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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/AFGHANISTAN'S SMALL AND MEDIUM ENTERPRISE DEVELOPMENT ACTIVITY

AUDIT REPORT NO. 5-306-08-006-P
June 23, 2008

MANILA, PHILIPPINES



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Office of Inspector General

June 23, 2008

MEMORANDUM

TO: USAID/Afghanistan Mission Director, Michael Yates

FROM: Regional Inspector General/Manila, Catherine M. Trujillo /s/

SUBJECT: Audit of USAID/Afghanistan's Small and Medium Enterprise Development Activity (Audit Report No. 5-306-08-006-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments to the draft report and included the comments (without attachments) in appendix II.

This report contains four recommendations to assist USAID/Afghanistan to improve its oversight of the Afghanistan Small and Medium Enterprise Development Activity. Based on the information provided by the mission in response to the draft report, we consider that final actions have been taken on recommendation nos. 1 and 2 upon issuance of this report. In regard to recommendation nos. 3 and 4, management decision has been reached and determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective action.

I want to thank you and your staff for the cooperation and courtesy extended to us during the audit.

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SUMMARY OF RESULTS

In October 2006, USAID/Afghanistan awarded a \$36.8 million contract to Development Alternatives, Inc. (contractor) to implement the Afghanistan Small and Medium Enterprise Development Activity (project). With this project the mission aims to support the rapid transition of Afghanistan to a more stable and productive state through the promotion of sustainable economic and social development that is responsive to citizens' needs. The mission is focused on working with Afghans and others to achieve three interlinked strategic objectives, including promoting a thriving licit economy led by the private sector. Further, the mission will assist the Government of Afghanistan to develop sound economic governance and work with the private sector to stimulate investment and business opportunities. Moreover, to improve private sector competitiveness, the mission will assist Afghan firms to compete in the global market and to support small and medium enterprises (see page 2).

The Regional Inspector General/Manila conducted this audit to determine if USAID/Afghanistan's Small and Medium Enterprise Development Activity was accomplishing planned results and to assess the impact of the project (see page 3).

This audit could not determine if 11 of the 18 performance indicators used to measure the progress of the project met planned results during the first year of implementation (January–December 2007). The audit determined that the contractor's performance data for these 11 performance indicators were not reliable and therefore not useful in managing for results or credible for reporting. For the remaining seven indicators, the audit determined that the project partially met five indicators' regional performance targets, exceeded one indicator's nationwide target, and partially met one indicator's nationwide target (see page 4).

The audit concluded that it could not rely on the contractor's performance data used to measure results for 11 of the 18 performance indicators because of the lack of proper controls in managing the contractor's project database, which resulted in overstated project results (see page 4). In addition, the mission needs to improve a number of areas related to its management of the project. Specifically, the mission should direct the contractor to put into operation its web-based management information system (see page 9) and establish realistic project targets (see page 11).

This audit report makes four recommendations to assist USAID/Afghanistan to improve its oversight of the Afghanistan Small and Medium Enterprise Development Activity (see pages 8, 10, and 13). The mission agreed with all four recommendations. Based on our evaluation of the mission's written comments and supporting documentation, we consider that final actions were taken on recommendation nos. 1 and 2, and management decisions were reached on recommendation nos. 3 and 4 (see page 14).

USAID/Afghanistan's written comments are included in their entirety as appendix II to this report (see page 17.)

BACKGROUND

Decades of war and the rule of the Taliban from 1996 to 2001 have made the Islamic Republic of Afghanistan a failed state with a weak economy and the near-complete absence of social services. As a consequence, poverty is widespread and deeply entrenched in the country—the average yearly income is \$300 per person. In some provinces, approximately 90 percent of the population is poor. Therefore, sustained economic growth is critical to address poverty in the country.

In response to the challenges facing the country, USAID/Afghanistan developed a strategy aimed to support the rapid transition of Afghanistan to a more stable and productive state. The strategy is focused on working with Afghans and others to achieve three interlinked strategic objectives, including promoting a thriving licit economy led by the private sector. In doing so, the mission is assisting the Government of Afghanistan to develop sound economic governance and working with the private sector to stimulate investment and business opportunities. Further, to improve private sector competitiveness, the mission is helping Afghan firms to compete in the global market and supporting small and medium enterprises.

To support this strategy, USAID/Afghanistan, in October 2006, awarded a \$36.8 million contract to Development Alternatives, Inc. (contractor), to implement the Afghanistan Small and Medium Enterprise Development Activity (project). The 3-year contract, with a 2-year renewal option, was designed to accomplish the following goals:

- Provide business development services; strengthen the capacity of business associations; support efforts to generate and disseminate market information; promote public-private sector partnerships; and build human capital within the private sector, business associations, and other business support organizations.
- Eliminate nongovernmental barriers to establishing and running efficient businesses.
- Assist in establishing a more vibrant private sector that is better able to recognize and respond to market forces and opportunities.
- Help provide licit economic opportunities for thousands of Afghans through direct and indirect assistance.

The mission's contract called for the project to be implemented in a minimum of four provinces, including Badakhshan, Helmand, Herat, and Nangarhar. However, immediately after implementation, the contractor revised the geographic coverage, expanding the project to potentially include all 34 provinces of Afghanistan, and changed the provincial targets to regional targets covering the 5 regions in Afghanistan: central, eastern, western, northern, and southern (see table 1).

Table 1. Geographic Project Coverage Throughout Afghanistan

Region	Provinces
Central	Bamiyan, Daykundi, Kabul, Kapisa, Logar, Panjshir, Parwan, Wardak
Eastern	Khost, Kunar, Laghman, Nangarhar, Nurestan, Paktia, Paktika
Western	Badghis, Farah, Ghor, Herat
Northern	Badakhshan, Baghlan, Balkh, Faryab, Jowzjan, Kunduz, Samangan, Sar-e Pol, Takhar
Southern	Ghazni, Helmand, Kandahar, Nimruz, Oruzgan, Zabul

USAID/Afghanistan’s office of economic growth is responsible for managing the project. As of December 31, 2007, mission records showed that the obligated and disbursed amounts for the program were \$20.4 million and \$13.2 million, respectively.

AUDIT OBJECTIVE

The Regional Inspector General/Manila conducted this audit as part of the fiscal year 2008 audit plan to answer the following question:

- Was USAID/Afghanistan’s Small and Medium Enterprise Development Activity accomplishing planned results, and what has been the impact?

Appendix I contains a discussion of the audit’s scope and methodology.

AUDIT FINDINGS

This audit could not determine if 11 of the 18 performance indicators used to measure the progress of the Afghanistan Small and Medium Enterprise Development Activity (project) met the planned results during the first year of implementation (January–December 2007). The audit determined that Development Alternatives, Inc.'s (contractor) performance data for these 11 performance indicators were not reliable and therefore not useful in managing for results or credible for reporting.

For the remaining seven indicators:

- The project partially met five indicators' regional performance targets. The contractor had established specific regional targets for these indicators where project activities were to be implemented. Targets were partially met because the results were not achieved as planned across each region.
- The project exceeded one indicator's nationwide target. In the first year, the project completed 12 market assessments, with help from local partners, thus exceeding its target of 8 assessments by 50 percent.
- The project partially met one indicator's nationwide target. In the first year, the project achieved an 18 percent increase in the number of clients assisted by business development services providers. This result fell short of the target to achieve a 25 percent increase.

A complete list of the 18 indicators describing the basis of the data for measuring and reporting results is provided in appendix III on page 21.

Even though the audit could not determine if planned results were met for 11 of the 18 indicators, the Regional Inspector General/Manila tested and observed a number of the project activities implemented in the provinces of Herat and Kabul. Some successful activities in these two provinces are summarized below.

Two activities contributed to the project goal of supporting existing business associations:

- Herat Gardeners Association – A project grant supported this business association by providing funds to construct selling booths for horticultural products, which will ensure market access points for the gardeners and a location to market their products. Moreover, the grant financed setting up an operational office and providing training to the association's members. The business association will provide collective marketing services to small-scale farmers.
- Herat Carpet Dealers Association – A project grant assisted this business association in developing and strengthening the carpet industry in the western region of Afghanistan by enabling the association to establish an office, enhancing its members' management and work capacity, and publishing a monthly magazine. Furthermore, the project sponsored the participation of carpet dealers in trade shows in order to reestablish local market links with the international market. One such trade show was held in Afghanistan in August 2007: more than 110 Afghan carpet producers exhibited their fine carpets, and buyers from more than 50 countries were

invited. According to a USAID small and medium enterprise development briefer, this trade show cost about \$110,000 to organize and generated more than \$4 million in sales and contracts for Afghan carpet producers.

Two activities contributed to the project goal of supporting small and medium enterprises:

- Turquoise Mountain Foundation – A project grant supported this enterprise to promote market research; product development; quality control and production improvement; and marketing and sales. The foundation’s goal is to expand commercial opportunities for the Afghan crafts industry by training craftspeople in business skills and product development; increasing the quality of production; and linking high-quality products to existing client demand, predominantly abroad.



Office of Inspector General photograph of an intricately designed wood panel hand-carved by woodcarvers at the Turquoise Mountain Foundation in Kabul, Afghanistan. (February 2008)

- Tarsian & Blinkley/Maharat – A project grant assisted this enterprise in providing training programs and purchasing machines. This apparel manufacturing facility’s mission is to promote the “Made in Afghanistan” label through quality products. It also aims to establish an apparel manufacturing training center in Kabul that will elevate the standards of domestic manufacturing to international levels.



Office of Inspector General photograph of an industrial sewing machine purchased with project funds for Tarsian & Blinkley/Maharat in Kabul, Afghanistan. (February 2008).

Despite these achievements related to 2 project indicators and observed in 2 provinces, the audit could not determine if the contractor achieved the planned results nationwide for the first year for 11 of the 18 performance indicators, because the audit could not rely on the project's performance data. Also, the audit identified other areas that the mission needs to improve related to its management of the project. Specifically, the mission needs to require the contractor to refine the data in its project database, put into operation the planned web-based management information system, and establish realistic performance targets. These issues are further addressed below.

Contractor's Project Database Needs to Be Refined

Summary: USAID guidance states that performance data should meet five data quality standards for the data to be useful in managing for results—one of which is reliability. The audit determined that the contractor's performance data were not reliable, because the contractor's processing of data was flawed: (1) different individuals were responsible for entering data into the project database and the process did not allow them to see the other entries, which contributed to multiple individuals entering the same data; (2) there were no built-in controls identifying data entry errors; (3) there was a lack of periodic review of the database files; and (4) there were no prescribed procedures defining acceptable information for each data field. As a result, the contractor's performance data were not useful in managing for results or credible for reporting.

USAID's Automated Directives System 203.3.5.1 states that performance data in performance management plans should meet five data quality standards—one of which is reliability—for the data to be useful in managing for results and credible for reporting.

For data to be reliable, the data should reflect a stable and consistent data collection process and analysis methods over time.

However, the audit determined that the contractor's performance data were not reliable, in part because the data were initially collected in a project database that was to be subsequently replaced by a web-based management information system. This project database was to remain in place until the contractor could fully implement the web-based management information system for the project. The web-based management information system would allow the project staff, USAID, and the contractor to track activities to targets and provide up-to-the-minute access to status reports on progress toward achieving targets and fulfilling contractual obligations.

The project database consisted of an Excel spreadsheet that served as the repository for project data. The contractor collected pertinent information on small and medium enterprises and business associations that registered for services offered through the project. In addition, the contractor collected information from surveys administered to both small and medium enterprises and business associations capturing various results of the services offered through the project. The contractor used this database to track project activities, extract information, and monitor and report results against performance targets. Table 2 illustrates the 11 indicators included in the project database.

Table 2. Indicators in the Project Database

Indicator Number and Description	Year 1 Target	Reported Result
1.2: Number of small and medium enterprises (SMEs) that have added value and/or diversified into higher-value products and/or services in response to market demand *	150	164
1.3: Increased sales of participating SMEs in target sectors (over baseline)	+10%	N/A
2.3: Number of businesses supported *	900	2,417
2.4: Number of new SMEs created *	150	237
2.5: Jobs created	2,000	3,004
2.6: Bank loans/equity accessed	10	40
2.7: Investment in new technology	800	222
3.1: Number of business associations established in target provinces *	40	33
3.2: Number of existing business associations supported in target provinces *	65	76
3.3: Increase in membership of project-supported associations	+10%	+5%
3.4: Number of new members in new/existing associations	1,000	5,416

* These indicators are disaggregated by region in appendix III, but for the purpose of this table, the planned targets and reported results are presented cumulatively.

The audit determined that the data in the project database were not reliable. Tests conducted during the audit determined that the database contained duplicate records. For example, the contractor's database file initially reported that as of December 31, 2007, a total of 1,014 small and medium enterprises had registered for services. Initial tests of data accuracy performed by the auditors identified the presence of duplicate records. Acting on this information, the contractor performed further tests of accuracy on the file, and the result

decreased the number of small and medium enterprises from 1,014 to 933 registered small and medium enterprises (an 8 percent overstatement). In addition, the auditors reviewed the refined file and identified still more duplicate records.

The processing of data was flawed for a number of reasons. First, different individuals were responsible for entering the data into the project database. Each data entry clerk entered the data onto individual spreadsheets, which were later combined into a single file. This process did not allow the different data entry clerks to view the other entries which contributed to multiple individuals entering the same data. Second, the Excel spreadsheet, used to compile the project data did not have the necessary entry controls to flag data entry errors as information was keyed into the spreadsheets. Third, the contractor did not conduct periodic quality control reviews of the database. Fourth, there were no prescribed procedures defining acceptable information for each data field, leaving it up to the discretion of each data entry clerk as to how data should be entered. In addition, the contractor's chief of party explained that to report on performance indicators, it had to conduct surveys to establish verifiable progress. The speed and volume of data collection during the time the surveys were conducted was another cause of data quality errors.

The mission's cognizant technical officer for the project was not aware of these problems. He believed that the system was operating as intended because experts from the contractor's home office had designed and set up the system and short-term technical staff trained personnel in populating and maintaining the system. After so much effort, he expected that the project activity had an excellent system in place.

As a result, the numbers of registered small and medium enterprises were overstated by at least 81 records, an overstatement that affects all 11 of the performance indicators extrapolated from the project database. Moreover, flaws in processing data coupled with the lack of data quality controls meant that performance data were not useful in managing for results or credible for reporting on 11 of the 18 performance indicators established to measure project performance. To improve data quality, this audit makes the following recommendation:

Recommendation No. 1: We recommend that USAID/Afghanistan require the cognizant technical officer for the Afghanistan Small and Medium Enterprise Development Activity to work with Development Alternatives, Inc. in refining the project database to eliminate duplicate records and to ensure that the data in the project database are reliable.

Contractor's Web-based Management Information System Needs to Be Implemented

Summary: The contractor's first-year annual work plan stated that the project would be implemented using a web-based management information system. This system was integral to the contractor's ability to track project activities to targets and provide up-to-the-minute access to status reports on progress toward achieving targets and fulfilling contractual obligations. However, 16 months into the project, the contractor has yet to implement the web-based management information system. According to the contractor, the system has taken longer than planned to implement because this is the first time that they have developed a web-based management information system that included a relational database. In the interim, the contractor used a temporary project database for tracking and reporting project activity. However, the data compiled and used for performance management with this temporary process was not reliable for managing results or credible for reporting. Furthermore, the intended benefits outlined in the contractor's first-year work plan for using a web-based management information system have not been realized.

The contractor's first-year work plan described how it intended to manage the project, achieve results, and communicate those results to USAID and project stakeholders. In doing so, the contractor described its monitoring and evaluation plan, detailing the indicators to be used to measure progress. The contractor further described how the monitoring and evaluation plan would be implemented using a web-based management information system relational database. By linking the work plan with the milestones, this management tool would allow the project activity staff, USAID, subcontractors, and the contractor's U.S.-based office to track activities to targets and provide up-to-the-minute access to status reports on progress toward achieving targets and fulfilling contractual obligations.

The contractor reported that its web-based management information system would be customized for the project activity to include performance measurement fields in the database for each program activity. The database would capture gender-disaggregated data on participants, training, and seminars, as well as serving as a repository for information on project-supported business associations and business development service providers.

Despite the time that elapsed from the submission of the first-year work plan, the contractor has yet to implement its proposed web-based management information system. As of February 2008, approximately 16 months into the 36 month contract, the contractor was still using the project database (an Excel spreadsheet) to track and measure project activity and results. As previously discussed starting on page 6 of this report, the audit determined that the data contained in the project database were not reliable and therefore not useful in managing for results or credible for reporting.

The contractor's plan for integrating the activity data from the inception of the contract was to export the records from the project database into its web-based management information system. The contractor had started this process at the time of the audit and had completed exporting some of the data. However, because the data in its project

database were not reliable, the exported data as well were not reliable. The audit included some tests of the exported data and identified numerous duplicate entries.

According to the contractor, the system has taken longer than planned to implement because this is the first time they have developed a web-based management information system that included a relational database. Even though USAID/Afghanistan awarded the contract in October 2006, the contractor did not conduct its initial customization of the system until May 2007. Then, it took until fall 2007 for the contractor to develop a monitoring and evaluation module and begin internal discussions on how the system was to be customized to monitor and evaluate project performance data and how these data would be integrated into a web-based repository.

In the interim, the contractor used a temporary project database to track and report project activity. However, the data compiled and used for performance management with this temporary process were not reliable for managing results or credible for reporting. Because the web-based management information system was not implemented from the beginning of the contract, the contractor has not had the necessary tools to effectively manage project performance and report results.

In essence, the contractor's first-year work plan, dated December 26, 2006, did not accurately depict the status of its web-based management information system; the work plan gave the impression that the system was fully operational. Also, the mission's cognizant technical officer believed that the system was operating since it was part of the contractor's proposal and work plan. The mission never suspected that the system was incomplete or not operating properly.

Because the contractor's web-based management information system was to serve as an integral component of its monitoring and evaluation system, and serve as the basis for tracking project activity and reporting results, the audit makes the following recommendation:

Recommendation No. 2: We recommend that USAID/Afghanistan require Development Alternatives, Inc., to develop a plan of action that will implement the web-based management information system by May 31, 2008. This plan would include procedures on eliminating duplicate records and in ensuring that the data in this system are reliable.

Performance Targets Need to Be Realistic

Summary: USAID policy on performance indicators and targets states that missions should set optimistic yet realistic targets and, further, that missions should approve contractor changes to the contractor's performance management plan. The performance targets set out in the contractor's first-year work plan, as well as in the contract itself, were not realistic. Furthermore, the mission did not approve contractor changes to the first-year work plan and its performance management plan with regard to expanding its geographic coverage from four provinces to potentially include all provinces nationwide. The mission had not established realistic performance targets because of various unknowns and uncertainties of project success. The mission did not approve contractor changes to the performance management plan because the contractor believed that the changes were in line with verbal directions received from mission officials to expand the project on a nationwide basis. Without realistic performance targets and an approved performance management plan, information critical for influencing program decision making and resource allocation was not available.

USAID's Automated Directives System 203.3.4 addresses the policy for selecting performance indicators and targets for performance management plans. The mission is responsible for defining its intended results and in doing so should consider how it will assess progress toward those results. Planning to monitor results involves determining what change is desired, and to evaluate that change, the mission should set optimistic performance targets that can be realistically achieved within the stated timeframe and with the available resources. Further, the mission should approve any changes made to the contractor's performance management plan.

The mission expected the contractor to target significant resources for private sector development in specific provinces with economic development potential and ongoing complementary programs. Accordingly, the contract called for the project to work in a minimum of four provinces, specifically identifying Badakhshan, Nangarhar, Helmand, and Herat. Furthermore, the contract set out project targets for each project indicator in each of these four provinces. For a number of indicators, the contract also included project targets for the province of Kabul.

The performance targets set out in the contract as well in the contractor's first-year work plan were not realistic. For example, one of these project targets was to form public-private alliances in five provinces. Another target identified the number of participants to be placed in mentorship programs in five specific provinces. However, after year one, although the project overall had some success, results fell dramatically short in some provinces, while in others the results far exceeded the targets, as illustrated in table 3. Although some variance is expected between targets and actual results, some of the variances shown in table 3 are so large as to indicate that the established targets were either not realistic or were not even used to direct project implementation. For example, for indicator 5.2 "Number of participants in professional learning mentorship program," targets of 10 were established for 4 provinces, and all 4 reported no participants. These targets thus appear to be unrealistic and not used to direct project implementation.

Table 3. Examples of Performance Indicators With Unrealistic Targets

Indicator Number and Target Description	Coverage Province (Region)	Year 1 Target	Reported Result
4.1: Number of public-private/global development alliances formed per province per year	Kabul (Central)	2	5
	Nangarhar (Eastern)	2	0
	Herat (Western)	2	1
	Badakhshan (Northern)	1	1
	Helmand (Southern)	1	1
5.2: Number of participants in professional learning mentorship program	Kabul (Central)	10	0
	Nangarhar (Eastern)	10	27
	Herat (Western)	10	0
	Badakhshan (Northern)	10	0
	Helmand (Southern)	10	0

Furthermore, the mission did not approve contractor changes as to where project resources were to be spent. This happened because the contractor believed that the changes were in line with verbal directions received from mission officials in January 2007 to expand the project nationwide. In October 2007, the contractor revised its performance management plan to expand the geographic coverage of the project from the four provinces identified in the contract to potentially include all provinces nationwide. As a result, the contractor committed project resources nationwide and established regional targets as opposed to provincial targets.

An example of these changes can be illustrated by looking at the performance indicator for the “Number of business development service providers operating in target provinces.” The first-year targets for this indicator identified project targets for four provinces: Badakhshan, Nangarhar, Helmand, and Herat. However, after the contractor expanded the geographic coverage to all provinces in the nation and established regional targets, the targets were not used to measure performance and were even less realistic. For example, 20 business development service providers were operating in the central region even though no target was established for this region (see table 4). On the other hand, in provinces where the contractor identified ambitious project targets, the project experienced dismal results. For example, the target for the eastern region was 35 business development service providers, but the project did not achieve any.

Table 4. Example of Regional Results – Planned vs. Actual

Indicator Number and Description	Coverage Province (Region)	Year 1 Target	Reported Result
2.1: Number of business development service providers operating in target provinces	Kabul (Central)	0	20
	Badakhshan (Northern)	5	0
	Helmand (Southern)	10	0
	Herat (Western)	35	2
	Nangarhar (Eastern)	35	0

According to the cognizant technical officer, realistic targets were not established at the onset of the project because the mission and the contractor were not certain what success

could be achieved in these geographical areas. Therefore, the mission and the contractor set out in the first year to determine what kind of opportunities were available and whether they were doable, feasible, and manageable. For example, in setting the targets for the expected number of public-private alliances in five different provinces, the mission did not consider the commitment in time, knowledge, and personal engagement required. Also, in establishing the target for the number of participants to be placed in professional learning mentorship programs in five provinces, the mission did not consider the realities in Afghanistan in which there are few large companies and even fewer good managers willing to participate in such a program.

As of December 31, 2007, the mission obligated \$20.4 million and disbursed \$13.2 million for this project, a significant allocation of resources. Without realistic and approved performance targets, it is impossible to have the performance information that is critical for influencing program decision making and resource allocations. This performance information is key for communicating results achieved, or not attained, and for advancing organizational learning.

For example, in the case of the number of business development service providers operating in target provinces, based on the first-year achievement, significant resources were spent in the central region, where no initial target was established. Although the contractor experienced a positive result in year one, the fact that the contract did not call for project activity in this area raises the question of whether project resources were being used effectively. Without realistic targets established at the onset of the project, the mission is not identifying where the project most needs to effect change.

As a result, the mission is not managing the performance of this project to achieve the most advantageous development outcomes. Therefore, the audit makes the following recommendations:

Recommendation No. 3: We recommend that USAID/Afghanistan develop and implement a plan of action that will require the cognizant technical officer for the Afghanistan Small and Medium Enterprise Development Activity to provide technical direction to Development Alternatives, Inc. in updating the performance management plan; redefining the performance indicators and targets; and redirecting their resources to areas where progress can make more of an impact.

Recommendation No. 4: We recommend that USAID/Afghanistan's cognizant technical officer for the Afghanistan Small and Medium Enterprise Development Activity formally approve the updated performance management plan resulting from recommendation no. 3.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Afghanistan agreed with the findings and recommendations contained in the draft report. The mission plans to implement all of the recommendations in the report.

In response to recommendation no. 1, the mission requested the assistance of an expert from the Afghanistan Services Under Program and Project Offices for Results Tracking project to perform an independent database audit and confirm the quality after the contractor completed refining the database to eliminate duplicate records. On May 21, 2008, the expert issued an opinion that the contractor has effectively corrected the duplication errors and has developed a productive and comprehensive method of reducing duplications and identifying those that occur. Accordingly, we consider that final action has been taken on this recommendation.

Regarding recommendation no. 2, the mission and the contractor developed a plan that included conducting training for the monitoring and evaluation staff to increase their awareness on the importance of the USAID Automated Directives System standards; data entry process within the web-based management information system; and clarification of the indicators and data collected to support activity reporting. In addition, a user manual was created and visits to the regional offices is being planned to verify data and to ensure that monitoring and evaluation procedures are being followed. Therefore, we consider that final action has been taken on this recommendation.

As to recommendation nos. 3 and 4, the mission developed a plan that includes issuing a modification to the contract to better align the scope of work with the current situation in Afghanistan and the actual implementation circumstances, specifically related to the provinces and regions. Also included in the plan is the development of a new performance management plan to conform to this new reality. Further, the proposed performance management plan will be discussed with the office of program and project development to ensure consistent monitoring and evaluation of the activity. Lastly, the cognizant technical officer for the activity will then formally approve the updated performance management plan by August 31, 2008. Based on the actions taken by the mission to address recommendation nos. 3 and 4, we consider that management decisions have been taken on these recommendations and determination of final actions will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila conducted this audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective, which was to determine whether USAID/Afghanistan's Small and Medium Enterprise Development Activity was accomplishing planned results, and what impact the project has had.

The audit covered results achieved under the Afghanistan Small and Medium Enterprise Development Activity (project) from January 1 through December 31, 2007. Mission records showed that, as of December 31, 2007, the project's obligated and disbursed amounts were \$20.4 million and \$13.2 million, respectively. Audit fieldwork was conducted from January 30 through February 20, 2008, at the offices of USAID/Afghanistan and Development Alternatives, Inc. (contractor), in Kabul and Herat, Afghanistan.

In conducting this audit, we reviewed and assessed the significant internal controls developed and implemented by the mission to manage and monitor the project. The assessment included internal controls related to whether the mission (1) reviewed progress and financial reports submitted by the contractor; (2) conducted and documented periodic meetings with the contractor; (3) performed and documented visits to the project sites; and (4) developed and implemented policies and procedures to safeguard the assets and resources of the project. Further, we determined whether the mission prepared an assessment of its internal controls and reported it in its Federal Managers' Financial Integrity Act report for fiscal year 2007.

Our site visits were limited due to the precarious security situation and inclement weather conditions in some parts of Afghanistan. Specifically, the team visited seven of the activities being implemented in Herat and Kabul provinces.

Methodology

To answer the audit objective, we reviewed (1) the contract that the mission awarded to the contractor, including the modifications to the contract; (2) performance management plans; (3) annual work plan; (4) progress and financial reports; and (5) USAID/Afghanistan's Federal Managers' Financial Integrity Act report for fiscal year 2007. We also interviewed responsible contractor and mission officials.

To review the project's accomplishments reported during its first year of implementation, we verified the accuracy, appropriateness, and sufficiency of the documentation supporting the reported progress data. In addition, we tested the accuracy of the project

files maintained in the project database, the web-based management information system, and the files maintained outside of these databases.

We considered every exception we identified as a reportable condition.

MANAGEMENT COMMENTS



MEMORANDUM

TO: Regional Inspector General/Manila, Catherine Trujillo

FROM: USAID/Afghanistan, Acting Mission Director, Barbara Krell /s/

DATE: June 14, 2008

SUBJECT: Draft Report on the Audit of USAID/Afghanistan's Small and Medium Enterprise Development Activity (ASMED) (Audit Report No. 5-306-08-00X-P)

REFERENCE: C.Trujillo/M.Yates memo dated May 16, 2008

Thank you for providing the Mission the opportunity to review the subject draft audit report. We would like to thank the auditors for their professionalism, patience, and hard work while conducting the audit. The draft report contains useful recommendations for strengthening the Mission's ability to monitor and track progress towards achieving intended results and assessing the contractor's performance. We are providing our plans of action to address the recommendations in the audit report.

MISSION RESPONSES TO AUDIT RECOMMENDATIONS

Recommendation No. 1: We recommend that USAID/Afghanistan require the cognizant technical officer for the Afghanistan Small and Medium Enterprise Development Activity to work with Development Alternatives, Inc. in refining the project database to eliminate duplicate records and to ensure that the data in the project database are reliable.

The Mission agrees with the recommendation. The Cognizant Technical Officer instructed Development Alternatives, Inc. (DAI) to refine the project database to eliminate duplicate records and to ensure that the data in the project database are reliable. On April 15, 2008, the Activity Monitoring and Evaluation (M&E)

Manager reported that DAI had completed the task of cleaning out the duplicates (**Attachment 1**). In order to verify this, the Cognizant Technical Officer further requested assistance from the Afghanistan Services Under Program and Project Offices for Results Tracking (SUPPORT) project to perform an independent database audit and confirm the data quality. SUPPORT's response was received on May 21, 2008 (**Attachment 2**), whereby the expert who conducted the database audit stated:

"It is my opinion that the ASMED staff has effectively corrected any duplication errors evident in earlier versions of their databases."

Furthermore, the report itself (**Attachment 3**) states:

"It is clear from the audit process that ASMED staff has developed a productive and comprehensive method of reducing duplications and identifying those that occur."

Based on these database audit findings, the Mission requests that this audit recommendation be closed.

Recommendation No. 2: We recommend that USAID/Afghanistan require Development Alternatives, Inc. to develop a plan of action that will implement the web-based management information system by May 31, 2008. This plan would include procedures on eliminating duplicate records and in ensuring that the data in this system are reliable.

The Mission agrees with the audit recommendation. The Cognizant Technical Officer worked with DAI to develop the following plan to address this recommendation:

1. Prepare and conduct training for the monitoring and evaluation staff of the Activity in early May, in order to increase their awareness about the following:
 - a) the importance of the ADS standards;
 - b) the steps for adhering to those standards within the Activity system;
 - c) the data entry process within the web-based management information system - the Technical and Administrative Management Information System (TAMIS);
 - d) clarification of the Activity indicators and data collected to support Activity reporting;
2. Create user manuals for the Activity's monitoring and evaluation staff so that data entry within TAMIS is easily understood;
3. Plan regional office visits after the May training to continue to verify data and support Activity staff to ensure that monitoring and evaluation procedures are being followed. The offices in Badakshan, Nangarhar and Kandahar will be visited in the course of June, and the new offices being established in Hirat and Balkh as soon as the new staff is hired.

On May 25, 2008, the ASMED Chief of Party gave a presentation to the Mission on what has been done and what is proposed to address the audit findings

(Attachment 4). Representatives from all relevant Offices attended: Economic Growth, Financial Management, Program and Project Development, and Acquisition and Assistance. In addition, the TAMIS Introduction and User's Manual was presented, along with an on-line demonstration of the system **(Attachment 5).**

The Office of Economic Growth is satisfied with the plan of action and the measures that have been undertaken in order to ensure reliable entry of data, and the built-in checks and balances to avoid duplication of data entries. The CTO will oversee DAI's continued implementation of the plan of action to ensure data integrity of the revised TAMIS web-based management information system. Based on this, the Mission requests that this audit recommendation be closed.

Recommendation No. 3: We recommend that USAID/Afghanistan develop and implement a plan of action that will require the cognizant technical officer for the Afghanistan Small and Medium Enterprise Development Activity to provide technical direction to Development Alternatives, Inc. in updating the performance management plan; redefining the performance indicators and targets; and redirecting their resources to those areas where progress can make more of an impact.

Recommendation No. 4: We recommend that USAID/Afghanistan's cognizant technical officer for the Afghanistan Small and Medium Enterprise Development Activity formally approve the updated performance management plan resulting from Recommendation No. 3.

The Mission agrees with the audit recommendations. In order to meet these requirements, the following plan was developed:

1. A contract modification will be executed, to better align the Scope of Work with the current situation in Afghanistan and the actual implementation circumstances, specifically related to the provinces and regions;
2. A new PMP will be developed to conform with this new reality;
3. The proposed PMP will be discussed with the Office of Program and Project Development to ensure consistent monitoring and evaluation of the activity;
4. The Cognizant Technical Officer will then formally approve the updated performance monitoring plan.

Based on the above plan of action, the Mission requests that Recommendation No. 3 be closed. The target date for completion of the planned actions to address Recommendation No. 4 and to formally approve the revised performance management plan is August 31, 2008. We therefore request RIG/Manila concurrence that a management decision has been reached.

Attachments

- Attachment 1.** Communication by ASMED to the CTO on the database
- Attachment 2.** Communication on the ASMED database audit results
- Attachment 3.** ASMED database audit report
- Attachment 4.** Presentation of the ASMED Performance Audit Response
- Attachment 5.** TAMIS – An Introduction and User’s Manual

**Project Indicators and Progress Data
(January through December 2007)**

INDICATOR NO: DESCRIPTION	DATA SOURCE	COVERAGE	YEAR 1 TARGET	REPORTED RESULT	OIG TEST RESULT
1.1 No. of market assessments completed with help from local partners	USAID GeoBase ¹	Afghanistan-wide	8	12	12
1.2 No. of SMEs ² that have added value and/or diversified into higher value products and/or services in response to market demand	Project Database	Central	None ⁴	4	Could not determine
		Eastern	50	13	
		Western	50	2	
		Northern	25	139	
		Southern	25	6	
1.3 Increased sales of participating SMEs in target sectors (over baseline)	Project Database	Afghanistan-wide	+10%	n/a	Could not determine
2.1 No. of BDS ³ providers operating in target provinces	Excel Spreadsheet	Central	None	20	17
		Eastern	35	0	1
		Western	35	2	3
		Northern	5	0	1
		Southern	10	0	0
2.2 Increase in clients of assisted BDS providers	Excel Spreadsheet	Afghanistan-wide	+25%	+21%	+18%
2.3 No. of businesses supported	Project Database	Central	None	596	Could not determine
		Eastern	300	899	
		Western	300	287	
		Northern	150	596	
		Southern	150	39	
2.4 No. of new SMEs created	Project Database	Central	None	8	Could not determine
		Eastern	50	15	
		Western	50	3	
		Northern	25	211	
		Southern	25	0	
2.5 Jobs created	Project Database	Afghanistan-wide	2,000	3,004	Could not determine
2.6 Bank loans/equity accessed	Project Database	Afghanistan-wide	10	40	Could not determine
2.7 Investment in new technology	Project Database	Afghanistan-wide	800	222	Could not determine
3.1 No. of business associations established in target provinces	Project Database	Central	None	8	Could not determine
		Eastern	12	9	
		Western	10	3	
		Northern	15	5	
		Southern	3	8	
3.2 No. of existing business associations supported in target provinces	Project Database	Central	None	43	Could not determine
		Eastern	30	13	
		Western	25	17	
		Northern	5	0	
		Southern	5	3	
3.3 Increase in membership of project supported associations	Project Database	Afghanistan-wide	+10%	+5%	Could not determine

**Project Indicators and Progress Data
(January through December 2007)**

INDICATOR NO: DESCRIPTION	DATA SOURCE	COVERAGE	YEAR 1 TARGET	REPORTED RESULT	OIG TEST RESULT
3.4 No. of new members in new/existing associations	Project Database	Afghanistan-wide	1,000	5,416	Could not determine
4.1 No. of public-private / Global Development Alliances formed per province per year	Physical count of GDA contracts	Central	2	5	4
		Eastern	2	0	0
		Western	2	1	1
		Northern	1	1	1
		Southern	1	1	1
4.2 Dollar value of funding leveraged	Excel spreadsheet	Central	\$250,000	\$1,745,000	\$1,345,507
		Eastern	\$250,000	\$0	\$0
		Western	\$250,000	\$404,000	\$404,290
		Northern	\$125,000	\$200,000	\$200,000
		Southern	\$50,000	\$580,000	\$580,000
5.1 No. of internship opportunities provided in each province per year	USAID Geobase	Central	20	63	55
		Eastern	20	39	36
		Western	20	70	70
		Northern	20	25	23
		Southern	20	0	0
5.2 No. of participants in Professional Learning Mentorship program	Excel spreadsheet	Central	10	0	0
		Eastern	10	27	27
		Western	10	0	0
		Northern	10	0	0
		Southern	10	0	0

Footnotes:

1 - USAID/Afghanistan's management information system used to track program and project information for all mission-funded activities.

2 - Small and Medium Enterprise

3 - Business Development Services

4 - None means no target was set.

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