



Investing in rural people

Republic of Uganda

Project for Financial Inclusion in Rural Areas (PROFIRA)

Supervision report

Main report and appendices

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Abbreviations and acronyms

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

PROFIRA

Supervision Report

Mission dates: 3-14 October 2016

A. Introduction

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

2. An IFAD supervision and implementation support mission¹ was held from the 3rd to the 14th of October 2016 with the objective to i) review the implementation progress of the project; ii) Review the implementation of the recommendations from previous missions; iii) Review the status of execution of the AWPB 2016/17 iv) Review fiduciary aspects, focussing on financial management, disbursement and procurement issues and assess provision of counterpart funds in terms of amount and timeliness, where applicable and compliance with loan covenants and; v) to provide the necessary implementation support as required. The mission spent four days in the districts of Nakasongola, Kiboga, Nakaseke, Gulu, Pader and Amolatar visiting SACCOs and CSCGs that have benefitted from the training provided by the project. and the rest of the time in Kampala, meeting and interacting with several stakeholders, including the Permanent Secretary/Secretary to the Treasury, Minister of State for Microfinance, the Minister of State for Cooperatives, The Permanent Secretary for MTIC, the Commissioner and Assistant Commissioner, Financial Services Department (FSD), Ministry of Finance, Planning and Economic Development (MFPED), the Commissioner for Co-operatives Development from the Ministry of Trade, Industry and Co-operatives (MTIC), the Board and staff of UCSCU and other relevant stakeholders from the sector, including the service providers selected for the provision of training services to SACCOs and CSCGs. The mission would like to thank the GoU and all other partners for their collaboration and support.

B. Overall Assessment of Project Implementation

3. Overall Project implementation is advancing well after a slow start. Consistent progress has been made in the last few months and the procurement processes for the seventeen contracts for service providers to support SACCOs and Community-based Savings and Credit Groups (CSCGs) have been finalised.

4. The basic training programs for the SACCO component are now fully underway, with the six contracted service providers (SPs) having completed their initial training needs assessment, harmonized their approach, and begun training. Of the 456 SACCOs initially selected according to the criteria specified for potential sustainability and geographical coverage, 41 were found by the SPs to be presently dormant. These are being referred to MTIC to investigate the reasons and recommend a 'turnaround' package, if deemed appropriate. Meanwhile, 35 possible replacement SACCOs identified by SPs in the same areas are being investigated by the PMU to see if they meet the criteria for inclusion in the training.

5. PROFIRA support in the implementation of its Business Plan towards financial self-sustainability is proceeding, with both elements of technical assistance provided by CCA and provision of budgetary support through performance-based incentives properly working. UCSCU successfully bid to be one of the SPs. It has continued to improve and meet a number of performance

1 The mission was led by Mr Alessandro Marini, IFAD Country Director and included: Dagmawi Habte-Selassie, IFAD Programme Officer; Mr. William Steel, Rural Finance Specialist; Mr Jorma Ruotsi, Rural Finance Specialist, and Mr. Davis Atugonza, Financial Management Specialist

indicators, although preliminary figures show that deficit substantially exceeded the projected amount. and it continues to face challenges in motivating SACCOs to support it financially, in rolling out services such as the Central Finance Facility and insurance, and in reducing its expenditures. UCSCU will need to present the revised MoU in order to receive their grant allocation for 2016/17.

6. The progress of the CSCGs component has been very satisfactory since the last mission. The activities under mobilisation, training, savings and credit are progressing well and the initial results are very promising. A total of 770 CSCGs had been mobilised by the SPs and were under training. 192 groups had gone through the programme of minimum six trainings and were already collecting savings. The total membership of the established CSCGs exceeds 21,500 and issuance of loans from the saved funds has also started especially in Mid-North, where 273 small loans were issued in September 2016. The first contracts for the service providers under the strengthening, innovation and partnerships subcomponent are in the final procurement phase, and field implementation is expected to start in November 2016.

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

8. The Tier 4 act was passed by Parliament in May 2016 and assented to by the President on July 5th 2016. While the passing into act is a major achievement, it is just a first step in bringing this important section of the market to be licensed and regulated as a financial institution. It has been agreed that support will be needed for the setting up of the Uganda Microfinance Regulatory Authority (UMRA), as well as building the capacity of the sector to be able to meet the requirements of the new act through a wider financial sector support programme. IFAD is ready to support the GoU in these activities with other development partners such as the World Bank, but will need a clear guidance in this regard.

9. The loan disbursement ratio stands at moderately unsatisfactory as per IFAD disbursement profile for similar rural finance programme. Some impressive progress has been made since the last mission bringing disbursement from 12% to 20%. It is to be noted that firm commitments have the potential to increase the disbursements to 33% by the end of the fiscal year, which would bring the disbursement to moderately satisfactory.

C. Project Implementation Progress

Component 1 – SACCO strengthening and sustainability

Sub-Component 1.1 – SACCO Strengthening

10. **Package of Six Modules:** Contracts have been signed with four different SPs, one for each lot (totalling 334 SACCOs, depending on replacement of dormant ones), including three apex organizations: UCSCU, Association of Microfinance Institutions of Uganda (AMFIU), and Uganda Co-operative Alliance (UCA). The SPs have collaborated well with each other and UCCK (see below) in preparing and scheduling their training. Training of SACCO members in Financial Literacy and Deposit Mobilization (FL&DM) has begun, and SACCOs visited by the mission were highly satisfied with the quality of the training and the immediate positive impact on their resource mobilization. PROFIRA will work with the SPs to track the impact of FL&DM training on membership and deposits in the month following the training, to help document the positive effects that capacity building can have on SACCO performance and funding. Furthermore, since SACCOs wanted to be able to roll FL&DM to surrounding sub-counties in a more decentralized way, PMU will work with the SPs to see if the refresher training in FL&DM can be organized so as to serve as training-of-trainers for some SACCO staff or members to roll it out themselves.

11. **Credit & Default Management (C&DM):** Two SPs have been contracted for delivering C&DM training to 456 SACCOs (two lots each; depending on replacement of dormant ones), and are beginning to roll out training. Field visits to SACCOs found that poor loan recovery remains a major

obstacle to the sustainability of many (if not most) SACCOs (in part the legacy of past perception of SACCOs as channels for government delivery of resources). Until SACCOs become licensed as financial institutions under the new Tier 4 Microfinance Institutions and Moneylenders Act, they are unable to use the courts to pursue defaulters. Therefore, understanding of different techniques to manage credit and defaults is indeed critical for SACCOs to succeed.

12. UCCK: The partnership between PROFIRA and the Uganda Cooperative College Kigumba (UCCK) is proving highly effective. UCCK has played a key role in getting the SPs to harmonize the content of their training and to improve their training methods. One useful output will be a set of standardized training manuals. UCCK has also undertaken the first of two week-long residential trainings of District Commercial Officers (DCOs) who represent MTIC on the ground. DCOs appeared highly engaged with and appreciative of the training in various aspects of SACCO governance and finances. This is a useful step toward motivating them to support PROFIRA implementation and SACCOs generally. UCCK is also expected to train SACCO managers under PROFIRA.

13. MIS Support: PROFIRA has undertaken further investigation of the MIS status and needs among the provisionally selected SACCOs and proposed a revised approach to implementation, as agreed during the previous mission.

14. A draft MIS Grant Manual has been prepared setting out the terms and procedures of the grant approach. In consultation with the PDU, the mission concluded that an appropriate approach to implementation would include: (1) due diligence investigation of the five companies providing the systems currently in use or demanded (including legal status, capability statement, price list, and endorsement from AMFIU that the software complies with the Performance Monitoring Tool); (2) invitation to the 57 SACCOs to develop a grant proposal with their existing/preferred provider; (3) review of each proposal for consistency with the objectives and standard prices. PROFIRA will contract the SPs who must submit evidence that the beneficiary SACCO has advanced its 30% contribution before beginning work. The PMU will then disburse its 70% contribution accordingly to an agreed schedule of deliverables. **Agreed action:** Finalize the Grant Manual and submit to IFAD for No Objection

15. Turnaround: The SACCOs pre-selected as eligible for PROFIRA support that have been identified as dormant by the SPs are presently classified as potential 'turnaround' SACCOs. MTIC is charged with investigating the reasons for their dormancy, the prospects for recovery, and the interventions that are needed if turnaround appears feasible. For those without good prospects for recovery, MTIC would initiate the steps toward liquidation. **Agreed action:** MTIC is to report to PROFIRA with respect to the identified SACCOs on the causes for dormancy, prospects for recovery, and a package of interventions for PROFIRA support by 31 January 2017.

16. MTIC should also continue to monitor the SACCOs that are assisted in order to learn lessons about the feasibility of turnaround and which interventions appear most effective. MTIC can then apply these lessons in dealing with the other 500 or so SACCOs that it has identified as out of compliance. **Agreed action:** SACCOs investigated and assisted by MTIC with respect to turnaround are to be monitored by MTIC PROFIRA Results Framework

Agreed action	Responsibility	Agreed date
Finalize MIS Grant Manual and submit to IFAD No Objection	PMU	15 Nov. 2016
Assess reasons for dormancy of 41 pre-selected SACCOs and propose package of turnaround interventions (if warranted)	MTIC	31 Jan. 2017
Add a line in Results Framework for number of potential 'turnaround' SACCOs assisted indirectly via MTIC	PMU	30 Nov. 2016

Sub-Component 1.2 – Developing a SACCO Union

17. UCSCU Performance: UCSCU has succeeded in meeting some of the agreed performance benchmarks, including number of new SACCOs joining (42), number of SACCOs paying annual dues (226; however, 99 of these payments had to be credited to arrears rather than current dues), and,

most importantly, operational self-sufficiency (OSS; 34%). The latter was achieved by increasing revenues to 144% of the budgeted target, while expenditures increased by 140% of the target. However, given the large size of expenditures relative to revenues, the overall operating deficit rose beyond the projected level, which means that the grant for 2016/17 must be adjusted according to annex 2 of the MoU **Agreed action:** UCSCU to submit revised budget projections and measures to offset increased cost of NSSF contribution and decreased grant for 2016/17 by 30 November 2017.

18. UCSCU was a successful bidder for one of the lots of PROFIRA training in six areas, and it has started rolling out Financial Literacy and Default Management, which was well received and appreciated by SACCOs visited by the mission. This contract has contributed to the strong increase in business income, as a main driver of growing revenues for UCSCU. However, the political environment and public perception of SACCOs continue to inhibit progress toward self-sufficiency based on member contributions and payment for services.

19. Technical support: Technical assistance through the Canadian Co-operative Association (CCA) has continued to be effective and appreciated. PROFIRA has received quarterly briefing and an annual report from CCA. CCA has highlighted the risks involved in the lack of transparency in UCSCU financial statements, and inadequate financial and expense management.

20. UCSCU financial management. UCSCU successfully went through an external audit by a private firm. The audit firm issued a clean (unqualified) audit opinion for the year ended 30 June, 2016, with a number of recommendations in the management letter that management should implement. The mission reviewed the audit report and found it satisfactory, and overall the financial position has improved between 2014/15 and 2015/16. The net book worth of the union increased from UGX 0.96 billion in 2014/15 to UGX 1.24 billion in 2015/16. Provision of internal audit services has made a start, and could be expanded in the coming year.

21. However, for the first quarter of 2016/17 (1 July 2016 to 30 September 2016), the mission has found that the Union has again accumulated accounting backlogs. Pastel Accounting system had not been posted for the period 1 July 2016 to 30 September 2016. This shows laxity in the financial management practices which confirms CCA's findings. This is below the very minimum requirements of a sound Financial Management Environment. The mission could not review the performance and financial position for the first quarter of 2016/2017. **Agreed Action:** UCSCU to update their accounting backlogs by 30 October 2016.

Agreed action	Responsibility	Agreed date
UCSCU to submit revised budget projections and remedial measures	UCSCU,	30 Nov. 2016
UCSCU to update their accounting backlogs and constantly update financial report.	UCSCU	30 Nov 2016

Component 2 – Community Based Financial Services

Sub-component 2.1 – Establishment of new CSCGs

22. The four Service Provider (SP) contracts for the implementation of this sub-component were signed during the last week of April 2016, to the total value of USD 3.24 million. Since then, the implementation has progressed fast, although with some variations between the regions. All Inception Reports were received by 20 May 2016 and reviewed and commented on by the Community-based Financial Services Manager (CBFSM). Their approval triggered the first performance-based payments to the SPs. The Inception Workshop for the SPs was organised by PROFIRA on 6-7 June 2016. This was a useful intervention, attended by the top management of the main contractors and their sub-contractors

23. The payments of the first instalments by PROFIRA made it possible for the SPs to recruit and train the staff needed for the effective implementation of the contracts. In total, this meant the recruitment of over 300 staff, practically all full-time. Simultaneously with this recruitment, the SPs independently procured transport and various types of other equipment included in the contracts. By September 2016, the recruitment and other procurement activities had been completed by all the SPs.

24. With the key staff in place, the selection of the actual implementation areas of these four contracts started in July-August 2016. Based on the SP contracts, the responsibility for making a proposal on the implementation site mapping and selection was with the SPs, to be then agreed on with PROFIRA. The agreed implementation area of the phase one includes 51 districts, 225 sub-counties and 1,094 parishes.

25. After preparatory activities of the above type, the actual mobilisation, training, savings and credit activities with the CSCGs have started. In West Nile and Mid-North Regions, in which the consortia of local institutions act as SPs, the implementation started fast and smoothly. In Eastern and North-East Regions, where the implementation responsibility is with CARE International with local sub-contractors, more preparatory time was required to sort out the responsibility and budgetary issues between CARE and its sub-contractors. By October 2016, also CARE and its partners are in full action in the field, and very confident of reaching their quantitative and qualitative targets.

26. By the end of September 2016, a total of 770 CSCGs had been mobilised by the SPs and were under training. 192 groups had gone through the programme of minimum six trainings and were already collecting savings. Issuing of loans from the saved funds has also started especially in Mid-North, where 273 small loans were issued in September 2016. Because of the larger than expected size of the CSCGs (average 28 members in Mid-North, 29 in West Nile), the total membership of the established CSCGs already exceeds 21,500.

27. The following observations by the mission confirmed that the component is on track for achieving of the sub-component targets: (i) the SPs have competently organised the implementation activities in districts, sub-counties, parishes and villages, involving members of local Government in the operations when useful and appropriate, (ii) in all regions there is a very substantial demand for the formation of these savings and credit groups; (iii) the skills level of the Community-Based Trainers met by the Mission were clearly above the average observed in similar situations in other environments, and (iv) groups and members are clearly geared to financing income generating activities, not home improvements or consumption. **Agreed Action:** CBFSM to organise SP workshop to discuss key implementation issues by April 2017.

28. By June 2017, the CSCGs established with PROFIRA support are likely to have well over 100,000 members. If the higher than expected group size will prevail also in the future, this sub-component is likely to engage around 215,000 new households in the CSCG activity during this bidding round, and a similar number in Project Years 4-7. This very large direct outreach makes it an important development activity at national level. .

Agreed action	Responsibility	Agreed date
Organise SP workshop to discuss key implementation issues	PMU	April 2017

Sub-component 2.2 – CSCGs Strengthening, Innovation and Partnerships.

29. The Requests for Proposals to support 300 mature CSCGs in 4 core regions were sent on 22 February 2016 to nine institutions. At the time of this Mission, what remained to conclude this procurement process was the IFAD no-objection for the draft contracts and their final clearance by the Office of the Solicitor General. A realistic target is to get these four contracts signed within the next two weeks, before the end of October 2016. The Table below summarises the key features of the four negotiated contracts.

REGION	West Nile	Mid-North	North-East	Eastern
Selected Service Provider	CARE, with sub-contractor: WENIPS	Consortium: IIRR with Caritas-Gulu	Consortium: SEPSPEL with KPSDC	SEPSPEL
Negotiated Contract value: UGX	1,119,677,425	1,341,075,000	1,392,548,320	1,353,753,080
Negotiated Contract value: USD	331,300	396,800	412,000	400,500
Number of Groups	300	300	300	300
Contact Price per Member	USD 44.2	USD 52.9	USD 54.9	USD 54.0

30. The Mission's key findings of the results of this bidding process include the following: (i) in the quality-based bidding process, the total amount of the four contracts was reduced during negotiations by 18%, (ii) the realised contact price per member was USD 51.3, exceeding the design figure of USD 40 but still reflects the standard price in the industry in Uganda (iii) the winners of the four contracts represent well-known and experienced promoters of CSCGs, which augers well for successful implementation of this interesting sub-component, (iv) the secondary development target of PROFIRA is to promote local SP capacity, and the local SPs are well represented in the winning teams, and (v) the winning bids include many innovative and potentially important approaches in areas such as linkages, internal CSCG fund accumulation over cycles and the use of apex institutions in CSCG methodology.

31. To progress in Sub-component 2.2 implementation without unnecessary delays, it was agreed that (i) the Inception Reports should be submitted by end of November 2016, (ii) the Inception Workshop would be organised around 10 December 2016, and (iii) the actual field implementation should start in early 2017 immediately after the Christmas break.

32. For the bidding of the Region 5 contract, the deadline for the submission of full proposals is set at 14 October 2016. The target for PROFIRA is to finalise the procedures for the SP contract for Region 5 in a manner that would make it possible to start field operation soonest after the Christmas break.

Agreed action	Responsibility	Agreed date
Sign first Sub-component 2.2 contracts	PROFIRA/SPs	October 2016
Submit Inception Reports	SPs	End Nov 2016
Organise Inception Workshop	PROFIRA	10 Dec 2016
Start field implementation	SPs	January 2017
Sign Region 5 contract and start field implementation	PROFIRA/SPs	Jan-March 2017

Component 3 – Policy and Institutional Support and Project Management

Sub-component 3.1 – Policy, regulatory and institutional environment

33. **Tier 4 MFI Bill.** The Tier 4 Microfinance Institutions Bill went through a first reading in Parliament. Advisory support by the Bank of Uganda (BoU), technical support from development partners and efforts to work with the Parliamentary Committees have facilitated this process. The mission team met with the Parliamentary staff to discuss the final envisaged amendments, taking into

account the outcomes of the benchmarking mission team in Ghana in November 2015, the suggestions by the recent World Bank mission and the remarks by Members of Parliament. The envisaged amendments are adequate to minimize the issues that have been raised. Although the schedule is tight, it is expected that the Bill be passed before the ninth Parliament adjourns. The mission would like to emphasize the high importance of finalizing Parliament approval by the end of May. **Agreed action:** MFPED to fast track the process for the approval of the Bill by 31 May 2016.

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

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

36. Census and database. Collection of data on existing institutions operating under Tier 4 is a key starting point for any attempts to regulate the sector. The plans for a census of all MFIs other than SACCOs have not yet been concretized; a funding and implementation partner is being sought by MFPED. PROFIRA has however agreed to fund the completion of the SACCO census to include Kampala region, in collaboration with MTIC and UCSCU, which will allow having a complete and accurate data set for the whole SACCO sector. However, while data collection on SACCOs is undertaken jointly by PROFIRA and MTIC, using MTIC questionnaires and the District Cooperative Officers as entry point at District Level, the MTIC SACCO database has not yet been populated with the existing data collected for the other four regions, nor is MTIC's software able to accommodate the census data in its current format. As of to date, the data from the SACCO census are kept only in the PROFIRA data systems, which is not a sustainable solution for the sector. Completion of the SACCO census and undertaking of the MFI census should be contingent on formulation of a clear strategy and responsibility for populating, maintaining and analysing the data collected. **Agreed action:** Through the responsible department, MFPED should ensure that there is a mechanism in place to cater for maintenance of the census data on SACCOs and MFIs.

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

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

Sub-component 3.2 – Project management

38. Project staff. The PMU is fully staffed. The process for the recruitment of an M&E officer and driver has been completed and both have already commenced work.

39. Project Steering Committee. The Project Oversight Committee meets twice a year as per its ToR. As of the mission date, the POC met once in 2016. The Project Steering Committee has been highlighted by the ministry as a key exercise to ensure proper coordination with all stakeholders and to proactively find remedies for issues as they arise. To that effect, it was recommended that the PoC meets more regularly. **Agreed Actions:** PMU to hold POC meetings on a quarterly basis.

40. Planning and budgeting. The 2015/2016 AWPB execution was at 72% while in the first quarter to September 2016 disbursement is at 11%. It is noted UGX 11.7 billion of contracted service providers is due for disbursement in the current year. Thus out of the AWPB total of UGX 20.3 billion 58% of it is already committed and due for disbursement in the current fiscal year. However, within the first quarter, the PMU has already noted that some aspects of the AWPB had been under-costed. The mission has advised that a consolidated review of the AWPB be done at least after the first semester. In the meantime, the mission notes and endorses the following potential areas for AWPB revisions: (a) The MoU with UCCK which had been budgeted for UGX.100 million, the agreed MoU changes the figure to UGX 800 million. (b) Similarly the negotiated MoU for MTIC changes the budgeted from UGX 200 million to UGX 490 million.(c) CSCGs Strengthening, Innovation and Partnership will go up by UGX 357 million. **Agreed Action:** PMU to submit revised AWPB by 31 January

Agreed action	Responsibility	Agreed date
POC meetings to be held on a quarterly basis	PMU	Continuous
Submit for IFAD no Objection a revised AWPB	PMU	31 January 2017

Monitoring and evaluation

41. Baseline. The Baseline survey on the socio-economic characteristics of the households in the project areas, including borrowing and saving behaviour has been finalised. The report was presented to stakeholders in a validation workshop which was held on 17 august 2016 and finalised on the 30th of August 2016. The figures from the survey have been incorporated in the next RIMS submission.

42. Performance monitoring of Service Providers. The indicators on which the service providers will be reporting have been chosen in an inclusive and participative process. All indicators, targets and reporting formats were agreed with service providers during negotiations of the contracts. The service providers found the requirements adequate and easy to report on a quarterly basis. At the time of the mission, the PMU has not received reports PROFIRA activities and expect to receive them in the next reports as some training activities have already taken place. Performance targets of both UCSCU and CCA are integrated in the Results Framework and reporting formats have been adhered to by UCSCU for the past 2 quarters. **Agreed actions:** The M&E team will review the first batch of reports and organized M&E working session for both CSCGs and SACCOs to ensure that there's no gaps in reporting from service providers by 30 November 2017

43. MIS system. The process for procurement of a Management Information System (MIS) has been completed and the contract with Oratec signed on 11th July 2016. The installation of the system is pressing, for easy data flow and aggregation, especially since service providers have commenced work on the ground. Oratec has presented an inception report and will be sharing the prototype and

training staff in the coming month. **Agreed actions:** The M&E system will be operationalized and staff trained by 30 November 2016.

44. SAVIX. PROFIRA is in a process of procuring a comprehensive MIS system for Component 2. The SAVIX MIS system will be procured based on single sourcing method from VSL Associates. The technical evaluation of the proposal is currently being conducted by PROFIRA. The target for the signing of the contract is set at mid-November 2016. The system is expected to be operational in February 2017 and to cover most of the reporting needs of Component 2.

45. Communication. The communication strategy for the project was finalized and activities have been on-going. Activities identified to be done in this financial year include: i) Production of IEC materials with the aim of informing the wider public of PROFIRA activities; ii) working with service providers to harmonize materials; iii) Support in dissemination of some key thematic areas such as financial literacy through radio broadcasting; iv) Raising awareness on new Tier 4 regulation through mass media campaign. On the latter, the project has shared a draft communication concept note on how promote public awareness of the Tier 4 Microfinance Institutions and Moneylenders Act, 2016 to FSD.

46. Gender and Targeting. PROFIRA's targeting strategy sets out goals for inclusion of women 33% with SACCOs and 70% for CSCGs as well as 15% for youth. Gender and youth targeting of CSCGs will be handled as an integral part of the responsibilities to be contracted to service providers. It was noted in the field visits to the SACCOs that institution themselves do not keep disaggregated data on their membership. Overall, the programme's performance is moving towards achieving the target set at design stage. SACCOs visited follow do have guidelines for a 30% participation of women in the management positions. There is a need for service providers to ensure that SACCOs and CSCGs keep disaggregated data of their members to ensure that the progress against these targets is being tracked. **Agreed actions:** PMU will ensure that service providers sensitize SACCOs and CSCGs on the importance of disaggregation of data by gender and youth as part of the M&E working sessions by 31 January 2017.

47. Poverty Focus. It was envisaged that PROFIRA support will focus on outreach and be targeted to the poorer areas of the country with the aim of increasing access of finance to poor rural households. The result of the baseline survey confirmed that PROFIRA is indeed targeting the poorest. 62% of households in the project area earn on average not more than \$1/day and 58% of the households are involved in subsistence crop and livestock farming on less than half an acre of land.

Agreed actions	Responsibility	Agreed date
The M&E team will review the first batch of reports and organized M&E working session	M&E Team	31 Dec 2016
MIS system operational	PMU	30 Nov 2016
PMU will ensure that service providers sensitize SACCOs and CSCGs on the importance of disaggregation of data by gender and youth as part of the M&E working sessions.	PMU	31 Dec 2016

D. Fiduciary aspects

48. Financial management. Significant progress been made towards using IFMS for both project accounting and payment processing system. IFMS has been fully set-up with data filter codes that are needed to be able to generate project accounting reports. The challenge remains how to retrieve the information being captured. The PMU will continue to engage the IFMS team at the Accountant General's office to set up the key project reports to make use of the information being captured. In the meantime, until the report setups are finalized Pastel will continue to be used as a parallel system.

49. Disbursement of IFAD Loan. According to IFAD records, disbursement stands at 20.39% as at 30 September 2016 compared to 12.3% as at 31 March 2016 through six and four withdrawal applications respectively. Firm commitments amount to UGX 26.9 billion of which UGX 11.7 billion falls in the current financial year (potential to increase disbursement to 33%). PROFIRA entered into force in November 2014 and is, therefore, is at end of its second disbursement year. Rural finance projects are expected to be at 30% disbursement rate after the first two years which is moderately

unsatisfactory according to IFAD's profile in similar projects. . This is explained by the time lost in the first year of entry into force

50. Investment/ Recurrent Ratio: The proportion of operating (recurrent costs) stands at 20% of the cumulative actual total costs. This will drop as investment components pick-up. The available projections show that the category for operating costs which in the financing agreement was allocated 12% of total costs (SDR 2.27 million over total loan amount of SDR 19.3 million) will likely end-up at 17% of total costs by project closure. From the projections made, operating costs to closure inclusive of salaries are estimated at UGX 11.5 billion (USD 3.4 million or SDR 2.46 million). This if added to the amount already disbursement means this category could be overdrawn by USD 1.3 million (SDR 950,000) to 142%. **Agreed action:** PMU to analyse the overrun in the account and present remedies on containing an acceptable a ratio of recurrent costs of 14% by 30 November 2016

51. Disbursement of IFAD Grant. The grant disbursement level stands at 74.8%, being the advance of USD 412,558 and posted expenditures of USD 335,412 above the initial advance. CCA submits claims to IFAD in line with the Grant Agreement and these amounts are captured in the PROFIRA financial system to enable the project report on the totality of the financing plan in a consolidated manner.

52. SOE spot check. Spot checks have been performed in line with IFAD SOE spot check requirements on 45% of the total expenditure claimed under the WA 6 spread across the three categories. The mission confirms the existence of the underlying supporting documents and consistency of expenditure with the AWPB.

53. Counterpart funds. Realised GoU counterpart contribution is cumulatively USD 248,000, representing 5% of the total financing agreement target of USD 4.9 million. The flow of counterpart funds in satisfactory and does not affect project implementation. Service providers have been considered broadly VAT exempt under the Value Added Tax Act. Counterpart funds are, therefore, needed mainly for operating costs and equipment for which there is sufficient budget provision. The 2016/17 AWPB estimates the counterpart funds is UGX 2.7 billion of which UGX 198 million has been posted as realised. In 2015/16 UGX 626 million was realised. Given the VAT exemption for the big service contracts, counterpart funds have been overestimated at design and need to be revisited

54. Status of available funds- IFAD loan only: The total actual funds at the current exchange rate still available at IFAD and project bank accounts is equivalent to UGX 78.9 billion(23.3 million USD). Firm commitments (signed contracts) amount to UGX 26.9 billion (USD 7.9 million) and additional critical activities such as CSCG strengthening, second support to CSCGs signed MOU's, project operating costs and salaries until project closure leave no room for activities outside the design. Any request for additional activities to be undertaken by the project would require supplementary funds for the project.

55. Compliance with loan covenants. The project is in full compliance with the loan covenants.

56. Procurement. Procurement processes are well managed at PROFIRA and significant progress has been registered since the last mission. Under component 1: four contracts totalling to UGX 4.2 billion (about USD 1.3 million) for training 453 SACCOs in debt and default management were signed and inception reports have already been submitted. Other four contracts of UGX 15 billion (about USD 4.6) to train 334 SACCOs in six thematic areas were awarded to best evaluated bidders who have already submitted inception reports. Under sub component 2, the internal procurement processes have been completed for the 4 sub regions and negotiations with the best evaluated bidders concluded. The draft contracts have been forwarded to IFAD for a NO Objection. For region 5, the short listing report and RFP document has received IFAD's No Objection and Request For Proposal document has been issued to the 5 shortlisted bidders; bidding is on-going until 14th October 2016. Eleven contracts have been completed under Component 3: Policy, Institutional Support and Management, four of which are major consultancies.

57. Ex-ante procurement checks were done on some of the processes. The contracts reviewed include: Procurement of medical insurance, Provision of cleaning services to PROFIRA Offices,

Procurement of MIS for M&E functions, and the mission has been satisfied that the due processes were followed.

58. Data management is an area that needs improvement. There is a variance between the level of commitments balance based on procurement reports (UGX 25.8 billion) and that maintained by finance (UGX 26.9 billion). CMFs are not updated by procurement on a real time basis as transactions occur; **Agreed action:** PMU to reconcile the commitments information as maintained by finance to the contracts register/ contract monitoring forms by 30 November 2016.

59. Audit. . An internal audit firm was contracted and the PMU receives monthly internal audit reports. The office of the Auditor General appointed a private audit firm to provide professional external audit services. The firm has already held the exit meeting with PROFIRA management and is drafting the deliverables. The deadline of 31 December 2016 in which to submit the audit report for the year ended 30 June 2016 will therefore be met with ease.

Agreed action	Responsibility	Agreed date
The PMU will continue to engage the IFMS team at the Accountant General's office to set up the key project reports	PMU	31 January 2017
PMU to analyse the overrun in the account and present remedies on containing an acceptable a ratio of recurrent costs of 14%.	PMU	30 Nov 2017
Reconcile the commitments information as maintained by finance to the contracts register/ contract monitoring forms. Thereafter procurement should aim to update the contract register and CMFs on a real time basis as transactions occur.	Finance officer and Procurement manager	30 Nov 2016

E. Conclusion

60. 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 March 2017. This Aide Memoire was discussed and agreed upon in a wrap up meeting on 14 October 2016, chaired by Ms Maris Wanyera, Director, Debt and Cash Management Directorate. 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	17-Nov-2016				
Supervising Inst.	IFAD				
No. of Supervisions	4	No. of Implementation Support/Follow-up missions	1		
Last Supervision	14-Oct-2016	Last Implementation Support/Follow-up mission	29-May-2015		

USD million Disb. rate %						
Approval	19-Sep-2013			Total financing	35.38	
Agreement	24-Nov-2014	Effectiveness lag	14.4	IFAD Total	29.00	
Entry into force	24-Nov-2014	PAR value	-----	IFAD loan	29.00	20
First disbursement	04-Mar-2015			DSF grant		
MTR		Last amendment		IFAD grant		
Original completion	31-Dec-2021	Last audit		ASAP grant	0.00	0
Current completion	31-Dec-2021			Domestic Total	6.38	
Current closing	30-Jun-2022			Beneficiaries	1.44	0
No. of extensions	0			National Govern	4.93	3
				External Cofinancing Total		

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	5	5	1. Quality of project management	5	5
2. Acceptable disbursement rate	4	4	2. Performance of M&E	4	4
3. Counterpart funds	5	5	3. Coherence between AWPB & implementation	3	4
4. Compliance with financing covenants	5	5	4. Gender focus	4	4
5. Compliance with procurement	4	4	5. Poverty focus	4	4
6. Quality and timeliness of audits	4	4	6. Effectiveness of targeting approach	4	4
			7. Innovation and learning	4	4
			8. Climate and environment focus	4	4

B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Sub-Comp. 1.1 - SACCO Strengthening	4	4	1. Institution building (organizations, etc.)	4	4
2. Sub-Comp. 1.2 - Developing a SACCO Union	4	4	2. Empowerment	4	4
3. Comp. 2 - Community Based Financial Services	4	4	3. Quality of beneficiary participation	4	4
4. Sub-comp. 3.1 - Policy, regulat. and inst. framew.	4	4	4. Responsiveness of service providers	4	4
			5. Exit strategy (readiness and quality)		
			6. Potential for scaling up and replication	4	4

B.5 Justification of ratings

PMU fully staffed with competent and motivated professionals. Working environment very conducive in terms of office space and equipment. All systems for financial management, procurement and monitoring and evaluation in place and properly managed to effectively and efficiently support the technical units. Disbursement rate is moderately unsatisfactory as per IFAD Project Disbursement Profile, but expected to improve considerably in this financial with sizeable commitments to service providers to be disbursed in this financial year. Counterpart funds timely available. Project is in full compliance with all main loan covenants, Procurement has improved. Project management is proactive in addressing implementation issues and creating proper team spirit and collaboration among different units. Execution of the 2015/16 AWPB is moderately unsatisfactory due to the delays in all the major contracts for service provision. Execution at the end of the financial year, however, is projected at approximately 72%. The M&E baseline has been completed. Reporting format has been agreed with all service providers. Procurement of M.I.S. systems for both SACCOs and CSCGs is on-going and should be operational by January 2017. Activities on the ground have commenced for 1.1 and 2 and field visits have indicated positive feedback.

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	3	3
C.4 Overall implementation progress (Sections B1 and B2)	4	4

Rationale for implementation progress rating

Activities under all components have commenced except 2.2 which is in the final stages of procurement. Service providers are fully engaged and initial field visits of beneficiaries have indicated satisfactory feedback in the trainings undertaken and positive increase in savings mobilisation as a direct result of those training.. While it is reasonable to expect that the project will achieve above 80% of its outputs and outcomes, a conservative rating of 4 has been considered.

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

Albeit at early stages of implementation, there are no reasons to doubt about the likelihood of the project to achieve outcomes and objectives as agreed at project design. All key outputs in terms of SACCOs and CSCGs are fully achievable.

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

Fiduciary aspects	While IFMS is proving to be very efficient in payment processing, with the required elements of segregation of duties, some work is still needed before it can handle project accounting demands, completely replacing the Pastel accounting system. For the time being, a parallel accounting system (Pastel) will be maintained until IFMS will be able to produce the necessary financial reports.
Project implementation progress	Delays in finalising procurement for 2.2. Low risk as contract should be completed by the end of the year.
Outputs and outcomes	Operating Self-Sufficiency (OSS) for UCSCU is 33% as targeted but the operating deficit already exceeds the revised target deficit in the revised business plan.
Sustainability	None at this stage

Appendix 2: Log-frame and updated results framework

Results Hierarchy	Indicators	Means of Verification	Risks (R) & Assumptions (A)
<u>Goal</u> Increased income, improved food security and reduced vulnerability in rural areas	<ul style="list-style-type: none"> - At least 20% of the rural poor in the selected project intervention areas with improvements in assets² ownership index and food security at project completion - 20% reduction in the prevalence of child malnutrition³ in rural households (data disaggregated by gender) at project completion - Improved Women's Empowerment in Agriculture Index (WEAI)⁴. 	<ul style="list-style-type: none"> - Household Level Baseline - Mid-term Review - Impact Study - Project Completion Study 	(A) Political stability

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

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

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

Results Hierarchy	Indicators	Means of Verification	Risks (R) & Assumptions (A)
<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 active⁵ 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 mature⁶ 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 	<p>(A) Dynamic economy creates opportunities for investment in enterprises and other income generating activities</p> <p>(A) Conducive Tier 4 regulation passed (R) MTIC not able to provide effective regulation/support to SACCOs</p> <p>(R) Self Help Group policy paper allows injection of external government financing into community savings and credit groups</p> <p>(R) Project supported SACCOs not able to attain financial sustainability</p> <p>(R) Failure of UCSCU to attain operational sustainability after five years undermines conducive environment for SACCOs</p>
Component 1. SACCO Strengthening and Sustainability			
<u>Outputs</u> 0.1.1 Potential of existing SACCOs to establish sustainable operations enhanced	<p>1.1.1 At least 350 existing strong and intermediate SACCOs trained in six thematic areas⁷ addressing needs over the project implementation period.</p> <p>1.1.2 All targeted beneficiary SACCOs (500+) are trained in credit and default management over the project implementation period.</p> <p>1.1.3 At most 150 existing strong and intermediate SACCOs facilitated⁸ to automate their Management Information Systems (MIS) over the project period.</p>	<ul style="list-style-type: none"> - M&E data - Service Provider Reports 	<p>(A) Adequate allocation and timely release of funds</p>
0.1.2 UCSCU enabled/facilitated	<p>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</p>	<ul style="list-style-type: none"> - Progress Reports from CCA 	<p>(A) Adequate allocation and timely release of funds</p>

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

⁶ A mature CSCG has the following characteristics: - (i) at least 2 cycles successfully completed; (ii) savings volumes and lending performance justify its need for further development and linkages; (iii) good governance and management practices; (iv) up to date record keeping; (v) Group has expressed a clear interest and provided sound justification, with clear achievable targets for participating in sub-component 2.2 operations.

⁷ Six thematic areas namely: - (i) Financial Literacy; (ii) SACCO Governance; (iii) Business Development Skills; (iv) Savings and other Product Development/Refinement; (v) Financial Management; and (vi) Strategic Planning

⁸ Facilitation in this case may involve (i) assisting a SACCO to acquire a software for automating its MIS; or if the SACCO already had one – it will be assisted to upgrade equipment, if required and obtain refresher training to improve its financial management and prepare for eventual prudential regulation.

Results Hierarchy	Indicators	Means of Verification	Risks (R) & Assumptions (A)
to develop into a sustainable SACCO Union	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.	- UCSCU Annual Report	
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 development of inclusive financial services in rural areas	3.1.1 MFPED supported to facilitate its role of overall coordination for the rural finance sector during the project period. 3.1.2 Assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs during the project period. 3.1.3 Partner with Bank of Uganda to implement the National Financial Literacy Strategy.	- Project progress reports	(R) The proposed institutions fail to plan and take advantage of the support they are eligible for under the project in a timely manner
o.3.2 Project Management	3.2.1 A Project Management Unit (PMU) established and 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 - Project consolidated progress reports	

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

OBJECTIVE	PERFORMANCE INDICATOR			INFORMATION SOURCE	BASELINE JUNE 2015	TARGET JUNE 2016	TARGET JUNE 2017	TARGET JUNE 2018	TARGET JUNE 2019	TARGET JUNE 2020	TARGET JUNE 2021
DEVELOPMENT OBJECTIVE/ OUTCOME											
Sustainably increase the <u>access to</u> and <u>use</u> of financial services by the rural poor	Outreach and Usage		RIMS Indicators								
	A	Number of fully paid-up members in supported SACCOs	1 st Level	SACCO Census	714,873	750,617	786,360	857,848	929,335	1,000,822	1,072,310
	B	% of fully paid-up female members in supported SACCOs	1 st Level								
	C	% of fully paid-up youth members in supported SACCOs	1 st Level								
	D	%age of project supported SACCOs that offer at least 2 savings and 3 loan products to their members	1 st Level								
	E	Number of members in the newly established CSCGs	1 st Level	Service Providers' Annual Reports	0	37,500	140,625	187,500	225,000	328,125	375,000
	F	% of female members in the newly established CSCGs	1 st Level		0	26,250	98,438	131,250	157,570	229,688	262,500
	G	% of youth members in the newly established CSCGs	1 st Level		0	11,250	42,187	56,250	67,430	98,437	112,500
	H	Number of members in the supported mature CSCGs	1 st Level		0	7,500	28,125	37,500	45,000	65,625	75,000
	I	% of female members in the supported mature CSCGs	1 st Level		0	5,250	19,688	26,250	31,500	45,938	52,500
	J	% of youth members in the supported mature CSCGs	1 st Level		0	2,250	8,438	11,250	13,500	19,688	22,500
	K	Total Share Capital in supported SACCOs (UG Shs million)	1 st Level	SACCO Census	60,472	63,496	66,519	72,566	78,614	84,661	90,708
	L	Total savings in supported SACCOs (UG Shs million)	1 st Level		90,425	94,946	99,468	108,510	117,553	126,595	135,638
	M	Total loan portfolio in supported SACCOs (UG Shs million)	1 st Level		151,180	158,739	166,298	181,416	196,534	211,652	226,770
	N	Cumulative savings in newly established CSCGs (UG Shs million)	1 st Level	Service Providers' Annual Reports	0						
	O	Cumulative loan value in newly established CSCGs (UG Shs million)	1 st Level		0						
	P	Cumulative savings in supported mature CSCGs (UG Shs million)	1 st Level		0						
	Q	Cumulative loan value in supported mature CSCGs (UG Shs million)	1 st Level		0						
	R	% of CSCG members operating viable Income Generating Activities	1 st Level		0						
	S	Number of SACCOs with UCSCU membership		UCSCU Annual Reports	1,253	1,253	1,253	1,253	1,253		
	T	Number of SACCOs that have renewed their membership through making annual subscriptions and statutory contributions to UCSCU			112	200	300	350	400		
	Sustainability										
	U	% of supported SACCOs with OSS>100%	2 nd Level	SACCO Census	85.9%	90%	100%	100%	100%	100%	100%
	V	% of CSCGs formed that are still operational after three years of support	2 nd Level	Service Providers' Annual Reports				80%			80%
	W	UCSCU OSS		UCSCU Audited Financial Statements	31%	33%	61%	75%	100%		
OUTPUTS											
1.1. Potential of	1.1.1	Number of SACCOs trained in six thematic areas ⁹ on demand	- Service Provider	-	70	210	350				

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
existing SACCOs to establish sustainable operations enhanced	1.1.2	Number of SACCOs provided with continuous technical assistance	Reports to PMU	-		70	210	350		
	1.1.3	Number of SACCOs provided with refresher training in the six thematic areas	- Consolidated Report from SACCO Development Unit	-			100	210	350	
	1.1.4	Number of SACCOs trained in credit and default management		-	70	330	500			
	1.1.5	Number of SACCOs provided with continuous technical assistance		-		70	330	500		
	1.1.6	Number of SACCOs provided with refresher training in credit and default management		-			150	300	500	
	1.1.7	Number of SACCOs assisted to acquire software for automating their Management Information Systems (MIS) over the project period.		-		30	50			
	1.1.8	Number of SACCOs that already have a software that will be assisted to upgrade equipment, if required and obtain refresher training to improve their financial management and prepare for eventual prudential regulation over the project period		-		40	60	100		
1.2. UCSCU enabled/facilitated to develop into a sustainable SACCO Union	1.2.1	Financial support (Amt. in Uganda Shillings) provided to UCSCU to fund its annual operating loss.	UCSCU Business Plan 2014/15 – 2018/19	1,176,000,000	997,434,725	772,432,324	483,670,625			
	1.2.2	Management Information System improved for data processing and timely financial reporting; and a standardised reporting system instituted.	CCA Progress Reports			√				
	1.2.3	New business model developed shifting focus from external funding to member owned, controlled and self-financing				√				
	1.2.4	UCSCU organogram, job placements, byelaws, apex structure and reporting systems to improve communication reviewed				√				
	1.2.5	Field Services Manual and SACCO Performance Standards Developed			√					
	1.2.6	Field Staff trained on their roles and responsibilities			√					
	1.2.7	CFF accounts separated from operating accounts; sound policies developed; new products and services introduced and marketed.				√				
	1.2.8	UCUSCU facilitated to capitalise and launch its CFF.				√				
	1.2.9	UCSCU BOD, Staff and SACCOs trained and sensitized on CFF operations				√				
	1.2.10	Competitive pricing system introduced				√				
	1.2.11	Core group of internal auditors trained and equipped with audit tools				√				
2.1. CSCGs established	2.1.1	Number of CSCGs established, trained and provided with technical assistance in use of the Village Savings and Loan Association (VSLA) methodology	- Service Provider Reports to PMU		1,500	5,625	7,500	9,000	13,125	15,000
	2.1.2	Number of members in established CSCGs trained in basic financial literacy modules	- Consolidated Report from SACCO Development			65,625	131,250		196,875	262,500 ¹⁰
	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	2.2.1	Number of mature CSCGs provided with focused training and are exposed to more			300	1,125	1,500	1,800	2,625	3,000

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

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

OBJECTIVE	PERFORMANCE INDICATOR		INFORMATION SOURCE	BASELINE JUNE 2015	TARGET JUNE 2016	TARGET JUNE 2017	TARGET JUNE 2018	TARGET JUNE 2019	TARGET JUNE 2020	TARGET JUNE 2021
equipped to expand their operations		advanced financial services through innovations, linkages and establishing partnerships	Unit							
	2.2.2	Number of members in mature CSCGs trained in advanced financial literacy modules				18,750	37,500		56,250	75,000 ¹¹
	2.2.3	Number of members in mature CSCGs trained in advanced business skill development modules				18,750	37,500		56,250	75,000
3.1. Contributed to the creation of a conducive environment for the development of inclusive financial services in rural areas	A/ MFPED supported to facilitate its role of overall coordination for the rural finance sector during the project period (See Note 4)		Progress Report from FSD/MFPED							
	B/ Assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs during the project period (See Note 5)		Progress Report from DCD/MTIC							
	3.1.1	Facilitate turn-around activities to support SACCOs facing difficulty in their operations			20	30	40	50	50	50
	C/ Partner with Bank of Uganda to implement the National Financial Literacy Strategy (See Note 6)		Progress Report from BOU							
3.2. Project Management	3.2.1	Quality of Project Management and Administration	IFAD PSR ratings – Implementation Support Mission Reports	4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4
	3.2.2	Quality of Financial Management		4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4
	3.2.3	Performance of M&E, Communication and KM		4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4
	3.2.4	Compliance with Procurement Guidelines		4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4
	3.2.5	Likelihood of achieving SACCO Component outputs and outcomes		4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4
	3.2.6	Likelihood of achieving CSCG Component outputs and outcomes		4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4	≥ 4

NOTES:

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

¹¹ This is 100% of the total targeted members with this type of support.

viii. % of CSCG members that are also individual members to SACCOs

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

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

Action Area	Action Agreed	Date	Whom
Component 1 – SACCOs Strengthening and Sustainability	Finalize MIS Grant Manual and submit to IFAD No Objection	PMU	15 Nov. 2016
	Assess reasons for dormancy of 41 pre-selected SACCOs and propose package of turnaround interventions (if warranted)	MTIC	31 Jan. 2017
	Add a line in Results Framework for number of potential 'turnaround' SACCOs assisted indirectly via MTIC	PMU	30 Nov. 2016
	UCSCU to submit revised budget projections and remedial measures	UCSCU,	30 Nov. 2016
	UCSCU to update their accounting backlogs and constantly update financial report.	UCSCU	30 Nov 2016
Component 2 – Community Based Financial Services	Organise SP workshop to discuss key implementation issues	PMU	April 2017
	Sign first Sub-component 2.2 contracts	PROFIRA/SPs	October 2016
	Submit Inception Reports	SPs	End Nov 2016
	Organise Inception Workshop	PROFIRA	10 Dec 2016
	Start field implementation	SPs	January 2017
Sub-comp. 3.1 – Policy, Regulatory and Institutional Environment	Sign Region 5 contract and start field implementation	PROFIRA/SPs	Jan-March 2017
	Formally request funding from the development partners for Tier 4 implementation support	MFPED	30 Nov., 2016
Project Management	Prepare Concept Note for MFI Census and formally request funding from FSDU	MFPED	30 Nov. 2016
	POC meetings to be held on a quarterly basis	PMU	Continuous
	Submit for IFAD no Objection a revised AWPB	PMU	31 January 2017
	The M&E team will review the first batch of reports and organized M&E working session	M&E Team	31 Dec 2016
	MIS system operational	PMU	30 Nov 2016
Fiduciary Aspects	PMU will ensure that service providers sensitize SACCOs and CSCGs on the importance of disaggregation of data by gender and youth as part of the M&E working sessions.	PMU	31 Dec 2016
	The PMU will continue to engage the IFMS team at the Accountant General's office to set up the key project reports	PMU	31 January 2017
	PMU to analyse the overrun in the account and present remedies on containing an acceptable a ratio of recurrent costs of 14%.	PMU	30 Nov 2017
	Reconcile the commitments information as maintained by finance to the contracts register/ contract monitoring forms. Thereafter procurement should aim to update the contract register and CMFs on a real time basis as transactions occur.	Finance officer and Procurement manager	30 Nov 2016
	The PMU will continue to engage the IFMS team at the Accountant General's office to set up the key project reports	PMU	31 January 2017

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

Component & objective	Indicator and Activity	Unit	FY 2015/16			Cumulative Actual	Appraisal Target	%
			AWP&B Target June 2016	Actual	%			
Component 1: SACCOs strengthening and sustainability								
Output 1.1: Potential of existing SACCOs to establish sustainable operations	1.1.1 At least 350 existing strong and intermediate SACCOs trained in six thematic areas	SACCOs	70	0	0%	0	350	0%
	1.1.2 All targets beneficiary SACCOs are trained in credit and default management	SACCOs	100	0	0%	0	500	0%
	1.1.3 At most 150 strong and intermediate SACCOs facilitated to automate their MIS system Milestones:	SACCOs	30	0	0%	0	150	0%
	- SACCOs assisted to acquire software for MIS automation		10	0	0%	0	50	0%
	- SACCOs which already have software assisted to upgrade equipment / obtain financial management refresher training / prepare for prudential regulation		20	0	0%	0	100	0%
Additional milestones:								
- Conduct SACCO Census for 112 Districts	Districts	112	109	97%	109	112	97%	
- Shortlist of SACCOs developed	SACCOs	500	453	91%	453	500	91%	
- Up to 8 contracts signed with service providers	Contracts	8	0	0%	0	8	0%	
- MoUs signed between SACCOs and service providers	MoUs	500	0	0%	0	500	0%	

Output 1.2: UCSCU enabled/ facilitated to develop a sustainable SACCO union	1.2.1 UCSCU provided with technical support in the areas of (i) developing a change management plan, (ii) institutional re-engineering, (iii) piloting new business-focused initiatives, (iv) developing income generating activities and (v) strengthening the MIS and database. Milestones: <ul style="list-style-type: none">- Developing new products and services- Reviewing and updating UCSCU bye-laws	Services Reviews	Done Continuous 1	Done Continuous 1	100% 100%	Completed		
	1.2.2 UCSCU provided with financial support in form of performance-based incentives, which will find the annual operating loss as specified in the UCSCU Strategic Plan. Milestones: <ul style="list-style-type: none">- Quarterly financial statements produced- Semi-annual performance reports- Appraisal reports from CCA	UGX Reports Reports Reports	997,434,725 4 2 2	748,076,045 3 1 1	 75% 50% 50%			
Component 2: Community based financial services								
Output 2.1: CSCGs formalised and registered	2.1.1 15000 CSCGs (with at least 375,000 members) established, and trained in Group Savings and Credit methodology Milestones: <ul style="list-style-type: none">- Groups established in North East- Groups established in West Nile- Groups established in Mid-North- Groups established in Eastern- Guidelines on CSCG shared with service providers- Performance indicators identified- Capacity Assessment reports undertaken- Inception / KML reports- Technical backstopping reports	Groups	1500	0	0%	0	15000 (first 3 yrs: 7500)	0%
		Groups	124	0	0%	0	620	0%
		Groups	330	0	0%	0	1649	0%
		Groups	431	0	0%	0	2157	0%
		Groups	615	0	0%	0	3074	100
				Done	100%	Done		100
				Done	100%	Done		100
				-	0%	-		%
				-	0%	-		0%
				-	0%	-		0%

Output 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) Milestones: - Groups strengthened North East - Groups strengthened West Nile - Groups strengthened Mid-North - Groups strengthened Eastern - Groups strengthened elsewhere	Groups	300	0	0%	0	3000 (first 3 yrs: 1500)	0%
		Groups	60	0	0%	0	300	0%
		Groups	60	0	0%	0	300	0%
		Groups	60	0	0%	0	300	0%
		Groups	60	0	0%	0	300	0%
		Groups	60	0	0%	0	300	0%
		Groups	60	0	0%	0	300	0%
Component 3: Policy and institutional support and project management								
Output 3.1: Contributed to the creation of a conducive environment for the development of inclusive financial services in rural areas	3.1.1 MFPED supported to facilitate its role of overall coordination for the rural finance sector Milestones: - Meetings on Tier IV - Study Tour abroad for International benchmarking - Retreats for legislators - Establish regional financial inclusion fora		Approved 2 1 -	1 st reading Done Done -	25% 100% 100% 0%	Approved	Approved	25% 100% 100% 0%
	3.1.2 Assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs during the project period. Milestones: - Up to date database in place - Active regional SACCO forums - Turn-around SACCO activities initiated		Continuous Continuous	Continuous Continuous Done	0% 0% 100%			0% 0% 100% %
	3.1.3 Partner with Bank of Uganda to implement National Financial Literacy Strategy Milestones:		Continuous	Done				

	- Dialogue with GIZ							
	3.1.4 Establish Other Partnerships Milestones: <ul style="list-style-type: none"> - MoU with Ministry of Trade, Industry and Cooperatives – MTIC - MoU with Uganda Cooperative College – Kigumba - Partner with Financial Sector Deepening 		1 1	Drafts produced	50% 50%			100% 100%
Output 3.2: Project Management	3.2.1 A PMU established and operationalised with the following functions: (1) project management and administration, (2) supervision and management of a series of contract with service providers, (3) planning, reporting and communication (M&E, KM) and (4) financial management, procurement and governance Milestones: <ul style="list-style-type: none"> - Finalise PIM - Project Oversight Committee established - Baseline data established - Data management system in place - KM&L forums being held - IFAD PSR ratings ≥ 4 		1 1 1 1 4 4	Done Done On-going On-going - 5	0% 125%			

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

Table 5A: Disbursement performance by financier as at 30 September 2016 (USD'000)

Financier	Appraisal	Actual	% Actual
IFAD Loan	29,000	5,955	20.5
Government	4,935	167	3.4
IFAD grant	1,000	748	75
CCA/WOCCU	250	-	-
Beneficiaries	1,443	-	-
Total	36,628	6,871	18.8

Table 5B: Financial performance by financier by compared using actual loan utilization (excluding initial advance) as at 30 September 2016 (USD'000)

Component	IFAD loan			GoU			IFAD grant			CCA/MOCCU			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	754	8.3	1 774	0.15	0							1 443			12 327	754	6.1
1.2 Developing a sustainable SACCO Union	1 258	641	51.0	208	-	-	1 000	335	34%	250	-	-				2 716	977	36.0
Sub-total	10 368	1 395	13.5	1 982	0.15	0	1 000	335	34%	250	-	-	1 443	-	-	15 043	1 730	11.5
2. Community based financial services																		
2.1 Establishment of new community savings and credit group	8 132	643	7.9	1 346	0.08	0										9 478	643	6.8
2.2 CS GC Strengthening innovations and partnerships	3 823	29	0.8	633	-	-										4 456	29	0.7
Sub-total	11 955	673	5.6	1 979	0.00	0	-	-	-	-	-	-	-	-	-	13 934	673	4.8
3. Policy and institutional support and project management																		
3.1 Policy, regulatory and institutional environment	1 786	470	26.3	372	2.81	0.76										2 158	473	21.9
3.2 Project management	4 891	998	20.4	602	166.60	27.67										5 493	1 665	30.2
Sub-total	6 677	1 468	22.0	974	169.41	17.10	-	-	-	-	-	-	-	-	-	7 651	1 635	21.4
Total	29 000	3 535	12.2	4 935	166.75	3.38	1 000	335	34%	250	-	-	1 443	-	-	36 628	4 038	11.0
Initial advance (Unspent)		2 420		-	-	-		413								-	2 833	
Grant total	29 000	5 955	20.54	4 935	167	3	1 000	748	75	250	-	-	1 443	-	-	36 628	6 871	19

Table C: Loan 900 status of available funds as at 30 September 2016 (SDR'000)

Code	Category description	Allocated	Disbursed up to WA 6	% Disbursed up to WA 6	WA- In progress	Projected loan utilization	Projected loan utilization (%)	Projected available balance
123202	Equipment and materials	190	140	74 %	1.98	142	75 %	48
123203	Other investment costs	14,910	1589	11 %	12.22	1,601	11 %	13,309
123204	Operating costs	2,270	769	34 %	42.97	812	36 %	1,458
123205	Unallocated	1,930	0	0	0	-	0 %	1,930
	Total	19,300	2,498	13%	57.17	2,555	13%	16,745
270001	Authorised allocation	0	1,437	-		1,437		(1,437)
	Total	19,300	3,935	20 %		3,935	20 %	15,365

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
B (6)	There shall be a designated account (USD) and operational account (UGX) both in the Bank of Uganda		Complied	
B (7)	The borrower shall provide counterpart financing to cover taxes and duties estimated at USD 4,900,000		Not yet due	Compliant with respect to counterpart financing due as of today
E (1 a)	The borrower shall constitute a PMU acceptable to the Fund and in accordance with schedule 1	Condition of withdrawal	Complied	
E (1 b)	No withdrawal shall be made under subcomponent 1.2, prior to approval of IFAD grant as specified in schedule 1	Condition of withdrawal	Complied	
Schedule 3 (1)	Ensure that the strategic and policy environment is conducive for the project investment (in particular: Tier IV regulatory framework and no public interference with CSCG operations).	Continuous	Complied	
Schedule 3 (2)	The borrower shall ensure that a Project Implementation Manual (PIM) shall be submitted to the Fund for its comments and No Objection	Within 9 months from entry into force (31 Aug 2015)	Complied	
Schedule 3 (3)	A project Oversight Committee (POC) shall be established to be chaired by MFPED with members from Public and Private Institutions.	Within 6 months from entry into force (31 May 2015)	Complied	
Schedule 3 (4)	The borrower shall establish a PROFIRA contracts committee	Within 6 months from entry into force (31 May 2015)	Complied	
Schedule 3 (6)	Establish a planning monitoring and evaluation system (PM&E)	Within 12 months from entry into force (30 Nov 2015)	Delayed (on-going)	M&E baseline completed. M.I.S system to be in place by January 2017.
Schedule 3 (6)	Baseline survey	Within 9 months from entry into force (31 Aug 2015)	Complied	Baseline survey completed.

Appendix 7: Follow-up on agreed actions

NO	AGREED ACTION	RESPONSIBLE PERSON/OFFICE	AGREED DATE	ACTION TAKEN
1.	Sign contract with the service providers for six key areas	PMU	30 th June, 2016	Done. The contracts were signed on the 1 st and 2 nd of June, 2016.
2.	Produce inception report for 6 key areas (with draft training materials)	SPs	31 st August, 2016	Done. Service providers submitted inception reports; completed assessing the training needs of the beneficiary SACCOs; developed a training curriculum with support from UCCK; prepared training materials; undertook TOTs; and are currently rolling out the training to SACCOs.
3.	Submit to IFAD evaluation report for credit and default management	PMU	15 TH May, 2016	Done. The combined Financial Evaluation Report (Lots 1, 2, 3 & 4) was sent to IFAD for No Objection on 12 th of April, 2016. IFAD provided NO on 23 rd May, 2016.
4.	Sign contract with the service providers credit and default management	PMU	30 th Jun, 2016	Done. The contracts were signed on 15th of August, 2016 and 5th September, 2016.
5.	Select 50 SACCOs for 'turnaround'	MTIC,PMU	30 th June, 2016	This activity is ongoing, MTIC has issued letters for compliance by the Commissioner, DCD. The department is undertaking further investigations with view to enforce the necessary steps for compliance as well as identification of SACCOs in distress to be supported with turnaround activities.
6.	Amend Annex 1 of MOU between UCSCU AND MFPED	UCSCU / MFPED	30 th May, 2016	UCSCU has revised the financial projections. The amendment of Annex 1 of the MOU between UCSCU and MFPED is underway.
7.	Ensure payment of membership fees and dues	UCSCU	30 th June, 2016	UCSCU's membership grew from 1,229 SACCOs in June 2015 to 1,271 by end of June 2016 (i.e. registering 42 new members). A total of 226 (17.8%) SACCOs paid annual contributions.
8.	Ensure 2015/16 Audit is finalized	UCSCU	31 st July, 2016	Done. The SACCO is planning to share the Audit Report with its members in the AGM scheduled for 28 th September, 2016.
9.	Coordinate information on SACCOs' training	UCSCU/PMU	Continuous	Service providers produce quarterly training/activity plans, which are consolidated with coordination of the PMU. In addition, UCCK held a session on harmonization

NO	AGREED ACTION	RESPONSIBLE PERSON/OFFICE	AGREED DATE	ACTION TAKEN
				of training modules with the service providers.
10.	Put in place proactive budget control systems	UCSCU	30 th June, 2016	UCSCU recruited an Internal Auditor who commenced work in March and improvements in financial practices are beginning to be observed.
11.	Produce inception reports for establishment of CSCGs(sub-comp.2.1)	SPs	30 th May,2016	Done. The service providers submitted their inception reports within the month of May, 2016.
12.	Organise inception workshop	PMU	30 th June, 2016	Done. An inception workshop was held on the 6th & 7th of June 2016, with the contracted service providers and the sub-contractors involving Chief Executive Officers, Project Managers, Finance Officers, and Monitoring & Evaluation Officers.
13.	Start operations on ground for establishment of CSCGs	SPs	30 th July, 2016	The service providers have concluded with the mapping of areas for their operations; recruiting staff to manage and implement the assignment, and carrying out Training of Trainers (TOTs) for the field level staff. Mobilization of communities and training of groups has commenced.
14.	Submit technical report for CSCGs strengthening(sub comp.2.2) in core regions for IFAD No objection	PMU	31 st May, 2016	Done. The Technical Evaluation Report for CSCGs strengthening (sub comp.2.2) in core regions was sent to IFAD for No Objection on 13 th of June, 2016.
15.	Sign contracts for CSCGs strengthening in core regions	PMU	30 th August , 2016	Contracts for Service Providers for CSCGs strengthening in core regions have been drafted and approved by CC on the 26 th of September, 2016.
16.	Advertise for Eols for CSCGs strengthening in region 5	PMU	15 th May, 2016	Done. The E.O.I Adverts were made on the 19 th & 20 th of May, 2016.
17.	Sign contracts for CSCGs strengthening in region 5	PMU	31st December, 2016	The procurement process has reached the stage of Request for Proposals from the shortlisted bidders made on the 22 nd of September, 2016.
18.	Ensure approval Bill	MFPED	31 st May, 2016	Done. The bill was presented for the second reading on April 28, 2016 and subsequently for the third reading and passed by Parliament on 4th May, 2016. The President assented to the Tier 4 Microfinance Institutions and Moneylenders

NO	AGREED ACTION	RESPONSIBLE PERSON/OFFICE	AGREED DATE	ACTION TAKEN
				Act, 2016 on July 5, 2016.
19.	Finance training in Boulder for inter-institutional team	PMU	15 th August, 2016	Done. The project funded technical staff who attended the Boulder Microfinance Training in Turin, Italy in July 2016. Participants were drawn from the MFPED, Justice, Law reform Commission, Parliament and BOU.
20.	Agree on responsibilities for SACCOs and MFIs data base	MFPED//MTIC/UBOS	30 th September, 2016	Done. MTIC will be responsible for SACCO data base, while MFPED will be responsible for the MFIs data base. Release of funds under the MOU is underway.
21.	Submit budget for SACCO de-registration process to PROFIRA	MTIC	15 th May, 2016	MTIC signed an MOU with the MFPED on the 25 th of August, 2016. All activities under that MOU will be funded by the project, including the proposals on the SACCO de-registration process.
22.	Finalize Communication Strategy	PMU	31 st May, 2016	Done. The final draft Communication and Learning Strategy was reviewed by the Mission in April, 2016. It was used to inform the annual working process for the FY 2016/17. The planned activities from the strategy are being implemented.
23.	Finalize impact baseline study	PMU	30th June, 2016	Done. The study was concluded and the report is available.
24.	Contract for MIS service provider	PMU	30th June, 2016	Done. The contract was signed on the 11 th of July, 2016. The service provider has submitted an inception report and is currently designing the M&E MIS.
25.	Submit RFP for single-sourcing for SAVIX for IFAD No Objection	PMU	31st May, 2016	Done. The request for IFAD No Objection to Procurement Method, Bid Document, Shortlisted Firm & Evaluation Committee Members was sent to IFAD on 22 nd August, 2016. The NO was received on 19th of September, 2016.
26.	Sign contract with VSL Associates for implementation of SAVIX	PMU	31 July, 2016	The procurement process has reached the stage of Request for Proposals from the shortlisted bidders made on the 21 st of September, 2016. Proposal was submitted on 28 th September, 2016.
27.	Implement the IFMS project module	PMU	30th September, 2016	Discussions on implementation of the IFMS project module are underway with the Technical Support Team.
28.	Set up in PASTEL	PMU	Immediate	Done. Advance accounts have been created for staff and contracted service

NO	AGREED ACTION	RESPONSIBLE PERSON/OFFICE	AGREED DATE	ACTION TAKEN
	imprest/advance control accounts			providers in PASTEL.
29.	Journalise and post CCA transactions in Pastel	PMU	Immediate	Done. Disbursements received by CCA have been captured.
30.	Ensure appointment of external auditors	PMU	30 th June ,2016	Done. The external audit for the project is in its final stages.

Appendix 8: Mission Terms of Reference

TO: Mr William Steel, Rural Finance specialist
Mr Jorma Ruotsi, Rural Finance specialist
Mr Davis Atugonza, Financial Management specialist
Mr Dagmawi Habte-Selassie, IFAD Programme Officer

FROM: Alessandro Marini,
IFAD Country Director and Team Leader

DATE: 3 – 14 October 2016

SUBJECT: Terms of Reference. **Supervision and Implementation Support mission for the Project for Financial Inclusion in Rural Areas (PROFIRA, 900-UG), 3-14 October 2016.**

Background

1. The Project for Financial Inclusion in Rural Areas (PROFIRA) was approved by the IFAD Board in September 2013 and signed in November 2014. The Project Management Unit (PMU) has concluded most procurement processes and contracted the service providers for implementation of components 1 and 2.
2. A grant for technical support to UCSCU through CCA was also approved by IFAD in January 2014 and the related Grant Agreement between CCA and IFAD has been signed. CCA has already started to provide technical assistance to UCSCU
3. Signing of contracts with Service Providers for the establishment of CSCGs for Lots 1 – 4 took place in April, 2016 and all service providers have submitted their inception reports. With regards to the SACCO service providers, IFAD has provided No Objection and PROFIRA is still awaiting clearance from solicitor general. A Household/individual level baseline study on poverty/livelihoods of people has been completed. The study results will also be used to furnish baseline information on the agreed IFAD RIMS indicators. A Microfinance Bill has been approved by Cabinet and assented by the President. Discussions have started between the Department of Financial Services and interested partners for supporting the implementation of the new regulatory framework.

Mission objectives and outputs

4. From 3 to 14 October 2016, an IFAD Supervision and Implementation Support mission will visit PROFIRA to assess the implementation status of the project. The overall objectives of the mission are to review the implementation progress of the project, the implementation of the recommendations from previous missions and the status of execution of the AWPB 2016/17 and to provide the necessary implementation support to the PMU. Particular focus will be on the following key areas:

- The status of preparations of services providers for the implementation of activities related to the two main PROFIRA components;
- The status of implementation of the technical assistance grant to UCSCU;
- Policy dialogue with MFPED on the implementation of the new microfinance regulatory framework as emerging from the new Microfinance Bill;
- The project M&E system;
- The overall financial management of the project.

5. The main expected outputs are:
- An Aide Memoire summarising the main findings and agreed actions of the mission, to be discussed with Government, agreed upon and signed;
 - A Management Letter highlighting the main issues and recommendations of the mission, to be sent to Government within 10 days of the end of the mission;
 - A supervision report, following IFAD template, compiling all the different contributions and outputs of the mission.

Individual tasks and responsibilities

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

7. **Mr Alessandro Marini, IFAD Country Director and team leader.** He will be responsible for coordinating the team members to ensure that the mission reaches its objectives and responds to its terms of reference in a professional, efficient, effective and timely manner. This includes coordinating, reviewing and managing the contributions of team members and working closely with them to ensure proper quality of the final outputs. He will be responsible for:

- Supervising the drafting of the mission's aide-memoire and present it at a wrap-up meeting at the Ministry of Finance, Planning and Development at the end of the mission;
- Drafting the Management Letter within 10 days of the end of the mission at the end of the mission, highlighting the main issues and recommendations.

8. **Mr Dagmawi Habte-Selassie, Programme Officer.** Within the overall objectives of the mission, he will be responsible for providing overall support to the Team Leader in managing the mission as well as reviewing the M&E aspects and. In particular, he will:

- Draft the mission's aide-memoire, under the supervision of the Team Leader, with inputs from the different team members;
- Review the overall execution of the AWPB 2016/17, with the appropriate inputs from the other team members with respect to activities in their respective technical areas;
- Review the logframe and results framework and, in consultation with the other members of the team, provide the necessary inputs to the PMU;
- Review the status of implementation of the M&E system, including the baseline report and the setting up of the project MIS;
- Review the status of the loan covenants.

9. He will contribute to the final Aide Memoire and Supervision Report in relation to the above areas, following the IFAD document template and formatting. In addition, he will be in charge of assembling the final supervision report following IFAD's template.

10. **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 implementation status of capacity building services to SACCOs by the contracted service providers and provide recommendations as appropriate;
- Assess the progress made in identifying and supporting turn-around SACCOs;
- Assess the progress made in operationalizing the envisaged support for MIS to SACCOs

- Review the status of the MTIC database on SACCOs and make recommendations on the support to be provided by PROFIRA in this respect.
- Review the status of implementation of the technical assistance provided by CCA to UCSCU;
- Assess the status of implementation by UCSCU of its Business Plan;
- Assist the Country Director in discussing with the Department of Financial Services the way forward for the operationalization of the new Microfinance Bill and how PROFIRA and IFAD could best support this process;

11. 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.

12. **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 implementation status of the establishment of CSCGs (sub-component 2.1) by the contracted service providers and provide recommendations as appropriate;
- Review the implementation status of the CSCG strengthening, innovation and partnership (sub-component 2.2) by the contracted service providers and provide recommendations as appropriate;

13. 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.

14. **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 capacity and systems for financial management;
- Review the progress made to mainstream the project into the Government's Integrated Financial Management System;
- Assess the adequacy of the installed project accounting software, including to duly capture the totality of counterpart funds;
- Review the envisaged arrangements for external and internal audit;
- Carry out spot-checks on Statement of Expenditures;
- Undertake financial management assessment ratings in accordance with IFAD risk-based disbursement guidelines;
- Review the procurement systems and templates used by the project, including the procurement plan, contract monitoring forms and contract register;
- Undertake an ex-post review on a sample of procurement processes and procurements below the No Objection threshold;
- Provide inputs on fiduciary PSR ratings.

15. 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.

Technical Annexes

Annex 1: SACCO Strengthening and Sustainability

61. Component 1's basic training programs are now fully underway, with the six contracted service providers (SPs; see Attachment 1) having completed their initial training needs assessment, harmonized their approach, and begun training. Disbursement is expected to pick up rapidly over the remainder of the fiscal year. Of the 456¹² SACCOs initially selected according to the criteria specified for potential sustainability and geographical coverage, based on 2014 Census data, some 41 SACCOs were found by the SPs to be presently dormant. These are being referred to MTIC to investigate the reasons and recommend a 'turnaround' package, if deemed appropriate. Meanwhile, 35 possible replacement SACCOs identified by SPs in the same areas are being investigated by the PMU to see if they meet the criteria for inclusion in the training. UCSCU successfully bid to be one of the SPs. It has continued to improve and meet a number of performance indicators, although its deficit substantially exceeded the projected amount and it continues to face challenges in motivating SACCOs to support it financially, in rolling out services such as the Central Finance Facility and insurance, and in reducing its expenditures.

Sub-Component 1.1 — SACCO Strengthening

62. Package of Six Modules: Contracts have been signed with four different SPs, one for each lot (totalling 334 SACCOs, depending on replacement of dormant ones), including three apex organizations: UCSCU, Association of Microfinance Institutions of Uganda (AMFIU), and Uganda Co-operative Alliance (UCA). The SPs have collaborated well with each other and UCK (see below) in preparing and scheduling their training. Training of SACCO members in Financial Literacy and Deposit Mobilization (FL&DM) has begun, and SACCOs visited by the mission were highly satisfied with the quality of the training and the immediate positive impact on their resource mobilization. PROFIRA will work with the SPs to track the impact of FL&DM training on membership and deposits in the month following the training, to help document the positive effects that capacity building can have on SACCO performance and funding. Furthermore, since SACCOs wanted to be able to roll FL&DM to surrounding sub-counties in a more decentralized way, PMU will work with the SPs to see if the refresher training in FL&DM can be organized so as to serve as training-of-trainers for some SACCO staff or members to roll it out themselves.

63. Credit & Default Management (C&DM): Two SPs have been contracted for delivering C&DM training to 456 SACCOs (two lots each; depending on replacement of dormant ones), and are beginning to roll out training. Field visits to SACCOs found that poor loan recovery remains a major obstacle to the sustainability of many (if not most) SACCOs (in part the legacy of past perception of SACCOs as channels for government delivery of resources). Until SACCOs become licensed as financial institutions under the new Tier 4 Microfinance Institutions and Moneylenders Act, they are unable to use the courts to pursue defaulters. Therefore, understanding of different techniques to manage credit and defaults is indeed critical for SACCOs to succeed.

64. UCK: The partnership between PROFIRA and the Uganda Cooperative College Kigumba (UCK) is proving highly effective. UCK has played a key role in getting the SPs to harmonize the content of their training and to improve their training methods. One useful output will be a set of standardized training manuals. UCK has also undertaken the first of two week-long residential trainings of District Commercial Officers (DCOs) who represent MTIC on the ground in dealing with the problems of SACCOs, as well as in facilitating rollout of training and other support to SACCOs. DCOs appeared highly engaged with and appreciative of the training in various aspects of SACCO governance and finances. This is a useful step toward motivating them to support PROFIRA implementation and SACCOs generally. UCK is also expected to train SACCO managers under

¹² This includes 3 identified since the contracts with SPs were signed. These contracts allow for a range of +/- 15% from the number indicated in the contracts.

PROFIRA. facilitate their involvement in PROFIRA activities, especially for 'turnaround' SACCOs. UCKK is also expected to train SACCO managers under PROFIRA. To continue playing its role in future development of the SACCO sector, UCKK pointed out the need to improve its aging infrastructure and equipment, for which it does not receive budget from the Ministry of Education (under which it falls). This is outside the scope of PROFIRA, but should be considered for inclusion in a proposed project to support implementation of the Tier 4 Act.

65. MIS Support: PROFIRA has undertaken further investigation of the MIS status and needs among the provisionally selected SACCOs and proposed a revised approach to implementation, as agreed during the previous mission. The project interacted with 57 SACCOs that already have MIS systems and found the following indicative demand for different levels of support:

MIS Grant Package	No. of SACCOs	Additional branches
Basic (software license and (re)training for existing system)	28	--
Extended basic (also install MIS in branches, plus additional virus and other software if needed)	15	19
Networking (in addition to above, install hardware and systems for all branches to be fully networked)	14	49
Total	57	68

66. This means that there are a total of 125 outlets that could be serviced, and there could be substantial hardware and other costs involved in networking (which costs about 10 times the Basic Package, which was assumed for the original PROFIRA cost tables). The existing allocation for this subcomponent (\$1.3 million) should be enough to cover the total costs for these 57 SACCOs, but not the 150 originally envisaged for this activity. (However, it should be feasible to reach over 150 outlets, including branches, by the end of the project.) The previous recommendation that MIS beneficiaries be expected to pay 30% of the cost is endorsed because it will: (1) ensure commitment from the SACCO to make good use of the MIS; (2) stretch the available resources over more SACCOs; and (3) restrain initial demand to those SACCOs that are best resourced and committed to be able to make use of the MIS system to comply with regulations and report to UMRA, once licensed. This first round will be considered as a pilot; depending on the response, experience, and funding available, adjustments could be made for subsequent rounds (including the level of cost-sharing, if that proves to be a critical barrier). The next round would invite the other 25 SACCOs that have an MIS system; and then (resources permitting), 85 SACCOs that met the criteria but do not have an existing MIS system.

67. All of the SACCOs under consideration are already listed for Credit and Default Management Training. In order to maximize the likelihood of success in achieving sustainability and licensing, it is recommended that those SACCOs approved for an MIS grant also be included in the Package of 6 training (if they are not already). This will also constitute an additional benefit for their 30% contribution to the MIS cost.

68. A draft MIS Grant Manual has been prepared setting out the terms and procedures of the grant approach. In consultation with the PDU, the mission concluded that an appropriate approach to implementation would include: (1) due diligence investigation of the five companies providing the

systems currently in use or demanded (including legal status, capability statement, price list, and endorsement from AMFIU that the software complies with the Performance Monitoring Tool); (2) invitation to the 57 SACCOs to develop a grant proposal with their existing/preferred provider; (3) review of each proposal for consistency with the objectives and standard prices. PROFIRA will contract the SPs who must submit evidence that the beneficiary SACCO has advanced its 30% contribution before beginning work. The PMU will then disburse its 70% contribution according to an agreed schedule of deliverables. Agreed action: Finalize the Grant Manual and submit to IFAD for No Objection.

69. Turnaround: The SACCOs pre-selected as eligible for PROFIRA support that have been identified as dormant by the SPs are presently classified as potential 'turnaround' SACCOs. MTIC is charged with investigating the reasons for their dormancy, the prospects for recovery, and the interventions that are needed if turnaround appears feasible. For those without good prospects for recovery, MTIC would initiate the steps toward liquidation. Agreed action: MTIC is to report to PROFIRA with respect to the identified SACCOs on the causes for dormancy, prospects for recovery, and a package of interventions for PROFIRA support by 31 January 2017.

70. MTIC should also continue to monitor the SACCOs that are assisted in order to learn lessons about the feasibility of turnaround and which interventions appear most effective. MTIC can then apply these lessons in dealing with the other 500 or so SACCOs that it has identified as out of compliance. Agreed action: SACCOs investigated and assisted by MTIC with respect to turnaround are to be monitored by MTIC PROFIRA Results Framework

Sub-Component 1.2 – Developing a SACCO Union

71. UCSCU Performance: UCSCU has succeeded in meeting some of the agreed performance benchmarks, including number of new SACCOs joining (42), number of SACCOs paying annual dues (226; however, 99 of these payments had to be credited to arrears rather than current dues), and, most importantly, operational self-sufficiency (OSS; 34%). The latter was achieved by increasing revenues to 144% of the budgeted target, while expenditures increased by 140% of the target. However, given the large size of expenditures relative to revenues, the overall operating deficit rose beyond the projected level, which means that the grant for 2016/17 must be adjusted according to annex 2 of the MoU. UCSCU had submitted a draft of revised projections for annex 1 of the MOU, as agreed in the previous mission, but this was never commented upon nor officially submitted. Hence that action from the April Aide-Memoire remains uncompleted, and must be completed as a condition for 2016/17 grant payments to be made. **Agreed action:** UCSCU to officially submit revised budget projections and measures to offset increased cost of NSSF contribution and decreased grant for 2016/17 by 30 November 2017.

72. During the mission, it was discovered that: (i) the draft projections had significant omissions with respect to personnel costs (notably the required payment to NSSF, as well as "gratuities" and delays in the restructuring of staff); and, consequently, (ii) the projected deficits should have been larger than in the draft. Hence the reduction in grant for 2016/17 will have to be recalculated, based on the figures in the final Revised 5-Year Projections.

73. Furthermore, since the OSS targets currently in the PROFIRA Results Framework [but not specified in the MOU] are based on the previous projections, they will also need to be corrected to be more realistic and unachievable, based on actual staff costs. At present, it appears that full self-sufficiency by 2018/19 may not be practical. Hence, there should be room for renegotiation of these benchmarks based on the updated projections. One implication is that 2018/19 may become a deficit year, postponing full self-sufficiency to 2019/20. Since this would be a departure from the original plan, it would need careful explanation, concurrence by the CCA Advisers, agreement by PROFIRA, and submission to IFAD for no objection. and the OSS projections for 2016/17 and 2017/18 are probably not correct or realistic, notwithstanding that the 2015/16 target was achieved. UCSCU should also submit its plans to bring down total expenditures and the size of the deficit in the coming years.

74. UCSCU was a successful bidder for one of the lots of PROFIRA training in six areas, and it has started rolling out Financial Literacy and Default Management, which was well received and appreciated by SACCOs visited by the mission. This contract has contributed to the strong increase in business income, as a main driver of growing revenues for UCSCU. Nevertheless, the fact that PROFIRA training is free (as are other trainings offered by other donors) may tend to reinforce the continuing perception by SACCOs that UCSCU is a vehicle for the delivery of free goods and services. UCSCU made a step forward in persuading its members to cover their own costs of attending the AGM. However, the political environment and public mis-perceptions of SACCOs continue to inhibit progress toward self-sufficiency based on member contributions and payment for services.

75. Technical support: Technical assistance through the Canadian Co-operative Association (CCA) has continued to be effective and appreciated. PROFIRA has received quarterly briefing and an annual report from CCA. CCA has highlighted the risks involved in the lack of transparency in UCSCU financial statements, and inadequate financial and expense management.

76. UCSCU financial management. UCSCU successfully went through an external audit by a private firm. The audit firm issued a clean (unqualified) audit opinion for the year ended 30 June, 2016, with a number of recommendations in the management letter that management should implement. The mission reviewed the audit report and found it satisfactory, and overall the financial position has improved between 2014/15 and 2015/16. The net book worth of the union increased from UGX 0.96 billion in 2014/15 to UGX 1.24 billion in 2015/16. Provision of internal audit services has made a start, and could be expanded in the coming year.

77. However, for the first quarter of 2016/17 (1 July 2016 to 30 September 2016), the mission has found that the Union has again accumulated accounting backlogs. Pastel Accounting system had not been posted for the period 1 July 2016 to 30 September 2016. This shows the need for improvement in the financial management practices, which confirms CCA's findings. The mission could not review the performance and financial position for the first quarter of 2016/2017. **Agreed Action:** UCSCU to update their accounting backlogs by 30 October 2016.

Attachment 1

CONTRACTS OF MAJOR CONSULTANCIES WITH PROVIDERS AND CONTRACT AMOUNTS

COMPONENT 1: SACCO STRENGTHENING AND SUSTAINABILITY

a. Procurement of Consultancy Services to provide training in Credit and Default Management.

Four Contracts were signed with the best evaluated bidders as follows;

- Lot 1-Central Region: Demis Consults Ltd at Ugx 1,763,599,680 for training 139 SACCOs
- Lot2-Western Region: Demis Consults Ltd at Ugx 1,776,836,330 for training 140 SACCOs
- Lot 3-Eastern Region: Friends Consults Ltd at Ugx 657, 302,163 for training 89 SACCOs
- Lot 4-Northern Region: Friends Consult Ltd at Ugx 591,198,695 for training 85 SACCOs

b. Procurement of Consultancy Services to provide training in 6 thematic areas that include; financial literacy, governance, business development, financial management, savings and other product development, and strategic planning

Four Contracts were signed with the best evaluated bidders as follows;

- Lot 1-Central Region: Uganda Cooperative Savings and Credit Union (UCSCU) at Ugx 3,485,819,120 for training 87 SACCOs
- Lot2-Western Region: Uganda Cooperative Alliance (UCA) at Ugx 3,570,991,305 for training 73 SACCOs
- Lot 3-Eastern Region: Best Africa Consult Ltd at Ugx 4,031,773,500 for training 89 SACCOs
- Lot 4-Northern Region: Association of Microfinance Institutions in Uganda (AMFIU) at Ugx 3,975,490,000 for training 85 SACCOs

Annex 2: Community based financial institutions

Introduction

1

2 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.

3 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.

4 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.

5 Since the last support mission in April 2016, the progress of Component 2 has been very satisfactory. The field implementation of Sub-component 2.1 is in full swing and the initial results are very promising. At the same time Sub-component 2.2 has reached the final stage of the critical procurement processes for the first contracts with the service providers for the field implementation. This Technical Annex documents the current stages of the progress achieved and the agreements made to ensure a successful component implementation in the coming years.

2. Sub-Component 2.1: Implementation Progress and Way Forward

6 The four Service Provider (SP) contracts for the implementation of Sub-component 2.1 were signed during the last week of April 2016, to the total value of USD 3.24 million. Since then, the implementation has progressed fast, although with some variations between the regions. All Inception Reports were received by 20 May 2016 and reviewed and commented on by the Community-based Financial Services Manager (CBFSM). Their approval triggered the first performance-based payments to the SPs of Sub-component 2.1.

7 The Inception Workshop for the SPs of Sub-component 2.1 was organised by PROFIRA on 6-7 June 2016. This was a useful intervention, attended by the top management of the main contractors and their sub-contractors. Particularly important were the various clarifications of the PROFIRA approach on Sub-component 2.1 given to the sub-contractors that have a key role in the field implementation. In addition, key topics of the workshop included the contractual and financial management issues, the M&E arrangements, and issues related to publicity and visibility in the regions. In small groups, detailed initial three-month work plans were prepared for each of the four regions. Based on these, the Service Providers then developed comprehensive regional plans that were more detailed than the ones in bidding documents and reflected better the overall approaches and objectives of the component.

8 The agreements on the implementation plans and the payments of the first instalments by PROFIRA made it also possible for the SPs to recruit and train the staff needed for the effective implementation of the contracts. This recruitment covered the top SP management in the regions, the

project officers and the Community-Based Trainers (CBTs) that interact directly with the CSCGs. In total, this meant the recruitment of over 300 staff, practically all full-time. As much as possible, experienced persons in VSLA operations were employed, which has significantly speeded up the start-up of the actual operations in the villages.

9 Simultaneously with this recruitment, the SPs independently procured transport (one 4-W-D, motorcycles, bicycles) and various types of other equipment included in the contracts. By the end of September 2016, the recruitment and other procurement activities had in practice been completed by all the SPs.

10 With the key staff in place, the selection of the actual implementation areas of these four contracts started in July-August 2016. Based on the SP contracts, the responsibility for making a proposal on the implementation site mapping and selection was with the SPs, to be then agreed on with PROFIRA. This exercise started with district and sub-county meetings with relevant decision makers, to explain the objectives and resources of this PROFIRA activity. This was followed by a detailed mapping process, conducted based on the agreed criteria (such as poverty, vulnerability, current coverage of CSCGs, and concentration and numbers of population), to achieve the expected implementation effectiveness, efficiency and impact. This mapping and selection exercise was conducted in August-September 2016. The results were reviewed by PROFIRA and after required amendments, the agreement was reached on the detailed implementation areas in each region. These results are summarised in Table 1.

Table 1: Sub-component 2.1 (Phase 1): Mapping Results and Selected Implementation Areas

Region	Number of Selected Districts	Total Number of Sub-Counties	Number of Selected Sub-counties	Number of Selected Parishes
West Nile	8	102	75	441
Mid-North	15	156	31	95
North-East	7	40	40	173
Eastern	21	317	79	385
Total	51	615	225	1,094

11 In all the regions, practically all the districts will be included in Phase 1 of Sub-component 2.1. Around 36% of sub-counties within these districts were included as parts of the sub-component implementation area, with major variation from region to region based on realities on the ground. In North-East, all the sub-counties, which share relatively similar profiles concerning the selection criteria, were included as project area. In Eastern region, which differs in many aspects from the North-East, around 25% of sub-counties are included. The total number of parishes covered is nearly 1,100. In the selection of sub-counties, parishes and villages, PROFIRA has encouraged active clustering to avoid spreading the project resources too thin in this very large overall implementation area. The interviewed managers of all the four SPs are convinced that they are able to implement the agreed activities in the selected areas within the agreed budget allocations from PROFIRA.

12 Following the mapping and site selection, the SPs then defined the detailed target numbers of CSCGs that each Community-Based Trainer should establish in each sub-county during the three years' period. Each SP used as their own total target a number that slightly exceeds the PROFIRA target, to avoid the danger of falling behind their total contract target at the end of the implementation period (see Table 2).

13 After preparatory activities of the above type, the actual mobilisation, training, savings and credit activities with the CSCGs have started. In West Nile and Mid-North Regions, in which the consortia of local institutions act as SPs, the implementation started fast and smoothly. In Eastern and North-East Regions, where the implementation responsibility is with CARE International with local sub-contractors, more preparatory time was required to sort out the responsibility and budgetary issues between CARE and its sub-contractors, which were not given adequate attention when CARE launched its bids for these regions. This issue largely explains the substantial early difference in achievement figures between different regions. By October 2016, also CARE and its partners are in full action in the field, and very confident of reaching their quantitative and qualitative targets. Table 2

shows the implementation targets and the progress achieved during the first two months of field action in each of the regions.

Table 2: Sub-component 2.1 (Phase 1): Outreach Targets and Current Status of Progress (End September 2016)

Region	Number of CSCGs: PROFIRA Target	Number of CSCGs: SP Target	CSCGs in Training	CSCGs Saving
West Nile	1,900	1,950	246	74
Mid-North	2,100	2,104	423	109
North-East	1,000	1,020	79	13
Eastern	2,500	2,605	22	0
Total	7,500	7,679	770	192

14 By the end of September 2016, a total of 770 CSCGs had been mobilised by the SPs and were under training. 192 groups had gone through the programme of minimum six trainings and were already collecting savings. The issuance of loans from the saved funds has also started especially in Mid-North, where 273 small loans were issued in September 2016. Because of the larger than expected size of the CSCGs (average 28 members in Mid-North, 29 in West Nile), the total membership of the established CSCGs already exceeds 21,500. The activity has so far focused on Mid-North and West Nile regions, which together cover 87% of the established CSCGs.

15 The Mission assessed the sub-component performance through the reports presented by the managers of the SPs in the Service Provider Workshop arranged during the Mission and verified the reported results during the field visit in the Mid-North Region. Various observations, so far coming particularly from West Nile and Mid-North Regions, are very encouraging concerning the full achievement of the component targets in the coming three years.

16 Firstly, the SPs have competently organised the implementation activities in districts, sub-counties, parishes and villages, involving members of local Government in the operations when useful and appropriate.

17 Secondly, in all regions there is a very substantial demand for the formation of these savings and credit groups. The group members clearly see them as instruments to learn important lessons, to develop their skills and on-farm and off-farm activities, and to increase their future income. They showed very strong ownership of their newly established CSCGs.

18 Thirdly, the skills level of the CBTs met by the Mission were clearly above the average observed in similar situations in other environments. The CBTs delivered their messages with confidence and skills and made sure the members understood the new concepts that are crucial for successful CSCG operations. In Mid-North, with each CBT initially covering 35 groups, they have started their operations with great energy, systematic planning and commitment.

19 Fourth, groups and members are clearly geared to financing income generating activities, not home improvements or consumption. All the loans given so far by the new groups were in line with this principle, issued to finance such activities as produce buying, crop improvements and small off-farm businesses.

20 By June 2017, the CSCGs established with PROFIRA support are likely to have well over 100,000 members. If the higher than expected group size will prevail also in the future, this sub-component is likely to engage around 215,000 new households in the CSCG activity during this bidding round, and a similar number in Project Years 4-7. This very large direct outreach makes it an important development activity even nationwide. This situation calls for close and continuous cooperation between the SPs and PROFIRA/IFAD not just to ensure effective implementation but also to learn from the process and document it for wider utilisation (see more below).

3. Selection of Service Providers for Sub-Component 2.2

21 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 key change made from the original design approach was the inclusion, based on a GoU request, of the fifth contracting area to Sub-component 2.2, covering selected districts outside the four core Component 2 regions.

22 **SP Selection for Sub-Component 2.2: Four Core Regions.** The Requests for Proposals to support 300 mature CSCGs were sent on 22 February 2016 to nine institutions, with a deadline of 28 March 2016. Eight organisations responded, covering altogether 14 proposals for different regions. The technical evaluation of these proposals was completed by 6 May 2016. The Contracts Committee of PROFIRA approved the evaluation report on 8 June 2016. The IFAD no-objection for the evaluation report was received on 12 July 2016. The Financial Bids were opened on 1 August 2016, followed by contract negotiations on 30 August 2016. The PROFIRA Contracts Committee approved the Record of Negotiations and the Draft Contracts on 26 September 2016.

23 At the time of this Mission, what remained to conclude this procurement process was the IFAD no-objection for the draft contracts and their final clearance by the Office of the Solicitor General. A realistic target is to get these four contracts signed within the next two weeks, before the end of October 2016. Table 3 provides the key data on the four negotiated contracts for Sub-component 2.2 implementation in the core regions of Component 2. The Mission's key findings of the results of this bidding process are summarised below.

Table 3: Sub-Component 2.2 (Phase 1): First Negotiated Contracts

REGION	West Nile	Mid-North	North-East	Eastern
Selected Service Provider	CARE, with sub-contractor: WENIPS	Consortium: International Institute of Rural Reconstruction with Caritas-Gulu	Consortium: SEPSPEL with KPSPDC	SEPSPEL
Negotiated Contract value: UGX	1,119,677,425	1,341,075,000	1,392,548,320	1,353,753,080
Negotiated Contract value: USD	331,300	396,800	412,000	400,500
Number of Groups	300	300	300	300
Contact Price per Member	USD 44.2	USD 52.9	USD 54.9	USD 54.0

24 Firstly, in this quality-based bidding process, the total amount of the four contracts was reduced during negotiations from UGX 6.32 billion to UGS 5.20 billion, or by 18%, which is a useful result for overall finances of Component 2.

25 Secondly, at PROFIRA appraised, the target contact price per member in this sub-component was estimated to be USD 40. The realised contact price was USD 51.3. This increase is understandable considering the period of time that has passed since the PROFIRA design and the inflation and foreign exchange developments in Uganda. The savings made on Sub-component 2.1 bidding clearly exceed the extra costs that follow from the increase of the contact price of Sub-component 2.2.

26 Thirdly, the winners of the four contracts represent well-known and experienced promoters of CSCGs, which augers well for successful implementation of this interesting sub-component.

27 Fourthly, the secondary development target of PROFIRA is to promote local SP capacity. The results of Sub-component 2.2 bidding support this objective well, as two contracts (Eastern and North-

East) were won by local institutions alone while in the two others, local sub-contractors carry the main field implementation responsibility.

28 Fifthly, the winning bids include many innovative approaches to develop the CSCG operations and their impact on the livelihoods of the group membership. Following the TOR for these contracts, all the four SP include activities in the following core areas, to be implemented in a phased manner during the three-year contract period:

- Advanced financial literacy programmes for the whole membership of around 30,000 in the supported 1,200 CSCGs. These programmes of all the four SPs are based on the five training modules developed by the Bank of Uganda (Debt Management, Savings Management, Budgeting, Financial Negotiations, Bank Services), which are then customised by the SPs to suit the specific needs of the CSCG members. The savings module, with its “Save for Purpose” approach, aims to develop an individual Saving Plan for each CSCG member, aiming at the financing of a concrete investment project.
- Business skills training modules. These include the development of simple business plans for each member that can then be partly financed with loans from the CSCGs or through linkages to banks. Most SPs offer also household counselling or mentoring services to improve the impact of business training.
- Linkage banking operations between banks and mature, trained CSCG groups and their members (these are less focal activities in North-East region because of long distances to banks). The target is to link a total of 724 CSCGs to banks during the three-year period, which would significantly increase the financing levels for group members.
- All but West Nile region have plans to develop models to accumulate a part of the group savings from one savings cycle to the next one. This accumulation would substantially increase the internal financing capacity of the CSCGs and make sizable lending possible also during the first months of the new CSCG cycle.
- Models to establish 2nd tier organisations for CSCGs in the form of clusters, cooperatives or federations or other similar apex arrangements, particularly to create instruments for liquidity management across the CSCGs.
- All SPs will assist all the participating 1,200 CSCGs to register at district/sub-county level, which is a requirement for the linkage banking operations or for other business activities in which the groups will participate.

29 In addition to these activities included in various ways in all Sub-component 2.2 contracts, CARE-WENIPS contract in West Nile includes interesting innovative activities in E-Keys and Ledger Link technologies. The IIRR-Caritas consortium in Mid-North aims to introduce mobile services to access savings and credit accounts as well as special programmes for youth members of CSCGs. The SEPSPEL-KPSDC consortium, operating in the complex environment of North-East region, will have a lot of emphasis on clustering of CSCGs but also promote new technological solutions and promote youth training. Finally, SEPSPEL in Eastern region, in addition to its focus on linkages and internal fund accumulation, also has specific programmes to train youth members of the groups and to mentor them in the small business activities.

30 To progress in Sub-component 2.2 implementation without unnecessary delays, it was agreed that (i) the Inception Reports should be submitted by end of November 2016, (ii) the Inception Workshop would be organised around 10 December 2016, and (iii) the actual field implementation should start in early 2017 immediately after the Christmas break.

31 **SP Selection for Region 5.** In February 2016, PROFIRA qualified 25 districts outside the core regions for potential area of operations of “Region 5” operations of Sub-component 2.2. In this new Region 5, PROFIRA would support 300 mature CSCGs to further develop their activities. During April 2016 Support Mission, the procurement documents for this bidding were finalised. On 2 May 2016, the

Method of Evaluation (Quality Based) and the documents for the EOI were approved by the PROFIRA Contracts Committee. They received IFAD's no-objection on 12 May 2016. Advertisements were placed on 19 and 20 May 2016 and EOIs received by 14 June 2016. Of the 16 EOIs received, five were shortlisted. The interesting feature in this procurement process that all the shortlisted parties are local institutions or their consortia, with no participation of the key international NGO that have introduced the VSLA/CSCG method to Uganda.

32 The PROFIRA Contracts Committee approved the short-listing on 7 July 2016, and it received the IFAD no-objection 22 July 2016. IFAD's no-objection for the RFP documentation was received on 13 September 2016. Following this, an information meeting for short-listed institutions was organised on 26 September 2016. The deadline for the submission of full proposals is set at 14 October 2016. The target for PROFIRA is to finalise the procedures for the SP contract for Region 5 in a manner that would make it possible to start field operations January-February 2017.

4. Component 2: Future Budgets and Timing of Activities

33 As the results of both the Sub-component 2.1 and 2.2 bidding are now available, it is useful to look at the remaining Component 2 finances and the time that is required to implement the second round of activities in both sub-components before the project ends.

34 **Future Budgets and Adequacy of Funding.** In the bidding for Sub-component 2.1 contracts, the contact price per CSCG member was USD 17.3, well below the budgeted value of USD 20. This resulted in the savings of USD 508,000, as compared to the PROFIRA budgeted value. In Sub-component 2.2 bidding, the average contact price was USD 51.3, clearly above the budgeted 40. Therefore, the value of the negotiated contacts exceeds the PROFIRA budget figure by USD 340,000. In addition, at Government request, a new Region 5 was added to Sub-component 2.2. This is projected by the Mission to add USD 420,000 to the Component 2 costs. With this addition of Region 5, the first round service contracts of Component 2 are therefore expected to cost approximately USD 252,000 more than the allocated PROFIRA base costs.

35 The mission projects that the second round costs for bidding for both Sub-components 2.1 and 2.2 are going to be 15% higher than the actual costs of the first bidding round¹³. This would result in the expenditure level that exceeds the budgeted PROFIRA base costs for the second round by around 549,000. Added to the USD 252,000 deficit from the first round, the total Component 2 spending would exceed the budgeted base costs by around USD 800,000.

36 The budget situation for Component 2 operations in 2017-2021 is, however, much brighter than described above. Firstly, it should be emphasised that more than half of the above deficit results from Region 5 costs that were not budgeted for at all at design. Secondly and even more importantly, the budgeted base costs represent projected costs at the time of design. The PROFIRA budget has significant resources under the "unallocated" category. These are meant to compensate for financial contingencies such as the general inflation and specific price prices. The Mission therefore assumes that adequate amounts of "unallocated" funds will be directed to cover the above-described "deficit" that arises from the Region 5 costs and especially from inflation. With this expectation, it is assumed that all the planned Sub-component 2.1 and 2.2 activities will be implemented at the activity level that was decided on during the PROFIRA design.

37 **Timing of Activities.** The PROFIRA Completion Date is 31 December 2021, by which date all the payments to Service Providers have to be made. The planned Component 2 second round operations require three full years from the contract signing to the final payment. Therefore, the last feasible contract signing date for the round two contracts of Component 2 is 31 December 2018. Experience from recent biddings show that it takes a minimum of seven months to process a large contract following PROFIRA/GoU/IFAD rules. This means that the Requests for Expression of Interest for the round two contracts for both Sub-components 2.1 and 2.2 must be placed latest in April 2018.

38 Following from the above, it was agreed that the implementation of the second round Component 2 contracts will start latest in January 2019. This will mean some overlap in

13 It is assumed that Region 5 would not be included in Sub-component 2.2 operations in round two of bidding.

implementation with the first round contracts, which is not expected to harm the implementation performance.

39 It was further agreed that one of the focal areas of the IFAD 2017 Support Missions would be to finalise the appropriate approaches and documentation for the contracting processes of the second round Service Providers. While following the general PROFIRA policies of poverty and gender focus, innovation and increased outreach, the selected approaches will be fine-tuned based on the experiences that will emerge from the implementation of the current contracts.

5. Reporting and M&E

40 The Service Providers report to PROFIRA quarterly based on the agreed PROFIRA Results Framework. All the interviewed Project Managers of the Sub-component 2.1 Service Providers informed the Mission that reporting on the 11 Outcome Indicators and the six Output Indicators is relatively simple, as they collect similar information also for their own institutional purposes.

41 The reporting on Sub-component 2.2 will be much more complicated. For activities such as linkages, accumulation of savings over cycles and the establishment of CSCG apex organisations for mature groups, the current PROFIRA indicators on membership numbers and loan and savings values do not provide much useful information. It was agreed that PROFIRA continues to work on this reporting challenge as a part of the SAVIX MIS development with the consultants, particularly as this system has previously in other projects used to report on activities of the Sub-component 2.2 type.

42 The first quarterly reports by the Sub-component 2.1 Service Providers included mainly descriptive narratives on start-up activities in the regions. The next reports will still be made in relatively basic Word and Excel tables on the early progress with the CSCG establishment. After this, the reporting is planned be done using the new comprehensive reporting tool, the SAVIX MIS.

43 The SAVIX system will be procured based on single sourcing method from VSL Associates. The technical evaluation of the proposal is currently being conducted by PROFIRA. The target for the signing of the contract is set at mid-November 2016. The system is expected to be operational in February 2017 and to cover most of the reporting needs of Component 2. The Data Clerks of the SPs will enter data on a monthly basis on each PROFIRA-supported group into the system, which will then be aggregated by the M&E Officers of the SPs. The system is expected to automatically aggregate the data from each SP into PROFIRA-level aggregate figures. The 2017 Support Missions will follow up the success in the SAVIX installation, especially its adjustments to record at least the key elements of the Sub-component 2.2 progress. A positive feature in this procurement contract is that it includes backstopping and systems development support by the supplier till the end of the PROFIRA implementation period.

6. Innovation, Networking and Knowledge Management

44 In the coming five years, PROFIRA will be the leading supporter of community-based financial arrangements in Uganda. Its network of service providers and their sub-contractors holds a critically important knowledge base on appropriate CSCG development approaches and methods for Uganda. Furthermore, the number of community-based financial groups in the PROFIRA network will gradually increase towards nearly 20,000, and the number of group members towards 500,000. This large network will create great opportunities for mutual learning, with significant potential benefits for the whole PROFIRA operation. The PROFIRA management is developing appropriate methods and channels for this mutual learning process.

45 There is also a need to professionally document the innovations and successes of this PROFIRA intervention and present them to the wider public. Various local financial fora and publications in Uganda provide opportunities for this. Outside Uganda, the IFAD networks and the wider UN and development sites offer useful channels to reach a much wider public and make these documented experiences “common goods” also globally. It was agreed that PROFIRA includes such knowledge management operations in its annual plans as well as sufficient allocations in its budgets to effectively carry out the above type of activities.

7. PROFIRA Staff Capacity Building

46 As a large, nationwide project with a long implementation period, PROFIRA needs to provide appropriate opportunities to its own senior staff to up-date and improve their professional skills. PROFIRA is currently preparing its staff training plan and budget for this financial year.

47 Relevant high-quality courses are abroad available in the management of the support operations related to community-based financial services. It is recommended that such an appropriate course is identified for the Community Based Financial Services Manager of PROFIRA and included in the 2016-2017 training plan of the project.

Annex 3: Financial Management

Introduction

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

F. Financial Management- Accounting systems

Progress made since last mission

79. The mission is pleased to record the following progress made since the last mission:

- Advances are now not being expensed. As recommended by the last mission, advance ledges were opened and are being used.
- Within the finance unit, in spite of using the cash basis of accounting, there is now a procedure for commitment control which is a critical budget control feature.
- Significant progress has been made towards using IFMS for both project accounting and payment processing system. IFMS has been fully set-up with data filter codes that are needed to be able to generate project accounting reports.

Final steps towards using GoU's IFMS as both the project disbursement and accounting system

80. The challenge remains how to retrieve the information being captured. It has been agreed that the PMU will continue to engage the IFMS team at the Accountant General's office to set up the key project reports to make use of the information being captured. In the mean time, until the report setups are finalized, Pastel will continue to be used as a parallel system.

81. There are some requirements that are difficult to accommodate in IFMS. These are:

- a. It is difficult to use FIFO in management of exchange rates which makes preparation of Withdrawal Applications (WAs) direct from IFMS difficult. The exchange rate set-up in IFMS is not within the project teams' mandates. IFAD is agreeable to the project to be exporting the primary data of SOEs from IFMS in UGX and once in excel apply the FIFO exchange rates to convert to USD and complete the WAs off IFMS.
- b. Another challenge is that, at the moment, IFMS can only call up the GOU chart of accounts budget codes as appropriated by parliament. The whole of PROFIRA can fall under one or two budget codes compared to the project AWPB which is more detailed. The smart SOEs needed in WAs require each transaction to capture a budget code in the AWPB. IFAD is also agreeable that the SOEs may use the GoU budget codes even though these will be highly aggregated.

G. Status of funds

82. **Disbursement of IFAD Loan:** According to IFAD records, disbursement stands at 20.39% as at 30 September 2016 compared to 12.3% as at 31 March 2016 through six and four withdrawal applications respectively. Firm commitments amount to UGX 26.9 billion of which UGX 11.7 billion falls in the current financial year (potential to increase disbursement to 33%). PROFIRA entered into force in November 2014 and is, therefore, at end of its second disbursement year. Rural finance projects are expected to be at 30% disbursement rate after the first two years meaning PROFIRA whose actual disbursement is 20.39% scores as moderately unsatisfactory (20.39 is 68% of expected target of 30%). This is explained by the time lost in the first year of entry into force: firstly because of the difficulties experienced then in accessing funds through IFMS and the long procurement processes for the service providers that the project went through.

83. Status of available funds- IFAD loan only: The total actual funds at the current exchange rate still available at IFAD and project bank accounts is equivalent to UGX 78.9 billion(23.3 million USD). Firm commitments (signed contracts) amount to UGX 26.9 billion (USD 7.9 million) and additional critical activities such as CSCG strengthening, second support to CSCGs signed MOU's, project operating costs and salaries until project closure leave a fiscal space of only UGX 1.3 billion (USD 400,000). Included in the analysis is UGX 3.5 billion for MIS/ assets grants to SACCOs.

Status of available balance until project closure

	Original Currency	Amount in original Currency	equivalent amount in USD'000	Current Equivalent amount in UGX' Mil
Available funds				
Available in IFAD	SDR	15,364,276	21,388	72,477
Bank balances	UGX	6,486,288,996	1,914	6,486
Total available funds			23,302	78,963
Projected Expenditure to completion				
(i) Comitments- balance on running contracts			7,946	26,926
(ii) Critical direct investements				
Second round of CSCGs			3,627	12,291
CSCG Strengtheing first round Including Lot 5 (Estimate)			2,361	8,000
CSCG Strengtheing second round Including Lot 5 (Estimate)			2,715	9,200
MIS Grant/ equipment support to SACCOs			1,033	3,500
<i>Subtotal of critical direct investments</i>			<i>9,736</i>	<i>32,991</i>
(iii) Funds allocated in various MoUs				
MTIC			443	1,500
UCCK			295	1,000
UCSCU			708	2,400
<i>Sub-otal of the fund balances in signed MoUs</i>			<i>1,446</i>	<i>4,900</i>
(iv) Operating Costs				
2016/2017	UGX (m)	525	155	525
2017/2018	UGX (m)	552	163	552
2018/2019	UGX (m)	579	171	579
2019/2020	UGX (m)	608	179	608
2020/2021	UGX (m)	639	188	639
2021/2022 Half	UGX (m)	335	99	335
<i>Sub-total operatings costs</i>			<i>956</i>	<i>3,239</i>
(v) Salaries				
	UGX (m)	1,286	379	1,286
2016/2017	UGX (m)	1,350	398	1,350
2017/2018	UGX (m)	1,417	418	1,417
2018/2019	UGX (m)	1,488	439	1,488
2019/2020	UGX (m)	1,563	461	1,563
2020/2021	UGX (m)	1,641	484	1,641
2021/2022 Half	UGX (m)	861	254	861
<i>Sub-total Salaries</i>			<i>2,835</i>	<i>9,606</i>
Total projected Expenditure (i) up to (v)			22,918	77,662
Projected Fiscal space (Projected balance of IFAD funds)			384	1,302
Summary				
Total available funds			23,302	78,963
Total projected Expenditure			22,918	77,662
Fiscal space (projected balance of IFAD funds)			384	1,302

84. It is noted that whereas the SDR has depreciated from 1SDR/1.5USD at loan negotiation to 1SDR/1.39USD currently; the Shilling has also depreciated against the United States dollar from 1USD/2500UGX at design to over 1 USD/3300UGX currently. These two have had the effect of negating the exchange loss or gain.

85. Any new activity outside the above will necessarily require a reallocation between the above amounts to avoid over committing the project.

86. The investment/ recurrent ratio: The proportion of operating (recurrent costs) stands at 20% of the cumulative actual total costs. This getting on a high side but should drop as investment

components pick-up. The available projections show that the category for operating costs which in the financing agreement was allocated 12% of total costs (SDR 2.27 million over total loan amount of SDR 19.3 million) will likely end-up at 17% of total costs by project closure. From the projections made, operating costs to closure inclusive of salaries are estimated at UGX 11.5 billion (USD 3.4 million or SDR 2.46 million). This if added to the amount already disbursement means this category could be overdrawn by USD 1.3 million (SDR 950,000) to 142%. However, there is still some room to rationalise these operating costs, for example, not all staff positions will be needed during the winding down period. Continuous through the AWPBs and reporting monitor the ratio of recurrent costs to total costs to contain it to more than 15%.

Projection of recurrent costs to closure (UGX)

Operating Costs (UGX)		
2016/2017- AWPB	525,440,000	
2017/2018	551,712,000	
2018/2019	579,297,600	
2019/2020	608,262,480	
2020/2021	638,675,604	
2021/2022 Half	335,304,692	
		3,238,692,376
Salaries (UGX)		
2016/2017	1,349,855,979	
2017/2018	1,417,348,778	
2018/2019	1,488,216,217	
2019/2020	1,562,627,028	
2020/2021	1,640,758,379	
2021/2022 Half	861,398,149	8,320,204,531
Total Projected Expenditure- UGX		11,558,896,907
Total Projected Expenditure- USD		3,419,792
Total Projected Expenditure- SDR		2,460,282
Amount already disbursed		769,367
Total by closure		3,229,649
% of the total loan of SDR 19,300,000		17%
% operating cost to total allocated to operating costs		142%

87. In comparison within approved 2015/16 budgets and the estimates at design it is clear that between salaries and operating cost; the critical element to review is the element of operating costs as shown in the comparison tables below:

		IFAD 2015/16 UGX,000	Costab USD'00 0
II. Recurrent Costs			
3561/101	A. Salaries and Gratuity /I	1,285,577	380
	C. Operating Costs		
3661/101	Office Utilities and Sundries	40,000	12
3661/105	Maintenance of ICT Equipment	15,000	4

3661/103	Maintenance of ACs	3,280	1
3661/104	Bank of Charges	5,000	1
3661/106	Office Cleaning Services /n Advertising and Procurement	36,000	11
3661/102	Notices	32,800	10
3661/107	Medical Insurance Group Personal Accident	140,000	41
3661/108	Insurance	20,000	6
3661/109	Motor vehicle Insurance	25,000	7
3661/110	Committee Meetings /o Internet Bandwidth	48,000	14
3661/111	Subscription and WiFi	40,000	12
3661/112	Stationery	16,400	5
3661/113	Vehicle Tyres Fuel and Motorvehicle Service	14,760	4
3661/114	Costs Motor vehicle Repairs and	49,200	15
3661/115	Maintenance	40,000	12
3662/116	Office Rent	-	-
Subtotal		525,440	155

Comparison to third-year estimates at design		IFAD Loan y3
Project Coordinator		54
SACCO Development Manager		32
SACCO Development Specialist		25
Community Based Financial Services Manager		32
Financial Controller		38
Accountants		38
Monitoring and Evaluation Officer		32
Communications Officer		23
Procurement and Contracts officer		32
M&E assistant		19
Admin, Records/Filing		5
Secretary		6
Driver		13
Subtotal		347
C. Gratuity 15% contribution		53
Allowances		62
Allowances (Driver)		42
Subtotal		104
E. Operating Costs		
Office rent		3
Office utilities and sundries		15
Office and equipment maintenance		3
Vehicle Operating Expenses		38
Subtotal		58
		561

88. Component wise trends in terms of actual expenditure shows that the SACCO strengthening and sustainability stood at 11.5% of design locations, while the community based financial services at only 4.8%. Policy and institutional support and project management on the other hand stood at 21%. *The PMU has to work towards a fair balance across components going forward.*

Component-wise status of funds (USD'000) as at 30 September 2016

	<i>As per design</i>	<i>Actual</i>	<i>%</i>
SACCO strengthening and sustainability	15,043	1,730	11.5
Community based financial services	13,934	673	4.8
Policy and institutional support and project management	7,652	1,635	21
	36,629	4,038	11%

Liquidity level and management of the designated account

89. Designated account reconciliation/ Liquidity position: The designated account reconciliation was last done in WA 06 with a cut off date of 31 August 2016. It was well done but shows a high level of bulking of transactions before submitting a WA. This has potential to put the project in liquidity problems in case a big WA suffers some delays. By 31 August 2016, bank balances amounted to only USD 128,000, WA 06 1.833 million and amount withdrawn not yet claimed (advances) was USD 39,000 fully reconciling the advance from IFAD of UGX 2 million. WA 06 was successfully processed, the project is not facing any liquidity problem and the working float of USD 2 million is still considered adequate.

Designated account reconciliation as at 31 March 2016 (USD'000)

	USD'000
Balance on Designated Account at BOU	25
Balance on Operational Account at BOU	103
Withdrawal Application (NO.6) submitted	1,833
Amount withdrawn and not yet replenished	39
Authorized Allocation	2,000

90. Disbursement of IFAD Grant: The grant disbursement level stands at 74.8%, being the advance of USD 412,558 and posted expenditures of USD 335,412 above the initial advance. CCA submits claims to IFAD in line with the Grant Agreement and these amounts are captured in the PROFIRA financial system to enable the project report on the totality of the financing plan in a consolidated manner.

Cumulative expenditure by CCA up to 30 September 2016 (USD'000)

	<i>Total allocated</i>	<i>Disbursed</i>	<i>Balance</i>
Consultancies	850	293	557
Training	125	38	86
Overhead and management fees	25	3	22
Advance		413	(413)
	1,000	748	252

91. The mechanism of CCA accessing funds from IFAD is enshrined in the institutional agreement between the Fund and CCA. Such funds do not flow through the PROFIRA designated account *but will need to be posted in the project accounting systems and included in financial statements in order*

to report on the totality of the financing plan at design. This should also include CCA counterpart contribution as reflected in the PROFIRA financing plan at design but this is not yet forthcoming.

H. Counterpart funds

92. Counterpart funds. Realised GoU counterpart contribution is cumulatively USD 248,000, representing 5% of the total financing agreement target of USD 4.9 million. The trainings that the service providers are providing to SACCOs and savings groups has been considered broadly VAT exempt under the Value Added Tax Act. Counterpart funds are, therefore, needed mainly for operating costs and few types of equipment for which there is sufficient budget provision. The 2016/17 AWPB estimates the counterpart funds is UGX 2.7 billion of which UGX 198 million has been posted as realised. In 2015/16 UGX 626 million was realised. Given the VAT exemption for the big service contracts, the basis for estimating the counterpart funds needs to be revisited as a low performance may continuously but wrongly be reported. Therefore, under the area of counterpart funds the project scores a satisfactory level.

I. SOE spot check/ expenditure documentation

93. A SOE spot check has been done on a 45% sample across expenditure categories of WAs 06 and the mission confirms the existence of the underlying supporting documents. The transactions tested were documented as follows:

Republic of Uganda
Project for Financial Inclusion in Rural Areas (PROFIRA)
Supervision report - Mission dates: 3-14 October 2016
Annex 3: Financial Management

WA NO:	6	Date of WA signed	29-Jun-16	Total WA amount- USD:	1,832,671.74
Category 1: Equipment and Materials					
	Total amount of the category claimed	item amount	Remarks	% checked	
Item no.checked					
PROF759- 20% Payment for supply of 2 4WD Land Cruiser station wagons		22,846	Expenditure justified		
PROF810- 80% of contract price for purchase of 1 vehicle		29,351	Expenditure justified		
PROF753- 20% for 1 vehicle		7,320	Expenditure justified		
PROF811- 80% of contract price for purchase of 2 4WD Land cruisers		91,530	Expenditure justified		
Subtotal checked	155,517	151,047		97%	
Category 2: Other investment costs					
	Total amount of the category claimed	item amount	Remarks	% checked	
Item no.checked					
PROF672- Grant to UCSCU		73,585	Documentation sufficient		
12% for training SACCOs in					
PROF788-Central		125,628	Expenditure supported fully		
PROF787-Northern		141,987	Expenditure supported fully		
PROF789-Eastern		143,997	Expenditure supported		
PROF786- Western		127,540	Expenditure supported fully		
PROF686-Replenishment for fuel card 1 & 2		585	Documentation sufficient		
PROF624-Stipend for March for Micro finance adviser		974	Documentation sufficient		
PROF623-Facilitation to MTIC for turnaround activities in North Team 4		2,662	Expenditure justified		
PROF569- Being training fees for PDU Staff		590	Documentation sufficient		
PROF629-Return ticket to Addis Abba in favour of Gulooba Lwanga Inv no. 00700810		531	Expenditure justified		
PROF793-Allied SACCO inspection and general meetings by MTIC		2,477	Documentation sufficient		
PROF755- Airtickets to Swaziland		3,454	Documentation sufficient		
PROF694- Stipend for April		974	Expenditure justified		
PROF696-Field activity to verify SACCO		1,638	Expenditure justified		
PROF632- 3 return tickets to Kenya		1,230	Documentation sufficient		
Subtotal checked	1,549,852	627,851		41%	
Category 3: Operating costs					
	Total amount of the category claimed	item amount	Remarks	% checked	
Item no.checked					
PROF662-NSSF Contributions for April 2016		3,436.05	Expenditure supported fully		
PROF666-Supply of stationary Inv No 48614		1,237.29	Documentation sufficient		
PROF719-PAYE deductions May		3,436.05	Documentation sufficient		
PROF743-Working lunch		179.75	Documentation sufficient		
PROF671-Allowances for evaluation committee for CSCGs		1,006.29	Expenditure supported		
PROF784-PAYE for June 2016		6,646.45	Expenditure fully supported		
PROF770- Salary for June 2016		1,413.37	Documentation sufficient		
PROF776- Salary for June 2016		1,004.53	Documentation sufficient		
PROF777- Salary for June 2016		1,004.53	Documentation sufficient		
PROF778- Salary for June 2016		1,004.53	Documentation sufficient		
PROF779- Salary for June 2016		345.68	Documentation sufficient		
PROF768- Salary for June 2016		2,336.72	Documentation sufficient		
PROF769- Salary for June 2016		1,610.67	Documentation sufficient		
PROF771- Salary for June 2016		1,426.19	Documentation sufficient		
PROF772- Salary for June 2016		1,426.19	Documentation sufficient		
PROF773- Salary for June 2016		1,426.19	Documentation sufficient		
PROF774- Salary for June 2016		1,004.53	Documentation sufficient		
PROF775- Salary for June 2016		1,004.53	Documentation sufficient		
PROF780- Salary for June 2016		240.26	Documentation sufficient		
PROF813-Cleaning services for June 2016		504.46	Expenditure supported		
PROF808-5 day evaluation of CSCG bids		1,217.31	Expenditure supported fully		
PROF721- Due-diligence on Friends Consult in northern region TEAM 2		3,913.00	Expenditure fully supported		
PROF785-NSSF Contributions		3,465.53	Documentation sufficient		
PROF790- Internet services for June 2016		464.27	Expenditure fully supported		
PROF677-Replenishment of airtime		531.18	Expenditure supported fully		
Subtotal checked	127,302	41,286		32%	
Grand total checked:		820,183			
				Total NO of items checked:	45
% of the value checked (grand total checked /amount of the WA)				45%	

J. Audits

94. Audit. An internal audit firm was contracted and the PMU receives monthly internal audit reports. The office of the Auditor General appointed a private audit firm to provide professional external audit services. The firm has already held the exit meeting with PROFIRA management and is drafting the deliverables. The deadline of 31 December 2016 in which to submit the audit report for the year ended 30 June 2016 will therefore be met with ease.

K. UCSCU financial management.

95. UCSCU successfully went through an external audit by a private firm. The audit firm issued a clean (unqualified audit opinion) for the year ended 30 June 2016 with a number of recommendations in the Management letter that management should implement. The mission reviewed the audit report and found it satisfactory and overall the financial position has improved between 2014/15 and 2015/16. The net book worth of the union increased from UGX 0.96 billion in 2014/15 to UGX 1.24 billion in 2015/16.

96. However, for the first quarter of 2016/17 (1 July 2016 to 30 September 2016), the mission has found that the Union has again accumulated accounting backlogs. Pastel Accounting system had not been posted for the period 1 July 2016 to 30 September 2016. This means for a whole quarter, the Union has operated in some apparent darkness without: (a) Monthly income statements, (b) Monthly analysis of statements of financial position, (c) Basic budget vs actual reports, and (d) even basic Bank reconciliations. This is below the very minimum requirements of a sound Financial Management Environment. The mission could not review the performance and financial position for the first quarter of 2016/2017.

97. The newly posted internal auditor has already developed an internal audit charter, and issued two audit reports that contain very useful recommendations. The mission, however, noted that the head of Finance and Administration did not have any of these reports to take action on recommendations therein. Going forward, any quarterly financial reports to PROFIRA will require a certification of the Internal Auditor who will formally confirm that the financial information in those reports is in agreement with the Pastel accounting system. To avoid a repeat of any further accounting backlogs, the Internal Auditor will also include a certification that monthly bank reconciliations and budget vs actual reports are being generated from the accounting system by the 5th day after end of the month.

L. USCU Business Plan and performance

Sub-Component 1.2 – Developing a SACCO Union

98. UCSCU's revised financial projections. UCSCU has revised its five-year financial projections from 2014/15 to 2018/19 to provide new targets against which its performance can be measured. This has been summarised below and still maintains the target that the Union should be operationally self-sufficient by 2018/19 with a targeted end OSS of 1.14. However, it appears that these were neither commented upon nor officially submitted. Hence that action from the April Aide-Memoire remains uncompleted, and must be completed as a condition for 2016/17 grant payments to be made

UCSCU 5 Years Revised Projections (UGX million)

	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Total internal generated revenue	264	342	614	921	1,270	3,412
Total recurrent expenditure	840	1,023	1,014	1,149	1,111	5,136
Revised Projected (Deficit)/surplus	(575)	(681)	(400)	(227)	159	(1,724)
Actual Deficit posted	(575)	(967)				
Operational Self Sufficiency (OSS)	0.31	0.33	0.61	0.80	1.14	

99. From the 2015/16 audited results, UCSCU has posted an OSS of 0.33 which is the targeted one as per the revised financial projections above. However, in financial absolute terms, the Union missed the targeted operational loss of UGX 681 million (actual realised loss was UGX 967 million).

100. The revised projections target a loss of UGX 400 million and UGX 227 million in 2016/17 and 2017/18 respectively totalling to UGX 627 million before the Union will be able to achieve Operational Self-sufficiency. Thus, the PROFIRA grant towards operational costs will be capped at the maximum of UGX 627 million in addition to the planned investments of UGX 500 million (CFF) giving a maximum grant ceiling of UGX 1.127 billion. This will be spread as follows: 2016/17- UGX 700 million and 2017/18- UGX 427 million. This will be subject to the performance formula contained in the MoU if the Union fails to achieve the targeted reduction in loss levels.

101. From the mission discussions it has been noted that UCSCU had sent in a draft of the revised projections (as agreed during the April 2016 mission) to replace those in Annex 1 of the original MOU signed between UCSCU and MFPED. This mission has further discovered that:

- The draft projections had significant omissions with respect to personnel costs (notably the required payment to NSSF, as well as “gratuities”; and delays in the restructuring of staff, meaning the Union is carrying a larger staff complement than originally planned);
- Hence the projected deficits should have been larger than in the draft, and the OSS projections for 2016/17 and 2017/18 are probably not correct or realistic, notwithstanding that the 2015/16 target was achieved.

102. It has been agreed that UCSCU can revise and resubmit the revised projections, including the higher personnel costs for 2016/17 and for subsequent years. This will increase somewhat the projected deficit for 2015/16, though not enough to alter the fact that the actual amount of the 2015/16 deficit exceeds even a revised projected deficit. This may adjust, though not eliminate, the percentage by which the grant for 2016/17 must be reduced, in accordance with Annex 2 of the MOU. Once the Union has updated the Revised 5-Year Projections, it will be important to have a working session with PROFIRA finance team on the new computations. Once updated Revised Projections have been reviewed and accepted, UCSCU should then submit them formally to replace Annex 1 in the original MOU. At that point, then, the adjusted 2016/17 quarterly grant payments can begin — adjusted downward from the original by the ratio of actual 2015/16 deficit to the updated revised projected 2015/16 deficit in the Revised Projections that you submit officially.

103. In the official submission, the UCSCU should also state what measures are being planned to help bring the level of expenditures and the size of the deficit under control. In this regard, the mission notes that the largest single item in expenditures (and this year’s deficit over—run) is personnel expenses. It is recognized that the Board has been slow (going back several years) to recognize the urgency of restructuring. Although overall revenue growth has been commendable, it is clear that the large gap between expenditures and revenues means that it is impossible in the near term to offset excessive expenditures with an equivalent volume of additional revenues — especially because revenue from both member dues and services such as CFF, insurance and audit remains at a very low level, though hopefully will start growing rapidly.

104. Amount of grant for 2016/17 based on the latest revisions¹⁴: In line with the running MOU between UCSCU and PROFIRA, the grant for financial year 2016/17 will be reduced using the ratio of actual loss/target loss of the preceding year (2015/16). In the preceding year 2015/16, the targeted loss was UGX 681 million (or as may be adjusted in the revisions discussed above) compared to actual loss of UGX 967 meaning the performance based grant amount will be reduced to 70% (UGX 681M / UGX 967M) in accordance with Annex 2 of the running MoU. Therefore, the amount of grant for 2016/17 will be UGX490 million computed as 70% of UGX 700 million (the grant ceiling for that year). The UGX 490 million will be disbursed in quarterly tranches upon submission of quarterly reports endorsed by CCA and the financial aspects certified by the Union’s internal auditor.

¹⁴ May be revised to correct the omissions noted by the mission

Attachment I: Financial Management Assessment at Supervision

Appendix II

Financial Management Assessment at Supervision – Guidance Questionnaire^{15/16}

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

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
A. Inherent Risks			
B. Control Risks			
1. Organization and Staffing			
a.	Adequacy of organizational structure to meet functional needs of the project.	L	PMU is fully constituted with all positions filled with a function Project Oversight Committee.

¹⁵ 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.

¹⁶ 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.	L	PIM that includes FM section has approved by IFAD
e.	Existence of a performance based evaluation system in place and timely completion of performance evaluation for all staff.	L	Staff evaluation is for the period from inception to 30 June 2016
f.	Adequacy of health insurance coverage for all staff (where applicable).	L	Adequately issue International Air Ambulance (IAA)
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	Whereas management is in the know, there a need to circulate it them to all staff
2. Budgeting			
a.	Timely preparation and approval of AWPB.	M	2016/17 AWPB was submitted a month after the deadline.
b.	AWPB in line with expenditure categories in Financing Agreement Schedule 2.	L	Yes
c.	Financing sources and implementing agencies for each category in the AWPB are identified.	L	Yes
d.	Linkage between AWPB and Procurement plan are identified (for cost estimate and activities). Check assumptions to support cost estimates. Test check high value items.	M	Some MoU's were under budgeted for their implementation.

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
3. Fund flows and Disbursements / Withdrawals			
a.	Timeliness of funds disbursed by different sources (and co-financiers funding if applicable).	M	IFMS disbursement and capturing suppliers on the PROFIRA site has improved. However the lead time has between the times the funds reach the supplier has increased.
b.	Timeliness of counterpart funds disbursed.	M	Funds have been timely released.
c.	Efficiency of the funding channels. Timeliness and traceability of funds flows.	L	With the banking arrangements in place there is no commingling of funds
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 6 confirming the existence of underlying supporting documents.
	iv) Timely preparation and accuracy of Withdrawal Applications	L	WA have been prepared on thresholds and quarterly
	v) Authorization of WA preparation.	L	
	vi) Status on expenditures withdrawn from Special Account but not yet claimed for replenishment (old cases to be noted)	L	Designated account reconciliation well done
	vii) Regularity of Special Account(s) monitoring and monthly reconciliations signed by the project manager. Review and assess the reconciliations	M	Still not formerly reviewed by Project Manager
	viii) Disbursement rate compared to the AWPB and whether satisfactory given the remaining implementation time.	M	In FY 2015/2016 there was a AWPB execution of 72%

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
Provide comments as appropriate			
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 should continue to be reviewed when 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.	L	Capture of CCA contribution and grant expenditures have been done.
e.	Adequacy of contract management (use of contracts register and monitoring form) and filing there-of.	L	Templates provided by the last mission are being well used.
f.	Effectiveness and efficiency of internal controls over expenditures (full cycle from commitment, payment, receipt of good and services, approval of payments, classification, etc.)	L	Yes
g.	Documentary evidence to confirm delivery and acceptance of contracted goods, works or services.	L	Yes
h.	Physical controls over cash, documents and records. Adequacy of filing systems. Is the petty cash subject to monthly reconciliation as well as surprise checks; custody of cash box	L	Yes

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

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
	statements with financial accounts).		
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.	Record keeping (including documentation and filing/archiving)	L	Filed chronologically by EFT
c.	Fixed assets register maintained and reconciled (sample and physical check).	L	Yes
d.	Adequate documentation and controls for Information Systems, including documented accounting procedures, backup of financial records, integration of all sub-systems.	L	Back up of financial records is maintained on server.
e.	Adequacy of chart of accounts for project accounting purposes	L	Since the last mission, the chart of accounts has been reviewed to cover both expenditure and disbursement accounts
f.	Timeliness of recording transactions, regularity of performance and approval of reconciliations, controls on erroneous recordings.	L	
g.	Appropriate/ adequate accounting and reporting of counterpart funds contributions (incl. tax and tax exemptions) as well as beneficiary contributions.	L	
6. Financial Reporting & Monitoring			

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
a.	Completeness, accuracy, usefulness, and timeliness of financial reports.	L	Reports have now been preset and be printed from Pastel at a click of a button and the SOE's for withdrawal applications are automatically generated from the system.
b.	Interim FM reports and linkage to progress reports - timely preparation, submission to IFAD.	L	As above
c.	Preparation of reports showing actual vs budget income/expenditure and AWPB execution rate.	L	Commitment control now in place.
d.	Follow up of previous aide-memoirs fiduciary recommendations.	L	compliant
e.	Reasonable alignment between disbursement rate of recurrent versus investment cost categories.	M	Recurrent costs still outweigh investment csts
7. Internal Audit			
a.	Existence of Internal Audit arrangements.	L	An Internal Audit Firm is in place and executing its work.
b.	Adequacy of internal audit arrangements (organization - staff capacity).	N/A	
c.	Adequacy of internal audit scope of work and quality of reports.	N/A	
d.	Assessment of matters raised in audit reports.	N/A	
8. External Audit¹⁷			
a.	Adequacy of scope and ToR.	L	OK. The Office of the Auditor General (OAG) appointed an External Auditor who is now preparing the Audit Report.
b.	Adherence to ToR.	L	No audit has yet
b.	Timeliness of audit report.	L	By 30 th October 2016, the report will be in the Office of the Auditor General who will forward it to IFAD thereafter to beat the 30 December 2016 deadline.
c.	Quality of audit.	n/a	
d.	Implementation of audit recommendations/agreed action plan in place to address these.	n/a	

¹⁷ Refer to IFAD audit review.



Appendix III

Summary of Project Fiduciary Risk Assessment at Supervision¹⁸

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	Improve cost estimate at planning and budgeting stage
3. Funds flow & Disbursement Arrangements	M	IFMS speed in processing payments has greatly improved but still cannot handle project accounting demands
4. Internal Controls	L	
5. Accounting	L	Staff advance control accounts and commitment control are in place

¹⁸ 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.

6. Financial Reporting and Monitoring	L	Improved monitoring of advances; expensing until acceptable expenditure justification has been received. Similarly commitment control/ monitoring have improved.
7. Internal Audit	M	So far three reports have been issued. In the next audit there is a need to cover field verifications.
8. External Audit	L	Office of the Auditor General has appointed an External Auditor who is almost through with the audit.
Overall Project Fiduciary Risk	M	
H=High, M=Medium, L= Low		

Comments: