and compare projects, which can also be selected as individual partner subsets. At both the MIS level and the Network level user-defined metrics can also be created.

VSL Associates. With funding from Bill and Melinda Gates Foundation and MasterCard Foundation the tool was developed by VSL Associates. They provide services to donors and local and international NGOs on SG planning and implementation, training of staff, M&E and professional courses in community-managed finance. The consortium of microfinance practitioners has worked in 45 countries since 1995. The organization has no experience working directly for Government. The system continues to be administered by VSL Associates and run on a fee-for-service basis for large networks of more than 30 projects. For a single country, up to 30 projects are free in a network; above that the charge is \$5,000 a year. This has made the system financially sustainable. User rights are developed to prevent misuse of networks by non-SG entities.

Usage of the tool. All of the major NGOs in the savings groups sector use the system including CARE, CRS, FFH, Global Communities, PCI, Plan, Oxfam, World Relief and World Vision, plus numerous other southern NGOs. The system hosts 960 MIS instances covering 3,036 projects, which cover 304,133 groups and over 6.6 million members worldwide. All the international institutions have been trained and workshops run through the University of New Hampshire in Tanzania, South Africa, Ghana, and Togo, several times in each country. In Rwanda, for example, 12 projects were aggregated in 9 partner organisations and for Plan International this was done across more than 100 projects in 5 countries. The published data on the on-line SAVIX in Uganda includes information from CARE, Catholic Relief Services, ChildFund, Oxfam, Plan International, We Effect and World Vision. A snap-shot of the groups captured is indicated below.

Facilitating Agency - Uganda	# groups	# members	Avg. # members per group	Avg. age of group (months)	Avg. age of group (years)	Avg. savings per member (USD)	Avg. savings (UGX)
CARE	8,188	237,135	29	10	0.84	40	131,220
Catholic Relief Services	7,047	189,687	27	12	1.02	19	64,028
ChildFund	48	1,344	28	11	0.95	52	172,529
No Facilitating Agency	975	28,164	29	13	1.09	21	68,831
Oxfam	50	1,500	30	1	0.08	2	7,665
Plan International	3,843	109,842	28	9	0.73	20	64,556
We Effect	594	16,776	28	17	1.42	65	213,461
World Vision	355	9,520	26	6	0.46	13	44,542
Grand Total	21,100	593,968	28	10	0.86	31	101,652

CSCG monitoring methodology. An integral part of the CSCG methodology is monitoring performance at group level, in terms of number of members, savings, loans etc. Establishment of MIS at service provider level is thus key. While some service providers have systems, others do not.

Needs assessment for PROFIRA. The PROFIRA MIS will be designed to capture group establishment and key indicators at an aggregate level, as reported by service providers. Developing and maintaining a system to track up to 20 performance indicators for 18,000 groups implemented by various service providers is a highly complex task requiring in-house capacity from the PMU which is not available and not otherwise justified. It will be necessary for the PMU to access group level information, which would otherwise only be stored with the service provider. Through GPS tools and group level data, the PMU will be able to ensure that the data reported in quarterly and semi-annual reports is grounded in reality, and does not, for example, reflect groups created under other projects the service provider might be implementing.

Recommendation. IFAD recommends to sole source the services of VSL Associates Ltd. to implement the system for all service providers, with direct system access by the PMU. According to Regulation 16 of the PPDA (Procurement of Consultancy Services) Regulation 2014, single sourcing is justified where only one consultant is able to provide the service due to unique skills or where there is need for continuity. For Government to mainstream a system (which can be based on mobile data collection technologies) to benchmark sector performance is additionally considered to be highly innovative and proactive by Government.

Justification for sole sourcing. The SAVIX is the most commonly used tool of the savings groups sector, and already used by a number of service providers evaluated by the PMU. For those who do not already use it, they will receive training and TA for developing the system. This will upgrade the service provider to international standards and sharpen their comparative edge in future assignment. The SAVIX is the only pre-developed tool for capturing savings group performance which is used across service providers and countries. The system is owned by VSL Associates. From a value-for-money perspective recruiting someone with the required systems and technical expertise is recommended as compared to recruiting service providers to develop a new type of system.

Scope of the assignment. The services of VSL Associates, would be required to set up the networks within the system (with the PMU as a network administrator), establish (digital) links to the PROFIRA MIS and train staff of the PMU and service providers. Specifically the needed support would be:

- 1) Decide on basic system infrastructure: how many MIS instances will be needed by partner and decide on user-defined data at the partner and network levels
- 2) Convene an in-country workshop to set up test data collection and to identify already skilled users. This will also require an early decision on whether or not to use mobile phones for offline data entry or to use paper formats
- 3) Set up partner-by-partner MIS instances, review and comment on test data quality, finalise user-defined fields for partners and create customised data collection formats.
- 4) Set up networks and training
- 5) Provide technical support over the next years, especially at the time of recruitment of new service providers

Workplan and budget (from 1 July 2016 – 30 June 2021 – full project cycle)

Activity	Duration	Item	Unit cost (USD)	Budget
Familiarization	5 days	Consultancy fee	650	3,250
In-country workshop	7 days	Consultancy fee	650	4,550
	7 days	Daily allowance	200	1,400
		Airline ticket (Germany)	1500	1,500
Establishing networks	2 days	Consultancy fee	650	1,300
In-country work setting up system with each partner	14 days	Consultancy fee	650	9,100
	14 days	Daily allowance	200	2,800
		Airline ticket (Germany)	1500	1,500
Finalization of networks an in-country training	14 days	Consultancy fee	650	9,100
	14 days	Daily allowance	200	2,800
		Airline ticket (Germany)	1500	1,500
Retainer for training and technical support	30 days	Consultancy fee	650	15,000
System administration fees	6 yrs	System fees	5000	30,000
Total				83,800

Attachment 2: RIMS

RIMS reporting. RIMS feeds into the annual Report on IFAD's Development Effectiveness (RIDE), which from 2016 is to be presented to the September board, as opposed to the December board, as in the past. This entails moving forward the deadline for RIMS submission, from 31 March to 31 January. The time period to be captured is the calendar year 2015, thus half-way through the PROFIRA AWPB cycle. Through service provider contracts, it has been ensured that outcome level reporting on the semi-annual basis is possible, and PROFIRA should thus be able to meet the deadline with updated figures.

RIMS indicators. The purpose of this section is to agree on the RIMS reporting schedule and process for PROFIRA RIMS reporting. A detailed review of the agreed upon RIMS indicators is provided in the Supervision Report of October 2015. The RIMS indicators majorly respond to the outcome level of the project, capturing both main components (SACCOs and CSCGs), while leaving out activities of policy dialogue and UCSCU support. It should be noted that a number of the potential RIMS indicators are not included in the finalized Results Framework and should therefore not be RIMS indicators (see table below). It should be noted that RIMS reporting captures overall project figures and disaggregation per component cannot be captured in the system. Similarly comments, indicators captured in another way or sub-sets of information cannot be included.

First level indicators. For the 2015 reporting (reported in April 2015), the baseline figures for the SACCO component were reported to the extent possible, namely the number of savers and the overall value of the savings and loan portfolios in the SACCOs which have been selected for future support. As indicated elsewhere, gender-disaggregation of data on savings (as opposed to number of savers) has not come out clearly of the SACCO census and will thus be captured in the next reporting. Similarly, targets will be set for each of the indicators (as opposed to appraisal targets from the design report).

Second and third level indicators. The second level indicators agreed upon do not require baseline or target setting (the target being 6, fully sustainable / effective). Reporting on them will start as soon as they are available from the project MIS, which is expected already from year 2016, following two years of project effectiveness. This is possible as the assessments will be made directly based on data (as opposed to qualitative assessments). Third level baseline figures will be reported on in the 2016 reporting, after completion of the baseline surveys.

First level indicators	Baseline (cumulative) 2015 report	level	Comments	Target (cumulative) (appraisal)
# groups formed/strengthened	435		Corresponds to number of groups/SACCOs supported. Will increase over the next years as more SACCOs are supported (including MIS) and to include groups.	Appraisal target was 500 SACCOs + 15,000 groups + 3,000 groups for linking. Total: 18,800. Target still holds.
# ppl in the groups (gender-disaggregated) *NB! Corresponds to overall outreach - to reported as 4 indicators:			The same figures should be reported twice: once for # people and once for outreach.	Target for CSCGs holds: 18,000 groups * 25 members = 450,000 people. Target for SACCOs to be established.
Number of savers (gender-disaggregated)	M: 380,094 F: 337,065		Baseline figures are taken from the 2015 SACCO census, for the 453 SACCOs selected to date. CSCG data to be added from next year.	450,000 for CSCGs + target to be established for SACCOs
Value of savings	USD 31,444,421			TBC
# active borrowers (gender-disaggregated)	M: 380,094 F: 337,065			450,000 for CSCGs + target to be established for SACCOs
Value of loan portfolio	USD 52,533,855			TBC
Staff of financial institutions trained	To be dropped			
# groups with women in leadership positions	To be dropped			
Apex organisations strengthened	To be dropped (only one; value will remain the same)			
# financial institutions participating in the project	Suggested to drop, as the same figures are captured under groups formed / strengthened			

Annex 4: Financial Management

1. The purpose of this annex to explain in more detail the key financial management findings as included in the main body of the Supervision and Implementation support report.

Financial Management- Accounting systems

Procedure for managing advances

2. The mission has noted that the PMU is expensing advances given to staff before completion of field activities or the purpose for which the advance would have been given. As the volume of transactions increase, there is need for a more systematic follow-up of advances to staff.

3. The following procedure was discussed with the PMU:

- Open in a control ledger (not on the face of the trial balance) advance account for each staff of PROFIRA.
- On giving the advance the following entries will be passed: Debit personal account of advance receiver and credit bank.
- Once accountability (expenditure justification) reports are submitted they will be reviewed by immediate supervisors and subjected to the normal payment approval cycle.
- After the expenditure justification and reports have been approved, the following entries will be passed in the accounting system: Debit respective expense ledger code and Credit the personal account of the advance recipient.
- In the monthly management accounts, advance aging analysis should be a key feature to highlight any overdue outstanding advances for necessary actions including recovery through payroll.

Procedure for commitment control as a critical budget control feature

4. Currently the budget vs actual reports coming from the Pastel accounting system are only reflective of actual payments without regard to commitments. Effective budget control requires that once a commitment is entered into, funds on the respective budget line should be encumbered immediately.

5. The following procedure was discussed with the PMU:

- Before contracts or LPOs are issued the finance unit should formally confirm the availability of funds on the respective budget line.
- The finance unit will be provided copies of signed contracts.
- Each contract will be processed in the accounting system using the LPO facility. This does not affect the general ledger and, therefore, does not affect the adopted IPSAS cash basis of accounting.
- The key expenditure reports should be preset to compare budget, vs actual and commitments so that there is sufficient control to ensure no budget overruns through over omitting the programme on some budget lines.

Steps towards using IFMS as the project accounting tool

6. Currently IFMS is only being used as a disbursement tool and Pastel for the detailed Project accounting requirements. In demonstration by the Accountant General IFMS team, IFAD was satisfied that IFMS can handle project accounting demands. However, the set-up or implementation of the project accounting functionalities at PROFIRA has taken longer than expected thus the continued use Pastel alongside. This, of course, creates double work because the same entries have to posted/duplicated in two software. The remaining steps are:

- Complete the profiling of PROFIRA in IFMS using the Output Based Tool (OBT) and other functionalities as demonstrated to IFAD
- Pre-set the standard reports as has been done in Pastel
- Test accuracy of reports coming from the IFMS by comparing with those coming from Pastel
- If the above steps are successful, invite IFAD to satisfy itself that IFMS has been well set-up and thereafter Pastel can be switched off.

Status of funds

7. The project has so far successfully processed four withdrawal applications (WA 1- March 2015, WA 2, April 2015, WA 3 September 2015 and WA 4 February 2015). The fifth one was in the pipeline at the time of the mission. In the period between April- September 2015, PROFIRA fell short of the minimum IFAD requirement to send at least one withdrawal application in a quarter even if below the requirement of 30% of the initial advance. *Going forward PROFIRA is to meet this minimum requirement.*

8. Category-wise status of funds: All disbursement categories still have significant balances. As of 31 March 2016 disbursement of the IFAD loan, including the initial advance of USD 2 million, is at 12% through four withdrawal applications. Actual loan utilization, excluding the initial advance, is at 6%, as very limited investment activities have taken place. If WA 5 in the pipeline is included the disbursement level increased to 14% as shown below. Further, if commitments are included, in particular for contracts whose procurement process is very advanced and for which disbursements are expected before year end, the disbursement level is expected to increase to 18%. The category for operating costs is the most disbursing category because of the limited investment activities. Therefore, the ratio of recurrent to investment costs is not good enough but is projected to improve as investment activities pick-up. *The PMU has to fast track advanced procurements to the extent possible within the confines of the PPDA so as to improve both the disbursement level and the ratio of investment to recurrent costs.*

Category-wise status of disbursement

Category description	Allocated	Disbursed up to WA 5	% Disbursed up to WA 5	WA- In progress	Projected loan utilisation	Projected loan utilisation (%)	Projected available balance
Authorised allocation	-	1,437	-	-	-	0%	-
Equipment and material	190	28	15%	1	28	15%	162
Other investment costs	14,910	325	2%	153	479	3%	14,431
Operating costs	2,270	584	26%	95	679	30%	1,591
Unallocated	1,930	-	-	-	-	0%	1,930
Total:	19,300	2,374	12%	249	1,186	6%	18,114

9. Component wise trends in terms of actual expenditure shows that the SACCO strengthening and sustainability stood at 4.8% of design locations, while the community based financial services at only 0.6%. Policy and institutional support and project management on the other hand stood at 12.9%. *The PMU has to work towards a fair balance across components going forward.*

Component-wise status of funds (USD'000) as at 31 March 2016

	As per design	Actual	%
SACCO strengthening and sustainability	15,043	723	4.8
Community based financial services	13,934	78	0.6
Policy and institutional support and project management	7,652	987	12.9
	36,629	1,788	4.9%

Liquidity level and management of the designated account

10. The reconciliation of the designated account was well done. The Programme is still highly liquid. Out of the USD 2 million initial advance, 80% (USD 1.65 million) is available at the Bank of Uganda and 20% (USD 346,000) is in a withdrawal application (WA5) already submitted to IFAD as shown below:

Designated account reconciliation as at 31 March 2016 (USD' million)

Balances on designated and operational accounts at BoU	1,654
WA 5 in pipe line	346
	2,000

11. The PMU is projecting to disburse UGX 5.3 million (USD 1.64 million) over the next two to three months. Therefore, the liquidity level as shown in the designated account reconciliation above is sufficient to meet projected payments over the next 3 months. The PMU has been advised, however, to constantly monitor the projected expenditures against the level of the initial advance, as in the next few months disbursements are expected to increase considerably with the inception of all major contracts for service provision. When necessary, a request for increase of the advance should be sent to IFAD in line with the Letter to the Borrower (LTB).

12. Disbursement of IFAD Grant. As at 31 March 2016 the grant disbursement level stands at 28%, being the initial advance of USD 280,000. The following is extract from a report from CCA regarding expenditure levels:

Cumulative expenditure by CCA up to 31 March 2016 (USD)

	<i>Budgeted Y1</i>	<i>Funds received from IFAD</i>	<i>Spent</i>	<i>Outstanding</i>
Consultancies	267,413	240,066	293,167	(5,754)
Training	8,400	7,541	3,468	4,932
Overhead and management fees	36,083	32,393	38,777	(2,694)
	311,896	280,000	335,412	(23,516)

13. The mechanism of CCA accessing funds from IFAD is enshrined in the institutional agreement between the Fund and CCA. Such funds do not flow through the PROFIRA designated account *but will need to be posted in the project accounting systems and included in financial statements in order to report on the totality of the financing plan at design. This should also include CCA counterpart contribution as reflected in the PROFIRA financing plan at design.*

SOE spot check/ expenditure documentation

14. A SOE spot check has been done on a 40% sample across expenditure categories of WAs 4 and 5 and the mission confirms the existence of the underlying supporting documents. The areas for improvement in the documentation were as follows:

- Two cases were noted under limited bidding where all bidders were found Non-compliant (NC) even on essential aspects required in the solicitation document such as trading licence, tax registration but nevertheless the evaluation committee decided to proceed to the next steps. Although under PPDA the evaluation committee may have some liberty to declare some requirements as non-material deviation, a situation where bidders have scored NC on all requirements, it is not prudent to declare all the requirements non material deviations. This poses a risk of supplies or services from non-existent entities at higher prices or less quality.
- Although no cases of ineligibility were noted, the fact that material field accountabilities that include numerous small payments are systematically balanced out to nil raises some

scepticism. . Usually, it is expected that the staff would either have a refund or a claim after a long/ busy field activity involving a series of cash payments. It raises scepticism were all accountabilities from the field always balance out to the last shilling. As already discussed above, advances shall not be expensed going forward and the finance unit should scrutinise field accountabilities more.

Counterpart funds

15. Actual expenditures on account of counterpart contribution are cumulatively USD 129,250 or 2.62% of the total financing agreement target of US\$ 4.9 million. This is due to the overall low level of disbursement of the project. There is, however, sufficient budget provision for the project, as UGX 1.67 billion (equivalent to more than USD 500,000) are available for 2015/16 through the IFMS as and when the need for counterpart funding arises.

16. Tax implications on the significant contracts: The bulk of the counterpart contribution is going to be taxes. Given the size of the contracts, the VAT demand (18%) has potential to overstretch to the limit beyond the cash counterpart contributions that GoU can release on a timely basis. The contracting arrangements will, therefore, need to be tax smart to the extent allowable under the Tax Acts. *For example, trainings under both component 1 and 2 could pass as adult training which is exempt under the Value Added Tax (VAT) Act without having to demand from GoU for actual cash releases. For such clear cases, service providers would not have to charge PROFIRA for VAT.*

Audits

17. Audit. The contracting of an internal audit firm has been finalised. The firm is working on the annual audit plan/ inception report to be submitted by end of April 2016.

18. External audit: The first external audit will be due on 31 December 2016 and cover the four months of operations of FY 2014/15 from effectiveness in March 2015 and full FY 2015/16. The process of selection of the external auditors is proceeding. The Auditor General has invited private external audit firms to bid. The terms of reference were already cleared with IFAD. The PMU is to *follow-up with the Auditor General Office to ensure the external auditors are appointed before the end of the financial year.*

19. The following are some critical elements that should be discussed with the external auditors as part of the inception meetings:

- The nature of the performance based contracts to be signed with service providers imply that auditors will not be expected to audit the internal processes of service providers such as their in-house financial control, rates etc. Rather the auditors will focus on field based verification of deliverables in respect of which they will have invoiced PROFIRA
- For MoU based disbursements such to UCCK, being a government related body; the auditors should review the internal fiduciary aspects as part of PROFIRA expenditure verification.
- The audit for the performance based grant to UCSCU should focus more on the milestones in the MoU given that these funds are not earmarked or identifiable to specific budget lines. For instance, the auditors will need to appreciate that no payment vouchers or receipts of payrolls are expected from UCSCU as accountability of funds; but rather the funds are released on the basis of payment triggers in the MoU.

UCSCU Business Plan and performance

20. UCSCU Business Plan. The Business Plan and five-year projected budget have been reviewed, as agreed during the last supervision mission. The mission endorses UCSCU's revised financial projections showing the progression to operational self-sufficiency by the year 2018/19. It has been agreed that Annex 1 of the MoU between UCSCU and MFPED with the approved revised projections will be amended after clearance by the Contracts Committee and Solicitor General. It is noted that these revisions will have no impact on Annex 2 of the MoU, given that UCSCU's own

revised cash flow projections maintained these thresholds as the maximum possible subventions for each successive year. The revised Annex 2 to the MoU will be as follows:

Revised Annex 1 to the UCSCU/ GoU MoU
UCSCU Revised profitability projections 2014/2015 - 2018/19 (UGX)

	YR1 (2014-2015)	YR 2 (2015-2016)	YR3 (2016-2017)	YR4 (2017-2018)	YR5 (2018-2019)
BUDGETED REVENUE					
Interest income	-	60,000,000	196,000,000	254,500,000	287,500,000
Members Subscription & Statutory Contributions	172,518,650	138,700,000	200,200,000	284,500,000	406,000,000
Business Income	55,174,400	106,074,000	174,854,000	339,438,000	533,971,000
Other Income	36,636,388	37,400,000	43,000,000	43,000,000	43,000,000
Total Internal Revenue	264,329,438	342,174,000	614,054,000	921,438,000	1,270,471,000
BUDGETED EXPENDITURE					
Cost of Business Development Services	1,809,350	0	0	0	0
Marketing, Publicity and Rebranding	3,153,300	22,000,000	43,200,000	14,520,000	14,520,000
SACCO training and technical services	55,876,157	139,904,000	155,074,000	165,835,325	168,318,325
Member development services	0	20,048,000	20,000,000	20,000,000	20,000,000
Institutional development	92,785,400	185,295,500	113,820,824	137,960,000	83,180,000
General administration	305,111,369	234,198,750	244,715,750	370,357,550	383,942,450
Personnel costs	380,872,500	436,800,000	436,800,000	524,160,000	524,160,000
Total Recurrent Expenditure	839,608,076	1,038,246,250	1,013,610,574	1,232,832,875	1,194,120,775
PROJECTED (Deficit)/ Surplus	(575,278,638)	(696,072,250)	(399,556,574)	(311,394,875)	76,350,225
Operational self sufficiency target	0.31	0.33	0.61	0.75	1.06

21. Funds so far received from PROFIRA: UCSCU has so far received UGX 1.9 billion from PROFIRA as subvention performance based grant. This amount included funds for clearance of arrears/ obligations coming from 2014/15. Of the amount of grant so far received from PROFIRA, UGX1.742 million has already been spent/ absorbed; which is a good absorption capacity. The Union is due to receive the allocation for the last quarter in 2015/16 of UGX 250 million.

22. The operating deficit (net of the PROFIRA grant) through March 2016 already exceeds the revised target deficit for 2015/16 in the revised Business Plan. As shown in the table below, by 31 March 2016, UCSCU had posted a loss of UGX 756 million after nine months, which, if annualized on linear basis, could reach a billion by the end of the financial year. It is to be noted that if the actual net deficit for 2015/16 will exceed the target of UGX 696 million, the PROFIRA grant for 2016/17 will be reduced as per MOU.

UCSCU revised financial projections and performance up to 31 March 2016 (UGX, million)

	2014/15	2015/16	2016/17	2017/18	2018/19
Operating revenue (Target)	264	342	614	921	1,270
Recurrent expenditure (Target)	839	1,038	1,031	1,232	1,194
(Deficit)/ Surplus- (Target)	(575)	(696)	(399)	(311)	76.3
(Deficit)/ Surplus- (Actual)	(575)	(756)*			
OSS (Target)- %	31	33	61	75	106
OSS (Actual)-%	31	27			

* Year to date up to 31 March 2016, annualized loss assuming linear increase would reach UGX 1.01 billion

23. If the loss for 2015/16 does not increase any further (that is assume a break-even in the last quarter of 2015/16) UCSCU subvention will be reduced from UGX 772 million to UGX 711 million in accordance with annex 2 of the MoU as follows:

Target loss for 2015/16 (UGX 696 million)	X	UGX 772.4 million
Actual loss for 2015/16 (UGX 756 million)	=	UGX 711.2 million

24. Some of the 2015/16 year to date financial performance highlights are as tabulated below which in a combination explain the results given in the above.

UCSCU financial performance for nine month to 31 March 2016

	Target (Annual)	Achievement (Nine months)	% achieved
Revenue			
Interest income	60,000,000	39,384,168	66%
Members Subscription & Statutory Contributions	138,700,000	9,672,450	7%
Business Income	106,074,000	108,922,100	103%
Other income	37,400,000	119,213,800	319%
Total revenue	342,174,000	277,192,518	81%
Expenditure			
Marketing, Publicity and Rebranding	22,000,000	87,692,050	399%
SACCO training and technical services	139,904,000	150,935,847	108%
Member development services	20,048,000	11,221,700	56%
Institutional development	185,295,500	159,702,912	86%
General administration	234,198,750	206,735,587	88%
Personnel costs	436,800,000	417,364,625	96%
Total expenditure	1,038,246,250	1,033,652,721	100%
Deficit	(696,072,250)	(756,460,203)	

25. On the revenue side, from the table above, it be seen that the largest area of revenue shortfall to 31 March 2016 is members' contributions (only 7% of annual target). The importance of achieving the target for membership and payment of dues and statutory obligations as an indicator of commitment by the SACCOs themselves cannot be over emphasized. Business income has performed relatively well.

26. Many of the operating expenses have been over budget, in part because of lack of budget controls for the first half of the year, in part because of staff downsizing taking longer than expected. Overall by March 2016 the expenditure to-date already virtually equals the allocation for the whole year; and this coupled with the revenue shortfall is considered less than satisfactory financial performance. *As discussed below, UCSCU's budget controls will have to be strengthened along with enhanced revenue mobilization.*

USCCU financial management

27. Since the last mission there has been an improvement in the UCSCU financial management environment. The notable improvements are:

- Posting of data in pastel system was up to date
- The bank reconciliations are up-to-date
- A cost centre approach (i.e. separate financial tracking of CFF and other revenue centres) has been adopted
- UCSCU received an unqualified audit opinion on its financial statements for the year ended 30 June 2015, audited by a private audit firm. The quality of the audit and financial statements is satisfactory
- A substantive Internal Auditor has been recruited as part of the agenda to strengthen UCSCU's systems and control environment.

28. The mission, however, noted the following areas that will require strengthening/ improvement:

- Lack of strong budget controls resulting in budget overruns as discussed above. The key control is only in terms of comparing budgets vs actual. *UCSCU should put in place proactive controls such as ensuring funds availability on individual budget lines before commitments and payments are processed.*

- The head of Finance and Administration (FAM) is not versatile in the operation of the pastel accounting system leaving it mainly in the hands of the staff below him. The FAM will need to improve in this area in order to be able to provide oversight to the financial management function at UCSCU.

Attachment I: Financial Management Assessment at Supervision

Country: Uganda	Loan ID: 900-UG
Project Name: PROFIRA	
Executing Agency: MFPED	CPM: Alessandro Marini
FMS: Davis Atugonza	Date of this review: May 2016

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
A. Inherent Risks			
B. Control Risks			
1. Organization and Staffing			
a.	Adequacy of organizational structure to meet functional needs of the project.	L	
b.	Availability of clear job description for key project positions, including fiduciary positions.	L	Yes clear descriptions on file
c.	Adequacy of project financial management staff (numbers and skill) matching functional needs of project.	L	PMU well resourced with three finance staff

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
d.	Availability and adequacy of operating manuals and guidelines for staff.	L	PIM that includes FM section has gone through IFAD review
e.	Existence of a performance based evaluation system in place and timely completion of performance evaluation for all staff.	M	Staff have only been recently recruited
f.	Adequacy of health insurance coverage for all staff (where applicable).	L	Adequate
g.	Timely payment of social security fees (where applicable).	L	Yes, NSSF both employee and employer contribution
h.	Staff adequately informed about IFAD's national and anti-corruption policy and relevant contact details.	L	Yes
2. Budgeting			
a.	Timely preparation and approval of AWPB.	M	2016/17 AWPB will be submitted to IFAD some 2-3 weeks later than deadline
b.	AWPB in line with expenditure categories in Financing Agreement Schedule 2.	L	
c.	Financing sources and implementing agencies for each category in the AWPB are identified.	L	Yes
d.	Linkage between AWPB and Procurement plan are identified (for cost estimate and activities). Check assumptions to support cost estimates. Test check high value items.	M	Some inconsistencies affected also to costabs were noted
3. Fund flows and Disbursements / Withdrawals			
a.	Timeliness of funds disbursed by different sources (and co-financiers funding if applicable).	M	IFMS disbursement has improved but it takes time to role on a new supplier or service provider on the system
b.	Timeliness of counterpart funds disbursed.	M	

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
c.	Efficiency of the funding channels. Timeliness and traceability of funds flows.	L	
d.	Efficiency of the funding channels for credit lines. Timeliness and traceability of funds flows, if applicable.		N/A
e.	Special Account(s)/Dedicated Account(s) Management, Disbursements.		
i)	Adequacy of the authorized allocation to ensure a smooth flow of funds	L	Yes; USD 2 million is still adequate
ii)	Appropriateness of disbursement methods used	L	So far only designated account used
iii)	Adequacy of documentary support for SOE disbursements, reimbursements, direct payments and Special Commitments. (refer to Appendix IV and complete, reflecting finding in rating).	L	Review based on WA 4 and 5 confirming the existence of underlying supporting documents.
iv)	Timely preparation and accuracy of Withdrawal Applications	M	From April to September 2015 there was no single WA
v)	Authorization of WA preparation.	L	
vi)	Status on expenditures withdrawn from Special Account but not yet claimed for replenishment (old cases to be noted)	L	Designated account reconciliation well done
vii)	Regularity of Special Account(s) monitoring and monthly reconciliations signed by the project manager. Review and assess the reconciliations	M	Still not formerly reviewed by Project Manager
viii)	Disbursement rate compared to the AWPB and whether satisfactory given the remaining implementation time. Provide comments as appropriate	M	In the border lines to moderately unsatisfactory
ix)	Recovery of SA balances by loan closure		N/A
4. Internal Controls			

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
a.	Segregation of duties - are the following functional responsibilities performed by different units or persons: (i) authorization of a transaction (ii) execution of a transaction (iii) recording of the transaction; and (iv) custody of assets involved in the transaction.	L	There is adequate segregation of duties
b.	Clarity and adequacy of decision processes and sequence of events for control functions in project implementation reflected in the Financial Manual (or equivalent there-of).	M	The procedure for dealing with multiple service contracts and especially in dealing with reimbursements should continue to be reviewed service providers get on board.
c.	Adherence to Financial Manual.	M	As above
d.	Effectiveness and efficiency of internal controls over inflows of funding sources other than IFAD.	M	Capture of CCA contribution and grant expenditures not yet started
e.	Adequacy of contract management (use of contracts register and monitoring form) and filing there-of.	L	Templates provided by the last mission are being well used.
f.	Effectiveness and efficiency of internal controls over expenditures (full cycle from commitment, payment, receipt of good and services, approval of payments, classification, etc.)	L	Yes
g.	Documentary evidence to confirm delivery and acceptance of contracted goods, works or services.	L	Yes
h.	Physical controls over cash, documents and records. Adequacy of filing systems. Is the petty cash subject to monthly reconciliation as well as surprise checks; custody of cash box and control of keys.	L	Yes
i.	Adequacy of physical management of cash.	L	Yes
j.	Timely payment to suppliers and consultants.	L	Yes

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
k.	Eligibility of expenditures with respect to Financing Agreements.	L	Yes
l.	Legality/eligibility of advances from project funds and timely justification for use there-of.	L	
m.	Compliance with financial management covenants in the Financing Agreements and LTB.	L	Yes
n.	Adequacy of up-to-date record keeping for fixed assets and inventories.	L	Yes
o.	Adequacy of controls concerning project assets including: i) Vehicle and other assets management (are assets property tagged, is a physical inventory count done on a regular basis?) ii) Fuel management (do drivers maintain a log book?) iii) Travel authorisations (incl. DSA paid to staff)	L	Yes
p.	Adequacy of vehicles and assets insurance.	L	Yes
q.	Workshops: i) Availability of list of participants ii) DSA paid to participants iii) Receipts for workshop expenditure	L	OK – building from the RFSP experience in managing workshops
r.	Adequacy of controls and authorization process for use of funds (payments, transfers, Cash/Bank balance management) / and other operational accounts – non-special account.	L	Yes
s.	Banking arrangement and controls (reconciliation of bank statements with financial accounts).	L	Done on a monthly basis within Pastel
t.	Existence of a proper IT support unit in place.	L	
5. Accounting			

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
a.	Basis of accounting (cash, accrual) and whether accounting standards are in line with IFAD's requirements (e.g. IFRS/IPSAS/IPSAS cash).	L	IPSAS cash
b.	Adequacy and reliability of accounting system, (is double entry accounting used, specify software used, is budget data entered into the accounting system, can the accounting system produce regular automated financial reports?).	M	Pastel system for detailed accounting; IFMS for transaction processing until it will be demonstrated that IFMS is able to handle project accounting demands.
b.	Recordkeeping (including documentation and filing/archiving)	L	Filed chronologically by EFT
c.	Fixed assets register maintained and reconciled (sample and physical check).	L	Yes
d.	Adequate documentation and controls for Information Systems, including documented accounting procedures, backup of financial records, integration of all sub-systems.	L	Back up of financial records is maintained on server.
e.	Adequacy of chart of accounts for project accounting purposes	L	Since the last mission, the chart of accounts has been reviewed to cover both expenditure and disbursement accounts
f.	Timeliness of recording transactions, regularity of performance and approval of reconciliations, controls on erroneous recordings.	L	
g.	Appropriate/ adequate accounting and reporting of counterpart funds contributions (incl. tax and tax exemptions) as well as beneficiary contributions.	L	
6. Financial Reporting & Monitoring			
a.	Completeness, accuracy, usefulness, and timeliness of financial reports.	M	Reports have now been pre-set and be printed from Pastel at a click of a button bit the withdrawal applications are still being sourced from vouchers.

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
b.	Interim FM reports and linkage to progress reports - timely preparation, submission to IFAD.	M	As above
c.	Preparation of reports showing actual vs budget income/expenditure and AWPB execution rate.	M	Commitment control still lacking
d.	Follow up of previous aide-memoirs fiduciary recommendations.	L	compliant
e.	Reasonable alignment between disbursement rate of recurrent versus investment cost categories.	M	Recurrent costs still outweigh investment csts
7. Internal Audit			
a.	Existence of Internal Audit arrangements.	M	Firm has been selected and is due to submit an inception report
b.	Adequacy of internal audit arrangements (organization - staff capacity).	N/A	
c.	Adequacy of internal audit scope of work and quality of reports.	N/A	
d.	Assessment of matters raised in audit reports.	N/A	
8. External Audit¹⁴			
a.	Adequacy of scope and ToR.	L	OK. The Office of the Auditor General (OAG) is finalising the process of appointing a private external audit firm for PROFIRA
b.	Adherence to ToR.	N/A	No audit has yet
b.	Timeliness of audit report.	n/a	
c.	Quality of audit.	n/a	
d.	Implementation of audit recommendations/agreed action plan in place to address these.	n/a	

¹⁴ Refer to IFAD audit review.

Attachment II: Summary of Project Fiduciary Risk Assessment at Supervision

Project # _____ PROFIRA _____

Implementing Agency : _____ MFPED _____

	Risk Assessment H/M/L	Proposed Mitigation
Inherent Risk		N/A
Control Risks		
1. Organization and Staffing	L	PMU well resourced
2. Budgeting	M	Seek approve of budget overruns before they arise
3. Funds flow & Disbursement Arrangements	M	IFMS speed in processing payments has greatly improved but still cannot handle project accounting demands
4. Internal Controls	L	
5. Accounting	M	Introduce staff advance control accounts and commitment control
6. Financial Reporting and Monitoring	M	As above improve monitoring of advances; should not be expensed until acceptable expenditure justification has been received. Similarly commitment control/ monitoring will need to be improved upon.
7. Internal Audit	M	Submit annual internal audit plan
8. External Audit	M	Need to finalise the engagement of external auditors with the Office of the Auditor General
Overall Project Fiduciary Risk	M	
H=High, M=Medium, L= Low		

Comments: