

Republic of Uganda

Project for Financial Inclusion in Rural Areas

Implementation Support

Main report and appendices

Mission Dates: 25-29 May 2015
Document Date: 3-Jun 2015
Project No. 900-UG
Report No: 3766-UG

East and Southern Africa Division
Programme Management Department

Contents

Abbreviations and acronyms	iii
A. Introduction	5
B. Overall Assessment of Project Implementation	5
C. Project Implementation Progress	6
D. Fiduciary aspects	11
E. Conclusion	13

Appendices

Appendix 1: Summary of Project Status and Ratings	14
Appendix 2: Logical Framework and Results Framework	16
Appendix 3: Summary of Key Actions to be Taken Within Agreed Timeframe	22
Appendix 4: Actual Financial Performance by Financier, by component and disbursements category	23
Appendix 5: Compliance with Legal Covenants: Status of Implementation	25
Appendix 6: Knowledge Management, Learning, Innovation and Communication	26

Annexes

- Annex 1: Community Based Financial Services
- Annex 2: Regulation of the Microfinance Sector in Uganda – Presentations to Roundtable
Discussion of 28 May 2015 in Kampala.
- Annex 3: Financial Management Assessment at Supervision

Abbreviations and acronyms

AMFIU	Association of Microfinance Institutions in Uganda
BoU	Bank of Uganda
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 Implementation Support Report Mission dates 25-29 May 2015

A. Introduction

1. The Project for Financial Inclusion in Rural Areas (PROFIRA) entered into force in November 2014. It will be 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 IFAD financing equivalent to USD 30 million, of which a loan of USD 29 million and an IFAD grant of USD 1 million to the Canadian Cooperative Association to provide technical assistance and institutional support to the Uganda Cooperative Savings and Credit Union (UCSCU). The project development objective is to *sustainably increase the access to and use of financial services by the rural poor*.

2. An IFAD implementation support mission¹ was held from 25 to 29 May with the objective to provide implementation support to the recently recruited PMU during the initial start-up phase of the project. The mission spent the entire time in Kampala, where it met and interacted with several stakeholders, including the Minister of State for Microfinance, Permanent Secretary/Secretary to the Treasury, the Commissioner and Assistant Commissioner for Financial Services from the 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, the representatives of CCA and various relevant stakeholders from the sector. A meeting on the way forward for the operationalization of the new Tier IV Regulatory Framework was organized on Thursday 28 May, chaired by the Commissioner for Financial Services and with participation of other development partners including the WB and GIZ. The mission would like to thank the GoU and all other partners for their collaboration and support.

B. Overall Assessment of Project Implementation

3. The implementing agency, MFPED, is consistently catching up with the delay accumulated between Project approval by the IFAD Board in September 2013 and Loan signing in November 2014. Six months after entry into force considerable progress has been made in finalizing all major preparatory activities. The first disbursement occurred in March 2015, only three months after entry into force. The Project Management Unit is now fully staffed, with the only exception of an M&E Officer, and operational, with suitable office space. The basic financial management systems are in place and the PMU is working closely with the Accountant General to fully mainstream the project into the Government's Integrated Financial Management System (IFMS). With the recruitment of the Procurement and Contract Manager in March, the procurement systems are gradually being set-up and key procurement processes are advancing well. Considerable progress has been made in setting up the M&E system, with the review and streamlining of the logframe and results framework and the launching of the procurement for the household baseline survey. The project is also on-track with all other main loan covenants including the preparation of the AWPBs; the establishment of the Project Oversight Committee and the Contracts Committee; and the finalization of the Project Implementation Manual.

4. Budget execution and disbursements have been affected by the budgeting challenges faced with IFMS, with a very low ceiling for PROFIRA in the National Budget for the FY 2014/15, which prevented the PMU from making any meaningful expenditures until early May and thus advancing with the planned activities, in particular the SACCO census and the disbursement of the performance-based financial incentives to UCSCU. Execution of activities is now expected to pick-up considerably during the last month of the current financial year and the first two quarters of the next one.

¹ The mission was led by Mr Alessandro Marini, IFAD Country Representative and included: Mr. William Steel, Rural Finance Specialist; Mr. Jorma Ruotsi, Rural Finance Specialist and Mr. Davis Atugonza, Financial Management and Procurement Specialist.

5. The SACCO census has been completed in one of the four regions and is planned to be completed in all four by September. Meanwhile, the procurement process for the selection of the service providers (SPs) for SACCOs' training has been initiated and it is expected that the first trainings in the Central Region could reasonably start in the second quarter of FY 2015/16. Similarly, the procurement process for the selection of SPs to promote CSCGs in the four selected regions is ongoing and the start of activities on the ground is also reasonably expected by the the second quarter of FY 2015/16. Some adjustments to selection criteria for the beneficiary SACCOs as well as to the geographic scope of the investment in strengthening CSCGs have been introduced, in response to the evolving situation on the ground since project design.

6. The support to UCSCU is finally up to speed, with the technical assistance by CCA already started in March and the signing of the MoU with MFPED for the provision of the performance-based financial incentives, with the disbursement of the first tranche expected within days. UCSCU is demonstrating remarkable pro-activeness and drive in the implementation of its Business Plan towards financial self-sustainability, with the projected operating deficit for 2014-15 estimated to be lower than original projections.

7. With the Tier IV Bill in its final stages of preparation before submission to the Cabinet, the Department for Financial Services (DFS) is now focusing its attention on the necessary preparations for the operationalization of the Regulatory Framework. The department is taking the lead in coordinating the consultation among key stakeholders, including a few development partners, to create the necessary critical mass for supporting this process, which is expected to be quite demanding in terms of time and financial resources. The financial support of PROFIRA should be used strategically to catalyse this process.

C. Project Implementation Progress

Component 1 – SACCO strengthening and sustainability

Sub-Component 1.1 – SACCO Strengthening

8. **SACCO Census.** The SACCO census has been delayed by the lack of available funds due to the low budget ceiling in IFMS for the FY 2014/15. As a result, the census has been completed only in the Central Region and just begun in the Western Region. As the other two Regions will not be completed before August, it will not be possible to select the beneficiary SACCOs comprehensively from a complete national data set, without further delaying implementation. The selection will therefore be done Region-by-Region, as data becomes available. **Agreed action:** complete SACCO census data collection for Western, Northern and Eastern Regions by 30 September 2015.

9. **Selection criteria for eligibility of SACCOs.** The selection criteria set at design stage were based on 2011/12 data. Meanwhile, important developments have occurred in the industry. On the one hand, steps are being taken towards the passage of a law to establish a regulatory framework for Tier IV institutions, and criteria are being defined to identify SACCOs to be licensed directly by the Bank of Uganda (BOU) or by Uganda Microfinance Regulatory Authority (to be established). Experience under RFSP indicated that the MIS capacity of SACCOs – in terms of hardware, software and training – in reality may fall short of expectations. It has been agreed that the upper cut-off for SACCOs be redefined as: (a) meeting the criteria for licensing by BOU or (b) have over 5000 members and Operational Self-Sustainability (OSS; % of operating costs covered by revenues) > 150. The lower limit to qualify for MIS support would remain as defined during the March 2014 supervision mission (at least 250 members and OSS > 120 and MIS-ready). On the other hand, a growing number of weak SACCOs have gone dormant. PROFIRA is designed to strengthen potentially sustainable SACCOs so that they will be ready and susceptible to prudential regulation; it does not have the mandate or resources to deal with rehabilitation of dormant SACCO. Thus the minimum requirement for selection will remain that it has to be operational and have OSS > 60 and at least 150 members (100 in the poorer regions).

10. Some concern was expressed that there may not be enough qualifying SACCOs in the Northern and Eastern Regions to reach the targeted numbers of 250. In selecting SACCOs for support and assigning them to service providers, the mission notes that the definition of “poorer regions” is based on the District Household Survey data for 11 sub-regions. Furthermore, there does not have to be strict equality in the numbers assigned to each lot.

11. **Procurement of service providers.** Requests for EOs have been issued for the various training programs for SACCOs, except for the provision of MIS, and have received strong response. The issuance of RFPs will be phased by Region as data from the census becomes available. **Agreed actions:** finalize shortlists and issue RFPs for Central and Western Regions by 31 July and 30 September 2015, respectively.

12. **Turnaround SACCOs.** The category of “turnaround” SACCOs is intended as a safety valve to permit inclusion of a limited number of SACCOs that do not meet the regular criteria for selection but have high potential to contribute to the objectives of the Project because either: (i) they were previously strong, well-performing SACCOs that are suffering a specific problem related to governance, management or fraud which could be redressed (including some initiated under RFSP); or (ii) they are the only SACCOs in a rural sub-county where there is strong community commitment to making them viable and capacity to benefit from capacity building under PROFIRA. Selection of turnaround SACCOs shall be done in close coordination with the Commissioner for Cooperative Development, whose team will be responsible for providing support other than training, such as calling a Special General Meeting, changing management, mobilizing community support, engaging with the District Commercial Officer and UCSCU field staff, etc. The PMU and Commissioner are to agree on the steps to be taken both in general and in each specific case to effect the turnaround. The Commissioner is responsible for carrying out and documenting progress in implementing these steps, with the budget provided through the PROFIRA AWPB. **Agreed action:** Commissioner for Cooperative Development to provide by end of July a list of turnaround SACCOs from RFSP from Western and Central Regions that are considered good prospects for success, to be supported by PROFIRA.

Sub-Component 1.2 – Developing a SACCO Union

13. **Technical support by the Canadian Co-operative Association (CCA).** The IFAD grant to CCA for the provision of technical support to UCSCU was signed in February 2015. From 2 March to 2 April 2015 the Lead Advisory and Mentorship Team from CCA started its work. The team includes two experienced leaders of cooperative financial institution associations from Kenya and Ghana. The approach adopted by CCA is to combine periodic missions by the Lead Team with inputs by selected short-term specialists to respond to the critical needs identified jointly with UCSCU. The next mission of the Team is planned for the month of June. The report by UCSCU to the mission revealed the effectiveness of this approach for technical support and the satisfaction by the UCSCU staff and Board in this respect. Since the first visit of the team, UCSCU has engaged in implementing some of the agreed actions, in particular with respect to proactively seeking new areas of business and ensuring professional management of the CFF, including recovery of outstanding loans.

14. **Financial incentives.** The MoU between MFPED and UCSCU for the provision of the performance-based financial incentives to UCSCU has been signed during the mission. The disbursement of the first tranche of UGX 1.1 billion, corresponding to the entire amount budgeted for 2014-15, is expected by the first week of June. This will allow UCSCU to clear the salary and other arrears accumulated during the last year. UCSCU’s projected operating deficit for 2014-15 is estimated at UGX 0.4 billion, less than what was projected in the original five-year strategic plan, despite not having received the performance incentive from PROFIRA. However, the delay in releasing the financial incentives envisaged under PROFIRA means that, under the current schedule, UCSCU would remain with only three years, instead of the four years envisaged at design, to reach full financial sustainability. **Agreed action:** UCSCU to review the financial projections of its five-year strategic plan and propose, if appropriate, a rescheduling of the remaining amount of the performance incentive in line with the projected annual deficits.

Agreed action	Responsibility	Agreed date
Complete SACCO census for Western, Northern and Eastern Regions	PMU	30 Sep 2015
Issue RFP for Central Region and Western Regions	PMU	31 Jul and 30 Sep 2015
Select turnaround SACCOs from those initiated under RFSP	DCD	31 Jul 2015
Review financial projections of UCSCU Strategic Plan	UCSCU	30 Sep 2015

Component 2 – Community Based Financial Services

15. **Investment, objective and geographic scope.** Component 2 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. Most of the CSCGs will be formed based on the already operational social and economic groups. The already existing social capital of these groups will be fully utilised when they start to operate savings and credit activities in a systematic manner. 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 financial inclusion.

16. Following the PROFIRA design, the four poorest sub-regions (North East, Mid-North, West Nile and Eastern) were selected as the implementation area of Component 2. Since then, it has become apparent that also outside these sub-regions there are districts, or clusters of districts, where poverty is prevalent and the SACCOs are few. This situation calls for expansion of the CSCG operations in a selective manner outside the above four sub-regions.

17. To respond to the situation, it is agreed that while sub-component 2.1 will remain focused on the mentioned sub-regions, sub-component 2.2 will be implemented nationwide. For areas outside the four core sub-regions, the additional districts eligible for sub-component 2.2 will be selected based on two criteria: (a) no or limited PROFIRA support under component 1 for SACCO development and (b) poverty levels above an agreed threshold, based on the Uganda National Household Survey 2012/13 results. This nationwide scope will be applied already in the first bidding for the sub-component 2.2 contracts.

18. **Sub-component 2.1 – Establishment of CSCGs.** The display of Request for Expression of Interest in the media for the first contracts for sub-component 2.1 in the four sub-regions took place on 23 April 2015. The deadline for the bidders to express their interest was set at 19 May 2015. The response was impressive. A total of 43 institutions expressed their interest to participate in this PROFIRA activity, many of them in various sub-regions. This positive response by service providers augers well for the successful future implementation of Component 2. **Agreed actions:** (i) Request for Proposals (RFPs) to the pre-selected SPs to be issued by 30 June 2015; (ii) Signing of contract with the selected SPs by 15 October 2015. With this agreed timetable, the actual field operations of sub-component 2.1 are expected to start in November 2015. Pro-activeness is required by the CBFS and the Procurement and Contract managers to keep the selection process within this schedule. In early July 2015, a half-day information sharing workshop will be organised for the representatives of the shortlisted institutions. Further, after the issuance of the contracts, a one-day Inception Workshop for the winning bidders will be organised, to discuss relevant issues for the successful field implementation of the sub-component.

19. **Sub-component 2.2 – CSCGs Strengthening, Innovation and Partnerships.** The preparations for the first bidding of service providers for sub-component 2.2 are well advanced. Five SP contracts of three years' duration are envisaged for the first round of bids, each covering support to approximately 300 mature CSCGs. **Agreed action:** a Request for Expression of Interest will be published by 15 August 2015, after the deadline for the submission of the full project proposals for sub-component 2.1. The plan is to sign the first contracts for sub-component 2.2 in January 2016 and start the field implementation in February 2016.

20. **Monitoring and evaluation.** The mission discussed with the PMU the reporting, baseline studies/impact evaluation and knowledge management approach for component 2. These operations will be conducted in close cooperation with the service providers, which are expected to be well capacitated and experienced in this respect. It was agreed that the M&E and knowledge management aspects of the component will be elaborated in detail once the first SPs will have been selected.

Agreed action	Responsibility	Agreed date
Issue RFPs for sub-component 2.1	PMU	30 Jun 2015
Sign contracts with SPs for sub-component 2.1	PMU	15 Oct 2015
Issue requests for Eols for sub-component 2.2	PMU	15 Aug 2015

Component 3 – Policy and Institutional Support and Project Management

Sub-component 3.1 – Policy, regulatory and institutional environment

21. **Tier IV Bill.** Based on the Principles approved by Cabinet in June 2013, MFPED, in consultation with other relevant public institutions, coordinated a process that led to the issuance of drafting instructions to the First Parliamentary Counsel in October 2013. The drafting process is now in its final stages and the draft 'Tier IV Microfinance Institutions Bill' is awaiting for compliance certification by the Office of the Attorney General, before being submitted for consideration to the Cabinet.

22. **Operationalization of the regulatory framework.** A study tour to Ghana was undertaken on 10-16 May by a 9-person team from MFPED, Department of Cooperative Development (MTIC), Ministry of Justice (Attorney-General's office), the Bank of Uganda (BOU), and the Law Reform Commission. The team met with a variety of institutions and practitioners to learn from Ghana's experience with regulating microfinance institutions. A roundtable discussion on the study tour findings was held during the mission, with involvement of key stakeholders from Government and development partners. A significant outcome of this process was the realization that the measures required to prepare for successful implementation of the proposed new law are extensive, costly, and must begin as soon as possible, without waiting for the legislation to be passed. These measures would include: developing appropriate regulatory guidelines and reporting formats; building the capacities (especially MIS systems) of the institutions to be regulated to report and comply with regulations; building the capacities of agencies that will complement the role of the Uganda Microfinance Regulatory Authority in implementing regulation at different levels (i.e., BOU and the Department of Cooperative Development); designing the UMRA and its staffing requirements; and addressing the problem of a large number of dormant and closed SACCOs. A number of development partners, including IFAD, have indicated possible interest in supporting such efforts. **Agreed action:** the Department of Financial Services, in consultation with key stakeholders including interested development partners, will take the lead in defining a road-map for the operationalization of the new Bill, in the context of the broader initiatives to develop a comprehensive financial sector strategy. This road-map will provide details about the activities to be undertaken, the envisaged timeline and the required budget. This process may eventually result in preparing a multi-donors project to support the implementation of the Bill. It is agreed that PROFIRA will provide the entry point to facilitate this process.

23. **SACCO census.** The PMU, MFPED, MTIC, UCSCU and UBOS are collaborating to undertake the SACCO census, which has been completed in the Central Region and is underway in the Western Region. Collection in the North and East is expected to be completed by the end of August. Besides being used for selection of SACCOs for PROFIRA support and serving as a baseline, the data will be incorporated in the databases of the participating institutions for their respective monitoring and analysis of the sector.

24. **Department of Cooperative Development (DCD).** The DCD in MTIC is responsible for several support activities to SACCOs under PROFIRA. Besides support for "Turnaround" SACCOs as discussed above, it is to support forums and networks of SACCOs at the District level, and to liquidate and remove from the Register SACCOs that have closed or never gone beyond the probationary

stage. It was agreed to focus initially on the latter, given the issues and lack of resources for dealing with SACCOs that have been established but gone dormant. DCD is expected to specify the steps required to notify SACCOs on probation and de-register them if they fail to comply, and to track progress for each SACCO through each step. **Agreed action:** DCD to initiate the first step for de-registration by notifying at least 50 SACCOs that are well past their probationary period by the end of August 2015.

Agreed action	Responsibility	Agreed date
Define road-map for operationalization of Tier IV Regulatory Framework	DFS	31 Oct 2015
Initiate process for de-registration of 50 SACCOs	DCD	31 Aug 2015

Sub-component 3.2 – Project management

25. **Project management.** A total of 17 staff have been recruited as part of the PMU, including one project manager, five component/unit managers, five technical/administrative officers and six support staff. The remaining three staff (one M&E Officer and two drivers) will be recruited in the FY 2015/16. Proper office space has been provided by MFPED in premises located in close proximity to the Ministry. Key equipment and furniture from RFSP was used for the initial PMU operations, IT equipment and furniture are being procured while procurement of 3 vehicles is envisaged under the AWPB 2015/16. Medical and group personal accident insurance are also being procured.

26. **Project oversight committee.** The MFPED, as chair of the committee, has sent nominations to the institutions envisaged as members in the Financing Agreement, namely the Department of Cooperative Development in MTIC, the Gender Department of the Ministry of Gender, Labour and Social Development; the Supervision Department of BoU; the Microfinance Support Centre; UCA; AMFIU and UCSCU as a non-voting member. The POC has not yet had its first meeting. **Agreed action:** MFPED to call for the first meeting of the POC by 30 June 2015, with the objective of providing induction to the members on PROFIRA design, discuss the committee's ToRs and present the PROFIRA AWPB 2015/16.

27. **Project launching.** The project was successfully launched at national level in March. Regional launches are being planned before the end of the year. These will be excellent opportunities to further disseminate information about the project objectives and approaches. Communication messages and materials for these regional events will have to be carefully prepared.

28. **Planning and budgeting.** The execution of the first AWPB of the project (Nov 2014/June 2015) has been hindered by the very low ceiling for PROFIRA in the National Budget for the FY 2014/15 (UGX 392.2 M, equivalent to less than 10% of the AWPB), which prevented the PMU from making any meaningful expenditures and thus undertaking any activities, until the problem was solved in early May. As a result, AWPB execution as at 15 May 2015 stands at 12%, although it is estimated to reach 50% by the end of the AWPB period. Preparations for the AWPB 2015/16 are well advanced. A draft AWPB was submitted to IFAD for No Objection as per agreed deadline of 30 April. Overall, the quality of the draft AWPB is considered satisfactory. Some adjustments to the budget have been discussed and agreed during the mission. A detailed staff training plan will be added to the next draft. **Agreed actions:** (i) PMU to finalize the second draft of the AWPB 2015/16 and send by 5 June to IFAD for No Objection; (ii) IFAD to provide No Objection by 12 June 2015.

29. **Logframe and results framework.** Since the entry into force of the project, the M&E and KM Unit has coordinated a joint exercise at PMU level to review the PROFIRA Logframe and translate it into a full Results Framework,. The key results of this process are: a revised Logframe with a streamlined results hierarchy and well-defined indicators capturing the key dimensions of outreach, usage and sustainability of financial services; and a Results Framework articulating key measurable results at each level of the objectives hierarchy, with room for monitorable annual targets at both outcome and output level. For some sub-components, output indicators still need to be improved in strict coordination with the respective implementing agencies. The mission has reviewed the two documents and provided detailed comments for improvement. **Agreed action:** the PMU will finalize

the logframe and results framework based on the comments received during the mission and submit to IFAD for final review by 31 July 2015.

30. **RIMS indicators.** RIMS impact-level indicators are duly captured among the indicators for the baseline survey. First (output) and second (outcome) level RIMS indicators should be more clearly mainstreamed in the results framework, by identifying them among the existing ones as well as adding others, as relevant. **Agreed action:** PMU to clearly identify first and second level RIMS indicators in the next draft of the results framework, by 31 July 2015.

31. **Baseline.** Baseline data are to be collected through: the ongoing SACCO survey for SACCO outcome indicators; the inception reports of the CSCGs service providers for CSCG outcome indicators; a desk review (completed) to document the performance status of UCSCU at the start of the project; and a RIMS-compliant baseline survey for impact indicators at household/individual level. An EoI for the selection of a consulting company for the baseline impact survey was launched at the beginning of April and the evaluation was completed. IFAD comments to the ToRs are awaited before the RFP can be issued to the shortlisted companies. With the current timeline, the deadline of 9 months from entry into force (July 2015) as per loan covenant for the completion of the baseline survey is not realistic. The final baseline report can be reasonably expected by end of March 2016. **Agreed actions:** (i) IFAD will provide comments to the ToRs for impact baseline survey by 15 June 2015; (ii) the RFP documents will be submitted to IFAD for No Objection by 15 July 2015. Baseline 5 months from November.

32. **Learning and Communication Strategy.** A Learning and Communication Strategy for PROFIRA will be developed to cover the pertinent aspects of information management, internal and external communications, documentation, packaging and sharing of lessons learned in various forms (case studies, success stories, infographics and such others), depending on the key messages, target audiences and expected outcomes of such messages. A concept note has been developed in this respect and should be shared within the PMU for review. The mission has shared documentation to support the PMU in the development of the strategy. As the project will be implemented through service providers and in partnership with other organisations and government agencies, the PMU should pay particular attention in the strategy to external communication and visibility aspects. **Agreed action:** PMU to develop a timeline for the elaboration of the strategy to ensure that the process is finalised by 30 September 2015.

33. **Training in communication and KM aspects.** The unit includes communication and KM as important complementary areas to M&E. To ensure effectiveness in these areas, the unit should identify and undertake relevant trainings in knowledge management and communication as a team. This will enhance a shared understanding of key issues and facilitate effective implementation of related activities through project implementation.

Agreed action	Responsibility	Agreed date
Call for first meeting of Project Oversight Committee	MFPED	31 Jul 2015
Finalize second draft AWPB 2015/16 and send to IFAD for NO	PMU	5 Jun 2015
Provide NO to AWPB 2015/16	IFAD	12 Jun 2015
Finalize logframe and results framework (incl. RIMS indicators)	PMU	31 Jul 2015
Provide comments to ToRs for baseline survey	IFAD	15 Jun 2015
Submit RFP for baseline survey to IFAD No Objection	PMU	15 Jul 2015
Finalize Learning and Communication Strategy	PMU	30 Sep 2015

D. Fiduciary aspects

34. **Financial Management:** The PMU is well resourced with three finance staff. The team is using the GoU Integrated Financial Management System (IFMS) for payment processing. A parallel accounting system (Pastel) is maintained to meet the detailed project accounting requirements, including reporting in multiple dimensions: component-wise, category-wise, financier-wise etc. The IFMS version installed at the PMU was designed for donor funded projects and, if properly coded, could be able to meet project accounting demands. However, before Pastel is phased-out, it is important

to confirm that the IFMS is able to meet the critical financial management requirements for reporting to IFAD. **Agreed action:** the PMU will work with the Accountant General's office to fully code the IFMS by 30 September 2015. A trial period of at least 6 months will then be allowed to test the full functionality of IFMS for financial reporting. The opportunity to phase out the parallel pastel system will be considered and discussed during future supervision missions.

35. **Disbursement:** The loan is 7.45% disbursed, comprising only the initial advance from IFAD of USD 2 million. Out of the initial advance, actual expenditure up to 30 April 2015 is only USD 120,182. The main explanation is the budgeting challenge that the project faced, which made it difficult to access through the IFMS system the funds available at Bank of Uganda. Furthermore, critical procurement processes were delayed by the delayed recruitment of some key unit managers. **Agreed actions:** going forward, project budgeting will better align to the GoU budgeting calendar to avoid situations where budget ceilings set within the IFMS are inadequate to cover project activities.

36. **SOE spot check:** The mission has undertaken a spot check on the posted expenditure of USD 120,183. Of this expenditure, 82% relates to salaries and regular operating costs, the central region SACCO survey costs accounts for 16% while new office related set-up and networking accounts for the remaining 2%. The mission confirms the existence of the underlying supporting documents.

37. **Counterpart funds:** The overall GoU counterpart contribution spread over the entire programme implementation period is the equivalent of USD 4.9 million towards taxes and duties. As of 30 April 2015 no counterpart contribution has been posted given the typology of the expenditure so far. However, the budgetary arrangements are in place to be able to cover the required counterpart contributions.

38. **SACCO counterpart contributions.** SACCO contribution for trainings was, at design, projected at the equivalent of USD 1.44 million, including cash contributions for refresher trainings. The system for collecting cash contributions from the supported SACCOs seems difficult to be implemented. It is therefore agreed that only in-kind contributions will be requested to SACCOs, by availing the venues and facilities and covering the allowances for their participants. This requires the design of an efficient data capture modality. **Agreed action:** a mechanism to capture in the accounting system in-kind contribution will be put in place.

39. **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, with the exception of the undertaking of the baseline survey within 9 months from entry into force. The deadline for the latter is agreed to be postponed to end of March 2016.

40. **Procurement and contract management.** A procurement and contracts manager has recently been recruited and is supported by a logistics and administration officer. A PROFIRA contracts committee has been duly constituted. The Programme Manager has delegated powers from the MFPED Accounting Officer and can sign off contracts. The template used for the procurement plan is satisfactory. The mission also shared with the PMU appropriate templates for contract management, namely for contract register and contract monitoring. The mission has clarified that No Objections (including for Terms of Reference) will be required only for services above the threshold of USD 50,000 as currently established in the letter to the borrower. This threshold can, however, be reviewed by the Fund from time to time depending on its fiduciary risk assessment. It was also clarified that IFAD's No-Objection will be required in case of direct contracting, irrespective of the amount. The PMU has informed the mission of the need to recruit short-term technical services to assist in the evaluation of the big turnout of EOIs for SACCOs and CSCGs.

41. **Contracts for service providers.** In the next few months, a number of RFPs will be issued to shortlisted firms under components 1 and 2. It is important that the envisaged contracting modalities be clear right from RFPs. Performance-based contracts will be used, with payment schedules based on performance milestones. The first instalment will be pegged to an inception report and should not exceed 20% and, thereafter, payments will be based on achievement of the agreed milestones. Component managers are responsible to identify technically sound measurable milestones to be

included in the contract. Rigorous contract management and monitoring of milestones' achievements will be vital during implementation.

42. **Audit.** External auditors have not yet been appointed by the Auditor General, neither has official communication been sent to IFAD confirming that the Office of the Auditor General (OAG) will undertake the external audits. The PMU has started consultations with the office of the Auditor General in this respect and an official communication is awaited. Furthermore, there is need to finalize the procurement of internal audit services. **Agreed actions:** (i) external auditors will be confirmed by 31 July 2015; (ii) the procurement process for the selection of internal auditors will be launched soon with the aim to have it finalized by 31 August 2015.

Agreed action	Responsibility	Agreed date
Fully code the IFMS	PMU	30 Sep 2015
Ensure alignment of project budgeting to the GoU budgeting (IFMS)	PMU	Continuous
Establish mechanism to capture SACCO in-kind contributions	PMU	31 Aug 2015
External audit ToRs finalised and cleared with IFAD.	PMU	30 Jun 2015
Confirmation of the external auditors	OAG	31 Jul 2015
Select internal auditors	PMU	31 Aug 2015

E. Conclusion

43. A summary of the main actions agreed is provided at the end of each section above. It is agreed that the next IFAD Implementation Support and Supervision Mission will take place from 5 to 16 October. This Aide Memoire was discussed and agreed upon in a wrap up meeting on 29 May 2015, chaired by Mr S. Kasangaki, Commissioner for Financial Services. 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.

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	05-Jun-2015				
Supervising Inst.	IFAD				
No. of Supervisions	1	No. of Implementation Support/Follow-up missions	1		
Last Supervision	24-Oct-2014	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	7
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	30-Jun-2022			National Govern	4.93	0
	0			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	4	1. Quality of project management	4	4
2. Acceptable disbursement rate	3	3	2. Performance of M&E	4	4
3. Counterpart funds	4	4	3. Coherence between AWPB & implementation	3	3
4. Compliance with financing covenants	4	4	4. Gender focus	4	4
5. Compliance with procurement	4	4	5. Poverty focus	4	4
6. Quality and timeliness of audits	3	3	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	4	4
			8. Climate and environment focus		
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Sub-Comp. 1.1 -- SACCO Strengthening	4	4	1. Institution building (organizations, etc.)	4	4
2. Sub-Comp. 1.2 -- Developing a SACCO Union	4	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	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

The PMU is fully staffed, with the only exception of an M&E Officer, and operational. The basic financial management systems

are in place and the PMU is working to fully mainstream the project into the Government's Integrated Financial Management System (IFMS). With the recruitment of the Procurement Manager in March, the procurement systems are being set-up and key procurement processes are advancing. Considerable progress has been made in setting up the M&E system (review and streamlining of the logframe and results framework and launching of the procurement for baseline survey). The project is on-track with all other main loan covenants (preparation of AWPBs; establishment of the Project Oversight Committee and Contracts Committee; and finalization of PIM). AWPB execution and disbursements have been affected by the budgeting challenges faced with IFMS, with a very low ceiling for PROFIRA in the National Budget for the FY 2014/15, which prevented the PMU from making any meaningful expenditures until early May, when the issue was solved. Execution of activities is expected to pick-up considerably during the last month of the current financial year and the first two quarters of the next one. External auditors have not yet been appointed by the Auditor General, neither has official communication been sent to IFAD confirming that the Office of the Auditor General (OAG) will undertake the external audits. Preparations for implementation of the different components is on-track and start of activities on the ground for sub-comp. 1.1 and comp. 2 is expected in the second quarter of FY 2015/16. Activities under sub-comp. 1.2 have already started. Considerable acceleration has been noticed for activities under sub-comp. 3.1, due to the progress registered in the process for approval of the Tier IV Bill.

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	4
C.4 Overall implementation progress (Sections B1 and B2)	4	4

Rationale for implementation progress rating

The project is consistently catching up with the delay accumulated between approval by the IFAD Board in September 2013 and Loan signing in November 2014. Six months after entry into force considerable progress has been made in finalizing all major preparatory activities. The first disbursement occurred in March 2015, only three months after entry into force. Activities in some components have already started (1.2 and 3.1), while in others are expected to start soon (second quarter of FY 2014/15), after finalization of the ongoing procurement processes.

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

Rationale for development objectives rating

Project is on-track during the first few months of implementation, thus no reasons to doubt about the likelihood of the project to achieve outcomes and objectives as agreed at project design.

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

Fiduciary aspects	Budget ceilings in IFMS (from National Budget) limiting resources availability for project activities. Difficulties in financial reporting according to IFAD standards through IFMS.
Project implementation progress	With general elections scheduled for the first quarter of 2016, political pressure is increasing to reconsider the geographic scope of the different components, with potential risk to bias the poverty focus and targeting approach on which the selection of intervention areas was based at design.
Outputs and outcomes	SACCOs with minimum eligibility for support by the project might be below the target number of 500, as design was slightly over-optimistic on current health status of SACCOs country-wide. Delays in approval of Tier IV Bill as well as in MFPED to duly prepare for implementation of the Bill.
Sustainability	None at this stage

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Budget ceilings in IFMS	Fully alignh project budgeting with GoU budgheting and ensure realistic budgeting	continuous	
Financial reporting through IFMS	Fully code IFMS and run test period to ensure propoer financial reporting	30 Sep 2015 + 6 months	

Additional observations

Appendix 2: Draft Logical Framework and Results Framework

Results Hierarchy	Indicators	Means for 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 assets² ownership index and food security at project completion - 20% reduction in the prevalence of child malnutrition³ in rural households (data disaggregated by gender) at project completion - Reduced Women's Empowerment in Agriculture Index (WEAI)⁴. 	<ul style="list-style-type: none"> - Household Level Baseline - Impact Study 	(A) Political stability
<u>Development Objective/Outcome</u> Increase in access to and use of sustainable financial services by the rural poor	<p>Outreach and Usage</p> <ul style="list-style-type: none"> - 750,000 men, women and youth are active⁵ members of project supported SACCOs and CSCGs - 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 mature⁶ CSCGs (3,000) have access to improved financial services and have availed themselves at least one such service (credit, savings or insurance) 	<ul style="list-style-type: none"> - M&E data (Results Framework) - Service Provider Reports - UCSCU Annual Report 	<p>(A) Dynamic economy creates opportunities for investment in enterprises and other income generating activities</p> <p>(A) Conducive Tier 4 regulation passed (R) MTIC not able to provide effective regulation/support to SACCOs</p> <p>(R) Self help group policy paper allows injection of external government financing into community savings and credit groups</p> <p>(R) Project supported SACCOs not able to attain financial sustainability</p>

² 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).

³ Child malnutrition measures by (i) under weight, (ii) stuntedness, and (iii) wasting

⁴ 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.

⁵ Active member refers to one that is fully paid-up in the SACCO or CSCG.

⁶ 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 for Verification	Risks (R) & Assumptions (A)
	<u>Sustainability</u> <ul style="list-style-type: none">- At least 90% of project supported SACCOs attain operational sustainability (OSS≥100%) by project end- 70% of CSCGs formed are operational after 3 years.- UCSCU has sustainability of operating income, covering 100% of operating expenses by PY5		(R) Failure of UCSCU to attain operational sustainability after five years undermines conducive environment for SACCOs
Component 1. SACCO Strengthening and Sustainability			
<u>Outputs</u>			
o.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 ⁷ 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 ⁸ 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
o.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>			
o.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
o.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			

⁷ 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

⁸ 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 for Verification	Risks (R) & Assumptions (A)
<u>Output</u> o.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
o.3.2 Project Management	3.2.1 A Project Management Unit (PMU) established and operationalised 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.	- PMU periodic reports - Project periodic department reports - Project consolidated progress reports	

PROFIRA Results Framework

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										
Increase in <u>access to</u> and <u>use of sustainable</u> financial services by the rural poor	<u>Outreach and Usage</u>									
	A	Number of fully paid-up members in supported SACCOs								
	B	% of fully paid-up female members in supported SACCOs								
	C	% of fully paid-up youth members in supported SACCOs								
	D	%age of project supported SACCOs that offer at least 2 savings and 3 loan products to their members								
	E	Number of fully paid-up groups in supported CSCGs								
	F	% of fully paid-up female members in supported CSCGs								
	G	% of fully paid-up youth members in supported CSCGs								
	H	Total Share Capital in supported SACCOs (UGX million)								
	I	Total savings in supported SACCOs (UGX million)								
	J	Total loan portfolio in supported SACCOs (UGX million)								
	K	Total savings in supported CSCGs (UGX million)								
	L	Total annual pay-outs in supported CSCGs (UGX million)								
	M	Total Loan portfolio in supported CSCGs (UGX million)								
	<u>Sustainability</u>									
	N	% of supported SACCOs with OSS>100%								
O	% of CSCGs formed that are still operational									
P	UCSCU OSS									
OUTPUTS										
1.1. Potential of existing SACCOs to establish sustainable operations enhanced	1.1.1	Number of SACCOs trained in six thematic areas9 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	-			100	210	350	
	1.1.4	Number of SACCOs trained in credit and default management		-	100	300	500			

9 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

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
	1.1.5	Number of SACCOs provided with continuous technical assistance	Unit	-		100	300	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.		-	10	30	50			
	1.1.8	Number of SACCOs that already have a software that it 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		-	20	40	60	100		
1.2. UCSCU enabled/facilitated to develop into a sustainable SACCO Union	1.2.1	Financial support (Amt. in UGX) 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			
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		2,000	5000	8000	10000	13000	15000
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	- Consolidated Report from SACCO Development Unit			600	1,400	2,000	2,500	3,000
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									
	3.1.1	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	Progress Report from the FSD/MFPED							
	3.1.2	The FSD/MFPED facilitated to undertake study tours for developing the Financial Inclusion Policy; and for establishing Tier IV Regulation and the Regulatory Authority								
	3.1.3	Promoted the revitalisation of the Uganda Microfinance Forum through facilitating stakeholder workshops								
	B/ Assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs during the project period									
	3.1.4	Facilitate the Department of Cooperative Development (MTIC) to operationalise and upgrade its computer systems used to maintain the SACCO registry and database	Progress Report from DCD/MTIC							

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
	3.1.5	Facilitate the updating of the SACCO registry through field based verification on the status of SACCOs								
	3.1.6	Facilitate turn-around activities to support SACCOs facing difficulty in their operations								
	3.1.7	Fund the initiation of local and regional SACCO forums, which will be used to provide information on new regulations and stimulate exchange of knowledge and good practices								
	C/ Partner with Bank of Uganda to implement the National Financial Literacy Strategy									
	3.1.8	BOU facilitated to develop and translate Financial Literacy Materials into local languages of the Project Implementation Area	Progress Report from BOU							
	3.1.9	BOU facilitated to multiply/produce copies of available Financial Literacy Material for distribution in the Project Implementation Area								
	3.1.10	BOU facilitated to prepare training manuals to tailor national messages to SACCOs and CSCGs								
	3.1.11	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 Timeframe

Action Area	Agreed Action	Responsibility	Agreed Date
Component 1 – SACCO strengthening and sustainability	Complete SACCO census for Western, Northern and Eastern Regions	PMU	30 Sep 2015
	Issue RFP for Central Region and Western Regions	PMU	31 Jul and 30 Sep 2015
	Select turnaround SACCOs from those initiated under RFSP	DCD	31 Jul 2015
	Review financial projections of UCSCU Strategic Plan	UCSCU	30 Sep 2015
Component 2 – Community Based Financial Services	Issue RFPs for sub-component 2.1	PMU	30 Jun 2015
	Sign contracts with SPs for sub-component 2.1	PMU	15 Oct 2015
	Issue requests for Eols for sub-component 2.2	PMU	15 Aug 2015
Component 3 – Policy & Institutional Support and Project Management	Define road-map for operationalization of Tier IV Regulatory Framework	DFS	31 Oct 2015
	Initiate process for de-registration of 50 SACCOs	DCD	31 Aug 2015
	Call for first meeting of Project Oversight Committee	MFPED	31 Jul 2015
	Finalize second draft AWPB 2015/16 and send to IFAD for NO	PMU	5 Jun 2015
	Provide NO to AWPB 2015/16	IFAD	12 Jun 2015
	Finalize logframe and results framework (incl. RIMS indicators)	PMU	31 Jul 2015
	Provide comments to ToRs for baseline survey	IFAD	15 Jun 2015
	Submit RFP for baseline survey to IFAD No Objection	PMU	15 Jul 2015
	Finalize Learning and Communication Strategy	PMU	30 Sep 2015
Fiduciary Aspects	Fully code the IFMS	PMU	30 Sep 2015
	Ensure alignment of project budgeting to the GoU budgeting (IFMS)	PMU	Continuous
	Establish mechanism to capture SACCO in-kind contributions	PMU	31 Aug 2015
	External audit ToRs finalised and cleared with IFAD.	PMU	30 Jun 2015
	Confirmation of the external auditors	OAG	31 Jul 2015
	Select internal auditors	PMU	31 Aug 2015

Appendix 4: Actual Financial Performance by Financier, by component and disbursements category

Table 4A: Actual performance by financier USD'000)

Financier	As per design	Actual disbursements	WA Pending disbursements	Total actual and pending	% disbursed
IFAD loan 900-UG / a	29 000	2 000	-	2 000	7
IFAD grant	1 000	-	-	-	-
CCA/WOCCU	250	-	-	-	-
Beneficiaries/ SACCOs	1 443	-	-	-	-
Government	4 935	-	-	-	-
Total	36 628	2 000	-	2 000	5

a/ this is initial advance only, otherwise actual expenditure is USD 120,000 as per table 3B

Table 4B: Financial performance by financier by component (USD '000)

Component	IFAD loan			IFAD Grant			CCA/WOCCU			Beneficiaries			Government			Total		
	Design	Actual	%	Design	Actual	%	Design	Actual	%	Design	Actual	%	Design	Actual	%	Design	Actual	%
SACCO Strengthening and Sustainability	10 368	19	0.2%	1 000	-	0%	250	-	0%	1 443	-	0%	1 982	-	0%	15 044	19	0.1%
Community Based Financial Services	11 955	-	0.0%	-	-	0%	-	-	0%	-	-	0%	1 979	-	0%	13 934	-	0.0%
Policy, Institutional Support and Project Management	6 677	102	1.5%	-	-	0%	-	-	0%	-	-	0%	974	-	0%	7 651	102	1.3%
Total	29 000	120	0.4%	1 000	-	0%	250	-	0%	1 443	-	0%	4 935	-	0%	36 628	120	0.3%

Table 4C: IFAD loan 900-UG disbursement (SDR as at 30 April 2015)

Expenditure Categories		Allocation	Actual disbursement	WAs in pipeline	Total actual and pending disbursement	% disbursement	Available Balances
I	Equipment and Materials	190 000	-	-	-	0%	190 000
II	Other Investment costs	14 910 000	-	-	-	0%	14 910 000
III	Operating Costs	2 270 000	-	-	-	0%	2 270 000
IV	Unallocated	1 930 000	-	-	-	0%	1 930 000
	Initial deposit	-	1 437 548	-	1 437 548	100%	(1 437 548)
	Total	19 300 000	1 437 548	-	1 437 548	7%	17 862 452

Appendix 5: 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	
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)	Draft PIM finalized, still to be submitted to IFAD	
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)	Nominations made, but POC not yet fully constituted and has not met yet	
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)	Ongoing and on-track	
Schedule 3 (6)	Baseline survey	Within 9 month from entry into force (31 Aug 2015)	Deadline postponed to 31 March 2016 due to procurement delays	

Appendix 6: Knowledge Management, Learning, Innovation and Communication

Introduction: The project is in the first year of implementation and the main activities have been around the launch and recruitment of service providers. In the next year, it is expected that the service providers will be on board and ready to start activities on the ground. Rather than carry out regional launches with nothing solid to present, the launches will be postponed till the service providers are on board so that the service providers are introduced then. The project is thus at a critical time to develop a proactive, practical, message/audience focused and inclusive strategy to support the successful implementation of the project as well as the extensive profiling of the said success. Important to note is that Communication is a support role in view of the fact that it should facilitate and enhance the implementation of the core components of SACCO Development and CSCGs, as well as Management. This understanding should equally guide the strategic direction of the communication role and always inform what communication activities are implemented every year.

Development of a Learning and Communication Strategy: The M&E, KML, and Communications unit should take the lead and sole responsibility in developing a Learning and Communication strategy for PROFIRA. The staff have worked on the predecessor RFSP and thus have a good understanding of the sector, and can draw from lessons learned. The strategy should cover the pertinent aspects of information management, internal and external communications, documentation, packaging and sharing of lessons learned in various forms (case studies, success stories, infographics and such others), depending on the key messages, target audiences and expected outcomes of such messages. Some examples of project level KM strategies have been shared as a reference point for the strategy development process.

In developing the strategy, some of the key aspects to look into will include:

- Audience categorisation (who are the primary, secondary and tertiary audiences?). This can draw a lot from the stakeholder analysis exercises for the overall project, as well as available information from working with various stakeholders during the RFSP project.
- Internal and External Communications – the internal audiences are a crucial part of the strategy. There should be a clear plan of action regarding how internal communications will be done. How will component related stories be captured and shared? By who? How often? Using which kind of channels? The Communications officer must be fully acquainted with the AWPB activities and then develop relevant activities that support the implementation of component based activities. T
- Messaging – the key messages shared at any given time must be derived from the progress of activities under core project components, as well as the overall prevailing events in the financial services sector.
- Profiling of PROFIRA as a key player in the financial services sector. This will require proactive positioning and activities since the projects is delivered through service providers who are brand names in their own right. PROFIRA shall thus have to ensure that the Ministry of Finance and other key partners are clearly reflected in documentation from and by the service providers. This however should be done in such a way that it doesn't disrupt implementation because the bottom line of the project is not to "show-case" itself but to support and increase access to financial services by rural poor people.
- Documentation, packaging and sharing of lessons learned, success stories, and experiences
- Development of Case studies through the M&E system
- Information management
- Innovation – documentation of critical innovative approaches

- Appropriate channels of communication – for instance, the use of the Learning route methodology to enhance grassroots sharing of indigenous and other knowledge among target beneficiaries, as well as sharing successful approaches among the service providers, other stakeholders and the PMU

These and other aspects must be put into perspective during the strategy development. Most of all, the aspect of sharing important lessons and experiences among the SACCOs and CSCGs for the purposes of improved savings culture, and increased access to financial services by the target audiences should be taken into consideration.

Partnership: Working through service providers and in close partnership with other organisations and government agencies, PROFIRA should include in the strategy a framework for capturing information from the field and for communication – especially the external communication aspects. Visibility of PROFIRA as a project, while working with different service providers is not going to be obvious. Recommendation. Project visibility aspects should be in-built into the MoUs with the service providers in such a way that allows the service providers to equally showcase their results as well. The partnerships serve as a gateway for greater outreach and sharing of lessons learned and key messages. They also provide an opportunity for scaling up initiatives as well as continuity and sustainability. The relationships should thus be cultivated to nurture positive and complementary capturing, documentation and sharing of lessons and experiences.

Linkages: M&E, KML, Innovation, and Communications. The linkage between these aspects in project management has been emphasized during the project trainings through the IFADAfrica grant. This has been tagged as the Integrated **Knowledge Management and Learning System** as portrayed in the diagram below. The staff in this unit have all participated in these trainings. The lessons and approaches garnered from the said trainings should be taken into account in the implementation of PROFIRA. The understanding that knowledge management is meant for more effective project management and delivery of results, and this can be attained through the different aspects working together in close coordination to ensure that what works well is encouraged and scaled up, while what does not work well is identified and not tried anymore.

This also should be reflected in the Learning and Communications Strategy which is being developed by the project. It will provide an opportunity to implement the useful approaches and lessons learned from the IFADAfrica grant and enhance the integration of knowledge management in project implementation and management. The essence is to have a framework through which arising lessons, innovations, approaches, and experiences are easily identified, captured, documented and packaged appropriately for sharing with various actors and stakeholders.

The role played by the Ministry of Finance, Planning and Economic Development as the lead ministry in the implementation of PROFIRA should also be reflected during implementation. Specifically, how lessons learned, and useful approaches and experiences are garnered and shared to contribute to policy dialogue and discussions, towards creating an even more enabling environment for the financial services sector in the country.

The Integrated Knowledge Management and Learning System.



Strengthening the capacity of the M&E/KM Unit: To ensure effective leadership and management of the unit, considering that it includes communications as well, the unit should identify and undertake relevant trainings in knowledge management and communications as a team. This will enhance a shared understanding of key issues and facilitate effective implementation of related activities through project implementation. Some suggested courses that could be done together as a team to give the M&E specialist an overview into communications and the Communications officer a greater appreciation of the role of M&E include:

- Knowledge Management for Development (covers basic approaches, integration of KM in project management, and key tools)
- Results-oriented M&E

These are short term (1 -2 weeks trainings). Some institutions that offer such trainings include: MDF consultants – Netherlands, International Institute for Capacity for Development (IICD) – Southern Africa, Institute of Applied Economics – Makerere University, and Uganda Management Institute.

Technical Annex 1: Community Based Financial Services

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. Most 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 and consequently larger-scale rural production activities. The total contributions from the IFAD loan to Component 2 activities is around USD 11 million.

4. Since the last mission in October 2014, PROFIRA has become effective. The first bidding for service provider contracts for Component 2 was on-going during this mission. The focus of this short mission was to support this bidding process for the establishment of new CSCGs as well as the next one focusing on the support to mature, already functional savings and credit groups. Further, much of the mission's time was used to develop, jointly with the newly recruited Community Based Financial Services Manager, appropriate procedures and working methods for the successful management and implementation of this large PROFIRA component. Below, the key findings, agreements and recommendations of the mission on Component 2 of PROFIRA are briefly described. This Technical Report may also be used as an implementation guide for Component 2 until the next support mission, planned for September-October 2015, as well as to update the PIM of PROFIRA.

Recruitment of CBFSM

5. The recruitment of the Community Based Financial Services Manager (CBFSM) for PROFIRA was an urgent start-up activity, not least because of the key role of the CBFSM in the SP procurement process. The post was advertised on 21 October 2014. Of the seven shortlisted candidates, Ms. Sharon Kensita was selected as the CBFSM for PROFIRA and issued a three-year contract in February 2015. She started to work with PROFIRA from 1 April 2015. Ms. Kensita has an appropriate CSCG-related background, with relevant practical experience of working for Ugandan VSLA promoters. By the time of this mission, she was already fully engaged in preparations to make the component activities fully operational. – At the same time as the CBFSM, also the Procurement and Contract Manager of PROFIRA was appointed. This is another critically important posting for Component 2, as most of its activities will be implemented by contracted SPs.

Sub-Regions and Target Numbers for PROFIRA Support

6. The selection of the four core sub-regions for the Component 2 implementation was made during the October 2014 Mission, based on how widespread and severe poverty is in each sub-region in Uganda. This rating was done based on the Uganda National Household Survey 2012/13 results. The results of the rating were straightforward. In case of both indicators, the following four sub-regions were rated in the same order as the poorest four in Uganda: 1) North East, 2) Mid-North, 3) West Nile

and 4) Eastern. Consequently, it was agreed that Component 2.1 activities of PROFIRA will be implemented in these four sub-regions.

7. Within each of the selected four sub-regions, the contracted SP under Sub-component 2.1 will select the districts and sub-counties, on which to CSCG development activity will focus. The focus will be on poorer sub-counties with fewer CSCGs. Furthermore, adequate concentration of target population will be used as an additional criterion to promote clustering of the CSCGs and effective implementation of the sub-component.

8. Since October 2014, PROFIRA has continued to further develop this targeting approach, and this discussion continued during this mission. Under Sub-component 2.1, the target is to establish 7,500 new CSCGs during the first three years of PROFIRA. It has been considered appropriate to take into consideration the actual number of rural people and rural poor in each sub-region when dividing this total target of 7,500 groups in a practical and implementable manner between the sub-regions. After analysing the situation, the agreed result is that the targets for each sub-region for the establishment of new CSCGs are as follows:

- North East: 1,000 new CSCGs
- West Nile: 1,900 new CSCGs
- Mid-North: 2,100 new CSCGs
- Eastern: 2,500 new CSCGs.

9. This allocation gives a more reasonable and manageable implementation target especially for the North East sub-region, with its low population density and very demanding logistical environment.

10. The regional targeting in the PROFIRA design was based on the principle that the CSCG operations would particularly focus on the poorest sub-regions of the country, while the support operations with SACCOs would be more focused on less poor sub-regions, with more operational cooperatives. Since then, it has become apparent that also outside the four sub-regions selected for the CSCG support, there are districts, or clusters of districts, where poverty is common and the SACCOs few. This situation has led to calls to expand the CSCG operations in a selective manner also outside the current four sub-regions.

11. To respond to the situation, it was decided that Sub-component 2.2 support to further develop the activities of operational CSCGs will be implemented nationwide. For areas outside the four core sub-regions already selected for the target area of the Component 2, the districts eligible for Sub-component 2.2 support would need to fulfil two conditions: (a) they receive no or only limited PROFIRA support under Component 1 for SACCO development and (b) their poverty level should be above the level to be set by PROFIRA based on the Uganda National Household Survey 2012/13 results. It was agreed that this nationwide approach would be applied already in the first bidding for the Sub-component 2.2 contracts, when five contracts of three years' duration would be issued, each to cover the support to approximately 300 mature CSCGs.

Preparations for Selection of Service Providers

12. The documentation for the first bidding for service providers to establish 7,500 new CSCGs was finalised during the October 2014 support mission. The full set of bidding documents, including the full RFP, for the first bidding under Sub-component 2.1 was included in the Technical Report of the October 2014 mission. Furthermore, in Annex 2 of the October 2014 supervision report, the TOR for the first bidding under Sub-component 2.2 was also provided. Finally, in the same Annex 2, the detailed descriptions on how to conduct the SP selection process in the first bidding were given, including the selection criteria and the related maximum points, the Pass Marks, as well as the weights between the technical proposal and the financial proposal, when using the QCBS selection method.

13. Two other preparatory arrangements, required for Component 2 start-up, have since October 2014 been made. First, the Contracts Committee of PROFIRA, which has the final decision making power over all project contracts, was established soon after PROFIRA effectiveness.

14. Second, the Evaluation Committee for CSCG Component was established in April 2015, soon after the CBFSM recruitment. It performs a critical role in the SP selection for Sub-components 2.1 and 2.2 and consists of the following members:

- CBFSM of PROFIRA
- Procurement and Contract Manager of PROFIRA
- Manager (M&E and Knowledge Management) of PROFIRA
- Economist, Financial Services Department, MFPED
- Rural Finance Specialist/Lecturer, Uganda Cooperative College.

15. This composition of the Evaluation Committee is fully in line with agreements made during previous IFAD support mission. – With the procurement documentation and the relevant committees in place, the actual procurement of service providers for Component 2 could commence in April 2014, with some 3-4 months delay from the October 2014 plans.

First Bidding: Establishment of New CSCGs

16. The Display of Expression of Interest in the media for the first Sub-component 2.1 contracts in the four sub-regions took place on 23 April 2015. The deadline for the bidders to express their interest was set at 19 May 2015.

17. The response to the call for Expression of Interest to bid for these contracts was impressive. By the set date, 19 May 2015, a total of 43 institutions expressed their interest to participate in this PROFIRA activity, many of them in various sub-regions. All the best known CSCG/VSLA promoters are among them, including CARE, CRS, Plan and UWESO, as well as practically all the experienced service providers based in the provinces. Many interesting consortia have also been formed to win bids by demonstrating not only the general CSCG promotion skills but also local knowledge and experience in different sub-regions. This active response by service providers augers well for the successful future implementation of Component 2.

18. The target date for the completion of the shortlisting of the consultants is 29 June 2015. Before that, the evaluation of the Expressions of Interest will be conducted by the Evaluation Committee on 1-2 June 2015. In this evaluation, the Committee is expected to pay particular attention to the following characteristics of the bidders:

- Experience of similar assignments and conditions and demonstrated success of implementation
- Demonstrated capacity to recruit and manage high profile staff for similar assignments
- Financial reliability of both the lead service provider and the sub-contractors.

19. The Evaluation Committee's initial selection of the shortlisted bidders will be followed by the review and approval of the shortlist by the Contracts Committee (10 June 2015) and IFAD's no-objection, leading then to the compulsory display notice of successful bidders (10 days). On 29 June 2015, the shortlisted consultants would be notified by PROFIRA and requested to prepare the full proposals for the assignments. It was further agreed that at the same time it will be announced that PROFIRA will organise around 6 July 2015 a half-day information sharing workshop for the representatives of the shortlisted institutions, to give them, in addition to the TOR, relevant further information for making appropriate and comprehensive project proposals. The shortlisted companies would then need to submit their full proposals to PROFIRA by 28 July 2015.

20. The Evaluation Committee would conduct its evaluation of the technical proposals by 31 July 2015, based on guidelines development in October 2014. If the bidding companies need to be present in the opening of the financial bids (as is reported to be the case in Uganda), the estimate of the procurement experts is that the final decision on contract approval by the Contracts Committee could take place around 21 August 2015, followed by IFAD's no-objection by 4 September 2015. After contract negotiations and Solicitor General's approval, the estimate for the date of the signing of the contracts with the four winners is given as 10 October 2015. This indicates a period of around five

months from the requests for Expressions of Interest to contract signing in this type of a public bidding process.

21. After the contracts with the four winning bidders have been signed, it is agreed that PROFIRA will organise a one-day Inception Workshop for these institutions, to discuss with them such issues as the projects and its objectives, contract management, reporting requirements, communication channels and contact persons, the requirements of Inception Reports and other topical subjects that can improve the chances of successful implementation partnerships. Further, it has agreed that PROFIRA will, starting from the first quarter of 2016, organise quarterly performance reviews with all the SPs, to assess implementation progress, re-emphasise contract management issues, share experiences and address challenges.

22. The above plan is seen to set a realistic schedule for this first bidding process under Component 2. It is, however, clearly understood by both the CBFSM and the Procurement and Contract Manager that their pro-active leadership is required to keep the selection process within this schedule.

Second Bidding: CSCG Strengthening, Innovations and Partnerships

23. Many institutions that bid for Sub-component 2.1 contract have indicated that they will also be bidding for contracts under Sub-component 2.2: CSCG Strengthening, Innovations and Partnerships. Due to this situation and following the approach of the PROFIRA design, it was agreed that the advertisements for the Expressions of Interest for the first contracts under Sub-component 2.2 will be published during the first week of August 2015, immediately after the deadline for the submission of the full project proposals for Sub-component 2.1 (28 July 2015).

24. The preparations for the Sub-component 2.2 bidding are well advanced. Changing the approach to nationwide bidding, however, makes it necessary to make relevant changes in the bidding documents, including the TOR and the request for Expressions of Interest. The revised versions need next to be sent to IFAD for no-objection, and for approval by the PROFIRA Contracts Committee. The actual procurement process and the documents required are largely similar to the first bidding under Sub-Component 2.1. The mission fully agrees with the Procurement and Contract Manager and the CBFSM of PROFIRA that based on the already available documentation and the experience gained, PROFIRA is fully capable of producing all the procurement documents for the Sub-component 2.2 bidding without additional support inputs by externally recruited Procurement Experts.

25. Many features of the second bidding process will follow the model of the on-going bidding for Sub-component 2.1: selection method (QCBS), general conduct and sequencing of procurement actions, weights of technical and financial bids (70%-30%), and the technical Pass Mark (70%). The key differences relate to the selection criteria and the implementation area. Concerning the definition of the selection criteria and the maximum points allocated based on these criteria, it was agreed that when selecting SPs for Sub-component 2.2, the following criteria and maximum points will be applied:

Nr	Definition of the Criteria	Max. Points
1	Proven references and experience of similar assignments in Uganda and in the region	30
2	Qualifications and competence of the key staff earmarked for this assignment	30
3	Adequacy of the proposed work plan and methodology	10
4	Proposals of the bidder to develop both the CSCG methodology and the related linkages in an innovative and impact-oriented manner	30
	TOTAL	100

26. Regarding the implementation area and its poverty level, PROFIRA need to define, based on the Uganda National Household Survey 2012/13 results, the minimum poverty level for districts that qualify for Sub-component 2.2 support outside the core Component 2 implementation area (the four poorest sub-regions: North East, Mid-North, West Nile and Eastern). Next, the districts receiving substantial PROFIRA support to SACCO development will be excluded even if they meet the above poverty criterion. The names of eligible districts will be announced in the request for the Expression of

Interest. Each bidding institution aiming at contracts for Sub-component 2.2 have to define in their Expression of Interest, in which district or cluster of districts they aim to implement the PROFIRA supported activities. The Expressions of Interest that include operations in districts that do not meet the PROFIRA eligibility criteria will not be considered for shortlisting.

27. As in the case of the first bidding, the procurement process for SPs for Sub-component 2.2 is expected to take about five months. If advertised as planned in early August 2015, the contracts are therefore expected to be signed with the five winning bidders in January 2016, which would make it possible to start the field implementation in February 2016.

Payments and Budgeting

28. When the contract are eventually awarded, PROFIRA and each winning SP will sign a contract that will include the schedule for performance-based payments. After analysing in October 2014 different options for such payment criteria, it was decided that the payment criteria for the Sub-component 2.1 contracts will be "the number of new CSCGs (minimum 20 members) that have been trained and have started to save during the reporting period". This method has been successfully used in similar operations elsewhere and is easy to measure, report and verify. During this mission it was agreed that this is still a valid approach for PROFIRA. Under Sub-component 2.2, the definition would be "the number of CSCGs that actively take part in Sub-component 2.2 support operations with the service provider".

29. In October 2014, the payment schedule for the performance-based Component 2 contracts was agreed on, based on the advice by the internationally recruited Procurement Expert. During this mission it was confirmed that it is still valid approach for PROFIRA. Accordingly, the contracts will include the following type of performance schedules:

- Submission of Inception Report: 30% of contract value
- Payments against the selected performance indicators (see above): 12% of contract value in five payments after 6, 12, 18, 24 and 30 months
- Submission of Final Report: 10% of contract value.

30. It was further agreed that the 6-monthly performance-based payments will be made by PROFIRA against the invoices and supporting performance documentation presented by the service providers. After the verification of the reported achievements in the field by relevant PROFIRA staff, PROFIRA will pay the bills to the SPs.

31. The mission updated the budgeting framework for Component 2 during the first four contracts of both sub-components. These calculations were based on: (a) the PROFIRA budgets for the first nine (4+5) contracts, (b) the above described payment schedules and (c) the assumption that Inception Reports for Sub-component 2.1 contracts will be submitted in November 2015 and for Sub-component 2.2 contracts, in February 2016. The results are shown below. The current spending estimates in the Table, based on the PROFIRA design budgets, will be replaced by the actual contract values when contract negotiations are completed in the case of each sub-component.

Payments under first four contracts: Sub-component 2.1							
November 2015	May 2016	November 2016	May 2017	November 2017	May 2018	November 2018	Total
30%	12%	12%	12%	12%	12%	10%	
USD 1,125,000	USD 450,000	USD 450,000	USD 450,000	USD 450,000	USD 450,000	USD 375,000	USD 3,750,000
Payments under first four contracts: Sub-component 2.2							
February 2016	July 2016	February 2017	July 2017	February 2018	July 2018	February 2019	Total
30%	12%	12%	12%	12%	12%	10%	
USD 450,000	USD 180,000	USD 180,000	USD 180,000	USD 180,000	USD 180,000	USD 150,000	USD 1,500,000
Grand Total							USD 5,250,000

Reporting, Monitoring and Knowledge Management

32. Appropriate indicators to report and monitor on the Component 2 activities were developed during the PROFIRA design. In addition to normal M&E needs, accurate and timely data is required for the performance-based payment process. The positive issue is that all the main SPs promoting CSCGs in Uganda have a great deal of experience on how to report to projects and donors.

33. One urgent task now is to design the reporting system, based on which the service providers will report quarterly to PROFIRA on their implementation progress. It was agreed that immediately after the SPs are shortlisted for Sub-component 2.1, the CBFSM and the Evaluation and Knowledge Management Manager will visit a number of them and assess their current reporting capabilities and their capacity to meet the PROFIRA reporting requirements. Supported with this information, the CBFSM manager, together with the Evaluation and Knowledge Management Manager, will design the reporting requirements. It was agreed that an appropriate system would consist of two parts:

- Narrative reports by the lead SPs, which, after describing the progress achieved, should be critical in approach and clearly document the corrective actions taken to improve performance when needed
- Excel-based reporting templates (a separate format for each sub-component), covering key indicators and organised in a manner that allows automatic data aggregation in PROFIRA for the whole project.

34. Before the actual field implementation of Sub-component 2.1 starts, it would be useful to run tests with selected SPs with the Excel-based formats to ensure that the automatic aggregation and other functions of the system operate properly.

35. When the actual field implementation starts, the CBFSM will establish, based on monthly plans, an active field visit schedule to follow-up and support the component activities. During these visits, the information provided for performance-based payments will be verified but more widely, the correctness of the information provided by the overall implementation progress will be checked. With the practical background of the CBFSM in CSCG promotion, it is possible to create a positive follow-up culture for Component 2, based on active communication and genuine partnerships between the SPs and PROFIRA.

36. For logical arrangements for field activities, PROFIRA is in a process of procuring 4-w-d vehicles. The project has also inherited useful vehicles from the previous IFAD project. With the important role of Component 2 in PROFIRA, it would be crucial that the Project transport planning includes the assumption that from November 2015 onwards, one 4-w-d vehicle is allocated for Component 2 for two weeks in each month. This would make the active follow-up of nine contracts in wide implementation areas possible.

37. Component 2 operations with CSCGs are interesting interventions concerning baseline studies and subsequent impact evaluations. The general baseline studies carried out by projects tend, based on experience from elsewhere, to lead to a low “hit rate” with the actual participants in the CSCG operations, and therefore often provide a less than optimal base for future impact evaluations. Luckily, most CSCG/VSLA promoters are very qualified in dealing with baselines and the related impact evaluations. Many leading SPs carry them out independently even in projects, in which the TOR do not require this. The mission fully agrees with the current PROFIRA plans to conduct the baseline and impact evaluation studies in full co-operation with the SPs of Component 2. As there are positive experiences from other IFAD projects of similar situations, it was agreed that discussions on this subject would continue during the planned September-October 2015 mission, when the first SPs for the core areas have already been selected.

38. In a large CSCG operation such as this, proactive approach to knowledge management is strongly encouraged, particularly after the field results start to emerge. IFAD's information channels reach a large audience, including those of the Nairobi-based rural finance knowledge management

network. In addition to articles and less formal “stories” produced by PROFIRA, many CSCG promoters understand the value of this function for the development of their own organisation and the whole sub-sector. As an example, in a similar IFAD-supported intervention in Lesotho, both CARE and CRS agreed to produce for the project free of charge 10 case studies or success stories each, mainly on the impact of the CSCGs on the life of rural women. Similar cooperation should be possible in Uganda, too. It was agreed that the knowledge management issues will be further and in more detail discussed in September-October 2015, when the first selected SPs are known.

Technical Annex 2: Regulation of the Microfinance Sector in Uganda – Presentations to Roundtable Discussions, 28 May 2015, Kampala

Powerpoint Presentation: Mr Henry Mbaguta



PRESENTATION ON SYNOPSIS OF MICROFINANCE SUPERVISORY AND REGULATORY FRAMEWORK IN UGANDA

Presentation by the Financial Services
Department-MOFPED

1

PRESENTATION OUTLINE

- ☐ Background
- ☐ Why legal Framework?
- ☐ The process and Status
- ☐ The structure of the Draft Tier 4 Microfinance Bill 2015
- ☐ Challenges that delayed the process
- ☐ Way forward

2

BACKGROUND

- In April 1996 a consultative process between Ministry of Finance, Bank of Uganda and stakeholders in the Micro finance industry was started.
- Objective - to establish parameters on the regulation and supervision of Micro finance business in Uganda, based on the following guiding principles;
- Deposit Taking from the public should be regulated
- Deposit taking requires adequate capital
- Microfinance is a line of business
- Effective supervision requires sufficient capacity and has to be cost effective
- Careful design of a regulatory framework takes time
- Self-regulation had not proven to be effective

3

BACKGROUND CONT....

- In July 1999, Bank of Uganda issued a policy statement on Microfinance regulation.
- It's purpose was to set the parameters with in which microfinance business shall be conducted in Uganda and
- establish guidelines for regulation and supervision of institutions engaged in microfinance business.
- The basic features of the policy include;
- Encouraging the broadening and deepening of the financial System in order to stimulate greater intermediation, and development of an efficient financial sector
- An attempt to provide a linkage between established Institutions and small outreach organisations

4

BACKGROUND CONT....

Tiered Framework where institutions are classified as follows;

- Tier 1: Commercial Banks-Financial Institutions Act (FIA 2004)
- Tier 2: Credit Institutions-Financial Institutions Act (FIA 2004)
- Tier 3: Microfinance Deposit Taking Institutions (MDIs)-MDI Act 2003)
- **Tier 4: Non Deposit Takers such as credit only NGOs, SACCOs, MFIs, Money Lenders and small member based organisations- UNREGULATED TIER**

- ☐ One of the key features of the policy is that
- microfinance is licensed as a line of business.
 - The tiered framework also allows for graduation from one Tier to another

3

WHY A LEGAL FRAMEWORK

- Whilst the Cooperative Societies Act is in place, it is an omnibus law for all cooperatives
- Yet, the legal regime under which they are operating is different from that of other financial institutions.
- This creates a gap for proper scrutiny and supervision of the operations of SACCOs.
- As a result, there has been some loss of trust by the population in SACCOs due to fraud and mismanagement.
- Savings have been lost due to the collapse of several SACCOs, causing negative publicity for the whole sector.
- In efficiency in the Money Lenders Act
- There has been extensive illegal deposit-taking and bad governance of MFIs regulated under this Act.
- Finally most loans are not guaranteed through a contract but through a sales agreement for the goods offered in guarantee. ⁶

THE PROCESS AND STATUS OF TIER 4 REGULATORY AND SUPERVISORY FRAMEWORK

- ❖ A wide range of consultations with various stake holders in the Microfinance Industry was carried out.
- ❖ The Ministry came up with proposed principles for regulating these institutions, for Cabinet consideration.
- ❖ The Cabinet under minute No. 207(CT 2013) of its meeting held on the 19th day of June 2013 Approved these proposed principles.
- ❖ Cabinet further directed the Minister of Finance Planning and Economic Development to issue drafting instructions to the First Parliamentary Counsel.
- Microfinance Department put in place a roadmap capturing all the processes and activities

7

The process and Status of Tier 4 Regulatory and Supervisory framework contin....

- ☐ The road map was presented during the Top Technical meeting on 23rd July, 2013.
- ☐ A technical committee was constituted comprising of key stakeholders namely:
- ☐ Ministry of Justice and Constitutional Affairs, MTIC, BoU, AMFIU, UCSCU, UCA, UCCK, Uganda Institute of Bankers, Registrar of High Court, NGO Board and Uganda Registration Services Bureau.
- ☐ The Committee was mandated to compile Drafting Instructions and guidelines in line with the approved Principles that would be submitted to the First Parliamentary Counsel to draft the Tier 4 MFI Bill.
- ☐ On 23rd October 2013 the Minister of Finance Planning and Economic Development issued drafting instructions to First Parliamentary Counsel.

8

THE STRUCTURE OF DRAFT TIER BILL 2015

- **Purpose of the Bill**-A bill to provide a legal framework for institutions offering Microfinance services outside the regulatory ambit of the Central Bank.
- **Long Title**-An Act to provide for the licensing ,supervision and regulation of Tier 4 microfinance institutions; Establishment of the Uganda Microfinance Regulatory Authority; the Central Financing Facility; to establish deposit insurance facility; The establishment of the SACCO Stabilization Fund; and other related matters.
- **The proposed short title for the bill is** “The Tier IV Microfinance Institutions Bill of 2015”


9

THE OBJECTIVES OF THE BILL

The proposed Bill is intended to enhance the following objectives:

- Safety and soundness of the financial system
 - Safety of public deposits
 - Legitimacy and confidence building of members, customers and investors
 - Consumer protection, and social- economic development
- It is proposed that an autonomous body that shall be a body corporate established to licence,regulate and supervise Tier 4 Institutions
 - The Proposed name for the body is Uganda Microfinance Regulatory Authority(UMRA)

10



THE BILL ALSO HAS THE FOLLOWING PROVISIONS

- I. establishment of the regulatory authority
- II. proposed functions of the UMRA
- III. proposed governance structure of the UMRA
- IV. proposals related to the regulation of SACCOs
- V. provisions relating to non-deposit taking financial institutions
- VI. general provisions
- VII. provisions for the commodity based microfinance.

11

PRUDENTIAL AND NON PRUDENTIAL

ii.) **Prudential regulation** governs the financial soundness of licensed institutions' businesses, in order to prevent financial system instability and losses to small, unsophisticated depositors. Prudential regulations deal with an institution's capital adequacy or reserve and liquidity requirements; Prudential regulations will be used to safeguard the deposits of individuals

iii.) **Non-prudential** standards will include the establishment of operational guidelines on the following: formation and operation of microfinance institutions; consumer protection; fraud prevention and financial crimes; credit information services; secured transactions; interest rate policies; limitations on foreign ownership; management, sources of capital; tax identification; and accounting practices; non-prudential regulations will be used to institute a code of conduct that can be self executed by some Microfinance institutions

12

CHALLENGES THAT DELAYED THE PROCESS

- Diversity of Microfinance Landscape(Different types, sizes and overwhelming numbers)
- Omnibus Law
- Issues of who should regulate what?
- Lack of strong and sustainable Apexes
- ❑ There is no blue print for choice of a regulatory framework; the design largely depends on individual country circumstances, and the political landscape.
- ❑ The process must respect the level of maturity of the financial system and substantial time and resources must be devoted to it in order to bear fruit.

13

WAY FORWARD

- ❖ Developing an effective policy framework to support the regulatory framework
- ❖ Preparing institutions for a regulatory and supervisory regime (Capacity building, sensitization, consolidate reporting formats)
- ❖ Strengthening regional Apex bodies and encouraging networks
- ❖ Strengthening coordination at National level through – (The national Coordination Committee and the National forum)
- ❖ Partnerships and resource mobilisation because regulation is associated with high cost(Development partners and Government)

14

Powerpoint Presentation: Professor William B. Steel

Regulation of Microfinance Sector in Uganda By Professor William B. Steel

Roundtable Discussions
28 May, 2015

1

Ghana Microfinance Study Tour: Key Findings for Uganda on Regulation of Microfinance Sector

Presentation to Roundtable
28 May, 2015

2

Outline

1. Background:
2. Ghana's experience

3

Ghana's Approaches to Regulation

1. Proactive: Regulations established new types of licensed financial institutions conducive to rural/micro finance

- 1976: Rural Banks (under Banking Act): now: 140
 - Locally owned, low minimum capital
 - Adopted MF methodology in 1990s/2000s
 - Play similar role to SACCOs in Uganda in that they are more widely spread in rural areas than commercial banks
- 1993: Savings & Loan Companies (NBFI Act): now: 25
 - Low minimum capital to facilitate Ghanaian ownership
 - Enabled transformation of NGOs (e.g. Women's World Banking, Sinapi Aba Trust) and money lenders
 - New investments: Procredit, Accion (with Ecobank)
 - Similar to MDIs

4

Ghana's Approaches to Regulation

2. Regulatory Forbearance (prior to 2011):

- Credit Unions since 1955 permitted to self-regulate by its apex association (in cooperation with Registrar of Cooperatives), despite inclusion in NBF Act & Microfinance
- Financial NGOs (FNGOs): credit only
- Savings (“*susu*”) collectors: individuals, savings only
- Money lenders (supposed to register with police)

3. Reactive (since 2011): Trying to stabilize system and improve sustainability through licensing and prudential regulation of illegally-operating microfinance companies

3

Increased risks to public savings due to unlicensed savings & credit (late 2000s)

- Informal savings collection is widespread in Ghana
 - Agent collects daily amount set by clients
 - Returns sum at month end (minus 1 day as commission)
- Private companies (not licensed for savings) had been adopting the practice with promise of credit
 - Often poorly managed
 - Liquidity and capitalization problems
- Rising complaints to BoG & GHAMFIN of lost savings due to inadequate liquidity, collapses and fraud

5

Sweeping MF Regulations: 2011

- BoG issued Microfinance Guidelines requiring registration of entire sector (incl. NGOs, money lenders, savings collectors, as well as 'Microfinance Companies')
 - To avoid 'regulatory arbitrage' (i.e., avoiding licensing by operating in another category)
 - But: > 700 applications; overwhelmed staff of 8
 - Most MFCs unable to meet reporting requirements
 - BoG only now developing more suitable formats
- May have accelerated exit in short run:
 - Many could not meet requirements (128 denied)
 - or couldn't afford equipment/MIS for reporting
 - In 2014 raised minimum capital to stem applications
 - Further exit of those unable to raise funds

7

Tiers of MFIs under New Regulations

Tier 1: Deposit-taking; already licensed by BoG under Banking Act: Rural Banks, S&Ls

Tier 2: Deposit-taking non-bank financial inst'ns:

- Microfinance Companies (license from BoG)
- Credit Unions (require license from Dept of Cooperatives and membership in CUA; to be further regulated under a new legislative instrument)

Tier 3: Non-deposit-taking

- Financial NGOs
- Money Lender Companies

Tier 4: Individual Susu Collectors & Money Lenders

Not presently regulated: VSLAs, savings & credit groups

8

Each segment has own association

Pre-existing:

- Rural Banks: Assoc. of Rural Banks;
 – ARB Apex Bank (established under RFSP)
- Ghana Cooperative Credit Unions Association
- Ghana Cooperative Susu [savings] Collectors Assoc.

Proactively established as part of GHAMFIN restructuring (and supported by GoG/IFAD Rural Finance project):

- Ghana Assoc. of Savings & Loan Companies
- Association of Financial NGOs

In response to impending imposition of regulations:

- Ghana Assoc. of Microfinance Companies
- Money Lenders Assoc. of Ghana

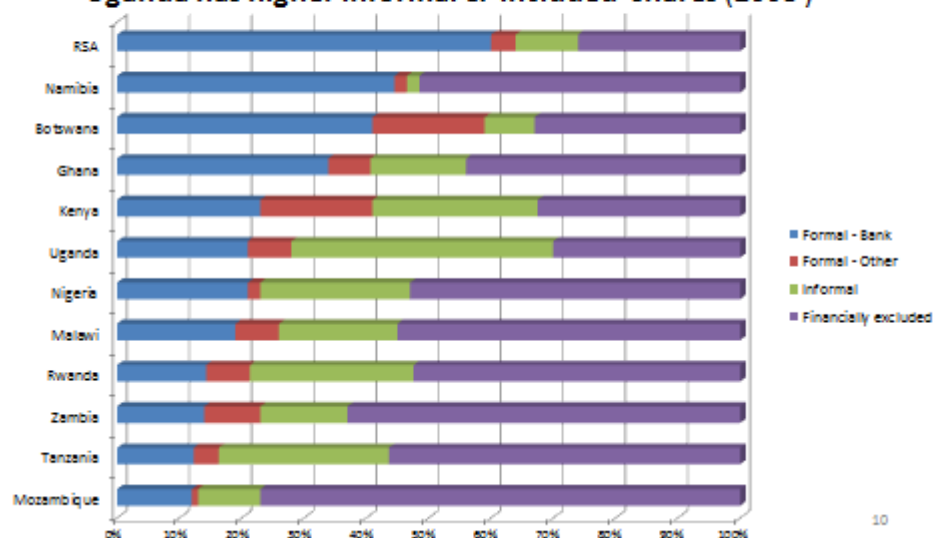
Ghana Microfinance Institutions Network (GHAMFIN) is umbrella organization; Board composed of above

Bank of Ghana now requires joining association

9

Rural Banks Have Led Financial Inclusion

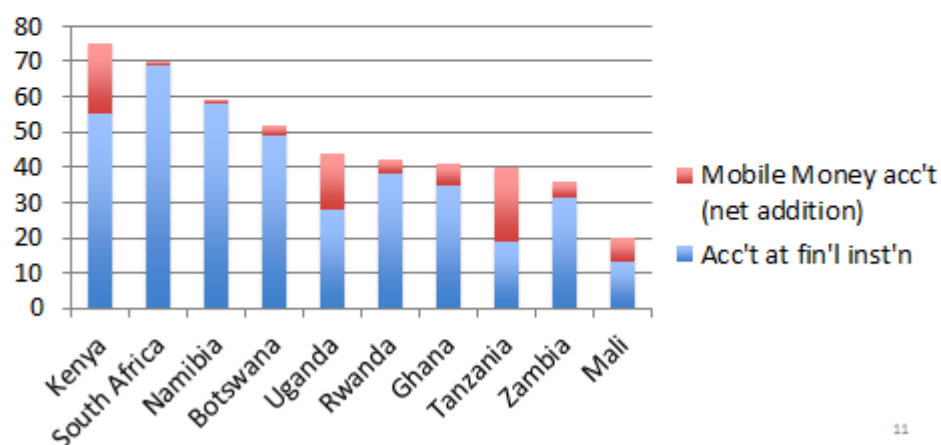
Ghana has high share of 'banked' population; but
 Uganda has higher informal & 'included' shares (2008)



10

Uganda also has higher financial inclusion through Mobile Money

Fig 3: % of Adults with Account at a Formal Financial Institution or Mobile Money, African Countries, 2014



11

Thank you !

12

Powerpoint presentation: Mr Nyakoojo Andrew James

2. Regulation of Microfinance Sector in Uganda

Roundtable Discussions

28 May, 2015

PRESENTED BY NYAKOOJO ANDREW JAMES

1

Outline

- **Preparing for Regulation**
- **Take-away messages on good practices for more effective preparation and implementation**
- **Roles of Associations**

2

Preparing for regulations:

❖ Prior to issuing regulations:

- **Build capacities** of:
 - MFIs:
 - Computerization and MIS systems
 - Training in MIS, financial (prudential) management, etc
 - Regulators: understand nature of various institutions in the Tier IV sector.
 - Regulations –operationalization of the Tier 4 Law (Discussed by Cabinet and passed by Parliament)
- Develop appropriate **reporting formats**
 - Suited to varying capabilities of different types/levels of MFIs to be regulated
 - Adequate for off-site supervision

3

Consider a phased, segmented approach

- Trying to license and supervise the entire sector all at once imposes excessive burdens on both the regulators and the MFIs
 - Results in poor reporting and compliance
- Segment and **prioritize by size and risk** to system
 - Gain experience with larger, more capable ones first
- Consider non-prudential (e.g. governance) as well as prudential requirements

4

Preparation project may be needed

- Fund capacity-building needs:
 - Policy-makers and regulators, especially TA to prepare reporting format
 - Tier IV institutions
 - Computerization, MIS
 - Training
 - Associations, apex bodies
 - Ability to assist in sensitization, licence applications, training
- Also consider non-prudential regulations:
 - Governance (Board, senior management)
 - Consumer protection, transparency, disclosure
 - Later: Credit referencing, deposit protection, stabilization

3

Preparation project (2)

- Design of the Regulatory Authority itself
 - Scope, structure, staffing
 - Guidelines, reporting templates, etc. should be prepared in advance as much as possible
- Other considerations:
 - Strengthening capacities of other agencies that may be delegated some aspects of regulation, especially those MFIs not supervised directly by the Authority
 - Dealing with closed and dormant institutions and strengthening weak ones prior to instituting regulations

6

3. Apex Associations

- In Ghana, some new associations (money lenders, microfinance companies) formed as soon as central bank indicated it planned to introduce regulation
- Associations played a critical role:
 - Sensitizing their members about the regulations
 - Assisting them to apply for licensing
 - Arranging training on reporting, good practices
 - Facilitating reporting to the regulator
- Bank of Ghana provides some subsidy
 - BUT: funding from GoG/IFAD project was essential both for associations' core costs and for training
 - Uganda's case-How viable is the formation and strengthening of APEX associations?

7

Finally....

Thank you !

8

Technical Annex 3: 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 2015

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 financed staff
d.	Availability and adequacy of operating manuals and guidelines for staff.	M	PIM is being finalised. The approach of dealing with multiple performance based service contracts needs to be well articulated in the PIM

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.	M	New ones (i.e. Those not coming from RFSP) not yet fully informed of the IFAD policies
2. Budgeting			
a.	Timely preparation and approval of AWPB.	L	
b.	AWPB in line with expenditure categories in Financing Agreement Schedule 2.	L	Yes
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	It has been clarified that the 18 month PP was needed only for the start; going forward the Annual Procurement Plan should align with the AWPB and apart from salaries the two should have fully align.
3. Fund flows and Disbursements / Withdrawals			
a.	Timeliness of funds disbursed by different sources (and co-financiers funding if applicable).	M	Some delays in processing payments within IFMS
b.	Timeliness of counterpart funds disbursed.	L	No need to finance taxes/ counterpart funds has so far occurred but the budgetary arrangements to finance these are in place.
c.	Efficiency of the funding channels. Timeliness and traceability of funds flows.	M	The IFMS platform still creates some challenges; and is not yet well coded to meet project accounting demands.

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 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).		No WA as yet but the expenditure incurred of USD 120,000 so far is well supported
iv)	Timely preparation and accuracy of Withdrawal Applications	M	Apart from the initial deposit, No WA as yet, need to one at least every quarter irrespective of amount spent
v)	Authorization of WA preparation.	L	Clear signatories but no WA as yet
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	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	H	Disbursement levels very low- only initial advance of USD 2 million out of which only USD 120,000 has been spent.
ix)	Recovery of SA balances by loan closure		N/A
4. Internal Controls			
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 will need more refinement
c.	Adherence to Financial Manual.	M	As above
d.	Effectiveness and efficiency of internal controls over inflows of funding sources other than IFAD.	M	It has been agreed that the SACCO contributions in cash will be very difficult to implement. Thus SACCO contributions will only take the form of in-kind contribution but the system to capture these in-kind contributions will need to be operationalised.
e.	Adequacy of contract management (use of contracts register and monitoring form) and filing there-of.	L	Mission has provided templates
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
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	No advances so far have been made
m.	Compliance with financial management covenants in the	L	Yes

	Financing Agreements and LTB.		
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			
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. Recommendation has been made to get IFMS fully coded to respond to project accounting and once IFAD will be satisfied, the Pastel could be phased out.

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	M	Yes for reporting purposes but not for budget monitoring.
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.	m	Need to develop mechanism for enforcing SACCO in-kind contributions
6. Financial Reporting & Monitoring			
a.	Completeness, accuracy, usefulness, and timeliness of financial reports.	M	Coming from Pastel. Need to use report writer facility to set the standard PROFIRA reports
b.	Interim FM reports and linkage to progress reports - timely preparation, submission to IFAD.	M	None as yet but systems in place to able to achieve interim FM reporting
c.	Preparation of reports showing actual vs budget income/expenditure and AWPB execution rate.	M	Chart of accounts needs more levels to be able to achieve a detailed budget vs actual comparison
d.	Follow up of previous aide-memoirs fiduciary recommendations.	L	YESR
e.	Reasonable alignment between disbursement rate of recurrent versus investment cost categories.	M	So far expenditure is more on recurrent/ start-up activities
7. Internal Audit			
a.	Existence of Internal Audit arrangements.	M	Process to procure internal audit services has started to be completed in the next 3

			months
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 Audit¹⁰			
a.	Adequacy of scope and ToR.	L	OK
b.	Adherence to ToR.	N/A	No audit 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	

¹⁰ Refer to IFAD audit review.

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	Need to align to GoU budgeting calendar to avoid budget challenges within IFMS
3. Funds flow & Disbursement Arrangements	M	Need to further articulate disbursements to multiple service providers, especially regarding disbursement of reimbursable costs
4. Internal Controls	L	
5. Accounting	M	Need to code IFMS and gradually phase-out pastel
6. Financial Reporting and Monitoring	M	Even in the interim, need to use the report writer facility of pastel to set the standard reports and move from the current practice of first exporting data to excel to process reports

7. Internal Audit	M	Need to finalise the procurement of the internal audit firm within the next three months
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: