

Republic of Uganda

Project for Financial Inclusion in Rural Areas (PROFIRA)

Supervision report

Main report and appendices

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Contents

Abbreviations and acronyms	ii
Main Report	
A. Introduction	3
B. Overall assessment of project implementation	3
C. Project Implementation Progress	3
D. Fiduciary aspects	11
E. Conclusion	11

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 timeframes	23
Appendix 4: Physical progress measured against AWP&B, including RIMS indicators	25
Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category	29
Appendix 6: Compliance with legal covenants: Status of implementation	31
Appendix 7: Knowledge management: Learning and Innovation	32
Attachment 1: Structure of COM strategy	33
Attachment 2: Stakeholder targeting matrix	35
Appendix 8: Mission ToRs and programme	36

Annexes

Annex 1: Component 1: SACCOs	40
Annex 2: Component 2: Community Based Financial Institutions	43
Annex 3: Component 3: Roundtable on Regulatory Framework and Concept Note	48
Annex 4: Monitoring and Evaluation	76
Attachment 1: RIMS indicators	79
Attachment 2: Overview of studies (from draft PIM)	81
Attachment 3: Templates for service providers	82
Attachment 4: Sensitisation meeting with the PMU	83
Annex 5: Financial Management	84
Attachment 1: Indicative PROFIRA chart of accounts	87
Attachment 2: FMAQ	89
Attachment 3: Summary of Project Fiduciary Risk Assessment at Supervision	97
Attachment 4: Audit Log	98

Abbreviations and acronyms

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

PROFIRA Supervision Report Mission dates 5-16 October 2015

A. Introduction¹

1. The Project for Financial Inclusion in Rural Areas (PROFIRA) entered into force in November 2014. It is implemented by the Ministry of Finance, Planning and Economic Development over a period of 7 years for a total cost of USD 36.6 million and financing as follows: an IFAD loan of USD 29 million; an IFAD grant of USD 1 million to the Canadian Cooperative Association (CCA) to provide technical assistance and institutional support to the Uganda Cooperative Savings and Credit Union (UCSCU); Government counterpart financing equivalent to USD 4.3 million; contribution by beneficiary SACCOs equivalent to USD 1.4 million; and contribution in technical assistance by CCA equivalent to USD 250,000. The project development objective is to *sustainably increase the access to and use of financial services by the rural poor*.

2. An IFAD supervision and implementation support mission was held from 5 to 16 October 2015 with the objective to provide implementation support to the recently recruited PMU during the initial start-up phase of the project. The mission spent three days in the districts of Iganga and Soroti, visiting the operations of service providers linking savings and credit groups with commercial banks and the rest of the time in Kampala, meeting and interacting with several stakeholders, including the Permanent Secretary/Secretary to the Treasury, the Commissioner and Assistant Commissioner 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 and other relevant stakeholders from the sector. The mission interacted extensively with the CCA Lead Advisory and Mentorship Team (LAMP) in charge of the implementation of the activities financed through the IFAD grant. Some mission members participated to a meeting on the way forward for the operationalization of the new Tier 4 Regulatory Framework was organized for Tuesday 20 October 2015, chaired by the Commissioner for Financial Services and with participation of various stakeholders. The mission would like to thank the GoU and all other partners for their collaboration and support.

B. Overall assessment of project implementation

3. With entry into force in November 2014, the project is now almost completing its first year of implementation. Actual implementation, however, has been for about 7 months, with the first few months until March 2015 spent in fulfilling disbursement conditions and key loan covenants, including the recruitment of the key staff of the Project Management Unit (PMU). The first disbursement was made in March 2015. The PMU is now fully staffed with a competent, professional and dynamic team, with the only exception of an M&E Officer who will be recruited soon. Suitable working conditions are established in terms of office space and the required equipment to operate efficiently. The basic financial management and procurement systems are in place and operational.

4. Considerable progress has been made in establishing the key elements of the M&E system, including the finalization of good quality Log-frame and Results Framework with well elaborated indicators at output and outcome level; proper planning for the collection of baseline data at different levels; and development of the necessary tools and systems for data collection. The focus in the next few months will be on finalizing the procurement process for the impact-level baseline survey, with the aim to have the baseline data available by the end of FY 2015/16, as well as to advance with the design of the overall Management Information System (MIS).

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; Mr. Davis Atugonza, Financial Management Specialist; and Ms Line Kaspersen, IFAD Programme Analyst.

5. Despite some delays in the initial phases, very good progress has been made in the last few months in the procurement processes for the selection of the service providers for the two investment components, thanks to the excellent team work among the different units of the PMU in preparing the necessary documents and closely following up on the related processes, as well as to the timely and efficient operation of the Contracts Committee. Given the relatively advanced stage of the procurement processes, it is expected that the contracts with the service providers for the training and capacity building of SACCOs (component 1) as well as for the establishment of CSCGs (component 2) will be signed within the third quarter of the current financial year, with activities on the ground starting in all the targeted regions at the latest by March 2016. The competence and good track-record of the shortlisted bidders and the quality of the technical proposals are quite reassuring in terms of the expected quality of the services.

6. The support to UCSCU in the implementation of its Business Plan towards financial self-sustainability is well established, with both elements of technical assistance provided by CCA and provision of budgetary support through performance-based incentives under the MoU signed with MFPED in May 2015. Overall, UCSCU is making adequate progress towards financial sustainability, especially considering the severe budgetary constraints suffered during 2014/15. The operating loss for 2014/15 is less than 60% of the initial estimates, although this comes as the result of drastic expenditure cuts rather than increased revenues. This is not a sustainable path towards financial self-sustainability, as contraction of expenditures will eventually erode the capacity of the institution to invest in core and income-generating activities and generate revenue. Furthermore, the projections on the revenue side in the Business Plan appear rather optimistic against the reality on the ground. In the next few months UCSCU, with the support of CCA and the PMU, will need to critically review the realism of its financial projections for 2015/16-2018/19.

7. There is now considerable momentum and interest in the country around the regulatory framework for Tier 4 institutions. The draft Tier 4 Microfinance Institutions Bill (the Bill), which has been under discussion for more than 10 years and long-awaited by the sector, is now with the Cabinet for final approval before submission to Parliament. The Financial Services Department (FSD), supported by PROFIRA and IFAD, has taken the lead in steering and coordinating the different stakeholders for the necessary preparations for the operationalization of the Regulatory Framework emerging from the Bill, preparing a concept note sketching out a road-map in this respect. The next few months will be critical in keeping the momentum and building a critical mass of development partners and other stakeholders for supporting this process, which is expected to be quite demanding in terms of time and financial resources.

C. Project Implementation Progress

Component 1 – SACCO strengthening and sustainability

Sub-Component 1.1 – SACCO Strengthening

8. **Selection of beneficiary SACCOs.** Data collection has been completed for all four regions (excluding Kampala) and the analysis has been undertaken for the Central and Western regions. The analysis for the Eastern and Northern regions is ongoing and is expected to be completed by 30 October 2015. The data provide an adequate basis for selection of SACCOs for PROFIRA support consistent with the criteria in the design documents. Preliminary selection indicates around 275 eligible SACCOs in the Central and Western Regions. In line with pursuing PROFIRA's financial inclusion objectives, the selection process eliminated some SACCOs that meet the technical benchmarks but are in sub-counties or urban areas with high concentration of SACCOs and included some that fall slightly below the benchmarks but are the only SACCO in their sub-county or might qualify for turnaround support. It is anticipated that more than half of the selected SACCOs will be from the Central and Western Regions, given the relatively lower number and performance of SACCOs in the Eastern and Northern Regions. However, every effort is being made to balance the number of SACCOs being served in each procurement lot. **Agreed action:** *Finalize the selection of beneficiary SACCOs for the first round of trainings.*

9. **Procurement of service providers.** The procurement process for the service providers for the Western and Central regions is at RFP stage, with technical and financial proposals expected by the end of October. The Request for Proposals has not been sent yet to the shortlisted service providers for the Eastern and Northern regions. These procurement processes need to be fast-tracked to ensure the beginning of the delivery of services to the SACCOs by the end of the third quarter of the financial year.

Agreed actions: (i) PMU to complete the financial and technical evaluation of the bids for Western and Central regions by end of November 2015, with the aim to sign the contracts by end of March 2016; (ii) PMU to send the RFPs to service providers for Eastern and Northern regions with the aim to have the contracts signed by the end of April 2016.

10. **Turnaround SACCOs.** The mission clarified that “turnaround SACCOs” are to be defined as those that were previously performing well but have fallen below the PROFIRA selection criteria due to an identifiable governance or management problem that is susceptible to correction.. The turnaround effort is to include appropriate interventions by the Department of Cooperative Development, as well as training under PROFIRA. PROFIRA is not designed to support SACCOs that have never demonstrated potential sustainability or for which resources are not available to address the underlying problem (e.g., liquidity). Once the initial list of potential turnaround SACCOs has been generated from the data analysis, MTIC will be facilitated to investigate them on a case-by-case basis to assess whether their underlying problem is susceptible to resolution through MTIC intervention and there is good potential for recovery. The upper limit is 50, but the number could be smaller if prospects for successful turnaround are poor. **Agreed action:** MTIC is to investigate the SACCOs identified on the preliminary list and recommend those to be selected for turnaround support.

Agreed action	Responsibility	Agreed date
Finalize selection of beneficiary SACCOs for Eastern and Northern regions	PMU	31 Oct 2015
Finalize technical and financial evaluation for Western and Central regions	PMU	30 Nov 2015
Send RFPs to shortlisted SPs for Eastern and Northern regions	PMU	30 Nov 2015
Investigate potential turnaround SACCOs and select eligible ones	MTIC, PMU	31 Jan 2016

Sub-Component 1.2 – Developing a SACCO Union

11. **Technical assistance by CCA – IFAD Grant.** Technical assistance through a grant from IFAD to the Canadian Cooperative Association (CCA) began with an inception mission by the CCA Lead Advisory and Mentorship Team (LAMP) in March 2015 and two follow-up missions in June-July and September-October. 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 LAMP with inputs by selected short-term specialists to respond to the critical needs identified jointly with UCSCU. Intermittent assistance and short-term TA is intended to give UCSCU time to internalize advice and operationalize recommendations, with periodic reinforcement. The partnership is proceeding well. UCSCU has so far appreciated the approach and the expertise and experience brought by the LAMP team. Internally, the focus is on changing the culture from a quasi-government agency dependent on external funds to an independent, member-driven organization able to operate sustainably in a competitive environment. A particular area of concern is the need to reinvigorate a savings-led culture among SACCOs. Past credit-led Government programs have fostered excessive reliance on external funds for on-lending. To encourage greater emphasis on mobilizing share capital and savings, a “New Model of SACCOs” is being developed and promoted by UCSCU.

12. **Budgetary support through performance-based incentives.** Having met the conditions specified as ‘triggers’ to be eligible for support under PROFIRA, UCSCU signed an MoU with MFPED in May 2015 for the provision of budgetary support through performance-based incentives. The entire budgetary support for the first-year, equivalent to UGX 1.175 billion, was disbursed in June 2015, enabling UCSCU to substantially clear its arrears and cover its liabilities associated with the Central Finance Facility (CFF). From the discussions with the UCSCU Board and Management and the CCA LAMP team, the mission is satisfied about the progress made by UCSCU in implementing its strategic plan towards financial sustainability, given the severe budgetary constraints suffered during 2014/15 and the delays in disbursing the budgetary support. Thus the mission considers that the conditions have been

met for the 2015/16 allocation of UGX 997.4 million to be disbursed on a quarterly basis as per MoU. **Agreed action:** PMU to disburse the first and second quarter releases of UGX 498.7 million in the spirit of the MoU that envisages quarterly advance disbursements. Subsequent quarter releases will be made upon submission by UCSCU of its report for previous quarters, including IFRS compliant interim financial statements, duly reviewed and endorsed by CCA to ensure that UCSCU is on-track with the implementation of its Business Plan.

13. From a review of the draft 2014/15 financial statements, the mission noted that the posted operating loss (excluding external grants) is UGX 574 million, well below the anticipated loss of UGX 1.025 billion as per MoU. This remarkable reduction in posted loss is attributable to a drastic reduction in expenditures. On the other side, the “own generated revenue” posted for 2014/15 was only UGX 264 million, 33% of the MoU target of UGX 791 million. While cost control is good, continued expenditure contraction may impair the investments in core and income-generating activities needed to achieve the expected medium and long term growth of UCSCU, hence preventing it to achieve self-sustainability. Reduction in operating loss alone is not a sufficient metric of progress, if due to drastic cuts in expenditure that may undermine long-term sustainability. On the revenue side, the projections included in Annex 1 of the MoU for 2014/15-2018/19 appear to be overly optimistic compared to the reality on the ground. Progress towards revenue and expenditure targets is to be critically reviewed. UCSCU is aware of the issue, and discussed with the mission the desirability of recasting the current and projected profitability levels and of developing a ‘sensitivity analysis’ budget in the event of a 20% shortfall in revenues. **Agreed actions:** (i) revise the financial projections for 2015/16-2018/19, including addressing key comments provided by the mission in this respect; (ii) prepare a budget scenario on the assumption of a 20% revenue shortfall; (iii) agree with LAMP and PROFIRA on a supplementary criterion (in addition to operating loss) for the performance-based incentive (e.g., achievement of at least 80% of revenue targets). The release of the third tranche of financial incentives for the current financial year will be subject to the successful completion of the above actions.

14. **UCSCU financial management.** In the context of the MoU signed with MFFPED under PROFIRA, the mission undertook a brief financial management review of UCSCU operations. With support from RFSP, UCSCU computerised its accounting system. While UCSCU is commended for the efforts towards compliance with International Financial Reporting Standards (IFRSs) for the year ended 30 June 2015, the backlog of transactions not posted since 1 July 2015 should be corrected urgently. UCSCU has appointed an external audit firm. At the time of the mission, the audit for the year ended 30 June 2015 was complete. In reviewing the draft financial statements submitted for audit, the mission noted with satisfaction UCSCU’s efforts for IFRS compliance. The establishment of the function of internal audit at UCSCU is a key covenant in the MoU. This position is still vacant. The mission was informed that the process to fill this position is at an advanced stage and UCSCU will be able to meet the six months deadline from signature of the MoU. It is understood that, starting from the second quarter report of 2015/16, no quarterly financial reports will be accepted by the PMU unless certified by the internal auditor in the full spirit of the MoU.

Agreed action	Responsibility	Agreed date
Release first and second quarter tranche for 2015/16 (UGX 498.7 M) to UCSCU	PMU	31 Oct 2015
Revise financial projections for 2015/16-2018/19	UCSCU	30 Nov 2015
Prepare sensitivity analysis budget for 20% revenue shortfall	UCSCU	30 Nov 2015
Agree on revenue-based criterion for triggering performance incentive	UCSCU/CCA/PMU	31 Dec 2015

Component 2 – Community Based Financial Services

15. **Sub-component 2.1 – Establishment of new CSCGs.** The technical evaluation reports for the recruitment of the service providers for the four regions of Eastern, North East, Mid-North and West Nile were submitted to IFAD for No Objection during the mission. IFAD No Objection was provided concurrently. This demanding evaluation process was carried out professionally and efficiently and resulted in the selection of a solid set of technical proposals. The mission is highly confident that PROFIRA will get a combination of top class international and local service providers. **Agreed action:** *finalize the evaluation of the financial proposals and submit to IFAD for No Objection, with the aim to have the contracts negotiated and signed by 15 February 2016.*

Agreed action	Responsibility	Agreed date
Complete evaluation of financial proposals and submit to IFAD for NO	PMU	30 Nov 2015
Sign contracts with SPs	PMU	15 Feb 2016

16. **Sub-component 2.2 – CSCGs Strengthening, Innovation and Partnerships.** The procurement of service providers for sub-component 2.2 was intentionally delayed with respect to the one for sub-component 2.1, as the bidding institutions are largely the same for both sub-components. The call for EoI for the four core regions has been launched. For the fifth region, covering districts selected on the basis of poverty indicators, outside the four core regions, there is a need to first validate the presence of mature CSCGs before launching the tender process. **Agreed actions:** *(i) Finalize the shortlist for the four core regions and issue RFP to the shortlisted SPs, with the aim to sign the contracts by 30 June 2016; (ii) launch the EoI for the fifth region by 30 November 2015, with the aim to sign the contract with the selected service provider by 30 August 2016.*

17. During the mission, further work was carried out to support the PMU in finalizing the RFP docs for this sub-component. New detailed evaluation criteria were developed to better support the evaluation process. More emphasis was placed on the innovative elements in the bids, concerning such operations as the planned linkage activities and the methods proposed to retain a larger share of funds in the CSCGs when they move from one cycle to the next.

18. Discussions with potential service providers indicate that the interest for bidding for this sub-component is likely to be high. As shown in sub-component 2.1, PROFIRA is likely to get high quality bids not only from international-local NGO consortia, but also independently from leading local CSCG promoters that have adequately matured to bid alone. This is a good sign for the development of the sector, and will most likely reduce the costs of the planned activities.

Agreed action	Responsibility	Agreed date
Finalize shortlist of SPs for four core regions (including IFAD NO)	PMU/IFAD	15 Nov 2015
Issue RFP for four core regions	PMU	1 Dec 2015
Sign contracts for four core regions	PMU	30 Jun 2016
Launch the EoI for the fifth region	PMU	30 Nov 2015

Component 3 – Policy and Institutional Support and Project Management

Sub-component 3.1 – Policy, regulatory and institutional environment

19. **Tier 4 Bill.** The draft Bill has been submitted to Cabinet for approval. The mission met with the technical staff of the Parliamentary Committee that will be responsible for reviewing and analysing the Bill, once submitted to Parliament. The Committee indicated the need for a further benchmarking visit to Ghana. **Agreed actions:** *(i) MFPED to submit draft Bill to Parliament; (ii) PROFIRA to organize a benchmarking visit to Ghana by a technical team consisting of staff from the Parliamentary Committee and other key agencies.*

20. **Operationalization of the regulatory framework.** The preliminary data from the SACCO census in the Central and Western Regions provide some useful insights on some of the challenges to be faced during the implementation of the regulatory framework:

- About 8 SACCOs fully meet both criteria for licensing by the Bank of Uganda (BoU) as MDIs (share capital ≥ UGX 0.5 bn; savings ≥ UGX 1.5 bn), with about 20 more meeting one of the two. These numbers are not expected to increase by more than a couple SACCOs when Eastern and Northern Regions are included. About 110 SACCOs meet at least one of the criteria for direct supervision by the Uganda Microfinance Regulatory Authority (UMRA) to be established under the proposed Bill (share capital ≥ UGX 0.1 bn; savings ≥ UGX 0.3 bn). The vast majority of SACCOs would, however, remain under the regulatory responsibility of the Commissioner for Cooperative Development in MTIC. Operationalizing the benchmarks will require interpretation, refinement and adjustment. The mission recommends that only the principles be spelled out in the Bill, while the actual thresholds be either specified in the regulation or left to the discretion of the Regulatory Authority.
- Nearly 40% of SACCOs surveyed are closed or dormant, and 20% could not provide adequate data. In order to prepare the ground for effective regulation, special attention will be needed in dealing with those SACCOs that are closed, dormant or unable to provide data. The Registrar of Cooperatives has taken an important initial step in this respect by issuing a notice of compliance specifying what SACCOs must do to achieve and maintain licensed status. This has set in motion a series of steps that is expected to help sort out the large number of dormant and closed SACCOs and clean up the Registry. **Agreed action:** MTIC to issue notices to specific SACCOs that are out of compliance.

21. Following up on the roundtable stakeholders discussion held in May 2015, FSD, with support from IFAD, has developed a concept note providing a road-map for the operationalization of the Tier 4 regulatory framework, providing details about the activities to be undertaken, the envisaged timeline and an indicative budget. The Concept Note was presented by FSD to key stakeholders immediately following the mission, on 20 October 2015. Most of the development partners present at the meeting, including IFAD, the World Bank, the African Development Bank and GIZ have confirmed their interest in supporting the operationalization of the Tier 4 regulatory framework, possibly in the context of a broader financial sector support programme. The coordination of the development partners in this respect would be taken by the World Bank. **Agreed action:** MFPED to write officially to the interested development partners asking their commitment to support FSD in the above.

22. **MTIC database and monitoring.** In preparation for its increased mandate for monitoring, regulation and supervision of SACCOs under the new Bill, MTIC needs to complete its database and update its Register. Most of the task has been completed through the census conducted for the selection of SACCOs for PROFIRA support in the Western, Central, Eastern and Northern Regions. The census should now be extended to Kampala and the islands. A MoU that specifies the responsibilities, accountabilities and approximate time tables for the activities MTIC is to undertake under PROFIRA should be prepared. **Agreed action:** (i) MTIC to take the lead to complete the national SACCO census, working with the same teams used by PROFIRA. MoU with MTIC by end of November; (ii) PMU and MTIC to prepare a draft MoU.

Agreed action	Responsibility	Agreed date
Submit draft Bill to Parliament	MFPED	31 Dec 2015
Benchmarking visit to Ghana	PMU	15 Dec 2015
Issue specific notices to SACCOs that are out of compliance	MTIC	31 Dec 2015
Complete nationwide census of SACCOs to update the Register	MTIC	30 Jun 2016
Draft MoU MTIC/MFPED	MTIC/PMU	30 Nov 2015
Officially request DPs to support DFS on roadmap for Tier 4 Regulation	MFPED	15 Nov 2015

Sub-component 3.2 – Project management

23. **Project staff.** The PMU is fully staffed with the exception of the M&E Officer and two drivers. One staff from the Bank of Uganda has been seconded to the Department of Financial Services and attached to the PMU to support the implementation of sub-component 3.1, in particular the operationalization of the regulatory framework for Tier 4 institutions. All staff have contracts for a period of three years, renewable upon satisfactory performance in accordance with GoU procedures. Annual staff performance appraisal is done by the Human Resource Department of MFPED. There is legitimate concern among the PMU staff about the erosion of their nominal salary due to inflation and depreciation of the UGX. A clause in the contracts allows for adjustments to compensate for this and an annual percentage increase of 3.6% has been included for this effect in the AWPB 2015/16. **Agreed action:** *MFPED should get back to IFAD with a proposed formula for annual adjustments of nominal salaries of PMU staff to cater for inflation throughout project implementation.*

24. The two drivers will be recruited after the procurement of the new vehicles is completed. For the M&E Officer (to be financed under GoU budget), while the workload for monitoring and data management is expected to increase considerably with the signing of the contracts with the service providers early next year, there is no provision for recruitment during the current AWPB. Due to the urgency of the matter, it is agreed that the IFAD Loan may be used to pay for the salary of the Officer during the current AWPB, while it will be budgeted under GoU contribution starting from AWPB 2016/17. **Agreed action:** *Initiate the process for the recruitment of the M&E officer.*

25. **Office space, equipment and vehicles.** Proper office space has been provided by MFPED in premises located in close proximity to the Ministry. Furniture, IT equipment and internet services have been procured. Currently, the project has a fleet of 5 vehicles, which will increase to 6 with the procurement of 3 new vehicles (two for replacement). Such fleet is considered adequate for the expected level of operations.

26. **Project oversight committee.** The Project Oversight Committee is fully established, chaired by the PS/ST MFPED and with members from the Department of Cooperative Development in MTIC, the Department of Gender from 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 met twice since the last supervision mission, in August and September 2015.

27. **Planning and budgeting.** Budget execution for the first AWPB of the project (Nov 2014/June 2015) has been hindered by the delay in fulfilling some of the disbursement conditions, which resulted in the actual start of project implementation with the core team on board only in February 2015, as well as by some problems related to the budget ceiling for PROFIRA in the National Budget for the FY 2014/15, which practically prevented the PMU from making any meaningful expenditures until the problem was solved in early May. As a result, AWPB execution for last year stood at 43%. Execution of the AWPB 2015/16 as of 30 Sep 2015 is at 8%.

28. **Project implementation manual (PIM).** The PMU has submitted a final draft of the PIM to IFAD at the end of August. The PIM was reviewed by the mission and different sections discussed with the relevant units. Consolidated comments will be sent by IFAD after the mission. **Agreed actions:** *(i) IFAD to send final consolidated comments on the PIM; (ii) PMU to address and integrate comments as appropriate and finalize PIM.*

29. **Gender.** The M&E-KM-COM unit has been designated as the focal unit for gender aspects. Important efforts have been made to mainstream gender in the M&E system, by ensuring gender-disaggregated data collection, the inclusion of the Women Empowerment in Agriculture index in the baseline study and the planning for SACCO gender audits.

30. **Communication.** A draft communication strategy was prepared by the M&E-KM-COM Unit. The mission reviewed it and provided comments. Overall, there is a need to ensure appropriate tools and messages for the different target audience. Furthermore, the role and responsibility of service providers and the issue of visibility of PROFIRA in the field need to be further articulated. **Agreed actions:** *(i) PMU to produce a final draft communication strategy incorporating all comments received from IFAD; (ii) IFAD*

to mobilize technical expertise to support the PMU in finalizing the strategy and sharing it with key stakeholders.

Monitoring and evaluation

31. **Log-frame and results framework.** The project log-frame has been finalized and reviewed by the mission. The Results Framework has also been updated and finalised, with recommendations from previous missions incorporated and further fine-tuning during the mission to ensure the capturing of data at disaggregated and average levels, as well as clear identification of RIMS indicators. The results framework will be fully populated over the next few months as the baseline data become available (see below). **Agreed action:** *PMU to submit final log-frame and results framework to IFAD for approval.*

32. **Baseline.** Baseline data are collected through: the ongoing SACCO census for SACCO indicators; the baseline reports of the CSCGs service providers for CSCG indicators; a desk review 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. The technical evaluation report for the procurement of a service provider for the impact level baseline study has been submitted to IFAD for No Objection during the mission. IFAD No Objection was provided concurrently. The service provider is expected to start working in January 2016, to complete the survey by June 2016. **Agreed action:** *complete the procurement process for the impact-level baseline survey.*

33. **MIS system.** The project intends to establish a web-based platform to capture performance data of the two components with real-time decentralised data-inputting by service providers, e-repositories and other storage functions of the PMU. The software will to the extent possible be open source with easy access for modifications along the way. GPS collection and mapping options will be possible within the system. **Agreed action:** *develop TORs for the recruitment of a service provider for MIS development and launch procurement process.*

34. **Data collection and reporting.** Data collection will follow different arrangements for the two investment components. For component 1, service providers will provide quarterly reports on activities undertaken and output indicators, while the PMU will be responsible for data collection of SACCO performance indicators (outcome level) and case studies on an annual basis, by using the census enumerators on an as needed basis. This will provide the PMU with a full database of the targeted 500 SACCOs for detailed analysis. For component 2, data collection and reporting will be tasked to the service providers contracted for the implementation of the component. Quarterly reports to the PMU will cover case stories and activity and output level information, while data on group performance will be recorded in the SAVIX tool. This is a free, open source database, developed by VSL Associates, collecting information from groups all over the world, which is already used by the majority of the service providers in Uganda. The PMU will develop an on-line interface to gather aggregated information at service provider level directly from SAVIX. For this purpose, the PMU will recruit the services of VSL Associates. Direct procurement is fully justified in this case by the need of ensuring compatibility of the project MIS interface with the database already used by the service providers, SAVIX, and by considerations related to economy and efficiency, as developing a project-specific database would be a much more costly option. **Agreed action:** *issue RFP to VSL Associates (direct procurement) for developing the interface between project MIS and SAVIX.*

Agreed action	Responsibility	Agreed date
Propose a formula for annual adjustments of nominal salaries of PMU staff	MFPED	31 Dec 2015
Advertise for M&E Officer	PMU	15 Nov 2015
Provide consolidated comments to final draft of the PIM	IFAD	15 Nov 2015
Finalize PIM based on comments received	PMU	31 Dec 2015
Provide technical support for development of COM strategy	IFAD	31 Dec 2015
Finalise log-frame and results framework and submit to IFAD	PMU	31 Oct 2015
Finalize procurement for impact baseline survey	PMU	31 Dec 2015
Finalize ToRs for MIS development	PMU	31 Nov 2015
Launch procurement process for MIS	PMU	31 Dec 2015
Issue RFP to VSL Associates for MIS interface with SAVIX	PMU	31 Dec 2015

D. Fiduciary aspects

35. **Financial management.** The mission reviewed the operation of the accounting systems used by the PMU: the GoU Integrated Financial Management System (IFMS), mainly used for payment processing; and the Pastel accounting system, used to meet the detailed project accounting requirements, including reporting in multiple dimensions. The Accountant General's office has made steps to profile PROFIRA within IFMS's project module/ version. However, the financial reports are still not forthcoming. The PMU will therefore continue using both Pastel and IFMS in parallel until it is demonstrated that the latter can handle project accounting demands. Meanwhile, the PMU will continue to work with the Accountant General's office to code and set up IFMS to a level that it can handle project accounting demands.

36. The mission noted that the PMU is still underutilising the upgraded Pastel package, using excel to process key project financial reports. Furthermore, the current coding system does not allow for financial reporting by expenditure categories, as agreed during loan negotiations. **Agreed actions:** (i) PMU to set standard project financial reports (including SOE templates) using the Pastel's report functionality; (ii) PMU to revise the Chart of Accounts to extend to expenditure category level.²

37. **Disbursement of IFAD Loan.** As of 30 September 2015 disbursement of the IFAD loan, including the initial advance of USD 2 million, was at 10%. Actual loan utilization was at 3.3%, as no investment activities have started yet. Only one replenishment application (WA3) has been processed. PROFIRA is still highly liquid with over UGX 5.3 billion in the designated and operational bank accounts and there is no indication of imminent liquidity pressure over the next six months. However, given the expected increase in activities starting from the last quarter of the current financial year, the PMU has been advised to continuously update the treasury plan to identify in advance possible liquidity challenges and timely request for the necessary adjustments to the advance allocation.

38. **Disbursement of IFAD Grant.** IFAD has so far disbursed to CCA USD 280,000. Actual utilization stands at USD 124,863. CCA counterpart contribution is expected to be equivalent to USD 250,000 in the form of in-kind expertise. In order to be able to report on the totality of the PROFIRA financing plan in a consolidated manner, there is need to establish a mechanism through which the PMU will be accessing financial progress information for journalizing and posting in their accounting system. The mission met with CCA and discussed to this effect. **Agreed action:** SOEs and financial reports sent to IFAD representing actual expenditures will also be shared with the PMU for data capture, including the CCA in-kind counterpart contribution duly quantified and valued.

39. **Investment/recurrent cost ratio.** From the 2015/16 AWPB and the posted expenditures so far, the recurrent costs are showing a trend that projects them well above the current allocation as per Financing Agreement. The mission has reviewed the budgeting and cost allocation approach that PROFIRA has been using. Significant investment costs are being budgeted and accounted for as recurrent costs.

² The following expenditure categories are acceptable to IFAD: (i) Vehicles, equipment and materials; (ii) Training, studies and workshops; (iii) Technical assistance; (iv) Contracted service providers; (v) Salaries and allowances and (vi) Other operating costs. The performance-based incentives to UCSCU will be charged under category (iii).

Agreed action: Recast the AWPB 2015/16 to consolidate some budget lines and for a more realistic representation of recurrent costs.

40. **SOE spot check.** A SOE spot check has been done on the only withdrawal application processed so far and the mission confirms the existence of the underlying supporting documents.

41. **Counterpart funds.** GoU is commended for the timely provision of sufficient counterpart funds towards the implementation of PROFIRA. In total PROFIRA has posted an equivalent of USD 85,150 as counterpart contribution from GoU. However, the mission noted that the PROFIRA accounting system is understating the GoU contribution in the financial statements. For instance, the salaries paid under GoU and the office rent are not posted in the PROFIRA accounting system. **Agreed action:** *the totality of the expenditures financed by GoU will be posted in the PROFIRA accounting system, to provide an accurate figure of GoU counterpart contribution.*

42. **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.

43. **Procurement.** The procurement plan is elaborate and clear and it is proactively used as a key management tool. The mission was provided with a duly updated procurement plan, clearly indicating the status of each procurement process. The procurement filing is adequate and proper templates for the contract monitoring forms and the contract register have already been adopted. Key procurement processes are being managed through the IFMS, which facilitates the linkages with disbursements and payments. The PROFIRA contracts committee meets promptly and regularly, which is a major factor in ensuring the efficiency of procurement processes.

44. Despite some initial delays, most major procurement processes are on-track and at a relatively advanced stage. Under component 1, the procurement for services for the different trainings and capacity building for SACCOs are at RFP stage. Under component 2, the procurement of services for the establishment of CSCGs has completed the technical evaluation stage, while the one for strengthening, innovation and partnerships for mature CSCGs is at EoI stage. Under goods, the most significant outstanding process relates to the procurement of vehicles (two station wagons and one double cabin pickup), which should be by now at contract signature. The PMU has now secured the necessary approval from the First Deputy Prime Minister and Minister of Public Service.

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

46. **Contract management.** At the pre-proposal meetings, many bidders have raised questions about inflation and exchange rate implications for long-term contracts. Using fixed UGX denominated contracts in this situation would potentially cause budget constraints for service providers towards the end of the contract, endangering the implementation of the planned activities. **Agreed action:** *introduce a price variation clause in the RFPs, based on indicators of inflation and the UGX-USD rate, which would trigger an increase in the contract value in local currency, without increasing the original financial commitment of PROFIRA in USD.*

47. **Audit.** The Office of the Auditor General (OAG) has decided to appoint a private firm to undertake the PROFIRA external audits. OAG has already invited four firms to compete for the assignment; the outcome of the selection process is still awaited. It is noted that the first audit will be due on 31 December 2016 and cover the four months of operations of FY 2014/15 from effectiveness in March 2015 and full FY 2015/16. With respect to the selection of internal auditors, the proposals were received in October and are awaiting evaluation.

Agreed action	Responsibility	Agreed date
Set standard project financial reports in Pastel	PMU	30 Oct 2015
Revise the Chart of Accounts to extend to expenditure category level	PMU	30 Oct 2015
Share with PMU SoEs and financial reports for grant expenditures	CCA	Continuous
Recast the AWPB 2015/16	PMU	15 Nov 2015
Retrospectively journalise and report on full GoU contribution	PMU	15 Nov 2015
Introduce in the RFPs a price variation clause	PMU	20 Oct 2015

E. Conclusion

48. A summary of the main actions agreed is provided at the end of each section above. It is agreed that the next IFAD Supervision and Implementation Support Mission will take place in April 2016. This Aide Memoire was discussed and agreed upon in a wrap up meeting on 16 October 2015, chaired by Mr S. Kasangaki, Commissioner, Financial Services Department. The mission members, as well as the PMU and relevant staff from MFPED also participated in the meeting. IFAD and the Government of Uganda endorse the findings of the mission.

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	20-Oct-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	10
First disbursement	04-Mar-2015			DSF grant		
MTR		Last amendment		IFAD grant		
Original completion	31-Dec-2021	Last audit		ASAP grant	0.00	0
Current completion	31-Dec-2021			Domestic Total	6.38	
Current closing	30-Jun-2022			Beneficiaries	1.44	0
No. of extensions	0			National Govern	4.93	2
				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	5
2. Acceptable disbursement rate	3	3	2. Performance of M&E	4	4
3. Counterpart funds	4	5	3. Coherence between AWPB & implementation	3	4
4. Compliance with financing covenants	4	5	4. Gender focus	4	4
5. Compliance with procurement	4	5	5. Poverty focus	4	4
6. Quality and timeliness of audits	4	4	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	4	4
			8. Climate and environment focus	4	4
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Sub-Comp. 1.1 -- SACCO Strengthening	4	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, regulation and institutional framework.	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 and procurement systems are in place and the PMU is working to fully mainstream the project into the Government's Integrated Financial Management System (IFMS). Counterpart funds (including those not yet accounted for in the project accounting system, such as the contribution for the rent of offices and salaries for some of the support staff) has been timely. The project is on-track with all main loan covenants (preparation of AWPBs; establishment of the Project Oversight Committee and Contracts Committee; and finalization of PIM). Despite some initial delays, most major

procurement processes are on-track and at a relatively advanced stage. Quality of procurement documents is very satisfactory. Project management is proactive in addressing implementation issues. All key positions are filled with competent staff, recruited through a transparent and efficient process. The M&E system is properly set up to report at different levels (logframe and results framework reviewed and streamlined) and the PMU is on-track with the plan for collecting baseline data. As actual reporting has not started, however, a conservative rating of 4 has been taken. 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 third 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. Given the very early stage of project implementation, scoring under Sustainability has been kept conservatively at 4 for all indicators.

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 has finalized all major preparatory activities, including the fulfilment of disbursement conditions and key loan covenants, within the first 6 months after entry into force on 24 November 2014. The first disbursement occurred in March 2015. Activities in some components have already started (1.2 and 3.1), while in all others are expected to start soon (third quarter of FY 2015/16), after finalization of the ongoing, complex procurement processes for the recruitment of the required service providers. The competence and good track-record of the shortlisted bidders and the quality of the technical proposals are quite reassuring in terms of the expected quality of the services. While it is reasonable to expect that the project will achieve above 80% of its outputs and outcomes, given the very early stages of implementation and the fact that no activity on the ground has started for any of the major investment components, a conservative rating of 4 has been considered.

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

Albeit at very early stages of implementation, the project is fully on-track with no major delays, thus there are no reasons to doubt about the likelihood of the project to achieve outcomes and objectives as agreed at project design. However, for the same reasons discussed above under C.4, a conservative rating of 4 has been considered.

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

Fiduciary aspects	Difficulties in financial reporting according to IFAD standards through IFMS. For the time being, a parallel accounting system (Pastel) will be maintained until IFMS will be able to produce the necessary financial reports.
Project implementation progress	With general elections approaching (February 2016) there could be possible political interference at grassroots level at a critical time of project implementation, coinciding with the expected inception phase of most major contracts for service provision
Outputs and outcomes	
Sustainability	None at this stage

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Budget ceilings in IFMS	Fully align project budgeting with GoU budgeting and ensure realistic budgeting	continuous	Done for 2015/16
Financial reporting through IFMS	Fully code IFMS and run test period to ensure proper financial reporting	30 Sep 2015 + 6 months	IFMS coded, but financial reporting not yet sorted.
Disbursement rate	Sign contracts with Service Providers for sub-comp. 1.1 and 2.1	End-March 2016	

Additional observations

Appendix 2: Logical framework and results framework

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS LOGICAL FRAMEWORK – (Final as at 26th August, 2015)

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 assets³ ownership index and food security at project completion - 20% reduction in the prevalence of child malnutrition⁴ in rural households (data disaggregated by gender) at project completion - Improved Women's Empowerment in Agriculture Index (WEAI)⁵. 	<ul style="list-style-type: none"> - Household Level Baseline - Mid-term Review - Impact Study - Project Completion Study 	(A) Political stability
<u>Development Objective/Outcome</u> Sustainably increase the access to and use of financial services by the rural poor	<p>Outreach</p> <ul style="list-style-type: none"> - 750,000 men, women and youth are active⁶ members of project supported SACCOs and CSCGs <p>Usage</p> <ul style="list-style-type: none"> - 300,000 members of project supported SACCOs (500+) (of which 150,000 new – 30% women (non – youth), 15% youth) actively save increasing amounts (min. 50% average increase per SACCO by PY5) and repay SACCO loans - At least 80% of project supported SACCOs offer at least 2 savings and 3 loan products to their members - 375,000 members of newly created CSCGS (15,000) actively save in groups (70% women, 15% youth) with increasing amounts of weekly savings and annual pay-outs in each annual cycle - 75,000 members of mature⁷ CSCGS (3,000) have access to improved financial services and have availed themselves at least one such service (credit, savings or insurance) <p>Sustainability</p> <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 	<ul style="list-style-type: none"> - M&E data (Results Framework) - Service Provider Reports - UCSCU Annual Report 	(A) Dynamic economy creates opportunities for investment in enterprises and other income generating activities (A) Conducive Tier 4 regulation passed (R) MTIC not able to provide effective regulation/support to SACCOs (R) Self Help Group policy paper allows injection of external government financing into community savings and credit groups (R) Project supported SACCOs not able to attain financial sustainability (R) Failure of UCSCU to attain operational sustainability after five years undermines conducive environment for SACCOs

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

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

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

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

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

Component 1. SACCO Strengthening and Sustainability				
<i>Outputs</i>				
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 ⁸ addressing needs over the project implementation period. 1.1.2 All targeted beneficiary SACCOs (500+) are trained in credit and default management over the project implementation period. 1.1.3 At most 150 existing strong and intermediate SACCOs facilitated ⁹ to automate their Management Information Systems (MIS) over the project period.	- M&E data - Service Provider Reports	(A) Adequate allocation and timely release of funds
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				
<i>Outputs</i>				
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				
<i>Output</i>				
o.3.1	Contributed to the creation of a conducive environment for the dev 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 operationalized with the following key functions: - (i) project management and administration; (ii) supervision and management of a series of contracts with service providers; (iii) planning, reporting and communication (M&E and Knowledge Management); (iv) financial management, procurement and governance.	- PMU periodic reports - Project periodic department reports; consolidated project reports	

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

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

PROFIRA RESULTS FRAMEWORK (Draft 21st October, 2015)

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									
Sustainably increase the access to and use of financial services by the rural poor	Outreach and Usage	RIMS Indicators							
	A Number of fully paid-up members in supported SACCOs								300,000
	B No. of groups in supported SACCOs								
	C % of fully paid-up female members in supported SACCOs								30%
	D % of fully paid-up youth members in supported SACCOs	2 nd Level							15%
	E %age of project supported SACCOs that offer at least 2 savings and 3 loan products to their members	1 st Level							80%
	F Number of members in the newly established CSCGs	1 st Level							375,000
	G % of female members in the newly established CSCGs	1 st Level							70%
	H % of youth members in the newly established CSCGs								15%
	I Number of members in the supported mature CSCGs	1 st Level							75,000
	J % of female members in the supported mature CSCGs	1 st Level							70%
	K % of youth members in the supported mature CSCGs								15%
	L Total Share Capital in supported SACCOs (UG Shs million)	1 st Level							
	M Total savings in supported SACCOs (UG Shs million)	1 st Level							
	N Outstanding loan portfolio in supported SACCOs (UG Shs million)	1 st Level							
	O Cumulative savings in newly established CSCGs (UG Shs million)	1 st Level							
	P Total Share-out in newly established CSCGs (UG Shs million)	1 st Level							
	Q Cumulative loan value in newly established CSCGs (UG Shs million)	1 st Level							
	R Cumulative savings in supported mature CSCGs (UG Shs million)	2 nd Level							
	S Total share-out in supported mature CSCGs (UG Shs million)								
	T Cumulative loan value in supported mature CSCGs (UG Shs million)								
	U % of CSCG members operating viable Income Generating Activities	2 nd Level							
	V Number of SACCOs with UCSCU membership								
	W Number of SACCOs that have renewed their membership through making annual subscriptions and statutory contributions to UCSCU	2 nd Level							
	Sustainability								
	X % of SACCOs (supported with MIS activities) with OSS>100%								90%
	Y % of SACCOs (supported with training activities) with OSS>100%								70%
	Z % of Turnaround SACCOs with OSS>100%								50%

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
	AA	% of SACCOs with PAR<10% - 30days									70%
	AB	% of CSCGs formed that are still operational									70%
	AC	UCSCU OSS									100%+
OUTPUTS											
1.1. Potential of existing SACCOs to establish sustainable operations enhanced	1.1.1	Number of SACCOs trained in six thematic areas ¹⁰ (RIMS 1 st Level)	- Service Provider Reports to PMU - Consolidated Report from SACCO Development Unit	-	70	210	350				
	1.1.2	Number of SACCOs provided with continuous technical assistance/follow-up		-		70	210	350			
	1.1.3	Number of SACCOs provided with refresher training in the six thematic areas (RIMS 1 st Level)		-			100	210	350		
	1.1.4	Number of SACCOs trained in credit and default management		-	70	330	500				
	1.1.5	Number of SACCOs provided with continuous technical assistance/follow-up		-		70	330	500			
	1.1.6	Number of SACCOs provided with refresher training in credit and default management		-			150	300	500		
	1.1.7	Number of SACCOs assisted to acquire software for automating their Management Information Systems (MIS) over the project period.		-		30	50				
	1.1.8	Number of SACCOs that already have a software that will be assisted to upgrade equipment, if required and obtain refresher training to improve their financial management and prepare for eventual prudential regulation over the project period		-		40	60	100			
1.2. UCSCU enabled/facilitated to develop into a sustainable SACCO Union	1.2.1	Financial support (Amt. in Uganda Shillings) provided to UCSCU to fund its annual operating loss.	UCSCU Business Plan 2014/15 – 2018/19	1,176,000,000	997,434,725	772,432,324	483,670,625				
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 (RIMS 1 st Level)	- Service Provider Reports to PMU - Consolidated Report from SACCO Development Unit	1,500	5,625	7,500	9,000	13,125	15,000		
	2.1.2	Number of members in established CSCGs trained in basic financial literacy modules			65,625	131,250		196,875	262,500 ¹¹		
	2.1.3	Number of members in established CSCGs trained in basic business skill development modules			65,625	131,250		196,875	262,500		
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 (RIMS 1 st Level)		300	1,125	1,500	1,800	2,625	3,000		
	2.2.2	Number of members in mature CSCGs trained in advanced financial literacy modules			18,750	37,500		56,250	75,000 ¹²		
	2.2.3	Number of members in mature CSCGs trained in advanced business skill development modules			18,750	37,500		56,250	75,000		

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

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

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

OBJECTIVE	PERFORMANCE INDICATOR		INFORMATION SOURCE	BASELINE JUNE 2015	TARGET JUNE 2016	TARGET JUNE 2017	TARGET JUNE 2018	TARGET JUNE 2019	TARGET JUNE 2020	TARGET JUNE 2021
3.1. Contributed to the creation of a conducive environment for the development of inclusive financial services in rural areas	A/ MFPED supported to facilitate its role of overall coordination for the rural finance sector during the project period (See Note 4)		Progress Report from FSD/MFPED							
	B/ Assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs during the project period (See Note 5)		Progress Report from DCD/MTIC							
	3.1.1	Facilitate turn-around activities to support SACCOs facing difficulty in their operations			20	30	40	50	50	50
	C/ Partner with Bank of Uganda to implement the National Financial Literacy Strategy (See Note 6)		Progress Report from BOU							
3.2. Project Management	3.2.1	Project Management and Administration	IFAD PSR ratings – Implementation Support Mission Reports		≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4
	3.2.2	Financial Management			≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4
	3.2.3	M&E, Communication and KM			≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4
	3.2.4	Procurement Management			≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4
	3.2.5	SACCO Component Management			≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4
	3.2.6	CSCG Component Management			≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4

NOTES:

- The following calculations will also be made on an annual basis: -
 - Membership, share capital, savings and loan portfolio per SACCO
 - Membership, share capital, savings and loan portfolio per member
 - Membership, share capital, savings and loan portfolio per SACCO (*data disaggregated by type of support; and by period of support*)
 - Membership, share capital, savings and loan portfolio per member (*data disaggregated by type of support; and by period of support*)
- The following data will also be provided on an annual basis: -
 - Geographical location of the supported CSCGs
 - Cumulative savings and loan value per CSCG
 - Average savings and loan value per CSCG member
 - Cumulative savings and loan value per CSCG (*data disaggregated by type of support; and by period of support*)
 - Average savings and loan value per CSCG member (*data disaggregated by type of support; and by period of support*)
 - Cumulative savings and loan value (disaggregated by gender and type of support) in CSCGs
 - Usage of the loans taken by CSCG members
 - % of CSCG members that are also individual members to SACCOs
- Regular assessments on the quality of trainings provided to SACCOs and CSCGs by the service providers will be made and shared in the project progress reports. Feedback will be provided to service providers during regional reflection forums, or during contract management meetings.
- In terms of reporting on the projects efforts to support the Financial Services Department (MFPED) to facilitate its role of overall coordination for the rural finance sector; progress on the following interventions will be reported on in the period under review.

- i. The FSD/MFPED facilitated to hold consultative meetings for the review and elaboration of the financial services strategy; developing the Financial Inclusion Policy; and for establishing Tier IV Regulation and the Regulatory Authority.
 - ii. The FSD/MFPED facilitated to undertake study/benchmarking tours for developing the Financial Inclusion Policy; and for establishing Tier IV Regulation and the Regulatory Authority.
 - iii. Promoted the revitalisation of the Uganda Microfinance Forum through facilitating stakeholder workshops.
5. In terms of reporting on the projects efforts to assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs; progress on the following interventions will be reported on in the period under review:
 - i. The Department of Cooperative Development (MTIC) facilitated to operationalise and upgrade its computer systems used to maintain the SACCO registry and database.
 - ii. The Department of Cooperative Development (MTIC) facilitated to update the SACCO registry through field based verification on the status of SACCOs.
 - iii. Initiation and operationalisation of local and regional SACCO forums funded. These will be used to provide information on new regulations and stimulate exchange of knowledge and good practices.
6. In terms of reporting on the partnership with Bank of Uganda to implement the National Financial Literacy Strategy; progress on the following interventions will be reported on in the period under review:
 - i. BOU facilitated to develop and translate Financial Literacy Materials into local languages of the Project Implementation Area.
 - ii. BOU facilitated to multiply/produce copies of available Financial Literacy Material for distribution in the Project Implementation Area.
 - iii. BOU facilitated to prepare training manuals to tailor national messages to SACCOs and CSCGs.
 - iv. BOU facilitated to conduct sensitization campaigns in relatively poor communities in catchment areas of SACCOs and CSCGs being supported under the project.

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

Action Area	Action Agreed	Whom	Date
Component 1.1 (SACCOs)	Finalise selection of beneficiary SACCOs for Eastern and Northern Regions	PMU	31 Oct 2015
	Complete technical and financial evaluation for Western and Central Regions	PMU	30 Nov 2015
	Send RFPs to shortlisted SPs for Eastern and Northern regions	PMU	30 Nov 2015
	Investigate potential turnaround SACCOs and select eligible ones	MTIC, PMU	31 Jan 2016
Component 1.2 (UCSCU)	Release first quarter tranche for 2015/16 (UGX 249.25 M) to UCSCU	PMU	31 Oct 2015
	Revise financial projections for 2015/16-2018/19	UCSCU	30 Nov 2015
	Prepare sensitivity analysis budget for 20% revenue shortfall	UCSCU	30 Nov 2015
	Agree on revenue-based criterion for triggering performance incentive	UCSCU/CCA/PMU	31 Dec 2015
Component 2.1 (CSCGs)	Complete evaluation of financial proposals and submit to IFAD for NO	PMU	30 Nov 2015
	Sign contracts with SPs	PMU	15 Feb 2016
Component 2.2 (linking)	Finalise shortlist for four core regions (including IFAD NO)	PMU/IFAD	15 Nov 2015
	Issue RFP for four core regions	PMU	1 Dec 2015
	Sign contracts for four core regions	PMU	1 Dec 2015
	Launch the EoI for the fifth region	PMU	30 Nov 2015
Component 3.1 (policy)	Submit draft Bill to Parliament	MFPED	31 Dec 2015
	Benchmarking visit to Ghana	PMU	15 Dec 2015
	Issue specific notices to SACCOs that are out of compliance	MTIC	31 Dec 2015
	Complete nationwide census of SACCOs to update the Register	MTIC	30 Jun 2016
	Draft MoU MTIC/MFPED	MTIC/PMU	30 Nov 2015
Component 3.2 (mgt)	Propose a formula for annual adjustments of nominal salaries of PMU staff	MFPED	31 Dec 2015
	Advertise for M&E Officer	PMU	15 Nov 2015
	Provide consolidated comments to final draft of the PIM	IFAD	15 Nov 2015
	Finalise PIM based on comments received	PMU	31 Dec 2015
	Provide technical support for COM strategy	IFAD	31 Dec 2015
	Finalise log-frame and results framework and submit to IFAD	PMU	31 Oct 2015
	Finalise procurement for impact baseline survey	PMU	31 Dec 2015
	Finalise TOR for MIS development	PMU	31 Oct 2015
	Launch procurement process for MIS	PMU	31 Dec 2015
	Issue RFP for VSL Associates for MIS interface with SAVIX	PMU	31 Dec 2015
Fiduciary	Set standard project financial reports in Pastel	PMU	30 Oct 2015
	Revise the Chart of Accounts to extend to expenditure category level	PMU	30 Oct 2015
	Share with PMU SoEs and financial reports for grant expenditures	CCA	Continuous
	Recast the AWPB 2015/16	PMU	15 Nov 2015
	Retrospectively journalise and report on full GoU contribution	PMU	15 Nov 2015
	Introduce in the RFPs a price variation clause	PMU	20 Oct 2015

Progress on actions from previous mission (May 2015)

Action Area	Agreed Action	Responsibility	Agreed Date	Progress
Component 1 SACCO	Complete SACCO census for Western, Northern and Eastern Regions	PMU	30 Sep 2015	Data collection has been completed for Central, Western and Eastern Regions. Data cleaning and analysis under way; collection for Northern region by 10 Oct
	Issue RFP for Central Region and Western Regions	PMU	31 Jul and 30 Sep 2015	RFP for Lot 1 & 2 (E & W regions) issued on 28 Sept; Proposal submission deadline is 5 Nov. Pre-bidding meetings planned for 6/7 Oct.
	Select turnaround SACCOs from those initiated under RFSP	DCD	31 Jul 2015	Concept on turn-around of SACCOs is being discussed between MTIC, FSD and PROFIRA to ensure effectiveness of the proposed approach
	Review financial projections of UCSCU Strategic Plan	UCSCU	30 Sep 2015	UCSCU has been working on revising the financial projections in their Strategic Plan
Component 2 CSCGs	Issue RFPs for sub-component 2.1	PMU	30 Jun 2015	RFP to pre-selected SPs issued 18 Aug; proposals subm. 18 Sept. CC 8 Oct.
	Sign contracts with SPs for sub-component 2.1	PMU	15 Oct 2015	Procurement still underway.
	Issue requests for Eols for sub-component 2.2	PMU	15 Aug 2015	Issued on 1&2 nd Oct. Deadline for submission of proposals is 23 Oct
Component 3	Define road-map for operationalization of Tier IV Regulatory Framework	DFS	31 Oct 2015	On-track
	Initiate process for de-registration of 50 SACCOs	DCD	31 Aug 2015	MTIC issued general compliance note to all SACCOs in local languages. Candidates for de-registration have been identified in Central and Western
	Call for first meeting of Project Oversight Committee	MFPED	31 Jul 2015	Inaugural meeting of POC held on 26 Aug with orientation on 22 Sept.
	Finalize second draft AWPB 2015/16 and send to IFAD for NO	PMU	5 Jun 2015	AWOV and proc plan for FY15/16 was submitted on 30 June, and that of CCA on 14 July, as an integral part
	Provide NO to AWPB 2015/16	IFAD	12 Jun 2015	NO provided on 20 July 2015
	Finalize logframe and results framework (incl. RIMS indicators)	PMU	31 Jul 2015	Comments received from IFAD on 5 June, updated versions prepared during mission, incl RIMS
	Provide comments to ToRs for baseline survey	IFAD	15 Jun 2015	IFAD provided comments on 5 June. Technical evaluation done.
	Submit RFP for baseline survey to IFAD No Objection	PMU	15 Jul 2015	RFP submitted for NO on 2 July, with NO granted on 23 July.
	Finalize Learning and Communication Strategy	PMU	30 Sep 2015	Draft strategy developed.
	Fully code the IFMS	PMU	30 Sep 2015	Working with the IFMS team; needs have been noted and feedback awaited
Fiduciary Aspects	Ensure alignment of project budgeting to the GoU budgeting (IFMS)	PMU	Continuous	GoU budget now reflects same budgeted amounts as AWPB.
	Establish mechanism to capture SACCO in-kind contributions	PMU	31 Aug 2015	A code has been developed in Pastel chart of accounts to capture in-kind contribution whenever training is done at SACCO level
	External audit ToRs finalised and cleared with IFAD.	PMU	30 Jun 2015	No granted to TORs for Audit, to cover March-June 2015 in the FY15/16 audit.
	Confirmation of the external auditors	OAG	31 Jul 2015	RFP issued by OAG, evaluation is pending.
	Select internal auditors	PMU	31 Aug 2015	Proposals received on 2 Oct, awaiting finalisation

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

Component & objective	Indicator and Activity	Unit	Period: FY 2015/16			Cumulative Actual	Appraisal Target	
			AWP&B Target June 2016	Actual	%			
Component 1: SACCOS strengthening and sustainability								
Output 1.1: Potential of existing SACCOS to establish sustainable operations	1.1.1 At least 350 existing strong and intermediate SACCOS trained in sex thematic areas	# SACCOS	70				350	
	1.1.2 All targeted beneficiary SACCOS (500+) are trained in credit and default mgt	# SACCOS	100				500	
	1.1.3 At most 150 strong and intermediate SACCOS facilitated to automate their MIS system		30				150	
	Milestones: - SACCOS assisted to acquire software for MIS automation - SACCOS which already have software assisted to upgrade equipment / obtain financial management refresher training / prepare for prudential regulation	# SACCOS	10 20				50 100	
	Additional milestones: - Shortlist of SACCOS developed - Up to 8 contracts signed with service providers - MoUs signed between SACCOS and service providers	SACCOS Contracts MoUs	500 8 500					
Output 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							
	Milestones: - Development of new products and services - Reviewing and updating UCSCU bye-laws	# services Reviews	1					
	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	UGX	997,434,725				483,670,625	
	Milestones: - Quarterly financial statements - Semi-annual performance reports - Appraisal reports from CCA		4 2					

Component & objective	Indicator and Activity	Unit	AWP&B	Actual	%	Cumulative Actual	Appraisal Target	%
Component 2: Community based financial services								
<i>Output 2.1: CSCGs formalised and registered</i>	2.1.1 15000 CSCGs (with at least 375,000 members) established, and trained in Group Savings and Credit methodology Milestones: <ul style="list-style-type: none"> - Groups established in North East - Groups established in West Nile - Groups established in Mid-North - Groups established in Eastern - Guidelines on CSCG share with service providers - Performance indicators identified - Capacity Assessment reports undertaken - Inception / KML reports - Technical backstopping reports 	# groups	1500 124 330 431 615				15000 (first 3 yrs:7500) 620 1649 2157 3074	
<i>Output 2.2: Mature CSCGs assisted to expand their operations</i>	2.2.1 Provided focused training and promoted innovations, linkages and partnerships amongst 3000 mature CSCGs (with at least 75,000 members) Milestones: <ul style="list-style-type: none"> - Groups strengthened North East - Groups strengthened West Nile - Groups strengthened Mid-North - Groups strengthened Eastern - Groups strengthened elsewhere - Guidelines on CSCG share with service providers - Performance indicators identified - Capacity Assessment reports undertaken - Inception / KML reports - Technical backstopping reports 	# groups	300 60 60 60 60 60				3000 (first 3 yrs: 1500) 300 300 300 300 300	

Component & objective	Indicator and Activity	Unit	AWP&B	Actual	%	Cumulative Actual	Appraisal Target	%
Component 3: Policy and institutional support and project management								
<i>Output 3.1: Contributed to the creation of a conducive environment for the development of inclusive financial services in rural areas</i>	3.1.1 MFPED supported to facilitate its role of overall coordination for the rural finance sector Milestones: <ul style="list-style-type: none"> - Meetings on Tier IV - Study tour abroad - International benchmarking - Retreats for legislators - Establish regional financial inclusion fora 							
	3.1.2 Assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs during the project period Milestones: <ul style="list-style-type: none"> - Up to date database in place - Active regional SACCO forums - Turn-around SACCO activities initiated 							
	3.1.3 Partner with Bank of Uganda to implement National Financial Literacy Strategy Milestones: <ul style="list-style-type: none"> - Dialogue with GIZ - MoU with Uganda Cooperative College – Kigumba - Partner with Financial Sector Deepening 							
<i>Output 3.2 project management</i>	3.2.1 A PMU established and operationalized with the following functions: (1) project management and administration, (2) supervision and management of a series of contracts with service providers, (3) planning, reporting and communication (M&E, KM), and (4) financial management, procurement and governance							
	Additional milestones: <ul style="list-style-type: none"> - Finalise PIM - Project Oversight Committee established - Baseline data established - Data management system in place - KM&L forums being held - IFAD PSR ratings ≥ 4 							

Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

Table 5A: Financial performance by financier

Financier	Appraisal (USD '000)	Disbursements (USD '000)	Per cent disbursed
IFAD Loan	29,001	961.14	3.3
Government	4,935	85.15	1.7
IFAD grant	1,000	250.0	25
CCA/WOCCU	250	-	-
Beneficiaries	1,443	-	-
Total	36,629	1,296	3.5

Table 5B: Financial performance by financier by component as at 30 September 2015 (USD'000)

Component	IFAD loan			GoU			IFAD grant			CCA/WOCCU			Beneficiaries			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
A. SACCO strengthening and sustainability						-										-		
1.1 SACCO strengthening	9,110	111	1.2	1,774	0.16	0.9%			-				1,443			12,327	111	0.9
1.2 Developing a sustainable SACCO Union	1,258	388	30.8	208	-	-	1,000	250	25%	250						2,716	638	23.5
Sub-total	10,368	498	4.8	1,982	0.16	0.8%	1,000	250	25%	250	-	-	1,443	-	-	15,043	748	5.0
2. Community based financial services						-			-							-		
2.1 Establishment of new community savings and credit group	8,132	1	0.0	1,346	-	-			-							9,478	1	0.0
2.2 CSGC Strengthening, innovations and partnerships	3,823	-	-	633	-	-			-							4,456	-	-
Sub-total	11,955	1	0.0	1,979	-	-	-	-	-	-	-	-	-	-	-	13,934	1	0.0
3. Policy and institutional support and project management						-			-							-		
3.1 Policy, regulatory and institutional environment	1,787	90	5.0	372	-	-			-							2,159	90	4.2
3.2 Project management	4,890	373	7.6	602	84.99	14.12			-							5,492	458	8.3
Sub-total	6,677	462	6.9	974	84.99	8.73	-	-	-	-	-	-	-	-	-	7,651	547	7.2
Total	29,000	961	3.3	4,935	85.15	1.73	1,000	250	25%	250	-	-	1,443	-	-	36,628	1,296	3.5

Table 5 C: Loan 900 status of available funds as at 30th September 2015 (SDR'000)

Code	Category description	Original Allocation	Disbursed up to WA 3	Disbursed %	Expenditure pending WA submission	Projected loan utilisation at 30/09/2015	Projected %age utilisation	Projected loan balance at 30/09/2015
123202	Equipment and material	190		-	4	4	2.1	186
123203	Other investment costs	14,910	83	0.56	118	201	1.4	14,709
123204	Operating costs	2,270	371	16	65	436	19.2	1,834
123205	Unallocated	1,930	-	-		-	-	1,930
270001	Authorised allocation	-	1,437				-	-
	Total:	19,300	1,891	10	187	641	3.3	18,659

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
B (6)	There shall be a designated account (USD) and operational account (UGX) both in the Bank of Uganda		Complied	
B (7)	The borrower shall provide counterpart financing to cover taxes and duties estimated at USD 4,900,000		Not yet due	Compliant with respect to counterpart financing due as of today
E (1 a)	The borrower shall constitute a PMU acceptable to the Fund and in accordance with schedule 1	Condition of withdrawal	Complied	
E (1 b)	No withdrawal shall be made under subcomponent 1.2, prior to approval of IFAD grant as specified in schedule 1	Condition of withdrawal	Complied	
Schedule 3 (1)	Ensure that the strategic and policy environment is conducive for the project investment (in particular: Tier IV regulatory framework and no public interference with CSCG operations).	Continuous	Complied	
Schedule 3 (2)	The borrower shall ensure that a Project Implementation Manual (PIM) shall be submitted to the Fund for Its comments and No Objection	Within 9 months from entry into force (31 Aug 2015)	Complied	IFAD comments provided as part of the mission
Schedule 3 (3)	A project Oversight Committee (POC) shall be established to be chaired by MFPED with members from Public and Private Institutions.	Within 6 months from entry into force (31 May 2015)	Complied	
Schedule 3 (4)	The borrower shall establish a PROFIRA contracts committee	Within 6 months from entry into force (31 May 2015)	Complied	
Schedule 3 (6)	Establish a planning monitoring and evaluation system (PM&E)	Within 12 months from entry into force (30 Nov 2015)	Ongoing and on-track	Elements of system outlined and TORs for consultancy support will be there within the 12 months target.
Schedule 3 (6)	Baseline survey	Within 9 months from entry into force (31 Aug 2015)	Deadline postponed to 31 March 2016	Technical eval of proposals done; work expected to start in Jan 2016

Appendix 7: Knowledge management: Learning and Innovation

Communication and Knowledge Management – early stages of learning

Development of a strong and practical COM and KM strategy is a priority for the project. The draft communications strategy was reviewed and comments provided on the overall structure as well as the detailed elements. A key recommendation is to ensure that tools and messages are used appropriately to reach and be relevant to the various target groups, including the direct beneficiaries (financially excluded, informally excluded, men, women, youth, SACCO managers etc.). The M&E matrix is very good and could be updated more to reflect the goal and measurable indicators. A similar structure could be used to develop a targeting matrix, linking stakeholders, tools and messages for effective communication. A draft is presented in Attachment 2. A final draft will be developed by 31 December 2015. After this a road map will be developed for implementation. If needed, an external consultant will be hired to support this process, jointly with the service providers.

- The role of service providers should be detailed out, including guidelines for branding in the field (balancing PROFIRA and service provider logos) and mechanisms to ensure that the many service providers communicate in a harmonized way.
- Internal arrangements for communications The areas need to be further developed, at the moment the strategy is more focused on external communications. While some potential trainings are listed, more detailed elements should be outlined, as well as concrete knowledge management/learning activities. Some elements could be:
 - Who talks to the media (project coordinator; COM officer; whoever picks the phone?)
 - Standard responses in case of inquiries
 - That the phone is always answered and how
 - E-mailing culture (do we copy all, few, use frequently, less frequently, links to filing systems)
 - Branding considerations (typologies for reports, signposts, usage of MFPED and/or IFAD logos on presentations etc), in addition to those already mentioned.
 - What is the role of the service providers – do they carry PROFIRA logos? MFPED? IFAD? Their own (will be important to agree with service providers on this at contract signing)
 - Are all documents for public disclosure on the web-site? What is the guideline?
 - Any guidelines to be developed for service providers?
 - System for Back-to-Office reports.
- Knowledge Management. KM remains a challenge to implement in a structured way, while the messages wanting to be delivered and the policy dialogue agenda is more clear, including the below. Sharing within the Departments of the PMU, and amongst the vast range of SPs is a challenge, and reflection forums have so far been identified as an activity. More emphasis should be put on KM from the management and the M&E unit side, though development of the strategy.
 - Is capacity building enough for SACCOs to increase their supply of relevant financial services (to policy makers presenting simple statistics)
 - Analysis of data from various angles to present performance according to region, service provider, level of poverty, types of trainings
 - Steps to be taken in implementing the Tier IV regulation
 - Role of Barclays in making the rural poor bankable
- Systematic adoption of the learning route methodology, will be key to sharing lessons across the country, and for sensitisation of various groups (including e.g. SACCO managers, but also for policy makers in learning from other countries). The LR methodology is already described in the PIM, and further guidance available from the country office guide on LR implementation¹³.

¹³ http://www.ifad.org/pub/thematic/km/procasur_learningroute.pdf

Attachment 1: Structure of COM strategy

Suggested structure of communications strategy – can be established in a participatory process, if a draft is available.

GOAL: to ensure public knowledge of key financial literacy elements; to enable smooth PROFIRA implementation (or something like that). The “strategic goal of the strategy”, as listed on page one, should not be to “provide a roadmap to guide PROFIRA”. There should be a clear goal with engaging in communication. For a private company it could for example be to contribute to the fundraising of the company.

PRINCIPLES/APPROACHES or “MISSION”:

- Be proactive (as opposed to reactive) and share information
- Translation of key messages into local languages
- Work closely with journalists
- To be evidence based
- To always share positive messages
- To ensure that the information shared is relevant for the receiver

OUTCOMES (OBJECTIVES): (make sure there are enough activities responding to each objective in terms of priority)

- Reduce criticism
- Policy dialogue
- Publicity of the programme
- Sensitisation of the general public on technical messages
- Internal communication (including with service providers)

INDICATORS: Should be “SMART”, e.g.

- Number of hits on the website
- Various stakeholders perceptions of the project (is this captured adequately in the baseline study / service provider baselines, or are specific studies needed?)

TOOLS:

... The long list presented in the doc. Consider making a matrix of the tools and all the different target groups, to see which will be used to communicate to who (presumably social media is not for the financially excluded, for example).

... Service providers are the main tool for sharing messages and it should be ensured that this is done consistently and not overshadowed by the SPs own messages/branding.

... Learning route methodology

... The website (with guidelines on what is to be updated, how often and by who). Site should be googleable, i.e. keywords included so that it comes first in google searches on financial inclusion in Uganda

... Knowledge products such as articles and brief on knowledge management – policy – lesson learnt issues as identified (applied research)

RESOURCES:

What people and resources are available or desired to implement the strategy (we should also not be overambitious, describing all types of activities which, in the end, we might never implement due to budgetary constraints). All staff members are resources in this regard – champions can be nominated for different areas, or for different periods of time.

Attachment 2: Stakeholder targeting matrix

Target group	Size of target group	Importance of stakeholder (High/medium/low)	Expected knowledge of the issues (High/medium/low)	Appropriate tools	Message	Contributes to outcome of the COM strategy
Financially excluded	15% of population.	High	Low	- Radio - [...]	Simple (translated) messages about the importance of saving	3
Those already members of CSCGs	Estimated at 65% of the population for the 3 groups combined	High	Medium	Brochures handed out by SPs	Good practices on CSCG dynamics	3
Members of weak SACCOs		High	Low		Parameters of SACCO sustainability Governance issues	
Members of strong SACCOs		Medium	High			
SACCO managers	If 1700 SACCOs, w/ 3 staff each = 5100 ppl	High	High	[...]	Parameters of SACCO sustainability	
Financially included	20% of population	Low	High			
Women		High				
Youth		High				
Population of sceptical SACCOs		Medium	Medium		Alternative options Signs to look for in a well-functioning SACCO	
Ministry of Finance	Relatively small	High	High	Stakeholder meetings and retreats	Relatively complex information with best practices from other countries and statistics on SACCO performance.	
Members of parliament	About 300 people	High	Medium		Best practices from other countries and SACCO statistics explained in a simple way. District level implementation progress	

Appendix 8: Mission ToRs and programme

TO: Mr William Steel, rural finance specialist
Mr Jorma Ruotsi, rural finance specialist
Mr Davis Atugonza, financial management specialist
Ms Line Kaspersen, Programme Analyst, IFAD Country Office

FROM: Alessandro Marini,
IFAD Country Representative and Team Leader

DATE: 16 September 2015

SUBJECT: Terms of Reference. Supervision and Implementation Support mission for the Project for Financial Inclusion in Rural Areas (PROFIRA, 900-UG), 5-16 October 2015.

Background

1. The Project for Financial Inclusion in Rural Areas (PROFIRA) was approved by the IFAD Board in September 2013 and signed in November 2014. The Government has also completed all the necessary steps prior to first withdrawal, including the selection of key PMU positions, the opening of the Designated Account, and the preparation of the first AWPB.
2. A grant for technical support to UCSCU through CCA was also approved by IFAD in January 2014. As per agreement, a quick institutional assessment for UCSCU has been done, which has confirmed compliance with those key indicators identified at design as triggers for eligibility to the support envisaged under PROFIRA. The related Grant Agreement between CCA and IFAD has been signed.
3. The principles for Tier IV regulation were approved by the Cabinet in June 2013, which was a very important first step for the creation of a conducive policy environment for PROFIRA investment. A law has been drafted for submission to Parliament.

Mission objectives and outputs

4. From 5 to 16 October 2015 an IFAD Supervision and Implementation Support mission will visit PROFIRA to assess the implementation status of the project. The overall objectives of the mission are to review the implementation progress of the project, the implementation of the recommendations from previous missions and the status of execution of the AWPB 2015/16 and to provide the necessary implementation support to the PMU. Particular focus will be on the following key areas:
 - The status of the bidding processes for the recruitment of services providers for the two main PROFIRA components;
 - Policy dialogue with MFPED on the Regulatory Framework for Tier IV institutions;
 - The status of implementation of the Grant for technical assistance to UCSCU;
 - M&E (baseline survey and setting up of M&E systems);
 - Fulfilment of the different key loan covenants.
5. The main expected outputs are:
 - An Aide Memoire summarising the main findings and agreed actions of the mission, to be discussed with Government, agreed upon and signed;
 - A Management Letter highlighting the main issues and recommendations of the mission, to be sent to Government within 10 days of the end of the mission;
 - A supervision report, following IFAD template, compiling all the different contributions and outputs of the mission.

Individual tasks and responsibilities

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

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

- Provide an overall review of the draft AWPB 2015/16, with the appropriate inputs from the other team members with respect to activities in their respective technical areas;
- Review the execution of the previous AWPB, completed at the end of June 2015, and the implementation status of the current one;
- Review the status and plans for the key loan covenants;
- Assess the adequacy of the project management systems put in place, including the overall project staffing, project equipment, etc.

8. He will prepare and present the mission Aide Memoire at a wrap-up meeting at the Ministry of Finance, Planning and Development at the end of the mission and ensure timely delivery of inputs from mission members prior to departure from the country. Within 10 days of the end of the mission, he will prepare a Management Letter to Government, highlighting the main issues and recommendations of the mission.

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

- Review the progress made on the process of data collection and analysis for the selection of the SACCOs to be supported by PROFIRA and provide the necessary support in this respect;
- Assess the status of the procurement process for the selection of the service providers for SACCO training;
- Review the status of implementation of the technical assistance provided by CCA to UCSCU;
- Review the implementation arrangements and actual status of the provision of the envisaged financial incentives to UCSCU;
- Discuss with the Department of Financial Services the road-map for the operationalization of the Tier IV regulations and how PROFIRA could best support this process;
- Review the M&E framework with respect to the proposed outcomes, outputs, targets and indicators for these components;
- Review the relevant sections of the final draft of the PIM.

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

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

- Review the status of the procurement process for the selection of the service providers for CSCG establishment (sub-component 2.1) and CSCG strengthening, innovation and partnership (sub-component 2.2);

- Discuss with the PMU and prospective service providers for sub-component 2.1 about the implementation and contractual arrangements of the sub-component;
- Review the M&E framework with respect to the proposed outcomes, outputs, targets and indicators for this component;
- Review the relevant sections of the final draft of the PIM.

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

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

- Assess the established capacity and systems for financial management;
- Review the progress made to mainstream the project into the Government's Integrated Financial Management System;
- Review the progress made in setting up the project accounting software and assess its adequacy;
- Review the envisaged arrangements for external and internal audit;
- Review the procurement systems and templates used by the project, including the procurement plan, contract monitoring forms and contract register to ensure compliance with IFAD suggested templates;
- Carry out spot-checks on Statement of Expenditures and procurements below the No Objection threshold;
- Undertake financial management assessment ratings in accordance with IFAD risk-based disbursement guidelines;
- Provide inputs on fiduciary PSR ratings;
- Review the relevant sections of the final draft of the PIM.

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

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

- Review the logframe and results framework and, in consultation with the other members of the team, provide inputs to the PMU for its finalization;
- Discuss and agree with the PMU on a clear plan to finalize the project M&E system (baseline, database, MIS, etc.);
- Review the relevant sections of the final draft of the PIM.

16. She will contribute to the final Aide Memoire and Supervision Report in relation to the above areas, following the IFAD document template and formatting. If necessary, she will prepare a brief technical note summarizing the findings in her area of competence, including time bound recommendations for action. She will also be responsible to assemble the final supervision report following IFAD's template.

	TIME	ACTIVITY	VENUE	RESPONS.
Mon 5 - Wed 7	08:00am - 05:00pm	Field visit to VSLAs Iganga and Soroti (Jorma/Alessandro/Sharon)	Eastern Region	PROFIRA
	(Mon 5) 09:00am – 09:30am	A brief meeting with the available mission team and PMU staff	PMU Offices	PROFIRA
		Individual Meetings with PMU -Work with Financial Management Unit (Davis) -Work with M&E Unit (Line)	PMU Offices	PROFIRA
Thurs 8	08:00am - 11:00am	Entry meeting to discuss AWP execution, project implementation status, last Aide-memoir agreed actions, etc (Overall team/PMU)	PMU Offices	PROFIRA
	11:00am – 12:00pm	Courtesy call to Financial Service Department and PS-ST Offices	MFPED	PROFIRA
	02:00pm – 5:00pm	Individual Meetings at PMU	PMU Offices	
Fri 9th Oct	Public Holiday – IFAD Team Writing contributions to the Aide Memoir		IFAD Offices	IFAD
Mon 12	08:00am -10:00am	Individual Meetings at PMU	PMU Offices	PROFIRA
	10:00am - 01:00pm	Meeting with UCSCU Top Mgt/BOD/SUPCO/ and CCA Technical Team	UCSCU Offices	PROFIRA
	01:00pm - 02:00pm	LUNCH	UCSCU Offices	UCSCU
	02:00pm - 04:00pm	Separate Meetings with UCSCU Management Team		
Tues 13	08:00am – 01:00pm	Individual meetings to continue (PMU, AMFIU, UCA, UCCK)	PMU Offices	PROFIRA
	03:00pm - 05:00pm	Meeting at MTIC - Cooperatives	MTIC Offices	PROFIRA
Wed 14	08:00am - 10:00am	Discussing the draft Communication Strategy	PMU Offices	PROFIRA
	10:00am – 05:00pm	Team Drafting Aide Memoir		
Thurs 15	09:00am - 11:00am	Review of draft Aide Memoir with PMU	PMU Offices	PROFIRA
	02:00pm - 05:00pm	Review of Aide Memoir with FSD	MFPED/FSD	PROFIRA
Fri 16	10:00am – 11:00am	Official wrap-up meeting with FSD	MFPED/FSD	PROFIRA
Mon 19	08:00am – 12:00Noon	Discussion on Tier IV Bill with FSD	MFPED/FSD	PROFIRA
Tue 20	09:00am – 12:00Noon	Discussion on Tier IV Bill with MFPED	MFPED Board	PROFIRA

Annex 1: Component 1: SACCOs

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA)

1

Preliminary Findings

Potentially Eligible SACCOs for PROFIRA Support &
Regulation Thresholds

Source
SACCO Census Data

10/29/2015

Summary of Data Collected						
2						
No	Category	Central	West	East	North	Total
1	Active with Data	156	316	154	79	705
2	Incomplete/Unreliable Data	50	110	159	73	392
3	Dormant	48	38	93	68	247
4	Closed	41	112	236	236	625
	Total	295	578	642	456	1,971

10/29/2015

SACCO Selection

PROFIRA Support

3

No	Category	Central	West	East	North	Total
1	Meet Criteria	102	214	90	47	453
2	Do Not Meet Criteria	104	214	223	105	646
3	Dormant	48	38	93	68	247
4	Closed	41	112	236	236	625
	Totals	295	578	642	456	1,971

Lots for Procurement - Training

4

No	Type of Training/Support	Lot 1	Lot 2	Lot 3	Lot 4	Total	Target
1	Credit & Default Mg't	139	140	89	85	453	500
2	Package of Six Modules	87	73	69	57	286	350

10/29/2015

Eligibility for MIS Support

5

No	Type of Training/Support	East	West	Lot 3	Lot 4	Total	Target
1	Eligible for MIS Support - New Sites	12	50	11	12	85	50
2	Eligible for MIS Support - Existing Software	24	43	5	10	82	100
	Totals	36	93	16	22	167	150

NB: Further Needs Assessment to be done No.1 SACCOs (New Sites) to establish preparedness for MIS; as well as for No.2 SACCOs to Define the specific needs among the 4 Major MIS in use

10/29/2015

Regulation Thresholds

6

No	Regulation Category	No. of SACCOs
1	A+ (Share Capital \geq 500Mn & Savings \geq 1.5Bn)	
2	A (Share Capital \geq 500Mn <u>or</u> Savings \geq 1.5Bn)	
3	B+ (Share Capital \geq 100Mn & Savings \geq 300Mn)	
4	B (Share Capital \geq 100Mn <u>or</u> Savings \geq 300Mn)	
5	C (Share Capital < 300 Mn <u>or</u> Savings < 300Mn)	
	Grand Total	

Annex 2: Component 2: Community Based Financial Institutions

1. Introduction

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

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

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

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

2. Selection of Service Providers for Sub-Component 2.1

5. The call for Expressions of Interest (23 April 2015) to bid for the contracts to establish new CSCGs received very strong response. 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. The target was to conduct the shortlisting and issue the RFPs by the end of June 2015. However, due to various small delays in the processing of documents and receiving all the needed authorisations, the RFPs to the 16 shortlisted institutions were issued on 18 August 2015, with the date for submission set at 18 September 2015. PROFIRA received 15 full project proposals by the set date.

6. To compensate for the delays, the processing of the full proposals by PROFIRA has since been fast. The Evaluation Committee for the CSCG Component sat during 21-24 September 2015 and evaluated the proposals according to the earlier agreed criteria (see previous reports). In all four regions, various bidders received technical scores well above the agreed Pass Mark of 70. The technical evaluation results were discussed in the PROFIRA Contracts Committee on 8 October 2015, and the Contracts Committee approved the results of the technical evaluation.

7. At a request from IFAD, the consultant reviewed the top scoring two bids for each region and the related PROFIRA evaluation results. Practically all the best known service providers in Uganda were among the shortlisted institutions that submitted their proposals in one or more regions. Following this significant interest in this PROFIRA activity, high quality proposals were made for each region in this bidding. In the consultant's opinion, the PROFIRA evaluation committee carried out this demanding, four-day evaluation process professionally and based on the agreed evaluation criteria. The justified results indicate that if the financial proposals prove to be acceptable, PROFIRA will get a combination of top class international and local service providers to implement the activities of the

assignment. **Therefore, IFAD gives its no-objection to this technical evaluation process and its results.**

8. Quite a number of actions are still required to reach a situation when PROFIRA would be ready to sign the contracts with the selected service providers. After IFAD's no-objection on technical evaluation results, there is the 10-day public display period of the results. Immediately after that, all the bidders that scored over the Pass Mark are invited to a meeting where the financial proposals are opened. Then, based on the combination of technical and financial scores, the proposed winner for each region is selected. Next this result is discussed and approved/rejected in the Contracts Committee of PROFIRA. If approved, the Contracts Committee submits a full report about the approval decision, including an Annex for the Contract Negotiation Plan and the names of the persons to conduct the negotiations with the four winners. These documents are reported to require again an IFAD no-objection, followed by a 10-day public display period. This is followed by the negotiations with the winners, after which the four draft contracts are prepared. Next the PROFIRA Contracts Committee reviews these documents and approves them. These decisions require an IFAD no-objection. Then the contracts go for the Solicitor General's Office for approval. When this is received, PROFIRA and the four winners can finally sign the contracts.

9. The Procurement and Contracts Manager of PROFIRA estimates that the above discussed remaining steps of the procurement process would take around three months. This would mean that the contracts with the winners would be signed by late January 2016, after which the preparations by the selected service providers for the field operations could start. This means a nine months' period from the call for Expression of Interest to the actual contract signing. **Therefore, to be able implement within the PROFIRA project period the planned Component 2 activities in two phases both covering 3-year contracts, it was agreed that for the second set of contracts for both Sub-components 2.1 and 2.2, the call for Expression of Interest would be issued four years before PROFIRA Completion Date.** It should be noted that extensions to project implementation periods are not any more given based of reasons related to the delays in procurement processes.

10. As one additional procurement step, **it was agreed that after the pre-selection of the winners but before notifying them about the result, the PROFIRA team will conduct a mini due diligence on the winning institutions** (maximum one week). This would in practice mean checking some of the key references of the winners, mainly from the organisations that have financed their earlier projects, to verify the correctness of the information provided in the bidding documents.

11. Another new issue for the contract negotiations for both sub-components of Component 2 is related to the rapidly accelerating inflation in Uganda and the declining value of UGX in relation to USD. Using fixed UGX denominated contracts in this situation would potentially endanger the implementation of the planned activities towards the end of the contract, particularly when the local partners with more limited reserves would not be able to cover the inflated implementation costs. **After discussions with the CBFSM and the Procurement and Contracts Manager of PROFIRA it is recommended that a price fluctuation formula would be introduced to Sub-component 2.1 and 2.2 contracts.** This, based on the development of such indicators as inflation and the UGX-USD rate, could trigger an increase in the contract value in local currency, without increasing the original financial commitment of PROFIRA measured in USD (the base currency of the project).

3. Selection of Service Providers for Sub-Component 2.2

12. The selection of Service Providers for Sub-Component 2.2 was intentionally started later than in the case of Sub-component 2.1, partly because the bidding institutions are mostly the same for both activities. The procurement documents for this activity were largely finalised during the previous IFAD support mission, followed by the work conducted on them by the PROFIRA team. The key change made in May 2015 was the inclusion of the fifth contracting area to Sub-component 2.2, covering selected districts outside the four core Component 2 regions.

13. The issuing of the call for Expressions of Interest for Sub-component 2.2 contracts was delayed by some 1.5 months of the target, partly due to delays in the processing of Sub-component 2.1 bids. The final text for the advertisement was sent to IFAD for no-objection on 4 September 2015. IFAD no-

objection was received on 23 September 2015. The key concern was that the advertisement did not define the districts in the new Region 5, in which the PROFIRA support would be available. Without this information, it would be difficult for the institutions to respond to the advertisement.

14. In this situation PROFIRA decided, to avoid further delays, to place the advertisement for Eols covering initially only the contracts for the four core regions of Component 2. This took place on 1 October 2015, with a deadline for submission at 20 October 2015. **The experience from Sub-component 2.1 bidding would indicate that the actual contract signing for these first four contracts of Sub-component 2.2 would be around 30 June 2016.**

15. For Region 5, the key is now to complete the selection of the eligible districts as soon as possible. It was agreed in May 2015 that the following three criteria will be used in this selection process for eligible districts:

1. Their poverty level should be above the level to be set by PROFIRA based on the Uganda National Household Survey 2012/13 results
2. They receive no or only limited PROFIRA support under Component 1 for SACCO development
3. There is an adequate number of mature CSCGs that are required for Sub-component 2.2 implementation.

16. Criteria number 1 and 2 are relatively unproblematic as adequate data is available on both indicators. Concerning the number of mature CSCGs, it has become apparent that the data available on existing CSCGs, including the PROFIRA Design data, has major limitations and errors. **In this situation it has been decided that PROFIRA will first pre-select around 20 districts in Region 5 based on the poverty rating and the non-presence of project support to SACCOs. After that, a visit will be made to these districts to validate that an adequate number of CSCGs exists to justify Sub-component 2.2 support.** These visits will take place in early November 2015, after which the results will be analysed and selection of the eligible districts done.

17. After this process, the target is that the advertisement Expression of Interest for the Region 5 would be published around 20 November 2015 (the advertisement text is basically the same as used for other four regions). The Submission Date for Eols would be set at 30 November 2015, before the PROFIRA office closes for Christmas. Using again “the 8-9 months rule” required for the procurement process, the contract for Region 5 could be signed around August 2016.

18. The interest for bidding for the Sub-component 2.2 contracts is likely to high. Interviews with key service providers indicate that they will all bid. As shown is the Sub-component 2.1 case, PROFIRA is likely to get high quality bids not only from international-local NGO consortia, but also independently from leading local CSCG promoters that have adequately matured to bid alone. This surely is a good sign for the development of the sector, and may also reduce the costs of the planned activities.

19. During the mission, further work was carried out to finalise the RFP docs for the Sub-component 2.2 bids. The evaluation criteria were developed to better support the evaluation process, including detailed sub-criteria for the most important criteria. More emphasis was placed on the innovative elements in the bids, concerning such operations as the planned linkage activities and the methods proposed to retain a larger share of funds in the CSCGs when they move from one cycle to the next. Below, the new evaluation criteria and sub-criteria for Sub-component 2.2 and their related weights are shown.

Under these main criteria, the following sub-criteria will guide the evaluation of the proposals for the key criteria 1-3.

Nr	Definition of the sub-criteria for Criteria 1	Points
1.1	Relevant job references for similar assignments that the bidder has undertaken (minimum of 3 reference)	3
1.2	Bidder's demonstrated capacity to expand the savings and credit operations of mature CSCGs in the region for which they have been pre-qualified, including linkages with formal financial institutions.	12
1.3	Bidder's demonstrated capacity to develop models that encourage the accumulation / carry-over of group savings to different cycles in order to grow larger and longer term loans from the CSCGs own funds.	5
1.4	Bidders experience in enhancing business skills capacity of mature CSCGs and their members.	5
1.5	Demonstrated capacity of the bidder to create partnerships between mature CSCGs and economic operators in the rural communities.	5
Total		30

Nr	Definition of the sub-criteria for Criteria 2	Points
2.1	Relevance of academic qualifications of the proposed key staff for the assignment.	5
2.2	Specific experience for the position in the assignment	10
2.3	Experience of working with CSCG projects that target women , youth and seek to expand the savings and credit operations of mature CSCGs.	5
Total		20

Nr	Definition of the sub-criteria for Criteria 3	Points
3.1	Proposed approach to meeting the targets allocated to the region.	5
3.2	Proposed Innovations to support the accumulation / carry-over of group savings to different cycles in order to grow larger and longer term loans from the CSCGs own funds.	7
3.3	Proposals of the bidder to develop both the CSCG methodology and the related linkages in an innovative and impact-oriented manner	15

Nr	Definition of the criteria	Points
1.	Proven references and similar experience in the sub-region for which the bidder is prequalified.	30
2.	Qualifications and experience of the 5 key staff proposed	20
3.	Proposed Methodology and Approach to the assignment	35
4.	Adequacy of the proposed work plan	10
5.	Suggestions by the bidder to enhance the objectives and the expected results of the assignment.	5
Total		100
3.4	Proposed approaches to building the investment/ business capacities of mature CSCGs and their members.	5
3.5	Proposed Sustainability Approaches	3
Total		35

20. The mission visited in Eastern Region the operations of the Barclays Bank-CARE linkage activity, which has been operational since 2006 and closes as a project in December 2015. The

important point here is that through the experiences gained and financial products developed (described in earlier Technical Support Reports), Barclays Bank now considers the linkage activities with mature CSCGs as a part of their mainstream business operation, having moved it from their Community Investment Division to their Retail Division. This means that while the project with Care now ends by the end of this year, Barclays Bank continues to offer savings and overdraft services from its branches to CSCGs/VSLAs and has professional dedicated staff to run these operations. At least four other commercial banks are also developing their CSCG-related financing operations. It is likely that innovations in this area going to be included as major parts of the project proposals in the forthcoming Sub-component 2.2 bidding.

4. Monitoring, Reporting and Evaluation

21. When the component activities are gradually moving from the contracting phase to actual field implementation, attention is required in the coming months on the planning of the monitoring, reporting and impact evaluation activities for Component 2. As agreed in May 2015, the CBFSM and the Monitoring, Evaluation and Knowledge Management Manager have since visited various CSCG service providers and their donors to know more about their M&E systems and capabilities. The purpose was also to harmonise their output and outcome indicators to the ones PROFIRA uses and then develop a reporting guideline for Component 2. At the same time the indicators in the PROFIRA Results Framework are have now been finalised.

22. These visits confirmed the view that the leading international and local CSCG service providers are very advanced in both developing a relevant MIS framework and using modern instruments to process field data and submit reports in electronic format. This encourages the introduction of such on-line based reporting systems as SAVIX, which is already used by some of the potential PROFIRA future partners. The plan is that in all the Component 2 contracts, in addition to output reporting based on agreed indicators, also tasks in outcome reporting, including poverty profiling and regular submission of interesting case stories, will be included. This type of component-based impact data on beneficiaries is also very much needed, as the baseline studies on the whole project, such as the one planned for PROFIRA, often at least partly miss the component-specific impact on beneficiaries.

23. The consultant reviewed, with support from the IFAD M&E Specialist, the list of indicators that are to be used for Component 2 in the updated Results Framework of PROFIRA. The selected indicators are appropriate for the purposes of this Framework and will be easily reported on by the Service Providers.

24. At the same time it is important to note when building up the M&E systems that even when using village agents or community-based trainers, data collection from the groups will become much more complex when the direct contact between the CSCG and the SP ends. In the case of new groups this will happen after some 12-18 months of the group's establishment, still well within the PROFIRA period. It was agreed that the CBFSM and the Monitoring, Evaluation and Knowledge Management Manager pay particular attention to this situation when planning a realistic MIS system for Component 2.

5. Budgeting for Component 2

25. In the Technical Report of the May 2015 Mission (Section 6), a budget framework for Component 2 was provided based on the projections of spending from the first contracts of both Sub-components 2.1 and 2.2. These are very useful type of projections when planning for the whole PROFIRA cashflow and particularly when making the budget allocation in the AWPB for Component 2.

26. These projections now need an up-date because (i) there are going to be clear delays in the start-up of implement activities and the resulting delays in project spending and (ii) Sub-component 2.2 has now been split into two, with Region 5 spending being further delayed. **It was agreed that the CBFSM will update the cashflow projection by the end of 2015, by which time more accurate information is likely to be available on the actual time of the signing of the contracts and on the amounts of the first four Sub-component 2.1 contracts.**

Annex 3: Component 3: Roundtable on Regulatory Framework and Concept Note

Concept Note on support towards establishing and implementing a new regulatory and supervisory framework for Uganda's Tier 4 microfinance sector

Draft, 29 October, 2015

Table of Contents

1.0 Strategic context	49
1.1 Financial inclusion: Target areas and groups	50
2.0 Justification and rationale	50
3.0 Objectives	51
4.0 Institutional framework	51
4.1 Institutions supporting Tier 4 MFIs	51
4.2 Subsectors without a specific apex organization	53
4.3 Public Sector	54
5.0 Key challenges facing Tier 4	55
5.1 Regulatory and Supervisory Framework	55
5.2 Institutions	56
5.3 MFIs	56
5.4 Clients	57
6.0 Risks	58
6.1 Inadequate Funding	58
6.2 Lack of data	58
6.3 Inadequate MIS systems and skills for reporting and compliance at MFI level	58
6.4 Weak support institutions	59
6.5 Inadequate capacity in regulatory agencies	59
7.0 Proposed activities and components: a roadmap	59
7.1 Objectives	59
7.2 Components	59
8.0 Conclusions and recommendations	63
Annex I: Indicative timeline for main roadmap activities	65

1.0 Strategic Context

1. In 1999, the Bank of Uganda (BoU) issued a policy statement on Microfinance Regulation and Supervision as a framework for Ugandan microfinance institutions (MFIs), and recognised four tiers of institutions that can do microfinance business in Uganda. The tiered system acknowledged that it may be necessary to regulate different types of institutions in different manners, and institutions can graduate from one tier to another, subject to meeting the regulatory requirements for that tier. To date, only the first three tiers have been directly regulated by BoU: (1) commercial banks; (2) credit (non-bank financial) institutions; and (3) Microfinance Deposit-taking Institutions (MDIs). Tier 4 MFIs have remained subject to multiple laws and registration authorities, as opposed to a consolidated legal framework. This has made the sector very complex in terms of supervision, coordination and reporting.

2. The Government of Uganda is in the final stages of developing a new legal and regulatory framework for the Tier 4 MFIs. This Tier consists of a range of semi-formal and informal financial institutions that were not covered by the 1993 MDI Act. These MFIs are diverse in form and size, including: savings and credit cooperatives (SACCOs);¹⁴ credit-only microfinance non-governmental organisations (NGOs); private businesses and individuals engaged in financial services (including money lenders); and other community-based and informal financial groups, such as village savings and loan associations (VSLAs).

3. In the past, these institutions have been subjected to partial and fragmented regulation, with very limited oversight. Each type of institution (cooperative, NGO, company) registers with a different authority, while informal groups are not registered as such. A particular concern of the Government of Uganda has been to address the issue of the regulation and supervision of SACCOs, which mobilise savings from their members. Although they must meet the registration requirements for cooperatives, the Registrar of Cooperatives has little authority or budget to oversee their activities, apart from the requirement to have an annual audit and general meeting. BoU has only rarely stepped in to deal with MFIs that have improperly and fraudulently mobilised savings from the public.

4. A growing concern of the Government and BoU has been to create a legal framework which effectively and holistically governs the different forms of institutions providing microfinance services within the Tier 4 microfinance sector in order to protect the savings of the public and ensure stability of the financial sector. To address this, in June 2013, the Ugandan Cabinet passed a Memorandum approving the development of a framework for the regulation and supervision of all Tier 4 microfinance institutions in Uganda.

5. Following the approval of the Cabinet Memorandum, the Tier 4 Microfinance Bill, 2015 (referred to as the Bill in the rest of this document) was drafted and presented to Cabinet with supporting documentation in September, 2015. The Bill provides the framework for the licensing, regulation and supervision of the Tier 4 MFIs. It includes a classification of the SACCO sector into three different categories in terms of shares and savings¹⁵, as well as requirements for the other forms of institutions that fall within the Tier 4 sector.

6. A further key provision is the establishment of the Uganda Microfinance Regulatory Authority (UMRA), a semi-autonomous body with the mandate to licence, regulate and supervise Tier 4 MFIs. UMRA will form a critical component of the new institutional framework for Tier 4 microfinance sector, including a consistent approach to licensing institutions to undertake financial activities and the authority to delegate certain regulatory responsibilities to other agencies in a cost-effective manner.

7. The government's objective in putting forward the new legislation is to establish a sound, consistent financial development framework for promotion of financial inclusion through well-regulated financial institutions offering different types of services to a wide range of the population. In order to prepare the ground for the effective implementation of this framework, the Government of Uganda wishes to elaborate an effective and efficient strategic framework, including a process for the establishment of UMRA, capacity building support for Tier 4 MFIs and for the agencies and associations that support or regulate them, and a costed roadmap for implementation. This concept note outlines the underlying principles, elements of the framework, and a series of specific activities that will lead to the design of a project to mobilise additional resources and

¹⁴ SACCOs offer a model of financial intermediation and outreach that can mobilize local savings and offer loans with low operational costs relating to information, enforcement and most importantly a wide outreach to the low income individuals in both urban and rural areas. They also contribute to building social capital and providing opportunities for effective collective action. By mobilizing local savings through mutual trust, local knowledge, inexpensive human resources, and social networks within communities, cooperatives use the assets of the poor that would have otherwise remained unutilized. The non-profit orientation of SACCOs is important because they aim at providing affordable financial services such as savings accounts and/or loans; and it is "service" and not profit that drives them.

¹⁵ (i) SACCOs with savings above UGX 1.5 billion and share capital above UGX 500 million; (ii) SACCOs with savings above UGX 300 million but below UGX 1.5 billion and share capital above UGX 100 million but below 500 million; and (iii) SACCOS with savings below UGX 300 million and share capital below UGX 100 million.

the funding necessary to prepare for the new Tier 4 MFIs regulatory and supervisory framework and to ensure its smooth implementation.

1.1 Financial inclusion: Target areas and groups

8. Financial inclusion has emerged as a major policy and strategic objective in Uganda as well as globally. Extending access to financial services to the unbanked sections of the population is regarded as essential for poverty reduction and growth, by enabling the poor and vulnerable groups to better cope with vulnerability to fluctuations in income and expenditures and to invest in income-generating activities. To this end, BoU led the preparation of a Strategy for Financial Inclusion (2013). The microfinance sector plays an important role in extending access to financial services to rural areas and poor households, who are the primary target groups for financial inclusion. MFIs have a much broader, nationwide geographical coverage than the financial institutions in tiers 1-3. For these reasons, the Government and donors have in the past provided strong support to build the capacity and capital base of MFIs to facilitate scaling up outreach to financially excluded clientele. The new legal and regulatory framework will strengthen the foundation for renewal of such support.

2.0 Justification and Rationale

9. Parliament first indicated its interest in a comprehensive bill covering all MFIs in the course of debating the Microfinance Deposit-taking Institutions Bill (2003). At the time, the primary interest was promotional and developmental, i.e., to provide a legal framework that would encourage a broad range of MFIs, in particular to move out into rural areas. During the mid-2000s, a number of stakeholder discussions were held on the topic of regulating Tier 4 MFIs, although no policy paper emerged. At the same time, there has been a debate on whether and how to provide a specific legal and regulatory framework for SACCOs, either within or apart from legislation governing Cooperatives in general.

10. The need to strengthen the regulatory environment for Tier 4 MFIs has been heightened by the proliferation of SACCOs in response to the Government's Rural Financial Services Strategy (RFSS), which took effect in 2007 and was supported by a restructured Rural Financial Services Project (RFSP), with supplemental funding from the Government to implement its policy of establishing one SACCO in every sub-county. A further concern has been persistent incidents of loss of savings due to the collapse of SACCOs and other MFIs (as well as operations purporting to be MFIs or investment vehicles), whether due to inefficient operation, poor management or governance, or outright fraud.

11. RFSP undertook a "Reality Check" in 2011 to monitor progress in the establishment and growth of SACCOs. Based on data from 2009 and 2010, it was found that over half of the SACCOs being supported did not appear viable over the long run in terms of four key indicators.¹⁶ At the same time, there were growing reports of SACCOs and other MFIs that were closing or unable to give depositors their funds when demanded. This situation intensified the need for a more systematic, comprehensive legal and regulatory framework for SACCOs and other Tier 4 MFIs, in order to establish clear standards, improve reporting and monitoring, and mitigate the risks of poor performance and collapse of MFIs.

12. Consultations among stakeholders took several years to address a number of difficult issues regarding the respective authority and responsibilities of different agencies and how extensive the coverage would be. Agreement was reached on the desirability of establishing a new Uganda Microfinance Regulatory Authority (UMRA) to handle licensing of most MFIs and supervision of a limited number above a certain size, as well as on amending the MDI Act to permit some large SACCOs to come under BOU supervision while retaining their Cooperative character. The Cabinet Memorandum set forth the key guiding principles and policies to form the basis of legislation for and regulation of the sector under a comprehensive framework. These principles are aimed at achieving the following:

- Proper balance between the benefits and costs of regulation, including the efficiency and sustainability of both the regulators and the regulated institutions.
- Proportionality to ensure that the level of the regulatory and supervisory burden is appropriate to the level of risk, and that the expected benefits outweigh the likely direct and indirect costs of compliance.

¹⁶ Operational Self-Sufficiency ; Financial Self-Sufficiency; Return on Assets; and Portfolio at Risk.

- The required level of autonomy of UMRA to ensure independence, stability and predictability of the regulatory approach.
- The appropriate combination of:
 - prudential and non-prudential measures,
 - on-site and off-site activities, and
 - regulatory and non-regulatory mechanisms

to achieve the overall stated objectives (below) in the most cost-effective and practical manner.

- Consultations with stakeholders to help ensure that the objectives are understood and met.
- Sharing initial costs of capacity-building for compliance between the Government and the institutions to be regulated.

13. A concerted and well-coordinated effort will be needed to ensure that these principles are applied and capacities are adequate to achieve the desired results. There is no standard “best practice” with respect to regulation of MFIs. Although some other countries have introduced legislation and regulations governing their microfinance sectors as a whole, each country faces its own unique circumstances and challenges. Thus, while Uganda can learn some lessons from other countries, it will need to develop its own strategy for dealing with the types of institutions and issues specific to Uganda. Establishing new institutions and strengthening existing ones to meet the challenges of a new regulatory framework can be a costly process. This Concept Note attempts to set forth a roadmap for accomplishing this in a cost-effective and efficient manner.

3.0 Objectives

14. The overall objective for preparing this Concept Note, and ultimately a project to support the process, is to establish and implement a cost-effective regulatory framework for the Tier 4 microfinance sector.

Specific objectives include:

- Analysing the institutional framework for MFIs in Uganda, including strengths and weaknesses, as well as gaps that will need to be addressed.
- Setting forth the key challenges facing development and implementation of the proposed new legal, regulatory and supervisory framework.
- Proposing activities to be undertaken (as well as costed and funded), e.g., as components of a possible support project, indicating the scope of work required to proceed with further elaboration of the strategic framework, design of UMRA, strengthening or establishment of apex institutions and other facilitating agencies, and capacity-building for both the MFIs and the regulatory agencies.
- Providing the basis for a costed roadmap for the way forward.

4.0 Institutional Framework

15. Any interventions and programs geared towards the development of the MFI sector need to be well-coordinated so as to take account of existing partnerships and differences in structures. Orderly implementation of new regulations, as well as support for capacity-building, will require strong support institutions, including strengthening of relevant apex associations and possibly establishing new ones. The section below highlights the key institutions as related to the proposed Tier 4 Microfinance Bill, 2015.

4.1 Institutions supporting Tier 4 MFIs

Association of Microfinance Institutions of Uganda (AMFIU)

16. AMFIU was registered in 1996 as a Company Limited by guarantee, with NGO status. It has operated as the national umbrella organization of the Microfinance Industry in Uganda for almost two decades. It has been recognized internationally as one of the most significant and vibrant microfinance apexes in Africa. The mission of AMFIU is to “Enhance sustainable delivery of inclusive financial services by all MFIs in Uganda”.

AMFIU membership now stands at 144 members, of which 102 are ordinary members (microfinance institutions and SACCOs), and 42 are Associate members, which are institutions that provide services related to microfinance (wholesale lenders, development partners, academic institutions and private consultancy firms). The latter category also includes a few individuals with strong attachment to microfinance. AMFIU's membership commands some 78% of the total market share in the entire sector by performance and outreach indicators (as of December 2014).

17. AMFIU's core business activities to meet the needs of the members include the provision of the following services:

- Lobby and advocacy;
- Capacity building for members;
- performance monitoring;
- information collection and dissemination;
- financial literacy;
- consumer education and protection;
- social performance management; and
- special inclusion projects like Microfinance and disability, Microfinance and HIV.

18. AMFIU strives to ensure that its members uphold professional standards and microfinance sound practices through the provision of several services, which include:

- on-site capacity building;
- performance monitoring;
- research and training;
- information collection and dissemination; and
- promotion and adherence to member's code of conduct.

19. AMFIU endeavours to support the microfinance sector in facing a number of challenges, in particular timely reporting and consolidation of financial performance indicators. Reporting and monitoring have been weak due to;

- weak internal controls;
- inadequate Management Information Systems (MIS) for timely reporting;
- limited coordination amongst stakeholders in a complex sector.

20. Currently, talks are underway to popularise the performance Monitoring Tool (PMT) as the standard industry-wide reporting tool, which has been partially implemented by a few.

Uganda Cooperative Savings and Credit Union Limited (UCSCU)

21. The Uganda Cooperative Savings and Credit Union Limited (UCSCU) is the national organization for Savings and Credit Cooperative Societies (SACCOs) in Uganda. It was registered in 1972 under the Cooperative Societies Act, Cap. 112, and the Uganda Cooperative Societies Regulations, 1992. UCSCU is the oldest and largest network of SACCOs in Uganda in terms of membership and national coverage. Out of the 81% of the SACCOs affiliated to apex bodies, 77% are affiliated to UCSCU, followed by Uganda Cooperative Alliance (UCA) with 21%, and only 9% affiliated to AMFIU (UBOS, 2010).

22. In order to effectively deliver technical services to the SACCOs, UCSCU operates regional and sub-regional offices countrywide. It is regulated by the Registrar of Cooperatives, Ministry of Trade, Industry and Cooperatives (MTIC). UCSCU is owned by its member SACCOs, which exercise control over its operations through a democratic system of governance and in line with International Cooperative Principles. It derives its operational mandate from registered Bye-Laws, and its overall purpose is to foster the organization and development of SACCOs in Uganda and to improve their internal operations.

23. To facilitate effective delivery of its mandate, UCSCU operates as an open organization, through networking and collaborating with various organizations nationally and internationally. The management and staff are multi-skilled and are capable of building the capacity of SACCOs to run as sustainable institutions. They are skilled in various disciplines such as; financial management, strategic management, business

development, accounting, auditing, taxation, product development, marketing, communication, human resource management, consultancy services and training.

24. Besides advocacy for development of the SACCO sector, UCSCU provides training and capacity-building services to its members, and operates a Central Finance Facility to help mobilize funds for on-lending to SACCOs that need to supplement their core capital and savings.

Uganda Cooperative Alliance (UCA)

25. UCA is an umbrella body for unions of all types of cooperatives. Since the late 1990s, UCA has used donor support to sensitize communities to the benefits of community-based savings and credit and then assist them to develop a SACCO. Nurturing has included providing operational support on a declining basis for a limited period of time and providing business practices and record-keeping. Although the Commissioner of Cooperative Development ruled in 2012 that only unions of cooperatives may be direct members of UCA, UCA has continued to monitor some 255 SACCOs that it helped to form. UCA has supported the development of the Uganda Central Cooperative Financial Services Ltd (UCCFS), whose members include many of those SACCOs and which serves to mobilize surplus funds and provide loans to its members.

Microfinance Support Centre Ltd (MSC)

26. Microfinance Support Centre Ltd (MSC) originally operated as a project of the African Development Bank (AfDB), but in 2001 was organised into a 100% government-owned support facility, mainly offering wholesale financing services to MFIs and SACCOs, with complementary capacity-building. Most of the funding for MSC has come from the AfDB and the Islamic Development Bank, the rest as direct budget transfers from the government. During the late 2000s under the government's Rural Financial Services Strategy, MSC was used as a channel to provide external funding to SACCOs, including for start-up SACCOs. It has had to overcome difficulties in loan repayment, governance, and lack of funding.

4.2 Subsectors without a specific apex organization

Money Lending

27. Money lending is legal in Uganda, but theoretically constrained by the provisions of the Money Lending Act (1952). This Act requires money lenders to obtain a certificate from the Magistrate who has jurisdiction over their area of operation and an annual licence from their local authority. They provide a product that people want, and their numbers are growing despite the high cost of their services relative to formal financial institutions. Interest is capped by the Act at 24% per annum, although the practice is that the lending rates charged can be as high as 36% per annum. The Act requires written contracts between the lender and the borrower, and obliges the money lender to keep proper records of accounts. The 2010 Uganda Bureau of Statistics (UBOS) *Report on Census of Micro Finance Institutions in Uganda* reported 53 money lenders registered under the Act.

28. Nevertheless, the law is almost totally ignored. Money lenders seldom apply for a licence, consistently exceed the interest rate ceiling, and rarely keep anything resembling proper records. Finally, most loans are guaranteed not through a contract but through a sales agreement for the goods offered in guarantee.

29. In Uganda, their reputation is poor, and they are often skipped when one catalogues the various kinds of MFIs. Money lenders see their principal competition being MFIs and SACCOs, and they exist largely because of the limited outreach of those institutions and their inability to offer rapid and client-friendly loans. Challenges faced by money lenders include clients failing to honour their obligations on time, high cost of funds, difficulty disposing of seized collateral, and lengthy court process in case of arbitration. The Money Lenders Act (1952) is being repealed under the proposed Tier 4 Microfinance Bill, 2015.

30. There exists no apex association that brings together all operators of this business in Uganda, and no systematic data are available on their numbers and operations. They have never been part of discussions of MFIs, although they do provide services to many of those not reached by MFIs and formal institutions, as well as to many clients of the latter who need funds on short notice. Without such an association, reaching money lenders to regularize their status under the new legislation and facilitating them to comply is likely to provide exceedingly difficult.

Financial NGOs

31. Non-Governmental Organisations (NGOs) have played a substantial role in developing and offering microfinance services to poor communities in Uganda. Their influence has been greatest in:

- Pursuing a broader common vision and mission, particularly towards the poorest;
- Offering clients a larger range of microfinance products and services;
- Better engaging with relevant stakeholders;
- Advocating for microfinance generally; and
- Conducting research.

32. Financial NGOs are those that focus on financial services, or maintain accounts for such services separate from non-financial services offered to their clients. In principle, NGOs are expected to provide loans out of funds obtained externally, not to mobilize voluntary savings from their clients as a source of funds for on-lending. They may, however, require savings as security against loans, which should be kept in escrow. In practice, NGOs may utilize clients' deposits for lending or expenses, thus putting those savings at risk, since NGOs lack an independent capital base.

33. Currently, there is a lack of effective coordination for better service delivery and no specialised apex association bringing together all operators of this financial NGOs in Uganda. Some are members of AMFIU, but AMFIU serves the microfinance sector broadly, not the interests of NGOs specifically. Unless AMFIU undertakes to play a leading role on behalf of NGOs (and other categories of MFIs besides SACCOs being brought under the proposed Tier 4 Microfinance Bill), it may be necessary to establish a separate apex association to facilitate registration and compliance of financial NGOs. The 2010 UBOS Census reported 18 MFIs registered as companies limited by guarantee.

MFI companies

34. Even more MFIs are registered as for-profit companies than as NGOs. The 2010 UBOS Census reported 31 MFIs registered under the Companies Act or as companies limited by shares. These generally mobilize savings from their clients, in contravention of the Financial Institutions Act. Hence they will have to be brought under the new legislation to be properly licensed and supervised. Although their profit orientation and reliance on deposits makes them somewhat different from financial NGOs, it may make sense to treat both categories together in terms of implementing the new legislation and possible establishment of an apex association.

Village Savings and Loan Associations and other community-based groups

35. Village Savings and Loan Associations (VSLAs), and other forms of financial self-help groups, have been promoted at the village level throughout the country (especially in poorer areas) to extend access to basic financial services to the grass roots. These are member-owned-and-managed groups handling relatively small amounts of money, with little external borrowing. Generally, these have been promoted by NGOs, often a local NGO in partnership with an international NGO. Given their governance structure, low impact on the rest of the financial system, and existence of some measure of supervision through the NGOs, it is not presently envisaged to license and supervise them directly under the proposed UMRA. Nevertheless, it may be in order to consider some sort of association or coordination mechanism to help develop this subsector and ensure consistency with the overall regulatory framework, as well as to prepare for possible eventual regulation.

4.3 Public Sector

Bank of Uganda

36. The Bank of Uganda (BoU) is charged under the Financial Institutions Act (2004) with licensing and supervising deposit-taking and other financial institution business. Under the Microfinance Deposit-Taking Institutions (MDI) Act (2003), it established a third tier of the financial system to facilitate NGOs to transform into companies licensed to undertake microfinance business, i.e., mobilizing and on-lending deposits. Under the proposed new framework for microfinance, the MDI Act would be amended to enable large SACCOs that meet the minimum capital and other criteria to become licensed as MDIs. Given its role as the central bank

and its lead role in developing the Strategy for Financial Inclusion, BoU will be expected to play an important role in the development, implementation and oversight of the new legal and regulatory framework, in particular to participate in the governance structure of the UMRA. Capacity-building of BoU with respect to microfinance business and regulation will be required.

Ministry of Finance, Planning and Economic Development

37. The Department for Financial Services in the Ministry of Finance, Planning and Economic Development (MoFPED) has responsibility for the policy and strategic framework for the microfinance sector, and in particular for preparing the relevant legislation, designing the structure of the UMRA, and mobilizing project support for their implementation. This Concept Note is intended to lay the groundwork for these functions.

Ministry of Trade, Industry and Cooperatives

38. The Department of Cooperative Development in the Ministry of Trade, Industry and Cooperatives (MTIC) is responsible for the registration and oversight of cooperatives, including SACCOs. Since SACCOs have not been explicitly recognized in legislation as a specialized financial institution, MTIC's role in the past with respect to supervision of SACCOs has been limited and underbudgeted. Its principal role has been in providing services for the annual financial audit required of all cooperatives. With support from RFSP and PROFIRA, it has been making steps toward improving its database and register of SACCOs and its capability to monitor them, as well as to promote SACCO development (e.g., through local forums). Under the proposed new framework, it is expected that its responsibilities will be substantially enlarged with respect to oversight of the majority of SACCOs that fall below the capital and savings limits (mandated in the Cabinet Memorandum) for direct supervision by UMRA. Thus, it is expected that substantial capacity building and budget support will be required.

5.0 Key challenges facing Tier 4

39. Despite impressive performance achieved by the Tier 4 MFIs in Uganda, growth has come at a cost. The sector faces many challenges, including: weak regulatory and supervisory framework; lack of strong support institutions; among MFIs – weak management and implementation capacity, lack of or inadequate Management Information Systems, inadequate funds, inadequate institutional collaboration, and weak staff capacity; among clients – financial illiteracy, MFI delivery strategies that impose a high cost on the borrower, and overindebtedness. The key challenges facing the Tier 4 sector are detailed below.

5.1 Regulatory and Supervisory Framework

40. The Tier 4 MFIs are extremely heterogeneous in nature and registered under different laws (Cooperative Societies Act, NGOs Act, Companies Act, Money Lenders Act 1952). Currently, there is no proper regulatory body for the supervision of all the Tier 4 MFIs. The presence of different institutions with a variety of legal forms makes it difficult to assess the sector's performance in the current legal set up. This creates confusion and complexity for policy formulation, as well as for application of consistent regulations and supervisory practices.

Data

41. The challenge of developing a consistent regulatory framework for this diverse sector is compounded by the lack of reliable data on the different segments. There have been some census and mapping efforts by UBOS and others, but these have been one-off exercises, which are not suitable for tracking performance trends over time. MTIC attempts to collect annual data from SACCOs, but low response rates have required it to undertake costly field surveys to obtain detailed performance data, which is not feasible on an annual basis. AMFIU and UCSCU collect data from their members, which allows for some tracking over time, but for a non-representative sample. In preparation for implementation of the new regulatory regime, therefore, it will likely be necessary to undertake a comprehensive survey of all types of MFIs, and to consider how to set up a viable system of regular collection, at least for those MFIs to be licensed and supervised by UMRA.

5.2 Institutions

MTIC

42. The Department of Cooperative Development (DCD) in MTIC is currently the relevant oversight body for SACCOs, and will presumably continue to exercise a supervisory role over the majority of SACCOs, since UMRA has neither the mandate nor, likely, the resources to directly supervise the majority of smaller SACCOs falling below its capital and savings criteria, and hence will have to delegate that function. However, DCD has historically had little budget to do more than register new SACCOs and promote forums, and only under PROFIRA is it building up limited capacity to more effectively monitor SACCOs and intervene when issues of governance or fraud arise. It will be important to define carefully the extent of regulatory and supervisory functions it will be expected to perform under the new legislation, and to ensure that it has adequate capacity in terms of staff, funding and training.

UCSCU

43. Although SACCOs have an apex body in UCSCU, membership is voluntary rather than compulsory. Hence its role will be more promotional and capacity-building, since it would not be possible to assign it regulatory functions unless membership were made mandatory (in which case a conflict might arise between its promotional and regulatory roles). UCSCU's main weakness is that most of its members (as well as non-members) are financially weak and not in a position to bear the full costs of training and other services that it provides, let alone support it adequately through dues alone. Furthermore, SACCOs tend to expect that UCSCU's services should be free or subsidized, as a result of the Government's promotional efforts under the Rural Financial Services Strategy and Programme. PROFIRA is providing four years of support to assist UCSCU in implementing its Strategic Plan toward sustainability, but further support may be needed if UCSCU is expected to play a leading role in preparing SACCOs for the new regulatory regime.

AMFIU

44. Although AMFIU in principle could serve to provide sensitization and capacity-building services to the non-SACCO MFIs, this would likely require substantial additional resources and capacity within the institution. AMFIU has a particularly important role to play with respect to monitoring and reporting under the new regulatory framework, through training and data collection in its PMT and Performance Monitoring System.

Other MFI Associations

45. AMFIU's limited membership might constrain it from reaching the majority of NGOs and for-profit MFIs, let alone money lenders. Hence, consideration may have to be given to assisting those subsectors to organize their own associations, to facilitate the process of data collection, monitoring, sensitization, capacity building, and reporting.

Coordination

46. There is little coordination among the existing apex associations and other stakeholders, and their roles and responsibilities currently overlap in some cases. This creates weak organizational, institutional and reporting hierarchy relationships amongst the stakeholders promoting Tier 4. In the past, the Microfinance Forum (chaired by MoFPED) provided a venue for exchange of information and discussion of important issues, but it has been largely inactive in recent years. In preparing a strategic framework, MoFPED will need to consider how to improve and perhaps institutionalize coordination mechanisms for development and oversight of MFIs, as well as among government agencies and development partners that support the sector.

5.3 MFIs

Weak governance structures and implementation capacity

47. Lack of experienced personnel and inadequate training at senior managerial positions has led to the continued existence of weak governance and management structures with respect to implementation of best practices in microfinance. Some institutions intentionally choose staff with limited experience as a cost-cutting strategy. The existing random and incoherent nature of training programmes, flaws in human capacity skills development, and high staff turnover have also hampered performance.

Limited internal funds

48. The Tier 4 MFI sector is presently restricted from taking public deposits (other than from members). While licensed for-profit MFIs (as well as SACCOs) may be able to take deposits under the new legislation, NGOs will remain largely dependent on donations and grants. The absence of adequate funding, especially for smaller institutions, sometimes force MFIs to contract costly bank financing as an alternative source for on-lending, and limits the ability to expand outreach.

49. The SACCOs that are members of UCCFS tend to be relatively strong and creditworthy. UCSCU's Central Finance Facility has suffered from a lack of capital and from high arrears from relatively small, weak SACCOs.

Management Information Systems (MIS)

50. Effective regulation of the Tier 4 MFIs will require standardised reporting formats to monitor performance at both the industry and institutional levels. However, most of the MFIs still use manual systems and lack effective and standardised MIS to adequately capture, analyse and report the institutions' performance in a timely manner. Accounting skills are also lacking at most institutions. Therefore, further development of the subsector, in particular preparation for the new regulatory framework, will require measures to address the lack of adequate data and record-keeping.

SACCOs

51. Besides the above challenges, SACCOs also face a number of specific issues:

- Poor member incentives;
- Lack of business strategy and management skills;
- High financial illiteracy rates among members and prospective members;
- Absence of linkages to other financial institutions.

52. These challenges are constant threats to SACCO's reliability, financial sustainability and growth, and can therefore undermine their potential impact for effective service delivery for greater financial inclusion in rural areas.

5.4 Clients

Low levels of education and financial literacy

53. The level of education of the Tier 4 MFIs' target segment of the population is extremely low, and the MFIs serve a financially-illiterate clientele. The majority of clients are rural-based and lack effective mechanisms for ensuring maximum consumer protection practices, further complicating the promotion of the Tier 4 MFIs activities.

Costs

54. MFIs have been effective in extending financial access to rural households and other underserved groups by using character-based methodologies that avoid the formal application and collateral requirements that tend to limit access to commercial banks. Nevertheless, the methods that many MFIs use often impose high costs on borrowers, both directly in terms of high fees and interest rates and indirectly in opportunity costs. For example reliance on group guarantees requires regular (often weekly) meetings that divert clients from their income-earning and other activities.

Multiple borrowing and over-indebtedness

55. Though competition is good for many sectors, for the Tier 4 MFIs, it is going against both parties. The institutions are disbursing multiple loans to the same borrowers, which in some cases is leading to over-indebtedness (contracting loans without capacity to pay back). This is mainly due to lack of an effective mechanism to track financial information on bad borrowers, i.e., lack of Credit Rating Bureaus specifically for the Tier 4 MFIs.

6. Risks

56. The challenges identified in section 5 are systemic and cannot be addressed adequately simply by establishing a new institution. Without a broad-based approach to address the full range of challenges, the risk is high that passage of legislation alone will not achieve the desired results. Assuming that the proposed legislation passes Parliament in some form, several key risks can be identified that might limit its success in achieving the desired objective. These risks are highlighted here in light of the challenges discussed in the preceding section, as a basis for proposing activities to help mitigate the risks and prepare for implementation of the legislation.

6.1 Inadequate Funding

57. The proposed Tier 4 Microfinance Bill is ambitious in that it seeks not only to license but to introduce some degree of reporting and prudential supervision to well over 2000 MFIs that have had little oversight to date. It proposes to establish UMRA as the central authority for licensing and for oversight of supervision. While UMRA is expected to directly supervise on the order of 200-300 MFIs (according to size criteria), and BoU would be responsible for a small number that qualify as MDIs, supervision of the vast majority of SACCOs would be delegated to the DCD in MTIC (which to date has had virtually no institutional budget for the types of supervisory activities that would be required). Thus, two substantial recurrent budget envelopes must be anticipated for GoU funding of the mandated functions: UMRA and DCD. While it has been clear that new funding will be required to establish UMRA as a new agency, the additional cost of the corresponding functions being delegated to DCD have not yet been adequately considered. All these costs must be catered for in presenting the draft Bill to Parliament.

58. In addition, there will be preparatory costs in the form of designing, staffing and equipping UMRA; building the capacities of the regulatory authorities; strengthening industry associations and support institutions that will be expected to help prepare MFIs for implementation of the new law; and sensitization of the MFIs themselves. And there will be on-going costs of assisting the MFIs to be able to comply with reporting as well as prudential requirements, in particular establishing adequate and consistent MIS systems (see below). Given that it is unlikely that the government budget can assume all these costs as well as the recurrent costs referred to above, the risk is that there may not be adequate support among the development partners for the technical assistance, cost-sharing and capacity-building that is required. This Concept Note is intended to lead to a costed road map that can help in mobilizing such funding.

6.2 Lack of data

59. Although MTIC and UCSCU, with support from PROFIRA, are in the process of completing a comprehensive survey of all SACCOs (except in Kampala), data on the other types of MFIs to be regulated are out of date or lacking.¹⁷ In order to correctly estimate the costs of implementing regulation, a new census is urgently needed. Otherwise, there is a risk that many existing MFIs will be able to ignore the new regulations with low probability of detection. Experience elsewhere has shown that when new regulations are issued, many institutions are reluctant to come forward to register, and it is very difficult and costly for a new regulatory agency to police the non-applicants when it is already burdened to deal with the applications it has received. Furthermore, collection of baseline data will greatly assist future efforts to evaluate the performance and success of the regulatory exercise.

6.3 Inadequate MIS systems and skills for reporting and compliance at MFI level

60. It is not secret that the majority of SACCOs and MFIs in Uganda have inadequate computer systems, MIS software, and ability to use MIS reports effectively; and that there is a wide variety of systems among those that have them. However, a new regulatory authority cannot function effectively without standardized reporting from the institutions being received. Experience in Uganda with the MDI Act and in Ghana with sudden issuance of regulations covering all MFIs shows that getting MIS and reporting up to speed can be costly and take a long time. Without early actions to prepare the ground and support transformation of MIS systems and capabilities in MFIs, the risk is high that reporting will be inadequate for the regulators to do their jobs effectively.

¹⁷ UBOS undertook a census of MFIs in 2010.

6.4 Weak support institutions

61. With over 2000 MFIs spread throughout the country, the regulators will face an impossible task of communicating with them and organizing them for sensitization and training to implement the new regulations. In Ghana, subsector associations have played an important role in assisting the Bank of Ghana to implement the new regulations, with two new associations formed specifically for that purpose.¹⁸ Although there are several bodies supporting both SACCOs and MFIs generally, their coverage is not presently comprehensive, nor do they have adequate capacity and funding to undertake the sort of sensitization and capacity-building activities likely to be required under the new regulatory regime. Without further and focused institution-building, there is a high risk that implementation of the new legislation may founder on inadequate intermediary support for communication between the authorities and the MFIs and on limited capacity of the MFIs to report and comply.

6.5 Inadequate capacity in regulatory agencies

62. Besides creating a new agency, implementation of the draft Bill will place substantial new burdens on existing agencies. Most notably, BoU and MTIC will be charged with significant new supervisory responsibilities that are not covered by their present mandates. BoU will have to regulate MFIs that are registered as Cooperatives, with substantially different governance structures and objectives from the normal corporate financial institutions. MTIC will have to introduce some degree of prudential regulation, and move from a reactive to more proactive mode of operation. Without adequate training and new staffing, they are unlikely to be able to carry out their functions as effectively as expected.

7.0 Proposed activities and components: a roadmap

7.1 Objectives

63. The ultimate goal of developing and regulating the microfinance sector is to promote financial inclusion and stability. The activities proposed in this section are intended to achieve an appropriate balance between the objectives of increased **outreach**, **risk management**, **efficiency** and **sustainability** of both the regulatory bodies and the MFIs. A preliminary indicative timetable for the suggested activities is shown in Annex I.

7.2 Components

64. The activities needed to achieve the objectives in the most cost-effective and practical manner are grouped under the following components, which together form a tentative roadmap:

1. Preparations for passage of Bill and initial TA
2. Strategic framework
3. Design of UMRA
4. Data collection and analysis
5. Capacity building of policy and regulatory agencies
6. Capacity building and formation of apex bodies and facilitating agencies
7. Capacity building of MFIs to be regulated

65. These activities can be undertaken in different combinations and sequences, depending on priorities and the resources available. An important next step would be to cost the different activities. Once there is agreement on the activities to be carried out, draft terms of reference would be prepared for consultancies carry out initial activities and to cost the remainder.

(1) Preparations

66. During the discussion of this Concept Note held at MoFPED on October 20, 2015, the World Bank team indicated their willingness to take the lead in preparing a proposal for technical assistance for some of the early activities discussed below and seek funding from the Trust Fund for the Financial Sector Reform and Strengthening Initiative ("FIRST"). This would require a formal request from the Government to the World Bank Country Manager.

¹⁸ For money lenders and for-profit Microfinance Companies. Financial NGOs already had an association.

67. Once submitted by Cabinet to Parliament, the draft Bill will be reviewed by the Finance & Planning, National Economy, and Budget Committees. The staff of these Committees have expressed a desire to obtain technical assistance in reviewing the specific provisions of the Bill and understanding the microfinance sector and issues of regulation. To this end, MoFPED has proposed taking Parliamentary staff, together with a small team, to Ghana for field visits to obtain an overview of the microfinance sector, benchmark the Bill against the framework for and experience with microfinance regulation in Ghana, and work through the provisions of the Bill with the assistance of technical specialists. This trip is proposed for November 8-21, with funding from PROFIRA.

(2) Strategic framework

68. To implement the principles and policies for regulation of Tier 4, MoFPED has presented a Tier 4 Microfinance Bill, 2015 to Parliament that is intended to establish an environment where the Tier 4 MFIs can flourish with appropriate management of the attendant risks. The legislation is intended to lead to an effective regime for enforcing licensing, supervision, compliance and contracts, as well as enforcing sanctions on Tier 4 MFIs that may be deemed risky to the industry. In this regard, the legal arms of Government must be key partners, supported by the law enforcement agencies as well as self-regulating apex institutions.

69. A new strategic framework is needed to help guide Parliament in its review of the proposed legislation and MoFPED and other agencies in their subsequent implementation. The financial sector has evolved considerably since the Microfinance Outreach Plan and Rural Financial Services Strategy of the 2000s, including the advent of new technologies that can facilitate access. The legislation would lead to the establishment of the Uganda Microfinance Regulatory Authority (UMRA) to provide a central licensing authority for Tier 4, apart from those SACCOs that would come under BoU; however, the Cabinet Memorandum envisaged that the scope of its direct supervision would be limited and that certain functions would be delegated to other agencies. Furthermore, direct regulation of some types of MFIs, particularly self-managed groups at the community level, may initially not be considered necessary or appropriate.

70. Delegation of functions implies a possible role for self-regulation by apex associations. An assessment is needed of the strengths and weaknesses of the various apex institutions that currently represent or provide support to Tier 4 MFIs, and the possible need to promote new associations to represent some subsectors that are being brought under regulation.

71. BoU has led development of Uganda's Financial Inclusion Strategy, which includes pillars for financial literacy, consumer protection, innovations, and data – all relevant to sound development of Tier 4. Activities being undertaken in support of the Financial Inclusion Strategy should be reviewed and incorporated into the overall strategic framework for Tier 4.

72. A strategic framework is, therefore, required to set forth the key principles and responsibilities for UMRA, establish its scope of coverage and criteria for delegation of functions, analyse existing apex bodies and important gaps, and the role of financial inclusion and literacy campaigns. (More detailed tasks for the design of UMRA are discussed under component 2). In addition, the strategic framework could help investigate and resolve any issues that may be raised by Parliament.

(3) Design of UMRA

73. Specialized expertise will be required to develop a detailed plan for establishment of UMRA. This would include definition of its key functions and responsibilities, its organisational structure, staffing requirements, and relationships with other key entities (such as BoU, MoFPED, MTIC, subsector associations, development partners, and others). Criteria should be established for different levels of reporting and supervision according to the size and risk level of each type of MFI. The activity should also include draft templates for reporting and monitoring of different segments of Tier 4, how these will be administered, and the MIS and capacity-building requirements for Tier 4 MFIs to be able to comply. Recommendations should include priorities and possible phasing in of implementation for different categories of MFIs. Ideally, data on the different Tier 4 subsectors would be gathered and analysed prior to the UMRA design effort, in particular to assess relative risks of different types and sizes of MFIs and propose the types of prudential and non-prudential regulations to be applied to different categories (in phases, if need be, while capacity of MFIs is being built). If activity 3 has not been undertaken prior to the UMRA design effort, it may have to be incorporated as part of the task.

(4) Data collection and analysis

74. A concerted effort for data collection and analysis will be needed to overcome the data challenges noted above. The objectives would be to obtain a comprehensive picture of the size and performance of the industry; to analyse relative risks, particularly in terms of the different categories proposed for differential supervisory coverage; and to analyse trends, to the extent feasible. For SACCOs, this effort may be coordinated with or undertaken by the data collection activities under PROFIRA and MTIC. For other types of MFIs, collaboration with UBOS would likely be required, possibly with a combination of census to obtain the size of each subsector and a sample survey to obtain more detailed data from which to analyse performance and risk.

(5) Capacity building of policy and regulatory agencies

75. Capacity building and collaborative institutional support would be critical for effective development of the Tier 4 MFIs. The key roles and responsibilities relating to registration, licencing, monitoring (including data collection), budgetary consequences and working relationships of the different policy-making and regulatory authorities should be clearly defined. This support would include the following agencies.

(i) The Bank of Uganda (BOU)

- To enable the Banking Supervision Department (BSD) to modify its current approach to supervision of the Tier 4 MFIs, data analysis and reporting techniques.
- Development of appropriate reporting templates for different categories of Tier 4 MFIs, in consultation with AMFIU to ensure consistency and effective utilization of the PMT.
- Support for computerization and MIS for those Tier 4 MFIs under BOU supervision.

(ii) The Ministry of Trade, Industry and Cooperatives (MTIC)

- Provision of support to staff to enable them to upgrade skills and improve technologies for capturing data, analysing and reporting on SACCOs, including shifting to greater standardization and timely electronic reporting.
- Support to carry out its mandate of registering and monitoring SACCOs, enforcing compliance, and de-registering non-compliant and defunct SACCOs.
- Support for sensitization campaigns and SACCO forums regarding the new regulations and requirements.
- Possible support for establishment of new subsector associations (if warranted for implementation of regulations and self-regulation).
- Support for computerization and MIS for those Tier 4 MFIs under MTIC supervision, in coordination with PROFIRA and AMFIU.
- Support for consolidation and mergers of weaker institutions.

(iii) The Ministry of Finance, Planning and Economic Development (MOFPED)

- Strengthening capacity on policy development, training and strategy formulation.
- Oversight of the establishment and implementation of the proposed UMRA.
- Development, resource mobilization and oversight of consultancies and projects for implementation of the activities described in this Concept Note.
- Coordination of various programs, donor initiatives and development of programs geared towards the development of the Tier 4 activities to achieve the ultimate overall objectives of financial inclusion.
- Continuous dialogue and coordination of all the relevant stakeholders' activities aimed at the development of the Tier 4 MFIs activities.
- Provision of support for smooth implementation of the Tier 4 Microfinance regulatory and supervisory framework.

(iv) The Proposed Uganda Microfinance Regulatory Authority (UMRA) [when established]

- Initial costs of institutional set-up (governance, organizational structure, staffing) and operating procedures.

- Initial and on-going training of staff.
- Promotion of programmes and interventions that are necessary for the development of the Tier 4 microfinance institutions.
- Support for computerization and MIS for those Tier 4 MFIs under direct UMRA supervision, in coordination with PROFIRA and AMFIU.
- Introduction of a development fund to nurture and improve the performance of the Tier 4 MFIs initiatives.
- Collaborate with financial professional bodies and other relevant institutions and organisations to improve understanding and promotion of the Tier 4 MFIs activities.

(6) Capacity-building and formation of apex bodies and facilitating agencies

76. Smooth implementation of the proposed Tier 4 MFIs Bill will depend on existing institutions such as UCSCU, UCA and AMFIU to sensitize and train their members, and to develop appropriate capacities for setting standards, monitoring, and other aspects of self-regulation:

- Develop capacity in areas of staff training and strengthening, monitoring and evaluation, transparency, industry standards, generating reports, monitoring industry benchmarks, disseminating knowledge, and information sharing.
- Help institutions to evaluate their performance, identify areas to improve, and urgently develop strategies to reduce costs of operations and become more sustainable.
- Define their relationship to UMRA and each other within the new regulatory and supervisory framework.
- Participate in the process of product innovation, process reengineering, broad application of new technology, and creation of new strategic alliances which will be essential for further strengthening of the sector to assume a visible role in lobbying, training and the gathering of performance statistics and reporting.

77. To ensure better coordination and self-regulation of the Tier 4 MFIs, there may also be a need to support the establishment of new associations of certain categories of MFIs coming under regulation, in particular NGOs, for-profit MFI companies, and money lenders.

Availability of loanable funds

78. Review of the apex and facilitating institutions should include analysis of the availability of funds to MFIs for on-lending, and the past performance of MFIs in repaying such funds. Such institutions include MFC, UCCFS, UCSCU's Central Finance Facility, and certain other organizations operating in Uganda (such as Oikocredit). If data permit, estimates should be made of the excess demand for such funds by creditworthy MFIs over what is presently available.

(7) Capacity building of MFIs to be regulated

79. Analysis of the performance of SACCOs under RFSP and the Project for Financial Inclusion in Rural Areas (PROFIRA) has revealed substantial weaknesses in terms of sustainability. Low performance results from a combination of weaknesses in member mobilization, governance, management and staff skills. To address these problems, PROFIRA has developed a training program in six key areas: Financial Literacy and Deposit Mobilization; SACCO Governance; Business Development Skills; Savings and other Product Development/refinement; Finance Management; and Credit Management (including default Management). Effective implementation of the new regulatory regime will require expansion of such training to cover (at a minimum) all SACCOs and other MFIs coming under supervision by UMRA. It may be noted that high turnover of both staff and Board members means that such training must be continually refreshed.

Management Information Systems

80. For the Tier 4 MFIs to be able to meet reporting requirements under the new regulatory framework, and for the authorities to be able to monitor performance effectively, a concerted and widespread effort will be required to improve access to Management Information Systems (MIS) and the equipment and training

required to utilize them. The ready availability of information can help improve and enhance the sector's activities, thus facilitating further development. Improving and enhancing access to MIS and vital information for the Tier 4 MFIs operations may be achieved through:

- Creation of a centralized MIS and database for all Tier 4 microfinance operators in the country.
- Agreeing on or designing a standardised MIS to track the entire operations of the Tier 4 MFIs to properly assess the impact of the Tier 4 MFIs activities. While each institution uses its own formats for collecting data, consolidating and analysing the information gathered from prospective and actual clients, they do not use it in any systematic and standardised manner to assess the impact of the data generated industry wise.
- Putting in place an appropriate and adequate MIS designed to collect, analyse and generate timely reports for better understanding and information for policy formulation, regulation and supervision of the sub sector, differentiated according to the criteria set forth in the Cabinet Memorandum for classification according to size and responsible regulatory authority (BOU, UMRA, or MTIC). Appropriate programmes for implementation of MIS systems, computerization and training may be managed by each of these institutions, in consultation with on-going activities under PROFIRA and AMFIU.

81. Experience has shown that relatively few Tier 4 MFIs (at least among SACCOs) are adequately computerized to be able to utilize standard MIS software. (The data gathering and analysis should specifically obtain information on the extent of computerization and utilization of MIS software.) Hence it must be anticipated that a substantial program of computerization and upgrading will be required (presumably on a cost-sharing basis). This will also require training in automation and in utilizing MIS. This should include training Management and Boards on how to use the results of MIS, as well as training of staff in how to operate it and generate reports.

82. Implementation of MIS systems would also lay the groundwork for expansion of the Credit Reference Bureau (CRB) information system to include Tier 4 MFIs.

8.0 Conclusions and recommendations

83. Sound development of the Tier 4 MFIs sector is an important tool in promoting financial inclusion in support of Uganda's poverty alleviation strategy. The rationale of the concept paper is to holistically streamline the Tier 4 MFIs interventions by coordinating the relevant stakeholders' activities, supporting development initiatives, and defining the implementation process of an appropriate regulatory and supervisory framework. The following conclusions and recommendations can be drawn as a roadmap for establishment and implementation of the new legal and regulatory framework for Tier 4 MFIs:

- Basic groundwork is needed to prepare a new microfinance sector strategy and to collect and analyse data as a foundation for the appropriate design of the regulatory and institutional framework. The strategic framework should also review and incorporate other initiatives to promote financial literacy and inclusion.
- There is a need to provide support for capacity building and development of operational procedures and policies for the apex associations consistent with the requirements of the Tier 4 MFIs activities, based on analysis of the strengths, weaknesses and gaps in the facilitating institutions with respect to supporting and self-regulating their members.
- At the national level, there is a need to strengthen and improve coordination of the different regulatory institutions (BOU, MFPED and MTIC) for efficient and effective oversight of the Tier 4 MFIs. Hence it is proposed to establish a new and independent Tier 4 Uganda Microfinance Regulatory Authority, specifically to accommodate existing cooperative financial activities as well as all other Tier 4 MFIs that would wish to formalize their operations, drawing on expertise from existing Government and sector organizations. Technical assistance is needed to design the proposed institution, review the

categories proposed for regulation and supervision by UMRA or delegated to other agencies, and draft reporting and supervisory formats suitable for the different categories.

- Technical assistance is also needed to cost the activities in the roadmap and design an appropriate project to spearhead preparation for and implementation of the regulatory and supervisory framework (both prudential and non-prudential aspects), including formation and strengthening of apex associations, capacity building for the regulatory and policy-making institutions (BOU, UMRA, MTIC and MoFPED), and MIS systems and other capacity-building for the MFIs to be regulated to achieve greater financial discipline, internal controls and sustainability of the sector.

Indicative timeline for main roadmap activities

Activities	Responsibiity, participants	2015: Nov- Dec	2016: Jan- June	2016: July- Dec.	2017: Jan- June	2017: July- Dec.	2018: Jan- June	2018: July-Dec.	2019: Jan- June
TECHNICAL ASSISTANCE and activities									
1. Submit request to World Bank; Prepare TA proposal for FIRST	MoFPED World Bank								
2. Benchmarking & TA trip to Ghana	MoFPED Parliamentary committees, technical team								
3. Costing of recurrent budget for UMRA and MTIC	MoFPED, MTIC								
4. Mapping and planning of relevant activities in existing projects	Development partners								
5. Strategic Framework	MoFPED, TA								
6. Design of UMRA	TA								
7. Establishment of UMRA; guidelines issued									
DATA COLLECTION									
8a. Complete SACCOs	MTIC, PROFIRA,								
8b. Update Register, analysis	UCSCU								
9. Other MFIs [need to secure funds]	MoFPED; UBOS								
PREPARATION OF PROJECT to support the activities below	MoFPED, World Bank, AfDB, IFAD, GIZ, UNCDF, etc.								

Approval of Project by Parliament									
Project start-up, procurement									
10. Capacity building of policy & regulatory agencies									
11. Capacity-building and formation of apex bodies, facilitating agencies									
12a. MIS in 150 SACCOs	PROFIRA								
12b. MIS Systems in other SACCOs & MFIs to be regulated									
12c. Other capacity-building of MFIs									

Establishing and Implementing a New Regulatory Framework for the Tier 4 Microfinance Sector

Concept Note toward a Costed Road Map of Support Activities

Ministry of Finance and Economic Planning
Kampala, Uganda

20 October, 2015

1

Strategic Context & Rationale

- 1999 BoU policy statement on Microfinance Regulation and Supervision established:
 - Tiered system: Existing: 1. Banks; 2. Credit institutions;
New: 3. MDIs; 4. MFIs, others
 - Principle of regulating different types in different ways
 - But: Only MDIs addressed at the time (2003), not Tier 4
- 2002 Microfinance Outreach Plan and 2007 Rural Financial Services Strategy encouraged proliferation of MFIs (especially SACCOs) without adequate regulatory and supervisory framework
 - Collapses and dormancy threaten people's savings
 - Undermines confidence in the financial system
- Tier 4 regulatory framework is needed to support **financial inclusion** strategy and **sound financial sector development**

2

Support for SACCOs

- Government's Rural Financial Services Strategy (2007) focused financial outreach on SACCOs, with a policy of establishing one in every sub-county (1089 at the time)
 - GoU and IFAD funds in Rural Financial Services Programme sufficient to support only 735 (at different levels of development)
 - Loan funds made available through Microfinance Support Centre, including for start-ups
 - Achieved substantial growth in numbers of SACCOs, members, and savings; very rapid growth in loans
- Initial focus was on delivery of equipment, training, and subsidies for operating costs (staff, rent)

3

Growing Concerns for SACCOs

- 'Reality Check' found that over half of supported SACCOs did not appear viable over the long run without subsidy
 - Rising problems of SACCOs collapsing or going dormant, with members losing savings
 - Problems of weak governance, fraud
 - Poor loan repayment, affecting liquidity of the SACCOs, Microfinance Support Centre, and UCSCU
- Registrar of Cooperatives lacked resources, staff, even mandate to address problems
 - SACCOs only recognized as cooperatives, not financial institutions, so only non-prudential regulation (AGM, audit)

4

Draft Microfinance Bill (2015)

- Discussions have been ongoing over last decade
- 2013 Cabinet Memorandum established principles
- Draft Bill submitted to Cabinet in September 2015
- Envisages a new Uganda Microfinance Regulatory Authority (UMRA) to centralize responsibility for Tier 4
- Actual supervision envisaged in 3 tiers:
 - BoU for MDIs, including large SACCOs meeting minimum capital and savings criteria (would be allowed to retain cooperative form)
 - UMRA for larger SACCOs (perhaps 200-250) and others (NGOs, for-profit MFIs, money lenders)
 - Dept. for Cooperative Development in MTIC for smaller SACCOs (over 1500)

5

Underlying Principles

- **Balance between benefits and costs** of regulation
 - Efficiency and sustainability of both the regulating and regulated institutions
- **Proportionality**: level of regulatory/supervisory burden should be **appropriate to level of risk**
 - Benefits outweigh direct & indirect costs of compliance
- **Autonomy of UMRA** to ensure independence, stability and predictability of the regulatory approach
- **Appropriate combination of**:
 - Prudential and non-prudential measures
 - On-site and off-site activities
 - Regulatory and non-regulatory mechanism

6

Moving Forward

- **Consultations** with stakeholders to ensure that objectives are understood and met
- **Sharing initial costs** of capacity-building and compliance between Government and the MFIs to be regulated
- **Benchmarking** against approaches and problems in other countries that have regulated MFIs
- Develop **Road Map** of activities to prepare the ground for the legislation and support effective implementation
 - Seek support from Development Partners for initial investment and compliance costs

7

Key Challenges Identified

- **Legal, regulatory and supervisory framework:**
 - MFIs are heterogeneous and registered under different acts as cooperatives, companies, NGOs, money lenders
 - Data inadequate: current actual numbers not known
 - Little monitoring of financial performance (other than those using AMFIU's Performance Monitoring Tool)
- **Institutional framework:**
 - AMFIU represents the microfinance sector, but with limited and diverse membership
 - UCSCU represents SACCOs, but membership is voluntary and finances and capacity are weak following end of RFSP
 - UCA consists of Unions of cooperatives (including UCCFS)
 - No associations representing NGOs, money lenders and other for-profit MFIs

8

Key Challenges (cont.)

- **Microfinance institutions:**
 - Weak governance structures
 - MIS systems lacking or inadequate
 - Will severely restrict ability to report to regulatory bodies
 - Limited internal funds
 - Even SACCOs have become credit-led rather than savings-led
 - High leveraging means high risk of collapse under poor repayment culture
 - Lack of business strategy and management skills
- **Clients:**
 - Low levels of education and financial literacy
 - Face high direct costs of borrowing and indirect costs of time spent in group meetings
 - Multiple borrowing and over-indebtedness

9

Risks

- Challenges are **systemic**
 - Unless addressed broadly and systematically, risk is high that legislation and a new institution alone cannot achieved the desired results
- Adequacy of **funding**
 - Government must provide adequate funding for recurrent costs not only of UMRA but for the additional (prudential) supervisory burdens placed on Dept. for Cooperative Devt
 - Substantial investment funds will be needed for:
 - Design and establishment of UMRA
 - Sensitization of MFIs and the public
 - Strengthening support institutions; possibly new ones
 - MIS systems and capacity-building for MFIs to be regulated
 - Capacity-building for regulatory agencies

10

Risks (2)

- Lack of **data**
 - Difficult to estimate the magnitude of the task and to allocate responsibilities to different agencies without knowing the numbers, size and performance of the different types of MFIs to be regulated
 - Although SACCO data are being collected, baseline data are lacking on other subsectors
- Inadequate reporting by MFIs due to lack of **MIS** systems and capabilities
 - No financial reporting is currently required
 - Efforts under RFSP to provide MIS software and training to use PMT found hardware capacity less than expected
 - Experience elsewhere (e.g. Ghana) shows that without adequate prior preparation, getting reports required for effective supervision can take years

11

Risks (3)

- Weak and insufficient **support institutions**
 - UCSCU needs substantial strengthening to be able to sensitize all SACCOs (widening its membership), help them prepare for supervision, and assist in reporting & monitoring
 - Otherwise, risk is high that MTIC cannot adequately supervise the large number of small SACCOs throughout the country
 - No bodies currently exist that can effectively sensitize, prepare and represent NGOs, money lenders and for-profit (corporate) MFIs
- Inadequate capacity in **regulatory agencies**
 - BoU needs to take the lead in establishing suitable prudential guidelines and reporting that can then be downscaled to UMRA and MTIC
 - MTIC needs capacity for its intended supervisory role
 - UMRA capacity will take time to build up

12

Road Map of Proposed Activities

- **Strategic framework:**
 - Need a new strategy for implementation of the Financial Inclusion Strategy with respect to MFIs, and in particular to implement the Cabinet policy memorandum
 - Articulate a systemic approach to meet all challenges
 - Specify delegation of functions
- Design of **UMRA**
 - TA needed to provide and cost a detailed plan for establishment of UMRA, including governance structure, staffing, responsibilities, capacity-building needs, etc.
 - When established: capacity building of staff
- **Data** collection and analysis
 - Complete current SACCO data collection to include K'la
 - Census of all other types of MFIs to come under the law

13

Road Map (2)

- Capacity building of **policy and regulatory agencies**
 - BoU:
 - Adjust MDI supervision to accommodate SACCOs as cooperatives
 - Understanding of cooperative principles and governance
 - Prepare reporting templates that can be readily downscaled for smaller SACCOs to be supervised by UMRA and MTIC, and that can guide choice of standard MIS systems for MFIs
 - MoFPED:
 - Policy and strategic development
 - Oversight of process of passing and implementing new law
 - Coordination role
 - MTIC:
 - Bring register of SACCOs up-to-date
 - Strengthen capacity to turn around weak SACCOs and promote mergers and consolidation
 - Develop prudential supervision requirements & build skills

14

Road Map (3)

- Strengthening/formation of **support institutions**
 - Facilitate existing institutions (UCSCU, UCA, AMFIU) to sensitize MFIs and help them prepare for regulation
 - Develop strategies to become more sustainable
 - Define their roles and relationship to UMRA
 - Facilitate possible new apex associations for NGOs and for-profit MFIs (money lenders and companies)
- Building **MIS** and other capacities of **MFIs**
 - Identify suitable MIS systems consistent with expected reporting requirements (initially indicated by BoU)
 - Census of existing computer and MIS capabilities
 - Cost-sharing scheme to provide required hardware, software and training
 - On-going training in governance, financial and credit management, deposit mobilization, business skills, financial literacy, savings and other product dev't, etc.)

15

Road Map (4)

- Next steps:
 - Consultations to reach consensus on activities and possible sponsors
 - Group these activities into specific TA assignments and projects, depending on availability of support
 - GoU and development partners to follow up on possible preparation of project to support preparation for and implementation of Tier 4 legislation
 - Cost the activities, or engage TA to do so
 - Establish a consistent coordination mechanism

16

*Thank you for
your attention !*

17

Annex 4: Monitoring and Evaluation

1. **Status.** The logical framework has been finalised and included in its final version in this Supervision Report (Appendix 2). The next opportunity for adjusting the log-frame will be at MTR, including adjustments of targets related to baseline data and progress. The Results Framework (RF) has been updated prior to and during the mission, and is attached (Appendix 2) in its current form. The RF now contains more disaggregated data and nuanced analysis than the log-frame. The next step is to populate the framework with baseline data (by June 2016, when all data is available), and setting annual targets in conjunction with component managers. The RF is a more living document and can be updated on an annual basis, in the AWPB. A workshop was held during the mission to take staff members through the various levels of M&E. The presentation is found in Attachment 4.

2. **RIMS indicators.** A list of relevant RIMS indicators describing the thrust of project activities is attached below. The indicators should remain the same over time, and are reported on annual by 30 March. 2nd level reporting should start at MTR at the latest (following the first 3 year implementation cycle). Approaches have been developed to track outcome level indicators on an annual basis, meaning it might be possible for the PMU to track the 2nd level results already in the second year of implementation. It should be noted that the 2nd level reporting is based on an assessment of qualitative and quantitative indicators in the RF, rating sustainability from 1-5.

3. **Studies.** The PDR and first draft PIM contained a wide range of studies to be undertaken (primarily using external consultants), covering a wide range of socio-economic and targeting aspects; detailed gender analysis as well as poverty and baseline studies. It has been agreed that majority of the studies will be done in-house (by the PMU and/or service providers), and the studies be combined to the extent possible. The household baseline study (outsourced) will cover household, RIMS and certain aspects of the gender and socio-economic work. A structured case study approach (described below) will capture poverty, targeting, socio-economic and SACCO/CSCG performance trends. Project M&E data (described below), in conjunction with the above, will provide annual performance analysis, as outlined in the PIM and annual report templates. For major studies like MTR, impact assessment and PCR, external consultants will be recruited to support the PMU in the data collection, analysis and conclusions. Implementation of gender audits of SACCOs are still to be determined. A detailed overview can be found in Attachment 2 below.

4. **Baseline data.** In order to populate the RF; benchmark industry status and to document the livelihood status of potential beneficiaries, several baseline exercises have been initiated / are planned for, as listed here:

- **Impact level baseline.** A household baseline survey, covering log-frame and RIMS impact indicators, as well as other livelihoods and credit-taking behaviour of potential beneficiaries has been commissioned, with an IFAD no-objection having been provided to the technical evaluation during the mission. The final sampling frame will be determined on programme implementation areas (mainly in districts where both components will be implemented), once SACCO selection has been done. It will be ensured that the sample size is large enough to 1) ensure that the data collected is representative at regional level and 2) make it probable, under reasonable assumptions, that the sample will capture some who will benefit from the programme and some who will not. The GPS location of respondents will also be captured. In this way, at impact assessment stage, it will be possible to interview the same households (panel method) and we will have formed a natural control group, to compare performance with those who have not benefitted. Combined with the qualitative approaches (case studies described below), it will be possible to assess with some degree of certainty, the attribution of PROFIRA on the changes in the livelihoods of the people seen.
- **SACCO baseline.** For the SACCO support component, baseline data will be captured from the almost completed SACCO census, undertaken by the PMU in conjunction with MTIC. This will be done once the SACCOs for PROFIRA support are selected, with the national

performance levels used as benchmark. This will inform the RF and provide a baseline for analytical work to be done at later stages (including in annual reporting).

- **CSCG mapping.** The first exercise for service providers once their contracts are signed (expected 15 Feb 2016) is a mapping exercise. They will establish the density of CSCG coverage per sub-county. This will establish baseline information at sub-county level for reporting and analysis.
- **CSCG baseline.** For Component 2.1, RF baseline figures will be 0, since the groups to be monitored are not yet in existence. Subsequently for each year, RF indicators will be tracked, making it possible to monitor development over time. For Component 2.2, service providers will identify and capture baseline information of the groups they will be working with. The data will feed into the RF.
- **UCSCU.** The needed financial data for UCSCU performance benchmarking is available, and will be integrated into the RF.

5. **Data collection arrangements.** A project-wide MIS will be developed for the PMU to capture and track data from all project components (database), including on various PMU functions such as filing and e-library development. The MIS will be on-line with log-in options through the web-page (intra-net approach); be based on open source software to the extent possible and be developed following a participatory process with all PMU staff. TORs for a consultant to develop the system will be drafted by 31 October 2015, for the consultant to start work as soon as possible. Under each component, there will be various data collection components:

- **SACCO output level.** At activity/output level, service providers will be responsible for quarterly reporting and providing accountability for the activities undertaken. This will be provided in word format (progress reports following PMU guidelines), and input into the system by the PMU. The financial department will be able to access the information required for disbursement through the MIS.
- **SACCO outcome level.** Data on SACCO performance will be captured by the PMU, using the experienced enumerators used under RFSP and the SACCO Census exercise. Data will be collected in paper format (with potential to upgrade to mobile technologies) and be input into the database by the PMU. The M&E and Component Managers will access the data from the MIS to undertake performance analysis. This methodology will ensure collection of data of high quality, and the requirements be listed in the MoU between individual SACCOs. Over time, SACCOs will gradually be able to self-report, with spot-checks by the PMU.
- **CSCGs.** Contracted service providers (SPs) will collect output and outcome related data on activities and on group performance. While most SPs are expected to have their own and well-established systems for monitoring, the PMU, through consultations, have developed progress report reporting formats, summarizing these systems into a uniform report across regions. The report will be developed in word format, and submitted electronically. At outcome level, most envisaged SPs use the SAVIX tool developed by VSL Associates. The PMU will require all SPs to use the tool based on its market dominance and relevance, as well as sustainability potential. If a few SPs do not use the tool already, provision will be made for training and setting up of the system by the PMU. The PMU will contract VSL Associations to develop an on-line interface from the tool (CSCG data at group level) to the MIS (data at aggregated level). The PMU will be responsible for aggregate analysis and regional comparisons, while SPs will be relied on for tracking performance of individual groups and documenting their trajectories over time, upon request of the PMU.
- **USCSU** will to a large extent self-monitor, with the technical support of CCA, and with validation by the PMU. Progress reports will be submitted on a regular basis.
- **PMU spotchecks.** The M&E unit, with the Component Managers will undertake spot checks of near 100% of the SACCOs, to all CSCG service providers and to a number of the supported groups, on a semi-annual basis.

6. **Structured qualitative information.** To support the qualitative data collected, and to ensure the ability to target and track outcome and impact level results on an annual basis, a structured case

study approach has been developed, to be used under both components; by the service providers under CSCG component and by the PMU during data validation exercises for the SACCO component. Under each component a number of individual SACCO / CSCG members will be chose (100 under each component?) at baseline / activity start-up stage, picked from a variety of activities, i.e. some from new groups; some from established groups; some from stronger SACCOs and some for weaker. Each individual will be interviewed and documented (photos and fact collection) once a year. Templates will be developed by the PMU to ensure minimum requirements and uniformity, as well as the possibility of converting the information to quantitative analysis. Interviews will be recorded in word format, and the responses to the standardised questions be input in an excel sheet, to be submitted to the PMU for analysis. For this, two tools will be implemented (detailed in Attachment 3):

- **People-out-of-Progress Index** (www.progressoutofpoverty.org) has developed 10 simple questions in the Ugandan context for estimation of the poverty status of an individual. The score will be compared to the national poverty line (approx. UGX 2000), and to the international poverty line of USD 2 per day, per adult equivalent.
- **Capture of financial behaviour.** To monitor access to financial services, the overall objective of the project, key questions should be monitored – inspiration can be drawn from the FINScope reports.

7. **Analytical work for average reporting; outcome assessment and knowledge management.** As also outlined in the PIM, analytical work (evaluation) is key to outcome level reporting and monitoring, which has also been of key emphasis in updating the RF. At log-frame level, overall figures of project performance and outreach are provided, such as overall accumulated savings and average OSS of the SACCOs supported. To ensure relevance of the support provided and to document the growth trajectories for SACCOs and GSCGs to inform policy development, a more detailed level of analysis is needed. This is to be reported on in the RF (as a minimum), in the annual report, as well as in knowledge products, mission reports etc.

- **Outcome of Turnaround support.** With respect to sustainability indicators, Turnaround SACCOs should be tracked separately, as the percentage reaching OSS > 100% is expected to be much lower within the project period (50% against the 90% for the SACCOs which fully reach the eligibility criteria), because they began at a lower level and because of higher risks involved in the support provided.
- **Disaggregation.** PROFIRA should track and document performance of SACCOs originally in each eligibility group (A; B), and for CSCGs supported (related to density of coverage of sub-county; new vs established). The results should also be disaggregated compared to the year of support the SACCO/CSCG is in (not only against the overall benchmark), but documenting changes at SACCO level after 1 year of training; 2 years; etc.)
- **Indicators.** Further analysis should be undertaken of the increase in membership; shares (if relevant); savings; and loans relative to the expenditures on capacity building.

8. **Gender and youth.** The project was designed from a strong gender, youth and targeting approach, and the M&E/KM unit designated the focal persons. Adequate provisions are being made to gender disaggregate data, and some analytical templates are included in the PIM. However, to ensure appropriate implementation of the programme (not only the M&E part), the unit needs further support and updating of skills. IFAD will attempt to secure relevant expertise, and it is recommended that the staff undergo relevant training, for example from Oxfam-NOVIB in the GALS methodologies.

Attachment 1: RIMS indicators

Indicator	Corresponding RMF	RIMS (level 1)	Target:	RIMS (level 2)	Definition of indicator	Annual and cumulative targets
# savings / credit groups formed/strengthened	Indicators 2.1.1 + 2.2.1	RIMS 1.3.1	500 + 15000 + 3000 = 18800	Likelihood of sustainability of groups (assessment of V; D combined with knowledge)	CSCG component. Groups (formally registered or not) formed or strengthened by the project during the period under review. This includes village savings associations and financial services associations	As group strengthening will continue for 3 years after establishment, and to make sure that the correct cumulative figures are reported, the indicator should capture the new groups formed each year.
# ppl in the groups	Indicators E + H (F; I for gender disaggregation)	RIMS 1.3.2 and	750000		The number of people in the groups registered above; disaggregated by sex	The cumulative membership of the groups is expected to grow, so only the additional members of the years should be reported annually.
# groups with women in leadership positions	Not in RF but captured by SPs	RIMS 1.3.3	To be established		The groups reported on above which are either lead by women or have women in leadership positions (management board)	The annual reporting should be the change observed (positive or negative) so that the cumulative adds up to the status at the end of the project. This is a statutory requirement for both groups and SACCOs in Uganda, so the number is expected to be equal to the number of groups reported.
# financial institutions participating in the project	Indicators 1.1.1 + 1.1.3	RIMS 1.3.4	500	Effectiveness: improved access of the poor to financial services	The number of SACCOs (formal institutions) supported by the project through their access to training and capacity building programmes.	Should cumulatively report on the total number of SACCOs supported (i.e. only annual change if new SACCOs are included)
Staff of financial institutions trained	Currently not captured	RIMS 1.3.5	To be established	Sustainability: improved performance of the institutions (assessment of D; R; U combined with knowledge)	The number of people trained. No distinction is made on the type of training, rather the impact on the recipient.	Should cumulatively report on the total number of SACCO staff trained, i.e. increase if new SACCOs are included; if there are new staff members (even due to turnover); but not increase if refresher trainings are given. It should also not increase because the same individuals have received training in different topics. Though will most likely be measured as the sum of the number of staff of the supported SACCOs.
Number of savers	Currently not captured	RIMS 1.3.6	To be established.		Savers considered should be "voluntary", i.e. those who save in addition to the minimum requirements (for membership etc). The value is measured on a given date: suggest 30 June of each year. To be disaggregated by male/female.	Must be captured when value of savings mobilised is presented, to estimate that the savings reported are reasonable. The indicator cannot be used to differentiate between annual and cumulative, but simply captures one point in time. Comes from the service providers together with the value of savings.
Value of savings	L + P + N	RIMS 1.3.7	Increasing annually		Should be reported in '000 USD, not local currency, at the given date of reporting. Voluntary savings does not include funds held such as forced deposits or collateral.	When reporting, calculate the figure per voluntary saver, as indicated above, to ensure that the figure is reasonable. Should be reported as the value on a specific date, each year. The indicator cannot be used to differentiate between annual and cumulative, but simply captures one point in time.
# active	Not currently	RIMS	Increasing		To be disaggregated by male/female. The	The indicator cannot be used to differentiate between annual and

borrowers, people	captured	1.3.8	annually		number of borrowers is defined as the number of people with an outstanding balance on a loan on a given, fixed, date. The figure should not be disaggregated by type of loan, size, purpose or type of institution. Multiple loans by the same person, are considered one borrower.	cumulative, but simply captures one point in time. Comes from the service providers together with the value of the loan portfolio.
Value of loan portfolio	M+O+Q	RIMS 1.3.10	Increasing annually		The total value of the outstanding loan balance on a fixed date, to be reported in '000 USD. The gross loan portfolio includes loans that are current, delinquent and re-negotiated, but not those that are written off.	Compare to the number of borrowers above, to see that the amount is reasonable. The indicator cannot be used to differentiate between annual and cumulative, but simply captures one point in time.
Apex organisations strengthened	One	RIMS 1.6.9	1	Likelihood of sustainability (assessment of indicator W, on a scale from 1-5)		The reported figure is expected to remain one throughout the project period (0 in annual progress), with the assessment of sustainability being key.

NB! This means that indicators A, B, C, D, G, J, K, R, S, T, U, V, W are not RIMS indicators.

RIMS indicators considered for reporting but not deemed relevant:

1.3.9 and 1.3.11 Number of borrowers / value of gross loan portfolio (enterprises). Enterprises are not a major client of neither CSCG groups nor SACCOs, though the loans might be for enterprise development of individuals or, for example, CSCG groups. It has thus been agreed not to report on the indicator.

1.3.12 People trained in financial services. For the SACCO component, the major capacity building is for the institutions, and thus it should not be responding to the indicator (rather the indicator above of staff of financial institutions could be used). For the CSCG component, the whole group formation includes training of the people, thus the number would equal the figure reported above on group membership.

RIMS level 3

Outreach of the project: HHs receiving project services and individual men; women (HHs multiplied by 6). To be calculated as members of supported CSCGs (both sub-components) and members of SACCOs (including group members to be counted as individuals). It should be assessed if there is a substantial degree of overlap between the figures, for example by the CSCG service provider capturing in their M&E system if the CSCG is a member of a SACCO, and the PMU identifying if the SACCO is a programme SACCO. In that case, the number of CSCG members should be subtracted from the total outreach. This should be done on an annual basis.

While additional indicators are being captured in the on-going baseline study, the project will report on the following 3rd level RIMS indicators at baseline and project completion. The baseline values are being captured by the on-going baseline:


- Weight for age
- Height for age
- Weight for height
- HH asset ownership index.

Attachment 2: Overview of studies (from draft PIM)

Proposed study	Objective of study	Implementation strategy	Conclusion
SACCO census	Establish baseline data on SACCO performance	On-going, to be implemented and used as planned.	On track.
HH baseline survey	Establish baseline data on household impact indicators.	On-going, to be implemented and used as planned.	On track.
RIMS baseline / impact	Impact assessment (impact level only, on key indicators)	Has been merged into the HH baseline survey, ensuring capture of relevant indicators.	Integrated into HH baseline survey
Poverty studies.	CSCG component: track progress out of poverty of selected individuals. SACCOs: track progress put of poverty by client profiling of members of 3 SACCOs	To be done by service providers. PMU to develop a template and strategy for collection of case studies, following the same individuals from project start and every two years (already in-built on the cohort group approach of CSCG service providers. The case-studies will capture the 10 indicators in the PPI for Uganda, which will be compiled by the PMU on bi-annual basis to monitor impact and targeting strategy of the project.	Modified.
Socio-economic impact assessment	Monitor impact of project on society, e.g. conflict at community level; empowerment; cultural factors influencing project implementation. Separate for SACCO and CSCG component.	Elements will be captured through baseline study (e.g. using the WEIA index), and by service providers case studies (tacking over time).	Integrated into HH survey and captured through case stories
MTR and PCR	Review project implementation.		On track.
Gender audit of SACCOs	On-off in project year 2	To be undertaken by the PMU through monitoring visits. Guide to be developed, using local partnerships, for example ministry of gender.	To be determined
Annual analysis of gender and targeting data	Analysis of secondary data by annual consultancy	To be undertaken by PMU. IFAD to support with technical expertise on how and what to analyse.	Modified.


Attachment 3: Templates for service providers

The below questions should be the minimum requirement for service providers to report on impact and outcome level, and be included in the reporting formats for annual reports (not in the quarterly progress and output reporting). This template covers both components.

IMPACT LEVEL – changes in people’s lives	OUTCOME LEVEL – usage of financial services																																			
<div><div>PPI® for Uganda 2012</div><div><p>Important: A PPI score must be converted into a poverty likelihood using the PPI Look-up Table.</p><table><thead><tr><th>Indicators</th><th>Responses</th><th>Score</th></tr></thead><tbody><tr><td>1. How many members does the household have?</td><td>A. Nine or more B. Eight C. Seven D. Five or Six E. Four F. Three G. Two H. One</td><td>0 3 4 6 8 12 21 28</td></tr><tr><td>2. Are all household members ages 6 to 12 currently in school?</td><td>A. No B. Yes C. No one ages 6 to 12</td><td>0 2 5</td></tr><tr><td>3. Can the (oldest) female head/spouse read and write with understanding in any language?</td><td>A. No B. No female head/spouse C. Yes</td><td>0 0 3</td></tr><tr><td>4. What type of material is mainly used for construction of the wall of the dwelling?</td><td>A. Unburnt bricks with mud, mud and poles, or other B. Unburnt bricks with cement, wood, tin/iron sheets, concrete/stones, burnt stabilized bricks, or cement blocks</td><td>0 4</td></tr><tr><td>5. What type of material is mainly used for construction of the roof of the dwelling?</td><td>A. Thatch, or tin B. Iron sheets, concrete, tiles, asbestos, or other</td><td>0 5</td></tr><tr><td>6. What source of energy does the household mainly use for cooking?</td><td>A. Firewood, cow dung, or grass (reeds) B. Charcoal, paraffin stove, gas, biogas, electricity (regardless of source), or other</td><td>0 6</td></tr><tr><td>7. What type of toilet facility does the household mainly use?</td><td>A. No facility/bush/polythene bags/bucket/etc., or other B. Uncovered pit latrine (with or without slab), Ecosan (compost toilet), or covered pit latrine without slab C. Covered pit latrine with slab D. VIP latrine, or flush toilet</td><td>0 4 6 11</td></tr><tr><td>8. How many mobile phones do members of your household own?</td><td>A. None B. One C. Two D. Three or more</td><td>0 7 12 22</td></tr><tr><td>9. Does any member of your household own a radio?</td><td>A. No B. Yes</td><td>0 7</td></tr><tr><td>10. Does every member of the household have at least one pair of shoes?</td><td>A. No B. Yes</td><td>0 9</td></tr><tr><td colspan="2">Total Score:</td></tr></tbody></table><div><p>This PPI was created in June 2015 using Uganda's 2012/13 National Household Survey by Mark Schreiner of Microfinance Risk Management L.L.C., developer of the PPI. For more information, please visit www.progressoutofpoverty.org.</p></div></div></div>	Indicators	Responses	Score	1. How many members does the household have?	A. Nine or more B. Eight C. Seven D. Five or Six E. Four F. Three G. Two H. One	0 3 4 6 8 12 21 28	2. Are all household members ages 6 to 12 currently in school?	A. No B. Yes C. No one ages 6 to 12	0 2 5	3. Can the (oldest) female head/spouse read and write with understanding in any language?	A. No B. No female head/spouse C. Yes	0 0 3	4. What type of material is mainly used for construction of the wall of the dwelling?	A. Unburnt bricks with mud, mud and poles, or other B. Unburnt bricks with cement, wood, tin/iron sheets, concrete/stones, burnt stabilized bricks, or cement blocks	0 4	5. What type of material is mainly used for construction of the roof of the dwelling?	A. Thatch, or tin B. Iron sheets, concrete, tiles, asbestos, or other	0 5	6. What source of energy does the household mainly use for cooking?	A. Firewood, cow dung, or grass (reeds) B. Charcoal, paraffin stove, gas, biogas, electricity (regardless of source), or other	0 6	7. What type of toilet facility does the household mainly use?	A. No facility/bush/polythene bags/bucket/etc., or other B. Uncovered pit latrine (with or without slab), Ecosan (compost toilet), or covered pit latrine without slab C. Covered pit latrine with slab D. VIP latrine, or flush toilet	0 4 6 11	8. How many mobile phones do members of your household own?	A. None B. One C. Two D. Three or more	0 7 12 22	9. Does any member of your household own a radio?	A. No B. Yes	0 7	10. Does every member of the household have at least one pair of shoes?	A. No B. Yes	0 9	Total Score:		<div><div><div>- Do you have access to a financial service provider:</div><div>- If yes, is it: [group; SACCO; bank; money lender, family or other informal]</div><div>- Do you have a loan right now?</div><div>- What is the value?</div><div>- Have you had other loans in the last year?</div><div>- What is the total value?</div><div>- What have you borrowed money for? [investment and business; home improvements; consumption incl school fees; emergency like funeral or disease]</div><div>- Do you have any savings?</div><div>- What is the value right now?</div><div>- What are you saving for? [investment and business; home improvements; consumption incl. school fees; emergency like funeral or disease]</div></div></div>
Indicators	Responses	Score																																		
1. How many members does the household have?	A. Nine or more B. Eight C. Seven D. Five or Six E. Four F. Three G. Two H. One	0 3 4 6 8 12 21 28																																		
2. Are all household members ages 6 to 12 currently in school?	A. No B. Yes C. No one ages 6 to 12	0 2 5																																		
3. Can the (oldest) female head/spouse read and write with understanding in any language?	A. No B. No female head/spouse C. Yes	0 0 3																																		
4. What type of material is mainly used for construction of the wall of the dwelling?	A. Unburnt bricks with mud, mud and poles, or other B. Unburnt bricks with cement, wood, tin/iron sheets, concrete/stones, burnt stabilized bricks, or cement blocks	0 4																																		
5. What type of material is mainly used for construction of the roof of the dwelling?	A. Thatch, or tin B. Iron sheets, concrete, tiles, asbestos, or other	0 5																																		
6. What source of energy does the household mainly use for cooking?	A. Firewood, cow dung, or grass (reeds) B. Charcoal, paraffin stove, gas, biogas, electricity (regardless of source), or other	0 6																																		
7. What type of toilet facility does the household mainly use?	A. No facility/bush/polythene bags/bucket/etc., or other B. Uncovered pit latrine (with or without slab), Ecosan (compost toilet), or covered pit latrine without slab C. Covered pit latrine with slab D. VIP latrine, or flush toilet	0 4 6 11																																		
8. How many mobile phones do members of your household own?	A. None B. One C. Two D. Three or more	0 7 12 22																																		
9. Does any member of your household own a radio?	A. No B. Yes	0 7																																		
10. Does every member of the household have at least one pair of shoes?	A. No B. Yes	0 9																																		
Total Score:																																				
Age and gender of respondent to be tracked and results compared for gender / age group																																				

Based on the above systematic case studies, it will be possible to compile profiles of the members and track the changes over time. Analysis should be made in comparison to the various poverty profiles in the look-up tables, describing how many per cent of the beneficiaries fall in each category, and tracking the movement up and down over time (quintile analysis).

Attachment 4: Sensitisation meeting with the PMU



M&E/KM&L/COM (and data management?)

Line Kaspersen
Programme Analyst
IFAD Uganda Country Office
22/10/2015

....What is it?....

Resp.	Purpose	Tools	Key stakeholders
M&E MANAGER	REPORTING (IMPACT)	Log-frame RIMS PCR, Impact, Baseline Videos, materials Knowledge products	End of project Frequent
JOINT	EVALUATION (OUTCOME) ANNUALLY	Results Framework Annual Report Sector level data & analysis Institutional performance Case stories Targeting analysis People-out-of-poverty Validate Theory of Change	Communication strategy HH survey Studies
COMB MANAGER	MONITORING (OUTPUT) QUARTERLY	Service provider reports AWPB targets Detailed data Picking lessons from the field	Knowledge management (info->knowledge) Reports and data analysis Lessons learnt
IFAD	Investing in rural people		Data collection templates Database Field visits

Stakeholders: GoU, IFAD, M&E, PMU, Service providers, Comp. managers, M&E unit

Capture at start + end (log-frame)

Analyse annually (RF)

Capture quarterly from SPs/partners (AWPB)

Results Summary:

- At least 20% of the rural poor in the selected project intervention areas with improved access to assets
- Improved life security and reduced vulnerability to natural disasters
- Improved access to financial services
- Improved access to improved financial services and have access to improved financial services and have access to improved financial services

Component 1: SACCO Strengthening and Sustainable Outputs

- 1.1.1 At least 350 existing strong and innovative SACCOs trained in an emergency, addressing needs over the project implementation period.
- 1.1.2 At least 350 existing strong and innovative SACCOs trained in an emergency, addressing needs over the project implementation period.
- 1.1.3 At least 150 existing strong and innovative SACCOs facilitated to automate their Management Information Systems (MIS) over the project period.

Component 2: Community Based Financial Services - outputs

- 2.1.1 At least 150,000 CFCOs with at least 375,000 members established, and trained in Group Savings and Loans (GSL) over the project period.
- 2.1.2 At least 150,000 CFCOs with at least 375,000 members established, and trained in Group Savings and Loans (GSL) over the project period.

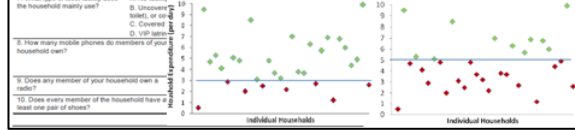
Component 3: Policy and Institutional Support and Project Management - outputs

- 3.1.1 Combined in the context of a conducive environment for the development of inclusive financial services in rural areas
- 3.1.2 Project Management

PPI score => poverty likelihood (target 1000, 1000, 1000)

Indicators	Response	Score	PPI Score	1000	1000	1000	1000
1. How many members does the household have?	A. Nine or more B. Eight C. Seven D. Five or Six E. Four F. Three G. Two H. One	0 1 2 3 4 5 6 7 8	100 90 80 70 60 50 40 30 20	1000	1000	1000	1000
2. Are all household members ages 6 to 12 currently in school?	A. Yes B. No	0 1	100 0	1000	1000	1000	1000
3. Can the (male) female head of household read and write with understanding in any language?	A. Yes B. No	0 1	100 0	1000	1000	1000	1000
4. What type of material is mainly used for the construction of the roof of the dwelling?	A. Unimproved mud with mud and poles, or other B. Improved mud with mud and poles, or other C. Improved mud with mud and poles, or other D. Improved mud with mud and poles, or other	0 1 2 3	100 90 80 70	1000	1000	1000	1000
5. What type of material is mainly used for the construction of the roof of the dwelling?	A. Unimproved mud with mud and poles, or other B. Improved mud with mud and poles, or other C. Improved mud with mud and poles, or other D. Improved mud with mud and poles, or other	0 1 2 3	100 90 80 70	1000	1000	1000	1000
6. What source of energy does the household mainly use for cooking?	A. Firewood, charcoal, or other B. Gas C. Solar D. Other	0 1 2 3	100 90 80 70	1000	1000	1000	1000
7. What type of toilet facility does the household mainly use?	A. No toilet B. Unimproved C. Improved D. Other	0 1 2 3	100 90 80 70	1000	1000	1000	1000
8. How many mobile phones do members of the household own?	A. None B. One C. Two D. Three E. Four F. Five G. Six H. Seven I. Eight J. Nine K. Ten L. Eleven M. Twelve N. Thirteen O. Fourteen P. Fifteen Q. Sixteen R. Seventeen S. Eighteen T. Nineteen U. Twenty	0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	100 90 80 70 60 50 40 30 20 10 0 0 0 0 0 0 0 0 0 0 0	1000	1000	1000	1000
9. Does any member of your household own a radio?	A. Yes B. No	0 1	100 0	1000	1000	1000	1000
10. Does every member of the household have at least one year of school?	A. Yes B. No	0 1	100 0	1000	1000	1000	1000

Poor vs. Non-poor Households



M&E UNIT – Why?

Activities and responsibilities:

- Provide structure and focus
- Make sure it happens
- Make sure data & info is collected optimally to be able to monitor, evaluate and report
- Support analytical work
- Produce reports
- Produce knowledge products

Tools:

- M&E matrix
- Results Framework
- Log-frame
- AWPB and appendix 4
- Structure and information flow charts
- MIS
- Webpage
- Field visits
- COM/KM strategy

IFAD
Investing in rural people

Questions?

IFAD
Investing in rural people

Annex 5: Financial Management

1. This annex covers only the additional financial aspects not already included (or not already fully detailed) in the main body of the mission aide memoire/ mission report.

A. Accounting systems

2. The mission reviewed the operation of accounting systems (Pastel and IFMS) and noted some areas for improvement which will necessitate revisiting the coding approach, setting up the standard reports and completion of the profiling of the IFMS.

3. The PMU is still underutilising the upgraded Pastel package, using excel to process key project financial reports beyond the trial balance. Furthermore, the current coding system does not allow for financial reporting by expenditure categories, as agreed during negotiations. The following coding approach was agreed in order for Pastel to be able to report up to expenditure categories¹⁹. The PROFIRA Chart of Accounts contains seven numeric characters in the format XXXX/xxx. In order to be able to report in all the required dimensions the various chart of accounts characters will be allocated as follows:

Character position 1	Character position 2	Character position 3	Character position 4	Character position 5	Character position 6	Character position 7
↓	↓	↓	↓	↓	↓	↓
Disbursement Category	Expenditure Category	Sub Component	Funding Source	Budget Line	Sub-budget line	Sub-budget line

4. Character at Position 1-Disbursement Category: The disbursement categories will be identified further as follows

Category Description	Chart of Accounts Position 1 character
Equipment and Materials	1
Other Investment Costs	2
Operating Costs	3

5. Character at Position 2: Expenditure Category: For purposes of the Chart of Accounts, the PROFIRA Expenditure Categories are allocated numeric characters as follows:

Category Description	Chart of Accounts Position 2 character
Vehicles, Equipment and Materials	1
Training, Studies and Workshops	2
Technical Assistance	3
Contracted Service Providers	4
Salaries and Allowances	5
Other Operating Costs	6

6. Character at Position 3: Sub Component: For purposes of the Chart of Accounts, the PROFIRA Sub Components are allocated numeric characters as follows:

Category Description	Chart of Accounts Position 3 character
SACCO Strengthening	1
Developing and Sustainable SACCO Union	2

¹⁹ The following expenditure categories will be acceptable to IFAD: (i) Vehicles, equipment and materials; (ii) Training, studies and workshops; (iii) Technical assistance; (iv) Contracted service providers; (vi) Salaries and allowances and (vii) other operating costs. It has been agreed that the performance based grant to UCSCU will be charged to technical assistance.

Establishment of new CSCGs	3
CSCG Strengthening	4
Policy, Regulatory and Institutional Environment	5
Project Management	6

7. Character at Position 4: Funder: For purposes of the Chart of Accounts, the PROFIRA Funders are allocated numeric characters as follows:

Category Description	Chart of Accounts Position 4 character
IFAD	1
Government of Uganda	2
CCA/WOCCU	3
Beneficiary Contributions	4

8. Character at Positions 5 to 7: Budget Line: This will be used for sequencing the main budget lines and activities and sub-activities as per the AWPB structure. Care should be taken not to over split budget lines, although the underlying workings will be necessary as lump sums will not be accepted in the approved AWPB.

9. Opening balances: It has been agreed that after Pastel is successfully restructured using the above coding, the transactions from when PROFIRA became effective will be reposted. This is important in order to maintain the comparability of information cumulatively and over time.

10. Standard reports: The current approach of using excel to prepare financial reports beyond the trial balance will be minimized through using the Pastel reporting functionality to preset the standard frequently used financial reports. As a minimum these will include:

- Receipts and payment by components analysed separately by financiers and showing movement showing movement between opening and closing cash and bank balances
- Receipts and payment by expenditure category analysed separately by financiers and showing movement showing movement between opening and closing cash and bank balances
- Receipts and payment by disbursement category analysed separately by financiers and showing movement showing movement between opening and closing cash and bank balances
- Budget vs actual comparison component wise analysed by financier
- Budget vs actual comparison category wise analysed by financier
- SOE forms to feed into withdrawal applications
- Statement of financial position
- Complete set of Interim Financial Statements as per IFAD guidelines

B. Budget Control

11. From the posted expenditure so far the recurrent costs are starting to out proportion the investment costs. The mission reviewed the budgeting and cost allocation approach that PROFIRA has been using. It has been noted that significant investment costs are being planned, budgeted for and accounted for as recurrent costs. Projected disbursement to 30/09/2015 shows recurrent costs are accounting for 68% of total costs. However partially this could be because some investment costs are being accounted for as recurrent costs. For example fuel, allowances, stationeries etc used as part of an activity such as SACCO census survey is an investment cost not a recurrent cost. All costs including fuel and allowances that are part of investment components/ categories should, going forward, be budgeted for as part of the respective investment activities. Needless to say, the PMU will also need to tightened recurrent investments control and increase expenditure on investment activities.

	SDR'000	%
Investment	205	32
Recurrent	436	68

Total	642	100
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C. Reconciliation of GoU and IFAD loan fund ledgers

12. The mission noted there are inter-fund borrowings (between IFAD loan funds and GoU counterpart funds) that had not been fully reconciled. These two funds are being management in different financial databases. However, the two data bases had not been reconciled properly. The GoU counterpart ledgers showed a debit balance of UGX 20,629,163 while the IFAD ledgers showed a credit balance of UGX 26,631,875. The two ledgers should be fully reconciled. One bullet refund should be made as opposed to the current approach ad hoc offsets through upcoming counterpart fund demands which is affecting the audit trail.

Attachment 1: Indicative PROFIRA chart of accounts

Indicative PROFIRA Chart of Accounts

Pastel Account Code	Description
1161/100	Equipment and Materials
1161/101	Local Area Network and Internet Services
1161/102	4WD Vehicles
1161/103	Office Furniture and Fittings
1161/104	Desktop Computers and UPS
1161/105	Desktop Printers
1161/106	Projectors and Projector Screens
1161/107	LED Projection Screen
1161/108	AC Units and Installations
2211/000	SACCO Strengthening
2211/100	Preparatory Support Activities
2211/101	SACCO Census
2211/102	Inception Workshops
2211/103	Quarterly SACCO Development Backstopping
2211/104	SACCO KM & Learning Reflection Fora
2411/200	Contracts for SACCO Capacity Building
2411/201	Default & Credit Management Training
2411/202	Training SACCOs in 6 Functional Areas
2241/203	SACCOs MIS
2321/000	Developing a Sustainable SACCO Union
2321/200	Performance Support to Strategic Plan
2321/100	UCSCU Grant Activities
2231/300	Specialized Technical Assistance
2231/301	Field Verification of Information on CSCGs
2231/302	CSCG Progress Review Meetings
2231/303	Interaction with Key CSCG Promoters
2231/304	CSCG KM & Learning Reflection Fora
2231/305	CSCGs Performance Backstopping
2231/306	Meetings with Financial InstitutionsCSCG
2231/307	Training CDOs on CSCG Methodologies
2431/100	Formation of New CSCGs
2431/101	Formation/Establishment of new CSCGs
2441/200	CSCG Strengthening, Innovation, Partners
2441/201	CSCG Strengthening, Innovation, Partners
2251/000	Policy, Regulatory and Institutional Env
2251/100	Policy, Regulatory Environment (MOFPED)
2251/101	Consultations onTier 4 Regulation, Launc
2251/102	Study Tours for Legislators & Staff
2251/103	Participation in International Benchmark

Pastel Account Code	Description
2251/104	Technical Assistance
2251/105	Retreats & Incountry Travel Legislators
2251/200	Monitoring and Regulation (MTIC)
2251/201	Data Entry into MTIC Data Base
2251/202	SACCO Turn Around Activities
2251/203	Liquidation Activities
2251/204	District SACCO Fora and Networks
2251/206	Training Manuals & Materials for Auditors
2251/207	Training of DCOs to build Audit Capacity
3661/000	Project Coordination Office
3361/000	Technical Assistance, Training and Studi
2261/201	Internal Audit
2261/202	Staff Induction and Team Building
2261/203	Staff Training and Development
2261/204	Development of an IT Platform
2261/205	External Audit
2261/300	Planning, M&E, KM
2261/301	Monitoring Field Visits and Data Collect
2261/302	Consultancy for Impact Level Baseline
2261/303	Design of an M&E MIS
2261/304	Incountry Staff training in KM&L, Gender
2261/305	Implementation of Communication Strategy
3561/000	Project Coordination Office
3561/100	Staff Salaries and Allowances
3561/101	Staff Salaries
3661/100	Operating Costs
3661/101	Office Utilities and Sundries
3661/102	Advertising and Procurement Notices
3661/103	Maintenance of AC
3661/104	Bank Charges
3661/105	Maintenance of ICT Equipment
3661/106	Office Cleaning Services
3661/107	Medical Insurance
3661/108	Group Personal Accident Insurance
3661/109	Motor vehicle Insurance
3661/110	Committee Meetings
3661/111	Internet Bandwidth
3661/112	Stationery
3661/113	Vehicle Tyres
3661/114	Fuel & Motor vehicle Service Costs
3661/115	Motor vehicle Repairs & Maintenance
3661/116	Office Rent

Attachment 2: FMAQ

Financial Management Assessment at Supervision – Guidance Questionnaire^{20/21}

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

²⁰ This questionnaire should be used as guidance for and in support of the Summary Project Fiduciary Risk Assessment at Supervision. It is to be completed during the Mission.

²¹ Include relevant findings of project supervision and progress reports, field visits, and audit report findings.

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
b.	Availability of clear job description for key project positions, including fiduciary positions.	L	Yes clear descriptions on file
c.	Adequacy of project financial management staff (numbers and skill) matching functional needs of project.	L	PMU well resourced with three finance staff
d.	Availability and adequacy of operating manuals and guidelines for staff.	M	PIM has been submitted to IFAD for review and comments
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.	M	Yes but the accounting system had been set to report at the level of disbursement categories and not up to expenditure categories as agreed during negotiation
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	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

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
	cost estimates. Test check high value items.		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	The IFMS delays have started to reduce as the team gets more experience in the use of this disbursement system.
b.	Timeliness of counterpart funds disbursed.	M	Capture of the counterpart funds in the overall PROFIRA financials is not exactly systematic.
c.	Efficiency of the funding channels. Timeliness and traceability of funds flows.	L	
d.	Efficiency of the funding channels for credit lines. Timeliness and traceability of funds flows, if applicable.		N/A
e.	Special Account(s)/Dedicated Account(s) Management, Disbursements.		
i)	Adequacy of the authorized allocation to ensure a smooth flow of funds	L	Yes; USD 2 million is still adequate
ii)	Appropriateness of disbursement methods used	L	So far only designated account used
iii)	Adequacy of documentary support for SOE disbursements, reimbursements, direct payments and Special Commitments. (refer to Appendix IV and complete, reflecting finding in rating).	L	Review based on WA 3 confirming the existence of underlying supporting documents
iv)	Timely preparation and accuracy of Withdrawal Applications	M	One WA so far successfully replenished (WA3)
v)	Authorization of WA preparation.	L	
vi)	Status on expenditures withdrawn from Special Account but not yet claimed for replenishment (old cases to be	L	Designated account reconciliation well done

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
	noted)		
	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	Funds utilisation still at 3.3% given the infancy of the PROFIRA
	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 continue to reviewed service providers get on board.
c.	Adherence to Financial Manual.	M	As above
d.	Effectiveness and efficiency of internal controls over inflows of funding sources other than IFAD.	M	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	Templates provided by the last mission are being well used.
f.	Effectiveness and efficiency of internal controls over expenditures (full cycle from commitment, payment, receipt of	L	Yes

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
	good and services, approval of payments, classification, etc.)		
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.	M	Need to fully reconcile the funds "borrowed" from the GoU counterpart funds.
m.	Compliance with financial management covenants in the Financing Agreements and LTB.	L	Yes
n.	Adequacy of up-to-date record keeping for fixed assets and inventories.	L	Yes
o.	Adequacy of controls concerning project assets including: i) Vehicle and other assets management (are assets property tagged, is a physical inventory count done on a regular basis?) ii) Fuel management (do drivers maintain a log book?) iii) Travel authorisations (incl. DSA paid to staff)	L	Yes
p.	Adequacy of vehicles and assets insurance.	L	Yes

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
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 until it will be demonstrated that IFMS is able to handle project accounting demands.
b.	Recordkeeping (including documentation and filing/archiving)	L	Filed chronologically by EFT
c.	Fixed assets register maintained and reconciled (sample and physical check).	L	Yes
d.	Adequate documentation and controls for Information Systems, including documented accounting procedures, backup of financial records, integration of all sub-systems.	L	Back up of financial records is maintained on server.

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
e.	Adequacy of chart of accounts for project accounting purposes	M	The Chart of Accounts needs reviewed to report up to expenditure account level as agreed at negotiations
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	The capture of counterpart contributions in the overall PROFIRA accounting data base is not exactly systematic.
6. Financial Reporting & Monitoring			
a.	Completeness, accuracy, usefulness, and timeliness of financial reports.	M	Coming from Pastel. Need to use the reporting functionality of pastel to preset the standard reports once and for all.
b.	Interim FM reports and linkage to progress reports - timely preparation, submission to IFAD.	M	As above
c.	Preparation of reports showing actual vs budget income/expenditure and AWPB execution rate.	M	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	compliant
e.	Reasonable alignment between disbursement rate of recurrent versus investment cost categories.	M	Recurrent costs currently taking up 68% which is on a high side. PMU has been advised to revisit the work plan and budget as a number of investment costs are erroneously being treated as recurrent costs.
7. Internal Audit			
a.	Existence of Internal Audit arrangements.	M	Bidding had been closed at the time of the mission
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	

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
8. External Audit ²²			
a.	Adequacy of scope and ToR.	L	OK. The Office of the Auditor General (OAG) is finalising the process of appointing a private external audit firm for PROFIRA
b.	Adherence to ToR.	N/A	No audit has yet
b.	Timeliness of audit report.	n/a	
c.	Quality of audit.	n/a	
d.	Implementation of audit recommendations/agreed action plan in place to address these.	n/a	

²² Refer to IFAD audit review.

Attachment 3: Summary of Project Fiduciary Risk Assessment at Supervision²³

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	Recast the budget
3. Funds flow & Disbursement Arrangements	M	IFMS speed in processing payments has greatly improved
4. Internal Controls	L	
5. Accounting	M	Need to report up to expenditure account level and to preset once and for all the standard frequently used reports using Pastel's reporting functionality.
6. Financial Reporting and Monitoring	M	As above there is need to preset once and for all the standard frequently used reports using Pastel's reporting functionality.
7. Internal Audit	M	Need to finalise the procurement of the internal audit firm
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:

²³ This is a summary of the findings documented in the 'Project Supervision Financial Management Assessment – Guidance Questionnaire – see Appendix I. It is to be completed by the Finance Officer.

Attachment 4: Audit Log

1. No audit has been undertaken as yet. The Office of the Auditor General (OAG) is in the process of finalising the appointment of the auditors. Three firms were invited by the OAG to compete for the assignment. The first audit will cover 18 months up to 30 June 2015. For the next missions the following log will be used to systematically follow up audit issues.

[illegible]

1) TABLE OF SUMMARY STATUS OF AUDIT OBSERVATIONS						
Financial	Audit Observations as per Audit Report		Audit Observations Settled		Audit Observations Outstanding	
Year	Numbers	Value	Numbers	Value	Numbers	Value
2014/2015						
2015/2016						
2016/2017						
2017/2018						
2018/2019						
2019/2020						
Total						