

AUDITED PROJECT FINANCIAL STATEMENTS

Loan : L-I-900-UG;

Period covered: 1 July 2017 to 30 June 2018

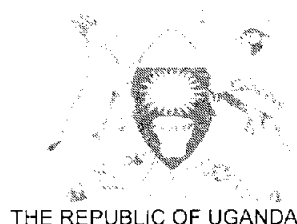
PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA)

Prepared by the Office of the Auditor General Uganda

Received on 31 December 2018

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Plot 3 Portal Avenue
P. O. Box 27733
Kampala - Uganda



PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS Ministry of Finance, Planning and Economic Development

Our Ref: **PROFIRA/AUDIT REPORT 15-16/2016**

Your Ref:

December 18, 2018

Ms. Lakshmi Moola
IFAD Country Representative
Kampala - UGANDA

AUDITED REPORT AND FINANCIAL STATEMENTS FOR PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA) FOR THE YEAR ENDED 30TH JUNE 2018 – IFAD LOAN No: 1-900-UG

In accordance with Section 9.03 of the General Condition of Loan No 1-900-UG, the Auditor General has audited the Project for Financial Inclusion in Rural Areas (PROFIRA) for the period ended 30th June 2018.

Please find attached herewith a copy of Auditor General's Report and the Financial Statements for Project for Financial Inclusion in the Rural Areas for your consideration.

Lance Kashugyera
PROJECT MANAGER

CC: Mr. David Jasi – Administrative Assistant, IFAD - Kampala
CC: Mr. Habte-Selassie Dagmawi - Programme Officer, IFAD Kampala
CC: Mr. Pontian Muhwezi – Country Officer, IFAD - Kampala
CC: Ms. Deborah Martin - Programme Assistant, IFAD - Rome



THE REPUBLIC OF UGANDA

OFFICE OF
THE AUDITOR GENERAL
APOLLO KAGWA ROAD,
PLOT 2C,
P.O. Box 7083,
KAMPALA.

VISION: "To be an effective and efficient Supreme Audit Institution (SAI) in promoting effective public accountability"

MISSION: "To Audit and report to Parliament and thereby make an effective contribution to improving public accountability and value for Money Spent"

IN ANY CORRESPONDENCE ON


THIS SUBJECT PLEASE QUOTE NO:.....**FIIT.376/380/02/18**

7th December, 2018

The Accounting Officer,
Project for Financial Inclusion in Rural Areas (PROFIRA),
Kampala.

**REPORT OF THE AUDITOR GENERAL ON FINANCIAL STATEMENTS OF THE PROJECT
FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA) FOR THE YEAR ENDED
30TH JUNE 2018**

I am enclosing herewith a report which I have already sent to the Speaker in terms of Article 163 (4) of the Constitution.


John F. S. Muwanga
AUDITOR GENERAL

- Copy to:
- The Permanent Secretary/ Secretary to the Treasury
Ministry of Finance, Planning and Economic Development
 - " The Manager Finance and Administration, Project for Financial Inclusion in Rural
Areas (PROFIRA)
 - "  The IFAD
 - " The Project Manager, Project for Financial Inclusion in Rural Areas (PROFIRA)
 - " M/S TMK & Company, Certified Public Accountants

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
THE PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA) FOR THE
YEAR ENDED 30TH JUNE 2018**

**OFFICE OF THE AUDITOR GENERAL
KAMPALA, UGANDA**

REPORT OF THE AUDITOR GENERAL ON THE AUDIT OF FINANCIAL STATEMENTS OF PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA) IFAD LOAN I-900-UG FOR THE YEAR ENDED 30TH JUNE, 2018

THE RT. HON. SPEAKER OF PARLIAMENT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Project for Financial Inclusion in Rural Areas (PROFIRA) for the financial year ended 30th June 2018, which comprise the Statement of Receipts and Expenditure, Statement of Special Account Activity, Statement of Special Account Reconciliation, Withdrawal Applications submitted and notes to the project financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements for PROFIRA for the year ended 30th June 2018 are prepared, in all material respects, in accordance with the terms of the loan agreement and in conformity with the basis of accounting described in Note 1 of the financial statements.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) and the IFAD Guidelines for Project Audits. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independent requirements applicable to performing audits in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Project for Financial Inclusion in Rural Areas. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period.

I have determined that there are no key audit matters to communicate in my report.

Other Information

The Project Management Unit is responsible for the other information. The other information comprises the information included in the Project Background and description, statement of the Accounting Officer and project management responsibilities, but does not include the financial statements and my auditors' opinion thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Project Management for the Financial Statements

The Project Management Unit (PMU) is responsible for the preparation and fair presentation of these financial statements in accordance with the terms of the loan agreement and in conformity with the basis of accounting described in Note 1 of the financial statements. This responsibility includes: designing, implementing and maintaining such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, the Project Management Unit (PMU) is responsible for assessing the project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the project management either intend to liquidate the project or to cease operations, or have no realistic alternative but to do so.

Auditor General's Responsibilities for the audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are

considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also;

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of Project Management Unit's (PMU) use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Project Management Unit (PMU) regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Project Management Unit (PMU) with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Project Management Unit (PMU), I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities

In accordance with Section 19 (1) of the National Audit Act (NAA) 2008, I report to you, based on my work described on the audit of Financial Statements, that;

- The activities, financial transactions and information reflected in the financial statements that have come to my notice during the audit, are in all material respects, in compliance with the authorities which govern them.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION AND FUNDING AGREEMENT

In accordance with Sections 13 of the National Audit Act (NAA) 2008, I have a responsibility to report material findings on the compliance of Project management with specific matters in key legislations and Funding Agreement. I performed procedures to identify findings in this regard, but not to gather evidence to express assurance.

REPORT OF THE AUDITOR GENERAL ON THE SPECIAL ACCOUNT RECONCILIATION STATEMENT OF THE PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA) IFAD LOAN I-900-UG FOR THE YEAR ENDED 30TH JUNE, 2018

Opinion

I have audited the accompanying Special Account Reconciliation Statement of the Project for Financial Inclusion in Rural Areas (PROFIRA) IFAD Loan I-900-UG for the year ended 30th June, 2018.

In my opinion the Project management complied in all material respects with loan rules and procedures and the Special Account Reconciliation Statement for the Project for Financial Inclusion in Rural Areas (PROFIRA) IFAD Loan I-900-UG presents fairly in all material respects the accounts transactions and the closing balances as at 30th June, 2018.

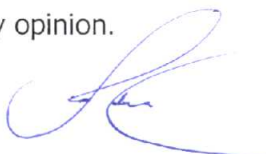
Management Responsibility for the Special Account Statement

Project management is responsible for preparation of the Special Account Reconciliation statement and its fair presentation in accordance with the requirements of the Government of Uganda regulations, and loan (IFAD) guidelines. Management is also responsible for designing and implementing internal controls relevant to the preparation of the special account statement that is free from material misrepresentation, whether due to fraud or error and selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the Special Account Reconciliation statement based on my audit.

I conducted my audit in accordance with International Standards on Auditing (ISAs) and IFAD guidelines. Those standards and the loan guidelines require that I plan and perform the audit to obtain reasonable assurance about whether the special account statement is free from material misstatement. I believe that the audit evidence I have obtained provides a reasonable basis for my opinion.



John F.S. Muwanga
AUDITOR GENERAL
KAMPALA
7th December, 2018



GOVERNMENT OF THE REPUBLIC OF UGANDA
MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT
PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS (PROFIRA)
IFAD LOAN I-900-UG
AUDIT REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2018



CERTIFIED PUBLIC ACCOUNTANTS
6th Floor, Workers House
Plot 1 Pilkington Road
Kampala.

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
IFAD LOAN I-900-UG
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
IFAD LOAN I-900-UG
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

ACRONYMS AND ABBREVIATIONS

AMFIU	Association for Microfinance Institutions in Uganda
AWPB	Annual Work Plan and Budget
BOU	Bank of Uganda
CARE	Care International Uganda
CC	Contracts Committee
CCA	Canadian Cooperatives Association
CFF	Central Finance Facility
COMVIS	Community Vision Uganda
CPU	Central Processing Unit
CREAM	Community Organization for Rural Enterprise Activity Management
CSCGs	Community Savings and Credit Groups
DCD	Department of Cooperatives Development
DCDOs	District Community Development Officers
DCOs	District Commercial Officers
EOI	Expression of Interest
FL&DM	Financial Literacy and Deposit Mobilization
FURA	Foundation for Urban and Rural Advancement
FY	Financial year
GIZ	Germany Technical Cooperation
GOU	Government of Uganda
IFAD	International Fund for Agricultural Development
IIRR	International Institute of Rural Reconstruction
IPSAS	International Public Sector Accounting Standards
LPO	Local Purchase Order
MIS	Management Information Systems
MOFPED	Ministry of Finance, Planning and Economic Development
MOU	Memorandum of Understanding
MTIC	Ministry of Trade, Industry and Cooperatives
MTR	Mid-Term Review
OSS	Operational Self Sufficiency Level
PMU	Project Management Unit
PROFIRA	Project for Financial Inclusion in Rural Areas

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
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PSDC	Private Sector Development Company Limited
READ	Rural Efforts for Action in Development
RFP	Request for Proposal
RIMS	Result and Impact Management System
SACCA	Savings and Credit Cooperatives Association
SACCOs	Savings and Credit Cooperatives Organizations
SAVIX	Savings Group Information Exchange
SDR	Special Drawing Right
SEPSPEL	South Eastern Private Sector Promotion Enterprise Limited
SG	Solicitor General
SPs	Service Providers
UCA	Uganda Cooperatives Alliance
UCCK	Uganda Cooperatives College Kigumba
UCSCU	Uganda Cooperatives Savings and Credit Union
UMRA	Uganda Microfinance Regulatory Authority
UPS	Uninterrupted Power Supply
USD	United States Dollar
Ushs	Uganda Shilling
UWESO	Uganda Women's Efforts to Save Orphans
WA	Withdrawal Application
WEAI	Women's Empowerment in Agriculture Index
WENPS	West Nile Private Sector

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
IFAD LOAN I-900-UG
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

PROJECT BACKGROUND AND DESCRIPTION

Summary of project information

PROJECT TITLE	Project for Financial Inclusion in Rural Areas	
LOCATION	Crusader House, Plot 3, Portal Avenue P.O Box 27733 Kampala, Uganda	
BENEFICIARIES	The project is located in all districts of Uganda	
LEAD PROJECT AGENCY	Ministry of Finance, Planning and Economic Development P.O. Box 8147 Kampala, Uganda Tel: 256-414-234700 Fax: 256-414-230163	
PRINCIPAL BANKERS	Bank of Uganda Plot 37-45 P. O. Box 7120 Kampala, Uganda	
AUDITORS	Office of the Auditor General Plot 2/4, Apollo Kaggwa Road P.O Box 7083 Kampala, Uganda	
DELEGATED AUDITORS	TMK & CO. 6 th Floor, Southern Wing, Workers House P.O Box 72397 Kampala, Uganda	
FINANCING	IFAD - SDR	19,300,000
	GOU - SDR	3,284,000
	IFAD Grant-SDR	665,000
	CCA -SDR	166,000
	Beneficiaries-SDR	<u>960,000</u>
	Total	<u>24,375,000</u>

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
IFAD LOAN I-900-UG
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

IFAD LOAN INFORMATION

Loan Number:	I-900-UG
Loan Amount:	SDR 19,300,000
Date of Loan Signature:	24 November 2014
Effectiveness Date	24 November 2014
Original Completion Date	31 December 2021
Extension	
Current Completion Date	31 December 2021
Current Closing Date	30 June 2022

The Financial Resources

The total project cost is SDR 24,375,000

Project Description

PROFIRA was designed in 2013 in a partnership between IFAD and GOU. In September 2013, IFAD approved a loan of USD 29 million and a grant of USD 1 million in support of this project. The project was approved by Parliament of Uganda at the end of September 2014. The project was declared effective on 24 November, 2014.

The seven (7) year project will build on the successes of the IFAD-financed Rural Financial Services Programme and facilitate the strengthening of some 500 Savings and Credit Cooperatives Organizations (SACCOs) to enable them to become sound and financially sustainable organizations that can provide their communities with a range of services – directly benefiting approximately 225,000 households. This initiative will be complemented by support to transform the union of SACCOs (i.e. Uganda Cooperatives Savings and Credit Union - UCSCU) into a financially sustainable body and by policy initiatives to create a conducive environment for SACCOs. The support for the establishment of 15,000 Community Savings and Credit Groups (CSCGs), and strengthening of a further 3,000 CSCGs - involving some 375 000 people in total; will focus on the poorest areas of the country where few savings and credit groups have been established. This will provide households in these areas with the first important step into the rural economy and a means to finance micro-business initiatives and meet pressing household expenses.

The project focuses on the large portion of the rural population that has little or no access to financial services and on two rural institutions that have successfully demonstrated that sound and appropriate financial services can be provided to even the poorest members of rural communities: Savings and Credit Cooperatives Organizations (SACCOs) and Community Savings and Credit Groups (CSCGs).

Project implementation and administration was done by the Project Management Unit (PMU) under the Ministry of Finance, Planning and Economic Development (MOFPED).

Project Objectives

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

Project components and implementation status

The project has the following three main components.

Component 1: SACCO strengthening and sustainability

The component comprises of two sub-components which aim at providing a dynamic and financially sound savings and credit cooperatives system in Uganda.

Sub Component 1.1: SACCO Strengthening

The sub-component was designed to work with stronger and intermediate SACCOs that have the potential to establish sustainable operations; in order to improve management, governance, accountability and performance, and in the process expand membership.

The project support to SACCOs was categorized into 3 broad areas: (1) Training in six modules targeting 330 SACCOs; The six thematic modules include (i) Financial Literacy and Deposit Mobilization (FL&DM), (ii) SACCO Governance, (iii) Business Development Skills, (iv) Savings and Other Product Development/Refinement, (v) Finance Management, and (vi) Strategic Planning; (2) Training in credit and default management targeting 500 SACCOs; and (3) Support for Management Information System (MIS) to benefit 57 SACCOs through a pilot grant.

The project contracted six different service providers (SPs) to deliver training, technical assistance as well as MIS to SACCOs as afore-mentioned. The SPs have continued to collaborate well with each other and with the Uganda Cooperatives College Kigumba (UCCCK) in preparing and delivering harmonized training modules to beneficiary SACCOs.

Specific activities that have been undertaken by service providers and PMU under this sub component include:-

1. Delivery of training - The SPs continued to deliver training to SACCO members, staff and boards. As presented in Table 1 below, the average overall for package of six modules is 85% and for credit and default is 96%. This is because all the credit and default trainings were off-site workshops whereas SACCOs were required to send at least four participants. However on-site trainings require a SACCO to be functional and able to mobilize members and also offer a training venue. It is for this reason that while all modules should have been completed by end of year 2 (Except governance which had 23 SACCOs targeted for training in year 3 in the UCSCU contract), only the financial management module had been delivered 100% to all SACCOs. The reason is largely because SPs found that SACCOs in distress due to the four factors of fraud, governance, high default and low business were unable to benefit from the trainings and SPs thus halted further trainings consistent with the IFAD November 2017 supervision and implementation support mission.

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
IFAD LOAN I-900-UG
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Table 1: Trainings Undertaken by each service provider (Targets vs. Actuals)

Training Area	AMFTU				BEST AFRICA				UCA				UCSGU				Consolidated			Overall Project Performance in Package of Six Modules			
	Year 1		Year 2		Year 1		Year 2		Year 1		Year 2		Year 1		Year 2		Year 1	Year 2					
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	%
Financial Literacy	20	18	65	52		0	89	78	25	24	48	60	83	83		113	128	125	202	303	330	303	91.8%
Governance	10	10	75	45	89	92		92		0	73	65		0	60	30	99	102	208	232	330	232	70.3%
Business Skills Development		0	85	43		0	89	90		0	73	54	30	30	53	78	30	30	300	265	330	265	80.3%
Financial Management	49	49	36	92	89	106		106	73	74		74	83	83		83	294	312	36	355	330	355	107.6%
Strategic Planning	49	49	36	95		0	89	0	30	30	43	79		0	83	55	79	79	251	229	330	229	69.4%
Savings and Other Products Development																							
	74	74	11	85		0	89	65	60	62	13	75		0	83	79	134	136	196	304	330	304	92.1%
																							85.3%
Training Area	DEMIS - LOT 1				DEMIS - LOT 2				FRIENDS - LOT 3				FRIENDS - LOT 4				Consolidated			Overall Project Performance in Credit & Default Management			
	Year 1		Year 2		Year 1		Year 2		Year 1		Year 2		Year 1		Year 2		Year 1	Year 2					
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	%
Credit and Default Management	75	39	64	92	90	38	50	92	89	89	0	0	85	85	0	0	339	251	114	184	453	435	96%

Source: Service providers' reports

2. Emerging positive results from the trainings - The trainings have been highly appreciated and SPs reported that financial literacy and savings mobilization training was particularly beginning to show quick results on SACCO membership and deposits in the months following the training. The PMU has been working with SPs and the press media to document some of the anecdotes to showcase the positive effects that capacity building have had on SACCO performance. A few of these success stories are currently running under the Pakasa Forum Page in The Sunday Vision Newspapers. Furthermore, since SACCOs wanted to roll out FL&DM to surrounding sub-counties in a more decentralized way, PMU worked with Bank of Uganda (BOU) Financial inclusion Directorate and the Uganda Cooperative College Kigumba (UCCCK) to organize and conduct Training for Trainers (TOT) for SPs and District Commercial Officers (DCOs) to create more resourceful pool of providers that will help upscale the training and roll it out further. A total of 172 participants benefited from this training.

3. Incidences of non-responsiveness among trained SACCOs - A large number of the originally selected 453 SACCOs that were targeted for training activities were found not to be ready to undergo the modular trainings as evidenced by the low levels of attendance during the scheduled training sessions. This has prompted PMU to review the approach and the rationale of SPs in continuing to provide to all SACCOs standard packages of capacity building services. Indeed many of the on-site trainings earlier scheduled have been stayed. The PMU conducted technical support led by UCCCK and involving DCOs and SPs. Following a series of brain storming sessions with SPs, four (4) major factors were identified to be undermining the effectiveness of trainings: - (i) Prevalence of fraud cases that has compromised operations; (ii) Poor governance (malfunctioning boards); (iii) Low business volumes (less than 10 daily transactions); and (iv) Large portfolios at risk (Greater than 20% unpaid loans for over 30 days).

4. Performance review/reality check of SACCOs -The PMU working with SPs undertook a performance review/reality check and developed a scorecard basing on the four (4) factors above, and subjected SACCOs to a triage aimed at establishing the extent to which the SACCOs were being affected by these challenges. On each of the four areas, SACCOs were awarded ratings of zero (0) or one (1) depending as to whether the problem was prevalent (0) or it was not prevalent (1); SACCOs with none of the four problems scored four (4) while if all the four problems were prevalent, the SACCO scored zero (0); the intermediate SACCOs therefore scored somewhere between 0 and 4 depending on which of the four problems were prevalent. Based on the ratings above SACCOs were categorized into three (3) as presented below: -

- Category A - Score of 4 i.e. none of the four problems
- Category B - Score of 3 i.e. prevalence of one of the Four Problems
- Category C - Scores 2 and Less i.e. prevalence of two or more of the four problems

The categorization exercise revealed that 52% of PROFIRA-supported SACCOs were found to be affected by two or more of these critical risks ("Category C"); 31% ("Category B") had one risk factor; and 17% had no major problem. Category C SACCOs are considered unable to benefit from further PROFIRA training as per the project design, until these constraints are resolved.

5. Revised approach, tailored to address Category A and B SACCOs - The analysis of the reality check was considered during the Mid Term Review (MTR) process of May 2018. It was recommended that the project refocuses all further trainings during the remaining contract year to reallocate resources in order to ensure efficiency and effectiveness and attain value for money within the framework of the existing contracts. The above strategy follows the principle that outreach to rural populations is the primary target, but not the number of SACCOs served per say, and that focusing on sustainable, growing SACCOs will provide better results going forward. Furthermore the project will prepare SACCOs for

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

licensing by Uganda Microfinance Regulatory Authority (UMRA). Therefore, going forward the focus of activities in the SACCO component is to: -

- (i) Provide intensive technical assistance to Category B SACCOs to address their critical risk for possible licensing by UMRA.
- (ii) Maximize gains to project growth targets by working through Category A and B SACCOs in the area of Management Information Systems as explained below.

6. Re-Allocation of resources - The May 2018 MTR ratified the decision of the November 2017 mission and recommended that all training and technical assistance interventions that were still pending delivery on account of unpreparedness of SACCOs in Category C, should be reconsidered and free resources to support Category A and B. Category A and B SACCOs activities will entail: i) Customized technical assistance to address specific challenges faced by SACCOs; and ii) Expanded financial literacy and cooperatives education within communities where SACCOs operate. The schedule of deliverables and payments of the SPs contracts shall be duly amended to reflect these changes and no cost extension of the contracts shall be made to cater for the time lost in the amendment process. It is envisaged that the re-focusing on a fewer but more efficient number of SACCOs in the Category A and B will yield the desired outreach results of the project.

7. Provision of Management Information Systems (MIS) Support – The MIS support will benefit SACCOs that have grown strong, sustainable and are serving at least 1,000 fully paid up and active members. The support is intended to enhance the effectiveness and efficiency of the SACCOs operations by building, expanding and strengthening their MIS at head offices and at the branches. This will further strengthen the SACCO's internal controls and reduce incidences of fraud, and also enable the SACCOs to generate timely reports.

The project will provide grants to a number of SACCOs at three different levels:-

(i) **Level 1 - “Basic”** – This is for SACCOs that have a single outlet. Details include: -

- Provision of license fees for the software for one year for the SACCO
- Training of staff and board in MIS usage

(ii) **Level 2 - “Advanced Basic”** - This is for mature SACCOs with more than one branch, but with some of its branches not yet computerized. The support is aimed at enabling the SACCO to computerize all the branches. The support includes: -

- Installation of software at all the SACCO branches that are not yet connected
- Provision of software license fees for all branches for one year
- Provision of hardware (computers, uninterrupted power supply, printers, internet routers etc.)
- Training of staff and board in MIS usage

(iii) **Level 3 - “Networking”** – This will benefit more mature SACCOs that seek to have all their branches interconnected and their systems fully integrated with platforms for mobile money and also for other regulated financial institutions. The support will enable the SACCO members transact with their SACCO through automated teller machines and Mobile Money Agents.

- Software installation and update at all SACCO branches
- Payment of all associated software license fees for one year
- Support for inter branch connectivity fees

- Provision of hardware (computers, uninterrupted power supply, printers, internet routers etc.)
- Training of staff and board in MIS usage
- Support for full financial integration with mobile money platforms
- Training of SACCO members in transacting using their mobile phones

The PMU has to-date received 52 MIS grant applications (Basic, Expanded Basic and Networking). These applications were reviewed and approved by grant selection committee and authorized by the Ministry of Finance, Planning and Economic Development. In addition upon recommendation of the MTR, the MIS grant shall be up-scaled to additional SACCOs in Category A and B. It is envisaged that the computer hardware and software to be provided will make it possible for the SACCOs to expand their outreach and branch networks to the neighbouring areas. At the same time up-to-date MIS systems make it possible for the SACCOs to report to UMRA in an appropriate manner. The disbursement procedures of the MIS Grant have been finalized and disbursements of the PROFIRA contribution will be made directly to the MIS supplier's contingent upon certification by the beneficiary SACCOs that each performance benchmark has been satisfactorily.

8. Revised approach, tailored to address Category C SACCOs – In line with the recommendations of the MTR, PROFIRA will work in a proactive way with the Category C SACCOs to address their specific problems. For that purpose, PROFIRA will revise and extend its MOUs with the Ministry of Trade, Industry and Cooperatives (MTIC) and UCCK. The PROFIRA support from MTIC to deal with Category C SACCOs will include (a) investigative audits, (b) arrangement of special general meetings, and (c) designing individual turnaround plans and strategies for SACCOs and assisting the SACCOs to implement them. Further support to these SACCOs with performance problems will be arranged through PMU, UCCK and BOU focusing on intensive financial literacy training, led by UCCK-trained trainers directly at the operational sites of beneficiary SACCOs.

9. Monitoring and evaluation working and technical backstopping support – The activities were conducted in partnership with UCCK, MTIC, DCOs and contracted SPs in each region. The objectives were: - (i) assessing progress towards achieving results both at the output and outcome levels; (ii) assessing the approaches and effectiveness of the training and on-site technical assistance offered to SACCOs; (iii) brainstorming on challenges and mitigation measures, successes, and lessons. The process involved undertaking spot checks on supported SACCOs, where feedback was provided to implementers in a working session. Recommendations and action plans were then developed and implemented.

Sub-Component 1.2: Developing a Sustainable SACCO Union

Uganda Cooperatives Savings and Credit Union (UCSCU) is being supported under PROFIRA to strengthen it as an autonomous, sustainable apex body specifically representing and serving the SACCO sector. UCSCU is exclusively focused on SACCOs and aspires to serve all of them nationwide with a variety of services that would contribute to SACCO sustainability. UCSCU is transitioning from an institution that has been largely dependent on government, to one that is able to operate as a financially viable institution with a business orientation and within the framework of a sustainable SACCO union.

In line with the foregoing reason, Government entered into an MOU with UCSCU for provision of financial incentives to support the implementation of its 5-year business plan. The project is providing financial incentives intended to fill deficit gaps and assist UCSCU in the implementation of its strategic framework towards full sustainability. In addition, IFAD and the Canadian Cooperative Association (CCA) entered into a co-financing agreement to provide technical assistance in developing a Sustainable SACCO Union. The co-financing agreement consists of a grant of USD 1million provided by IFAD

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and consulting services of USD 250,000 provided by CCA. Hence, support to UCSCU was in the following forms:

A1. Long and short term technical assistance through CCA

The technical assistance program is providing advice and recommendations to the Board of Directors of UCSCU and mentor the Chief Executive Officer and the management team, supplemented by specific technical assistance as and when required. It is the responsibility of UCSCU's Board of Directors to ensure that agreed upon actions are implemented by UCSCU management.

The emerging outcome of the support to UCSCU is that relevant and sustainable services to its SACCO members have started to manifest. UCSCU has started to put to use the necessary managerial and technical expertise to foster sound business practices, apply knowledge and further train staff in their practical application within the context of the organization's five year strategic plan to develop a self-sustainable institution and thereby contributing to a healthy SACCO system.

CCA sees continued opportunities for UCSCU to set itself apart from other service providers in the sector by implementing the training of trainers' techniques and upgrading its training materials based on the technical assistance it continues to receive in this area. CCA also sees opportunities for UCSCU to secure new business by building the capacity to advise SACCOs on Tier IV compliance. However, taking advantage of these opportunities requires commitment and action by UCSCU's Board of Directors and senior management to attend to the day to day business of UCSCU's relationship with its member SACCOs over the political representation of UCSCU to the government and international organizations.

CCA fielded a team of two regulatory and supervision specialists in May 2018 to further assess and define both the challenge and the opportunity is the sphere of SACCO regulation under the Tier V Act. Both of these initiatives required UCSCU to segment its' market so that the training and advisory services are relevant to the SACCOS needs based on their size, level of sophistication, and financial and human resources of the SACCOS.

The risks identified in financial year 2016/2017 continue to manifest:

- i. UCSCU focuses on the short term benefits implementing the PROFIRA training contracts at the expense of long term institutional sustainability by building internal capacity and relationships with its members; and
- ii. UCSCU focuses on what it can't do – compete for PROFIRA training- instead of what it can do – focus on SACCOs that are not eligible for PROFIRA training and doing training better than competitors by segmenting its market, implementing more up to date and engaging training materials and methodologies, offering training that others are not offering.

A2. Financial incentives to implement business plan through PROFIRA PMU

Since entry into force of the UCSCU MOU with Government of Uganda, the project has disbursed the performance incentive to the tune of Ushs 3,187,574,418 in line with the respective forecast of UCSCU. The total grant support is Ushs 3,429,096,517 the outstanding undisbursed grant is Ushs 241,522,099. The MTR recommended that UCSCU's MOU be extended through 2018/19 to allow for full disbursement of the grant amount and completion of the technical assistance by CCA. Table 2 below summarizes UCSCU's performance against the targets set under PROFIRA.

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Table 2: Summary of progress against UCSCU- PROFIRA targets for the Financial Year (FY) 2017/18

Indicators	Target FY 2017/2018	Actual FY 2017/2018	Target FY 2018/2019
Number of active SACCOs	680	543	680
Number of SACCOs paying annual dues	300	81	300
Number of SACCOs paying other statutory obligations	200	19	200
Operating self-sufficiency level (OSS)	79%	67%	101
Linkages/partnership made for new products and services to generate income	2	4	1
New products and services introduced	2	1	1
Updated strategic and business plan and its effectiveness	1	1	1
At least reporting at all levels	4	4	4
Documentations on learning outcome	1	1	1
Number of SACCOs actively participating in CFF	150	38	150
Savings deposits	200,000,000	121,832,500	500,000,00
Loans granted	200,000,000	327,708,333	600,000,000
Amount delinquent	40,000,000	0	0
% of loans delinquent	5%	0	0

Component 2: Community Based Financial Services

The aim of the component is to contribute to alleviation of rural poverty by facilitating the establishment of community based inclusive financial services in the poorer areas of the country, which are generally those where coverage is limited. Four regions were categorized to be the poorest in Uganda, and are therefore being given priority. The regions include (i) North East (Karamoja), (ii) Mid-North (Acholi and Lango), (iii) West Nile and (iv) Eastern while sub-component 2.2 will focus on five lots, comprising of the afore-mentioned regions, plus another lot covering the rest of the country, where mature CSCGs exist.

Component 2.1: Establishing of new CSCGs

This sub-component targets 14,500¹ new CSCGs (with 362,500 members) to be formed in the 4 afore-mentioned sub-regions that are deemed to be the poorest in Uganda. The sub-regions were divided into lots; - Lot 1 (North East-Karamoja), Lot 2 (Mid north-Acholi and Lango), Lot 3 (West Nile), and Lot 4 (Eastern Region). The targeted number of CSCGs to be established in each lots/sub-regions was based on the population density and the poverty levels in those areas.

For effective implementation, the targets were broken down into 2 phases with each phase running for a period of 3 years. The first phase has a target of 7,500 new CSCGs (187,500 members) being established in the 4 afore-mentioned lots; while the second phase has 7,000 new CSCGs (175,000 members) being established in the same lots.

¹ This is the revised project target after the MTR exercise.

Specific activities that have been undertaken by the PMU under this sub-component included:-

- 1. Backstopping and support supervision to service providers and CSCGs - PROFIRA PMU** conducted regular field level backstopping and technical support visits to the established CSCGs throughout the period to ensure quality in implementation and adherence to contractual obligations. The main issues cited during the backstopping exercise were (i) the need to establish quality CSCGs that were meeting the principles of the CSCG methodology; (ii) the need to conduct strict monitoring of the field level activities being conducted by the Community Based Trainers (CBTs); (iii) importance of meeting set targets for each reporting period (iv) the need to fast track success stories from individual beneficiaries and (v) the need to track CSCGs that are about to action audit and thus support them.
- 2. Training of service providers in financial literacy -** A total of 26 staff of the contracted service providers, and 27 District Community Development Officers (DCDOs) participated in a 5 days Training of Trainers workshop in financial literacy conducted by Bank of Uganda (BOU) at the Uganda Cooperative College Kigumba (UCCCK).
- 3. Progress Review Meetings -** A number of progress review meetings were held with the service providers to assess the extent to which the targets and the objectives of the assignment have been met, allow the SPs to share experiences, lessons learnt during implementation. The main issues cited during the review meetings were; i) failure to report in line with the agreed dates in the contract; ii) the need to begin to use the new MIS to capture group performance; iii) need to strike a balance between meeting of targets for the reporting periods, while maintaining the desired quality; iv) need to enforce collaboration with DCDOs.
- 4. Procurement of Service Providers for Phase II -** The procurement process reached the level of notification on the best evaluated bidder. The notice was running up to 03 October 2018. Due-diligence on the best evaluated bidders, negotiations and signing of the contracts were completed.

Specific activities that have been undertaken by the SPs under this sub-component included:-

- 1. Community mobilization, training and establishment of CSCGs.** Mobilization of communities, training and actual establishment of CSCGs continued. Table 3 on the next page summarises progress in establishment of CSCGs, as well as a summary on the financial performance of the established CSCGs across the 4 regions. A total of 6,512 CSCGs have been established; with a membership of 188,128 of which 75% are women and 33% are youth.
- 2. Backstopping and support supervision.** Service providers conducted regular backstopping and support supervision visits to the established CSCGs throughout the financial year to ensure quality in implementation and check adherence of the CSCGs to the principles and practices of CSCGs. The main issues cited during the backstopping exercises were (i) the need for continuous monitoring and mentoring of CSCGs since most of them were still in the first cycle of saving ii) the need to support CSCGs that are nearing action audit iii) the need for close collaboration with the district officials.
- 3. Financial Literacy and Business Skills Training for CSCG members;** Activities around business skills and financial literacy training commenced.

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Table 3: Summary on CSCGs established in each region and financial performance

Region	Service Provider	Current Members	Men	Women	Youths	No. of Groups	No. of Loans Outstanding	Value of Loans Outstanding	Cumulative Value of Savings
Eastern		55,499	13,525	41,974	13,131	1,936	26,560	2,561,491,420	2,833,642,250
Mid North (Achoi and Lango)		58,827	14,047	44,780	17,793	2025	38,415	3,294,570,539	3,318,065,400
North East (Karamoja)		23,462	7,441	16,021	15,203	837	9,040	850,662,822	1,231,183,200
West Nile		50,340	11,746	38,594	16,548	1714	34,131	3,651,229,360	3,719,497,830
	TOTAL	188,128	46,759	141,369	62,675	6,512	108,146	10,357,954,141	11,102,388,680
	Percentage (%)		25	75	33				

Source: SAVIX MIS

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Sub-Component 2.2 – CSCG Strengthening, Innovations and Partnerships

The sub-component complements sub-component 2.1 and opens up opportunities for more mature and dynamic CSCGs, which have established a sound and stable membership, to develop ways through which to expand their operations within the microfinance arena. SPs develop advanced models to develop mature CSCGs and actively link them to formal Microfinance Institutions (MFIs), Microfinance Deposit Taking Institutions (MDIs) and Commercial Banks. The SPs develop models for CSCG training in business development and advanced financial literacy. Through linkage operations with various banks, CSCG members in linked groups will access much larger loans than is possible merely with the basic CSCG models. Increased interest has been shown by banks and leading MFIs, as demonstrated by products such as the flexible overdraft-based CSCG financing models, which auger well with the planned PROFIRA development operations with mature groups.

Activities under this sub component will also be implemented in 2 phases of 3 years each. Thus, it was proposed that 1,500 groups be strengthened in phase one i.e. 40% in year one, 50% in year two and 10% in year three as summarized in Table 4. An equal distribution of groups per lot/region was planned since there was presence of mature CSCGs in each of these regions.

Table 4: Regional distribution of CSCGs to be strengthened (Phase I - First 3 years)

Lot/ Region	Total No. of CSCGs to be supported (3 years)	Year 1	Year 2	Year 3
		40%	50%	10%
Lot 1 - North East (Karamoja)	300	120	150	30
Lot 2 - West Nile	300	120	150	30
Lot 3 - Mid-North (Acholi and Lango)	300	120	150	30
Lot 4 - Eastern	300	120	150	30
Lot 5 – Other Regions ²	300	120	150	30
	1,500	600	750	150

Whereas, 1,750² groups will be strengthened in phase 2 as indicated in Table 5 below:

Table 5: Regional distribution of CSCGs to be strengthened (Phase II - Second 3 years)

Lot/Region	Total No. of CSCGs to be supported (3 years)
Lot 1 - North East (Karamoja)	550
Lot 2 - West Nile	400
Lot 3 - Mid-North	400
Lot 4 - Eastern	400
	1,750

²The targeted mature groups to be supported will increase from 3,000 to 3,250 as revised at MTR.

Specific activities that have been undertaken by PMU under this sub-component included:-

- 1. Completion of procurement of service provider for Lot 5, as well as status of implementation** - The procurement process for a service provider for this lot was completed. The contract was awarded to the consortium of Foundation for Urban and Rural Advancement (FURA), Rural Effort for Action in Development (READ), and Community Vision Uganda (COMVIS). The SP signed a contract in June 2017, submitted an inception report to PROFIRA PMU. The report was approved and funds transferred to the service provider, after which an inception workshop was also held. The service provider has to-date completed the exercise of mapping areas of operation, selected CSCGs and profiled i.e. established baseline information and conducted a technical needs assessment on each CSCG to be supported. Currently, support on key interventions to 341 CSCGs has been rolled, including linkage to formal financial institutions; CSCG registration; financial literacy and business skills development trainings.
- 2. Procurement of service providers for Phase II** - Due-diligence on the best evaluated bidders was completed. Negotiations with the best evaluated bidders for providing support to existing mature groups in the four afore-mentioned lots were completed. Contract signing is expected in mid-November 2018.

Specific activities that have been undertaken by the SPs under 2.2 sub-component included:-

- 1. Mapping of areas of operation** - On the part of SPs, mapping of areas of operation by district and sub-county, as well as selection and profiling of existing mature CSCGs was completed. A Needs Assessment of the selected CSCGs has been done by the service providers and the process of addressing the various needs in line with the proposed intervention was concluded.
- 2. Recruitment of staff by service providers to work under PROFIRA** - Recruitment process for staff under PROFIRA was completed by all service providers.
- 3. Procurement of equipment/materials** - Service providers procured a number of equipment to facilitate the implementation of project activities and some of these were motorcycles and bicycles.
- 4. Support towards strengthening of mature CSCGs** - Support towards strengthening mature CSCGs commenced in the targeted regions. Table 6 on the next page summarises performance of supported mature groups.

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Table 6: Summary on mature CSCGs in each region and financial performance

Service Provider and Region	Current Members	Men	Women	Youths	No. of Groups	No. of Loans Outstanding	Value of Loans Outstanding	Cumulative Value of Savings
(Eastern)	10,504	3,268	7,236	2,289	363	7,258	1,088,789,834	1,083,067,300
(Mid North)	8,984	2,618	6,366	3,108	308	5,400	614,926,080	686,084,304
(West Nile)	9,067	2,217	6,850	2,273	310	7,076	1,131,445,657	1,389,956,000
(Region 5)	9,935	4,554	5,381	2,737	341	6,199	1,619,807,670	2,009,058,100
(North East)	5,463	1,644	3,819	2,391	190	2,828	596,535,235	702,288,800
TOTAL	43,953	14,301	29,652	12,798	1,512	28,761	5,051,504,476	5,870,454,504
Percentage (%)		33	67	29				

Source: SAVIX MIS

Component 3: Policy and Institutional Support and Project Management

The component three involves the support to the policy and institutional environment for community-based financial institutions, as well as the resources for the management of the project.

Sub-component 3.1: Policy, Regulatory and Institutional Environment

This sub-component seeks to provide a conducive policy and institutional environment for community-based financial institutions. To achieve this, the sub-component is to provide financial literacy, coordination and information flow within the rural finance sector and improved effective regulation for SACCOs by working with the three main institutions responsible: (i) the Financial Services Department of the MFPED - supporting the overall strategic and coordination framework, as well as furthering and operationalizing the Tier 4 regulations; (ii) the Department of Cooperatives Development of MTIC - by strengthening application of non-prudential and prudential regulations for SACCOs; and (iii) the Bank of Uganda - by facilitating implementation of its financial literacy strategy.

A.1 Policy and Regulatory Environment

In order to achieve the Ministry's mandate, the Financial Services Department (FSD) provides a central coordination point for all financial services. The Tier 4 Microfinance Institutions and Moneylenders Act, 2016 is now effective.

In the financial year under review, the following has taken place under this sub-component:-

1. Initiated an exercise to identify potential SACCOs as candidates for regulation as prescribed in the Tier 4 microfinance Institutions and Money Lender's Act, 2016.
2. PROFIRA provided technical support to undertake consultations by the MFPED and the 1st Parliamentary Council to finalize regulations for the Tier 4 Microfinance Institutions and Money Lenders to operationalize the Tier IV Regulations. The regulations were gazetted.
3. The project has also facilitated sensitizations and networking meetings for formulating both the Act and Regulations.

A2. Monitoring and regulation of SACCOs by MTIC

PROFIRA is supporting the Department of Cooperatives Development (DCD) within the MTIC to enhance its capacity to promote, regulate and monitor the SACCO sector, including non-prudential regulation of SACCOs consistent with the Tier IV Regulations. The department is being supported to carry out its mandate of registering and monitoring SACCOs and enforcing their compliance with minimum requirements of conducting annual external audits and annual general meetings. MTIC is providing additional assistance to SACCOs which are undergoing challenges in governance and/or management that cannot readily be addressed through training and have been identified for turnaround support.

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The MFPED signed an MOU with the MTIC. The MOU outlines key action areas for the DCD, namely: -

1. Maintaining, backup and updating of the national registry and database of SACCOs;
2. Facilitation of MTIC Staff and District Commercial Officers (DCOs) to verify the status of SACCOs and to intervene in turnaround efforts. They are also required to undertake liquidation of SACCOs which are non-functional;
3. Facilitating regional and district forums of SACCOs to share knowledge and information about regulatory requirements and identify areas of common interest for the benefit for SACCOs.

The action areas envisaged to be completed within an initial period of three years with a possibility of extension. The following are the expected outputs related to the assignment:-

- Updated SACCO database/registry.
- Industry wide SACCO report on registered and operational SACCOs.
- Report on SACCOs that are not compliant.
- List of SACCOs identified for turn-around support and consolidated report on efforts undertaken in that respect.
- Report on SACCO forums held on policy dialogue.

To-date, the following activities have been undertaken by the DCD at the strategic level:-

(i) Immediately on signing of the MOU, the Permanent Secretary assigned a specific Officer at the level of Assistant Commissioner to specifically handle and coordinate all SACCO-related issues. This will improve coordination and escalate the level of project outputs.

(ii) In September 2016, the Ministry convened and facilitated a dialogue meeting for all DCOs in the country at Sports View Hotel, Kireka, presided over by two Ministers from both Ministries; the Minister of State for Cooperatives and the Minister of State for Microfinance. This particular meeting has had a very positive influence on the overall implementation of the project in the following ways:-

- Overview and general preview of PROFIRA to all DCOs alongside all the partners and stakeholders. This provided an appropriate forum for the project as an entry/penetration point in all districts of Uganda.
- Helped deepen understanding on the current SACCO regulatory environment with the passing of the Tier 4 Microfinance Institutions and Money lenders Act, 2016.
- Acted as a foundation for building and strengthening synergies with the various local governments on SACCO matters and other issues.
- Laid a foundation for the launch of subsequent preliminary activities and future policy dialogue meetings.

(iii) Furthermore, the Ministry organized and facilitated dialogue meetings with local government officials from all regions of Uganda namely, Greater Bugisu, Sebei, Teso, Busoga, Buganda, Acholi, Lango, West Nile, Karamoja, Bunyoro, Toro, Ankole and Kigezi. The purpose and benefits of these meetings was to; -

- Generate proposals with local government officials on strategies to initiate and ensure collective support to SACCOs and financial inclusion initiatives in their respective areas.

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- Create buy-in and build goodwill in all local governments/regions, plus initiating a more coordinated and sustained technical approach at district level.
- Discuss with local government officials modalities for financial literacy initiatives aimed at strengthening weak SACCOs in their areas and widening the inclusion bracket.
- Provide backstopping support to the current capacity-building program being undertaken by service providers in the various regions.
- For purposes of maintaining a national SACCO registry/database, discuss the key performance indicators that need to be captured in the reporting template.
- Discuss and approve reporting tools that have been designed for monthly SACCO reports. Submission of monthly reports is a prerequisite for the establishment of an accurate, countrywide and updated SACCO register.
- The reports are also instrumental in the realization of preparations for effective regulation of the SACCO subsector once Uganda Microfinance Regulatory Authority (UMRA) is established and operational.
- Initiate processes for identifying and revalidating SACCOs that have demonstrated growth in performance for possible inclusion in the project or turn-around support.

(iv) In addition, the Ministry has also provided back-up support during DCO trainings conducted by Uganda Cooperatives College Kigumba (UCCK). The trainings are reported on under the sub section on UCCK.

At the operational level, still in line with the MOU, the following has transpired:

- (i) Maintain, backup and update the national SACCO registry/database;-
 - Populating the database with the 2013 and 2015 SACCO census results (excluding Kampala, Buvuma and Kalangala districts) was completed (Please refer to tables below). Table 7 below shows the number of active, non-active, dormant and closed SACCOs. Data for all the active SACCOs with full data has been entered. The western and eastern regions account for 62% of all SACCOs. Note that the Kampala District data has not yet been entered, yet it has many SACCOs.

Table 7: Summary data on SACCOs

Category of SACCOs	Central*	West	East	North	Total
Active with data	156	318	154	79	707
Incomplete/unreliable data	50	110	159	73	392
Dormant	48	38	102	68	256
Closed	41	112	253	236	642
Total	295	578	668	456	1,997

**Excludes Kampala, Buvuma and Kalangala Islands. The detailed MTIC annual report on the MOU also provides performance of SACCOs categorized by membership, savings, share capital, and operational self-sufficiency (OSS) levels.*

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- The Ministry has set up a SACCO data centre and plans to continuously update it using the monthly reports from DCOs.
- The establishment of this regular feedback system from DCOs will permit regular updating of the database without having to undertake a full census from time to time.

(ii) Investigate failure/non-compliance of SACCOs with a view to identify those for possible turn-around support;-

MTIC has engaged the services of District Commercial officers (DCOs) and among the roles they are performing, is to ensure the revival of the SACCOs that were identified. According to findings from the regional meetings, reasons for SACCO failure stem from macro (national) level failures that trickle down into regional and eventually institutional (SACCO) failures. They have further been categorized as internal as well as external. These failures have been documented in the detailed annual report produced by the DCD.

The remedial actions that were proposed to address these causes evolve around:-

- Community entry initiatives.
- Special general meetings.
- Annual external audits.
- Annual general meetings.
- Focused technical assistance through mentoring.
- Tailor made trainings.

MTIC through the DCO infrastructure, will pursue the above activities/turnaround activities with the 46 SACCOs indicated in the detailed MTIC annual report. These are necessary for the SACCOs to institute other measures like financial controls as well putting the employees on performance contracts, forming partnership programs with SACCO stakeholders, introducing insurance products, indulging in corporate social responsibility activities and embracing the latest technology such as enterprise resource planning.

(iii) Facilitate regional and district SACCO forums/networks to share knowledge and information about regulatory requirements;-

This activity was started in March 2017. An electronic platform (*Whatsapp*) of all DCOs was introduced in collaboration with PROFIRA to ensure prompt and timely dissemination/exchange of information. More such networks are being encouraged at regional and district level.

MTIC has also actively participated and played a pivotal role in reflection meetings organized by PROFIRA PMU. Five meetings were held in Mbarara, Mbale, Masaka, Jinja and Gulu with the service providers, Uganda Cooperatives College, Kigumba and DCOs. These meetings have become an important forum for the discussion of needs and plans, creating a collective identity and strengthening the collective will. Free from the demands of formal decision-making, MTIC is able to reflect on experience gained, share insights, explore approaches and acquire a better understanding of how each institution can contribute to achieving the overall objectives and goals of PROFIRA.

- (iv) Initiating processes for liquidation of SACCOs, which are non-compliant with existing laws.

MTIC issued 584 compliance letters to dormant and provisionally registered SACCOs in northern and eastern regions. This includes SACCOs that are well past their probationary period. A similar exercise will be done countrywide. Those found completely dormant / beyond redemption will be subjected to the liquidation process. Process of de-registration of non-functional SACCOs has begun with reviewing the responses elicited from earlier communication on non-compliance;-

- Notification in both the print and electronic media will be issued to all SACCOs;
- Letters will be issued to all non-compliant SACCOs all over the country; and
- DCOs will be oriented to provide backup support in executing and ensuring compliance.

Other activities carried out to support MTIC:

18th SACCA Congress in Malawi

Officials of MTIC were sponsored by the project to attend the 18th SACCA Congress held in Lilongwe, Malawi in October 2017. The Congress brings together a diverse large number of delegates from all regions in Africa and beyond. Participation of PROFIRA and government enabled the sharing of (i) highlights and challenges in government interventions with respect to capacity building of SACCOs; (ii) experiences in evidence based policy development as well as development of a regulatory framework for SACCOs. One of the key observations from the conference was that SACCOs in Uganda were relatively weaker than those in Ghana and Kenya. The exposure, nonetheless introduced participants to networks that shall in future be a strong basis for partnerships, benchmarking and growth.

A3. Other Partnerships

a) Uganda Cooperatives College – Kigumba (UCCK)

The MFPED signed an MOU with the Uganda Cooperatives College Kigumba (UCCK). Some of the perceived deliverables of UCCK under the MOU are:

- (i) Lead a technical committee to review, update and endorse the SACCO training materials/curriculum developed by contracted service providers for SACCO training under PROFIRA.
- (ii) Provision of Training of Trainers on SACCO principles, governance and management to SACCO management and staff supplemented by refresher training.
- (iii) Provide training in internal audit to all DCOs in the country.
- (iv) Provision of certificate and diploma courses to at least 100 SACCO managers and staff of PROFIRA selected SACCO beneficiaries (at least 40% of which should be female).

With respect to the afore-mentioned deliverables – to-date, UCCK has undertaken the following activities:

- (i) Reviewing, updating and endorsing the SACCO training materials/curriculum.

UCCK established a working committee that reviewed training materials. The committee is comprised of technical staff from the college as well as contracted service providers. The committee has received and reviewed training materials for all the seven thematic areas in partnership with the contracted service providers. The committee continuously monitors progress

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in the delivery of the trainings and provides feedback to the trainers. UCKK has shared two of the curriculums with the PMU, namely financial management; and credit and default management. The detailed activity report is also available.

- (ii) Provision of training of trainers on SACCO principles, governance and management to SACCO management and staff.

UCKK conducted this training for 120 DCOs. The initial training was aimed at orienting the DCOs towards PROFIRA, providing general knowledge in the six thematic areas and in credit and default management on one hand, while providing UCKK an opportunity to assess the gaps needs among DCOs in preparation for the more comprehensive audit training. The training also focused on cooperatives concepts, values and principles, as well as key fundamentals on SACCOs and the industry. The detailed activity report is also available.

- (iii) Provision of training in internal audit to all DCOs in the country.

A total of 103 DCOs have so far received training in internal audit provided by UCKK. The detailed report indicates that the training covered the following areas:

- Introduction to cooperatives audit.
- Planning the audit.
- Routine checking and vouching.
- Vouching ledgers.
- Vouching cash and trading transactions.
- Audit of statement of comprehensive income.
- Audit of statement of financial position.
- Audit report and the management letter.

- (iv) Provision of certificate and diploma courses to SACCO managers and staff.

UCKK was tasked to train at least one hundred (100) selected SACCOs management staff from beneficiary SACCOS on a certified tailor-made course on SACCO and microfinance management both at certificate and diploma level courses. The course adequately equips participants with required knowledge, skills and competences to manage SACCOS and microfinance institutions, as well as developing new products.

To-date 103 SACCO managers and staff have been identified and have started receiving training from the five regional study centres that were established country wide in the districts of Gulu (Gulu Public Primary school) for northern region; Mbale (Manafwa High School) for the eastern; Kampala (Bat valley Primary School) for central region; Mbarara (Mbarara Municipal School) for western region and Kiryandongo (Uganda Cooperatives College Kigumba) for mid-western region.

The face to face sessions were conducted over the weekends (Saturday and Sunday) from 9:00am to 4:00pm. During this time, the lecturers take the student's through the course modules and using the learner centred tested training methodologies. This allows the participants to practice at their work places what they have learnt, do assignments and also enable them attend to their duties. It is a flexible study programme.

b) Partnership with Bank of Uganda/GIZ

The project together with BOU/GIZ agreed on a working modality for facilitating the implementation of National Financial Literacy Strategy, and the operationalization of financial literacy activities especially with respect to customise financial literacy materials for information education and communication and translating them into further local languages to be used in areas with project supported SACCOs and CSCGs. A programme was produced for BOU/GIZ to conduct training of trainers for the PMU staff, service providers, DCOs and District Community Development Officers (CDOs) who in turn will educate the members of SACCOs and CSCGs, as well as potential members.

Under the partnership with UCCK, PROFIRA has been facilitating the college to conduct numerous trainings for DCOs, SACCO staff and management as well as PROFIRA service providers. These trainings have been held at the UCCK Campus in Kigumba and in other instances at a few satellite locations that the college uses in the different parts of the country. In light of the aforementioned partnership with UCCK, and for purposes of sustainability of the project intervention, ease of replication for greater outreach and impact, PROFIRA worked with the college to promote financial literacy. In line with this the college would:

- Use the UCCK premises (training rooms and residential facilities) as venues for the proposed training of trainers in financial literacy.
- College staff (as key partners and trainers) would also be beneficiaries of the trainings of trainers in financial literacy, and this will be very important since they are already involved in training DCOs and SACCO staff as explained above. Therefore exposing them to financial literacy training will be strategic and assure PROFIRA of returns in terms of outreach and trickle-down effect.

In light of the above, BOU in conjunction with UCCK and with support from PROFIRA, conducted financial literacy training of trainers for the period 26 June to 18 August, 2017. The trainings, which took place at UCCK main campus aimed at building the capacity of the participants in financial literacy as well as adult training techniques. A total of 172 participants attended the trainings spread over six lots and included participants drawn from service providers (77), DCOs (40), District Community Development Officers (27), UCCK staff (17), Financial Services Department (2), and PROFIRA staff (11). The trainings were conducted by BOU master and certified trainers, with management oversight and quality control provided by BOU staff.

At the end of the trainings, the participants were able to;-

- Train others to be prudent managers of financial resources through use of personal financial management techniques like budgeting enabling them to achieve long and short-term financial goals and security.
- Train others in establishing financial goals such as savings plan, investment plan and emergency fund that will provide adequate income and personal fulfilment.
- Demonstrate an understanding of the financial services system in Uganda and financial consumer protection framework.
- Train others on the importance of planning for old age and/or retirement as well as the modalities available for doing so.
- Train others using various adult learning techniques.

As part of widening financial literacy training in the country the college was also engaged in training women leaders. The participants were drawn from the visionary women entrepreneurs' of Uganda comprising of women leaders. The main goal of the training was to strengthen those behaviours that lead to increased understanding and knowledge of financial concepts, usage of financial services as well as investing and planning for old age and retirement.

The training stimulated behavioural change to desired levels which targeted transformation related to knowledge, skills, confidence as regards financial services. The training exposed the participants to understand why and how to save, borrow responsibly and avoid becoming over indebted, be able to make informed choices between different financial products and services and plan ahead for old age and retirement.

At the end of the trainings:-

- The participants were much eager to learn and are still yearning for more trainings.
- The participants requested the same type of training to be rolled down to their constituencies so that people are enlightened on financial literacy.
- They requested the training to be given to their counterpart in other work places as well.
- The women leaders and entrepreneurs requested to be scaled up as trainers of financial literacy.

Sub-component 3.2: Project Management

This sub component covers general project management and administration; procurement; monitoring, evaluation and knowledge management; and financial management.

A1. Project Implementation Support/Supervision Missions

IFAD and GOU fielded an implementation support mission from the 6th – 17th of November, 2017. The objectives were 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 2017/18; (iv) review fiduciary aspects, focusing 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; and (v) to provide the necessary implementation support as required. From the 14 May to 01 of June 2018, IFAD and GOU fielded a team to undertake a MTR exercise for the project.

The MTR provided an opportunity to: (i) fundamentally revisit design features in line with performance – achievements, and challenges in the present country and development contexts to meet development objectives; (ii) review the effectiveness and efficiency of the programme management, organizational structure and its service delivery modalities in relations to existing challenges and outcomes; (iii) assess the performance of the implementation agencies and benefiting SACCOs and CSCGs; (iv) identify interventions that will yield greater results for the SACCO component (iv) identify innovative products and processes that need either up-scaling or replication and develop feasible framework for knowledge capitalization and sharing; (v) determine sustainability and exit strategies; (vi) consult with the GOU and other implementation partners on new strategic directions (or re-focusing) for improved service delivery for the project to achieve its development objectives.

Going forward, the MTR recommendations will shape implementation of the key project activities for the remaining period of the project.

A2. Project Administration

a) Human Resource Management

- (i) Contracts for staff which had expired were renewed following a staff performance appraisal.
- (ii) Staff salaries; - All staff were paid gratuity for the period up to the end of the three year contracts. Salaries will continue to be adjusted for inflation as per the contracts.
- (iii) Staff welfare; - All staff and their families have been provided with medical insurance services. The contract with International Air Ambulance expired on the 21 September 2018. The staff are also covered under group personal accident, which embeds the statutory Workers Compensation Act provisions. The insurance policy expired on the 12 September 2018. Procurement for new service providers are underway.
- (iv) Staff training, conferences/seminars and retreats; - Trainings are being carried out as and when need arises. Staff are benefitting mainly from IFAD organised thematic workshops and continued professional development seminars.

b) Facilities for Project Implementation

- (i) Office furniture, fittings and equipment; - The project is well equipped with the necessary furniture, fittings and equipment. However, some equipment are getting obsolete and furniture is worn-out. Replacements are made as need arises.
- (ii) Motor Vehicles; - Four (4) out of the five (5) project vehicles are still in sound condition.
- (iii) Office Premises; - The Ministry of Finance Planning and Economic Development finalised the renewal of the tenancy agreement of the office premises at Crusader House, 3 Portal Avenue for the period up to January 2019.

A3. Procurement

During the financial year under review, the following key undertakings can be highlighted:

- (i) Support to the Procurement and Disposal Unit (PDU) at PMU by IFAD: - The IFAD country office has always provided continuous technical support to the PDU in a bid to enhance the performance of the unit.
- (ii) Review of Phase II procurement process by the IFAD Audit and Oversight Department and the Office of the Inspector General of Government (IGG)/Public Procurement and Disposal Unit (PPDU): IFAD fielded a review team arising out of a complaint from an anonymous person citing irregularities in the procurement process for procurement of service providers for strengthening, innovations and partnerships for mature CSCGs. Both the audit and oversight office of IFAD and the office of the IGG/PPDU cleared PROFIRA and advised to continue with the procurement process.
- (iii) Procurement planning and implementation: - The detailed procurement plans for the FY 2018/2019 was prepared and approved. The PDU is implementing the procurement plan. PDU has facilitated contract management meetings with the various stakeholders to ensure smooth contract implementation and management.

A4. Monitoring & Evaluation and Knowledge Management

In order to promote establishment and implementation of learning based monitoring and evaluation (M&E) system- the M&E, Communications and Knowledge Management functions have been integrated into all the project components and various management functions.

Progress on the following specific M&E Communication and Knowledge Management activities is provided as follows:

- (i) Implementation of a Communication and Learning Strategy; - The following activities were undertaken;
- The contract for the review of the Communication and Learning Strategy to align it to the current needs of the project has been signed. The assignment is expected to be completed by end of November 2018.
 - A media induction workshop in Kampala was held with the objective of building a critical mass of ambassadors within the media industry that would take forward the process of public awareness on the project from an informed point of view, as well as creating a platform for the media to interact and exchange views with Government and the project implementation team in particular. This would in turn reduce the risk of misinformation about PROFIRA by the media at regional level.
 - The project participated in the celebrations marking the National Resistance Movement Day in Arua District on 26 January 2018; as well as women's day celebrations held in Mityana District.
 - PROFIRA also participated in the activities to mark the international savings week in partnership with BOU under the Financial Literacy Programme at Pece Stadium in Gulu town.
 - The project has worked with New Vision Group of Companies – in particular the newspaper section to regularly feature project beneficiaries' success stories under the 'PAKASA' magazine. SACCO features stories stated running in April 2018. In addition, the project produced a video documentary highlighting the impact of the project interventions in SACCOs and CSCGs across the country. The documentary is due for airing for public consumption on at least 4 major television stations in Uganda. More educational videos focusing on financial literacy modules will be produced.
 - The project facilitated the Parliamentary Committee on Finance, Planning and Economic Development to undertake a field study in Eastern Uganda to assess project implementation.
 - Project participated in the 2018 Microfinance Expo organized by the Association of Microfinance Institutions in Uganda (AMFIU) at Lugogo show grounds in Kampala. The project set up a stall at which information about the implementation progress was shared and experiences shared with the public.
- (ii) Development of the project M&E System; - the project log-frame, results framework and IFAD RIMS Indicators on the project were consolidated into the IFAD Operations Management System
- (iii) Operationalization of the M&E Management Information System (MIS); -
- The development of the SACCO M&E MIS was completed and backstopping the operationalization of the system by the service provider was completed on 20 September 2017. The system is now fully operational.

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- Performance monitoring of CSCGs, and validation of service provider performance, was deemed critical for performance to be tracked at group level, in addition to aggregate data. Technical support was acquired through sole sourcing the services of VSL Associates Ltd which set up system interfaces and to train the PMU and service providers. The vendor/developer completed installation and setup of the system at all the relevant locations and a training of users was undertaken. The system is online and it is operational. The consultant provided training in use of the mobile application in the first week of November 2017. The system is also fully operational.
- The lead consultant for VSL Associates (Mr. Hugh Allen) will be called upon to facilitate the setup of databases and train users for all the service providers that will be contracted under Phase II of Component 2.

(iv) Compiling progress reports and AWP&B; - The annual report was submitted on 05 October, 2018. The semi-annual report for FY 2017/18 was submitted on the 15 February, 2018. The final AWP&B for FY 2018/19 incorporating recommendations from the MTR, as well as comments from IFAD was submitted on the 15 August, 2018. This annual report is in line with the provisions of the Loan Agreement.

(v) M&E working and backstopping activities; - These activities were undertaken in all the regions of the country. They were conducted in partnership with UCKK, MTIC, DCOs and contracted SPs in each region. The objectives were (i) assessing progress towards achieving results both at the output and outcome levels; (ii) assessing the approaches and effectiveness of the training and on-site technical assistance offered to SACCOs; (iii) brainstorming on challenges and mitigation measures, successes, and lessons. The process involved undertaking spot checks on supported SACCOs, where after feedback is provided to implementers in a working sessions. Action plans would be developed.

In addition, the M&E unit has participated in monitoring and reviewing progress of the activities of the CSCG component, through its representative on the Oversight and Supervision Committee.

(vi) M&E Studies; - PROFIRA is mid-way the project life. Effective implementation of the signed contracts has averagely taken two years. PMU deemed it necessary to undertake a case study to assess emerging outcomes/impact on the project targeted beneficiaries i.e. (i) SACCOs and CSCGs as primary beneficiaries and (ii) households/individuals as secondary beneficiaries. This study sought to:

- To assess emerging outcomes³ from the PROFIRA interventions at SACCO and CSCG level.
- To assess impact⁴ on the project secondary beneficiaries i.e. Households/individuals.
- To document challenges and propose mitigations to achieving desired outcomes and impact of the project.
- To highlight lessons so far from the project implementation process.

³ Emerging outcomes at institutional level are directly aligned to the development objective of the project; which focuses on three key result areas namely, (i) Outreach, (ii) Usage, and (iii) Sustainability.

⁴ Impact at household/individual level is aligned to the goal of the project; which focuses on three key result areas namely, (i) Increased Incomes – measured by asset ownership index; (ii) Food Security and Nutrition – measured by anthropometric parameters (wasting, stuntedness and underweight); and (iii) Women Empowerment in Agriculture – measured by the WEAI.

Project Cost Categories

The Project has the following disbursement categories;
Vehicles, Equipment and Materials
Other Investment Costs
Operating Costs

These categories map into the project components.

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STATEMENT OF ACCOUNTING OFFICER AND PROJECT MANAGEMENT RESPONSIBILITIES

The IFAD guidelines for annual financial reporting of IFAD financed activities require management to prepare financial statements which give a true and fair view of the sources and application of funds for the financial year in accordance with the project accounting policies.

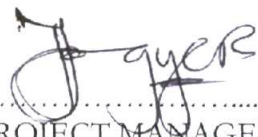
Management accepts the responsibility for the financial statements set out on pages 36 to 45, which have been prepared using appropriate accounting policies in conformity with the loan agreement and in the manner required by the IFAD guidelines for financial reporting and auditing of IFAD financed activities. Management also accepts the responsibility for safeguarding the assets of the project against fraud and other irregularities. Management further accepts the responsibility for the maintenance of accounting records which have been used in the preparation of the financial statements as well as adequate systems of internal financial control.

Nothing has come to the attention of management to indicate that any breakdown in the functioning of these controls resulting in loss of project funds has occurred during the year.

Management accepts the responsibility that the project funds have been expended in accordance with the intended purposes as specified in the Project Loan Agreement.


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FINANCE AND ADMINISTRATION MANAGER

Date. 30/10/2018


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PROJECT MANAGER

Date. 30/10/2018

PAGES 32-35

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF RECEIPTS AND PAYMENTS (BY CATEGORY OF EXPENDITURE)

	Notes	Year ended 30/06/2018	Year ended 30/06/2017	Cumulative to date
		Ushs	Ushs	Ushs
Opening Balance		1,882,019,936	418,340,427	-
Prior year adjustment	3	-	25,178,085	25,178,085
Restated Opening Balance		1,882,019,936	443,518,512	-
FINANCING				
IFAD Credit				
Initial allocation		-	3,592,880,000	9,480,071,101
Replenishments to SA	4	17,250,744,218	13,804,455,342	36,734,409,725
Exchange Rate Differences	5	187,570,510	255,429,588	937,330,414
IFAD Grant to CCA	6	-	1,198,007,811	1,198,007,811
Government Funds	7	416,692,610	754,424,714	1,813,685,715
Beneficiaries Contributions		-	-	-
TOTAL FINANCING		19,737,027,274	20,048,715,967	50,188,682,851
PROJECT EXPENDITURE (BY CATEGORY)				
Cat IFAD Credit				
1 Vehicles, Equipment and Materials	8	4,594,962	(140,046,977)	646,432,585
2 Other Investment Costs	9	12,945,907,877	14,615,744,359	36,509,854,223
3 Operating Costs	10	1,753,627,133	1,739,641,624	5,473,286,600
		14,704,129,972	16,215,339,006	42,629,573,408
2 Other Investment Costs	9	-	1,198,007,811	1,198,007,811
Government Funds				
1 Vehicles, Equipment and Materials	8	239,805	179,567,222	180,217,366
2 Other Investment Costs	9	49,477,262	162,954,756	230,629,561
3 Operating Costs	10	363,600,805	410,827,236	1,330,675,275
		413,317,872	753,349,214	1,741,522,202
TOTAL PROJECT EXPENDITURE		15,117,447,844	18,166,696,031	45,569,103,421
CLOSING BALANCE AS AT 30/06/2018	11	4,619,579,430	1,882,019,936	4,619,579,430

The notes set out on pages 41-45 form an integral part of these financial statements. The financial statements on pages 36-45 were approved by management on 28/10/2018 and were signed by:

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 FINANCE AND ADMINISTRATION MANAGER

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 PROJECT MANAGER

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
IFAD LOAN I-900-UG
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF RECEIPTS AND PAYMENTS (BY COMPONENT OF EXPENDITURE)				
	Notes	Year ended 30/06/2018	Year ended 30/06/2017	Cumulative to date
		Ushs	Ushs	Ushs
Opening Balance		1,882,019,936	443,518,512	-
Prior year adjustment	3	-	25,178,085	25,178,085
Adjusted Opening Balance		1,882,019,936	443,518,512	-
FINANCING				
IFAD Credit				
Initial allocation		-	3,592,880,000	9,480,071,101
Replenishments to SA	4	17,250,744,218	13,804,455,342	36,734,409,725
Exchange Rate Differences	5	187,570,510	255,429,588	937,330,414
IFAD Grant to CCA	6	-	1,198,007,811	1,198,007,811
Government Funds	7	416,692,610	754,424,714	1,813,685,715
Beneficiaries Contributions		-	-	-
TOTAL FINANCING		19,737,027,274	20,048,715,967	50,188,682,851
PROJECT EXPENDITURE: (BY COMPONENT)				
Comp IFAD Credit				
SACCO Strengthening and		6,735,180,454	7,564,216,157	
1 Sustainability	12			16,865,111,059
2 Community Based Financial Services	13	4,785,073,672	4,984,069,694	13,646,048,132
Policy, Institutional Support and				
3 Project Management	14	3,183,875,846	3,667,053,155	12,118,414,217
		14,704,129,972	16,215,339,006	42,629,573,408
IFAD Grant to CCA				
SACCO Strengthening and				
1 Sustainability	12	-	1,198,007,811	1,198,007,811
Government Funds				
SACCO Strengthening and		15,661,991	87,623,063	
1 Sustainability	12			103,285,054
2 Community Based Financial Services	13	4,857,895	2,754,000	7,886,395
Policy, Institutional Support and				
3 Project Management	14	392,797,986	662,972,151	1,630,350,753
		413,317,872	753,349,214	1,741,522,202
TOTAL PROJECT EXPENDITURE		15,117,447,844	18,166,696,031	45,569,103,421
CLOSING BALANCE AS AT 30/06/2018	11	4,619,579,430	1,882,019,936	4,619,579,430

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STATEMENT OF SPECIAL ACCOUNT ACTIVITY

	Notes	USD	Ushs
Opening Balance as at 01/07/2017		87,593.39	312,861,681
IFAD Replenishments			
Date	WA No		
06/07/2017	10	597,645.60	2,134,640,672
11/10/2017	11	1,717,349.68	6,296,695,804
19/12/2017	12	340,951.53	1,234,288,826
28/02/2018	13	1,311,985.17	4,749,556,873
31/05/2018	14	760,238.95	2,835,562,043
		4,728,170.93	17,250,744,218
		4,815,764.32	17,563,605,899
Exchange Rate Differences:		-	187,570,510
Bank Interest:		-	-
		4,815,764.32	17,751,176,409
Less:			
Transfers to Operations Account:			
Date	Transfer No		
06/07/2017	TRS 17	600,000.00	2,199,924,000
13/12/2017	TRS 18	800,000.00	2,896,104,000
08/01/2018	TRS 19	1,100,000.00	4,017,750,000
24/05/2018	TRS 13	1,500,000.00	5,594,745,000
		4,000,000.00	14,708,523,000
Bank Charges		100.00	364,158
		4,000,100.00	14,708,887,158
Closing Balance as at 30/06/2018	11	815,664.32	3,042,289,251

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF SPECIAL ACCOUNT RECONCILIATION

Account
Number:
Bank: Bank of Uganda
Address: Plot 37/43
P.O. Box 7120, Kampala, Uganda

USD

1	Initial Deposit	3,000,000.00
2	Less amount recovered by IFAD	-
3	Outstanding amount advanced	<u>3,000,000.00</u>

Represented by:

4	Cash and bank balances as at 30/06/2018 (As per bank reconciliations)	
	Special Account Reconciled Balance	815,664.32
	Operations Account Reconciled Balance	412,165.59
	Cash at hand	242.91
5	Plus amounts claimed but not yet credited as at 30/06/2018	
	WA 15	1,715,391.70
6	Plus amount withdrawn but not yet claimed	56,535.48
	Less interest earned and /or plus bank charges (if included in the Special	
7	Account)	<u>00.00</u>
8	Total Special Account Advance as at 30 June 2018	<u>3,000,000.00</u>

Difference between line 3 and line 8 -

Notes:

a Difference between lines 3 and 8

There is no difference between line 3 and line 8 in USD.

b Indicate if amount in line 6 is eligible for financing by IFAD and provide reasons for not claiming

Out of USD 56,510.28, USD 10,207.22 is VAT paid on invoices submitted by suppliers which was refunded by GOU as counterpart contribution on 08 August 2018. USD 269.56 is outstanding advance to contracted service providers due to be refunded and USD 46,058.70 was included in WA number 16.

c Exchange rate as at 30/06/2018

USD 1 = Ushs 3,729.83

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

WITHDRAWAL APPLICATIONS SUBMITTED BY CATEGORY OF EXPENDITURE

Cat No	Vehicles, Equipment and Materials 1	Other Investment costs 2	Operating Costs 3	Initial Allocation	Total	Total
WA No	USD	USD	USD	USD	USD	Ushs
10	-	475,970.97	121,674.63	-	597,645.60	2,134,640,672
11	1,620.17	1,604,206.00	111,523.51	-	1,717,349.68	6,296,695,804
12	-	254,842.00	86,109.53	-	340,951.53	1,234,288,826
13	368.01	1,159,175.96	152,441.20	-	1,311,985.17	4,749,556,873
14	-	625,451.27	134,787.68	-	760,238.95	2,835,562,043
	1,988.18	4,119,646.20	606,536.55	-	4,728,170.93	17,250,744,218

WA not yet credited to Special Account

WA No						
15	893.28	1,604,932.98	109,565.44	-	1,715,391.70	6,349,744,611
	893.28	1,604,932.98	109,565.44	-	1,715,391.70	6,349,744,611

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS

1. Financial Reporting under International Public Sector Accounting Standards (IPSAS)
2. Significant Accounting Policies
3. Prior year adjustment
4. Replenishments to SA
5. Exchange rate differences
6. IFAD Grant to Canadian Cooperatives Association (CCA)
7. Government Funds
8. Vehicles, Equipment and Materials
9. Other Investment Costs
10. Operating Costs
11. Cash, Bank and Fund balances
12. SACCO Strengthening and Sustainability
13. Community Based Financial Services
14. Policy, Institutional Support, and Project Management
15. Procurements

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 FINANCIAL REPORTING UNDER INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

In accordance with International Public Sector Accounting Standards (IPSAS), notes to these financial statements are set out below:

- Present all information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events, and
- Provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the project's cash receipts, cash payments, cash balances and other statements position.

2 SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

A Basis of Preparation

The financial statements have been prepared in accordance with IPSAS with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting.

B Cash Basis of Accounting

The cash basis of accounting recognizes transactions and events only when cash is received or paid by the project.

C Foreign Currency Transactions

Transactions in foreign currencies during the year are converted into Uganda Shillings (functional currency) at the average rate of all rates in a given month. Cash, bank and fund balances held in foreign currency are translated at the average rate of the last month of the year end. Any gains or losses on foreign currency transactions or balances are dealt with in the Statement of Receipts and Payments. The details relating to exchange differences are disclosed in note 5.

3 PRIOR YEAR ADJUSTMENT

Prior year adjustment of Ushs 25,178,085 in the financial year 2016/2017 related to VAT paid on invoices submitted by suppliers which was not reflected in the financial statements fund balance for the financial year ended 30 June 2016.

4 REPLINISHMENTS TO THE SPECIAL ACCOUNT

The project is funded by the IFAD under the IFAD loan Agreement number I-900-UG dated 24th November 2014 and the GOU. The project draws funds for expenditure on the loan by furnishing IFAD with Statements of Expenditure for funds previously disbursed. IFAD then replenishes the project Special Account with the funds requested for the expenditure.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 EXCHANGE RATE DIFFERENCES

This relates to exchange gains and losses arising from translation of United States Dollars into Uganda shillings for all income received from IFAD through the Special Account.

6 IFAD GRANT TO CCA

IFAD and CCA entered into a co-financing agreement to provide technical assistance to implement sub component 1.2 of PROFIRA, Developing a Sustainable SACCO Union. The co-financing agreement consists of a grant of USD 1,000,000 provided by IFAD and consulting services of USD 250,000 provided by CCA. This grant is governed by an agreement signed between IFAD and CCA. Expenditure relating to this grant has been excluded from the PROFIRA financial statements for the current financial year.

7 GOVERNMENT FUNDS

The activities of PROFIRA are jointly funded by both IFAD and GOU. The government contribution is majorly used to fund any taxes arising on expenditures incurred using IFAD funds.

8 VEHICLES, EQUIPMENT AND MATERIALS

This expense relates to funds incurred by the project on vehicles, equipment and materials purchased for use by the PMU. The negative IFAD expense of Ushs 140,046,977 for the financial year ended 30 June 2017 related to the following;

	Ushs
Reversed VAT paid on 2 station wagons and a pickup included as IFAD expense in the financial statements for the financial year ended 30 June 2016	(173,464,326)
IFAD expense for the financial year ended 30 June 2017	<u>33,417,349</u>
	<u>(140,046,977)</u>

A list of fixed assets is attached as Annex 1.

9 OTHER INVESTMENT COSTS

This expense line relates to funds incurred by the project in form of investments in the project objectives.

10 OPERATING COSTS

This expense relates to funds incurred in the day to day running of the project.

PROJECT FOR FINANCIAL INCLUSION IN RURAL AREAS
IFAD LOAN I-900-UG
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 CASH, BANK AND FUND BALANCES

	Year ended 30/06/2018	Year ended 30/06/2017
	Ushs	Ushs
Special Account Bank Balance	3,042,289,251	312,861,681
Operations Account Bank Balance	1,537,307,568	1,547,632,890
Cash at hand	906,000	11,530,500
	4,580,502,819	1,872,025,071
VAT paid on invoices submitted by suppliers due to be refunded to Operations Account by GOU	38,071,186	8,654,865
Outstanding advance to contracted service provider due to be refunded	1,005,425	1,340,000
Closing balance as at 30/06/2018	4,619,579,430	1,882,019,926

12 SACCO STRENGTHENING AND SUSTAINABILITY

This expense relates to all expenditure incurred as investment in promoting the development of SACCOs in Uganda, in line with project component 1.

The total budget for SACCO Strengthening and Sustainability activities was Ushs. 11,047,881,046. As at 30 June 2018, Ushs. 6,750,842,445 had been utilized, representing a budget absorption of 61%. The low budget absorption was attributed to Ushs. 1,283,104,560 which was wrongly budgeted under the PMU budget, and yet it related to IFAD/CCA grant activities, which are not channelled through the PMU. In addition, SACCO MIS grants were not disbursed to beneficiaries because there was ambiguity in the channels through which these grants were to be disbursed to the beneficiary SACCOs. Contracted service providers for capacity building of SACCOs were also not able to perform their contractual obligations in full because some SACCOs were closed or not ready to receive the capacity building envisaged hence, were paid less than the budgeted amounts. Funds budgeted to facilitate DCOs in the supervision of SACCOs and data collection were also not fully disbursed, because many DCOs did not provide the requisite reports to trigger off this disbursement.

13 COMMUNITY BASED FINANCIAL SERVICES

This expenditure relates to funds spent by the project on promoting community based financial services in line with project component 2.

The total budget for support to CSCGs was Ushs. 8,438,157,741. As at 30 June 2018, Ushs. 4,789,931,567 had been utilized, representing a budget absorption of 57%. The low budget absorption of 57% was attributed to delays in procurement of contracted service providers for phase II contracts because of the lengthy procurement process. The procurement process was halted for review a number of times. In addition, training of DCDOs in CSCGs methodology did not take place because PMU developed a second thought that this activity will be more relevant as part of the Exit Strategy as the project comes to an end.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 POLICY, INSTITUTIONAL SUPPORT, AND PROJECT MANAGEMENT

This relates to funds incurred by the project on investment on policy initiatives, supporting regulatory institutional development, and expenditure on management of the project in line with component 3.

The total budget for component 3 was Ushs. 4,534,138,751. As at 30 June 2018, Ushs. 3,576,673,832 had been utilized, representing a budget absorption of 79%. The low budget absorption of 79% was attributed to low level of activity by the Department of Cooperatives Development in MTIC. In addition, there was over budgeting for funds to be disbursed to UCCK. The excess budget provision was not disbursed to UCCK because the remaining balance on the UCCK MOU had been exhausted. Some furniture and equipment (including projectors, screens and switchboards) which had been budgeted to be procured during the year was not procured because there were delays in specifying the details and purpose of furniture and equipment required by the project.

15 PROCUREMENTS

The list of procurements is shown as Annex 2.