

# USAID

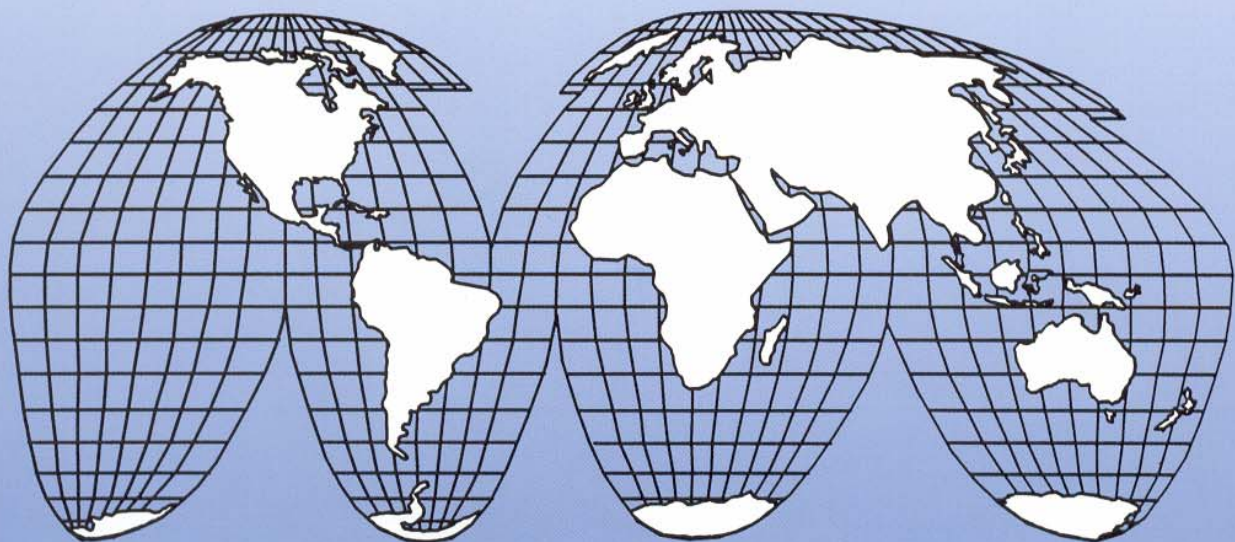
## OFFICE OF INSPECTOR GENERAL

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### Audit of USAID/Zambia's Global Development Alliances

Audit Report Number 9-611-05-002-P

December 28, 2004



Washington, D.C.





December 28, 2004

## MEMORANDUM

**FOR:** USAID/Zambia Director, James F. Bednar

**FROM:** IG/A/PA Director, Nathan S. Lokos /s/

**SUBJECT:** Audit of USAID/Zambia's Global Development Alliances  
(Report No. 9-611-05-002-P)

This memorandum transmits our final report on the subject audit. In finalizing our report, we considered your comments on our draft report and have included your response in its entirety in Appendix II.

This report includes three recommendations to: 1) report required Global Development Alliance (GDA) information in USAID/Zambia's Annual Report, 2) maintain documentation to support reported GDAs, and 3) revise targets and indicators for one GDA. In your written comments, you concurred with all three recommendations.

Regarding Recommendations No. 1 and 2, we determined that the planned actions you identified, when properly implemented, will address our concerns. Accordingly, management decisions have been reached on each of these recommendations. Please provide documentation supporting final action on Recommendations No. 1 and 2 to USAID's Office of Management Planning and Innovation.

Regarding Recommendation No. 3, we determined that the modification to the cooperative agreement in question did not fully address our concerns. Accordingly, a management decision has not been reached for Recommendation No. 3. Please see page 22 for further discussion. Please provide written notice within 30 days of any additional actions planned or taken to implement Recommendation No. 3.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the audit.

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## Summary of Results

Global Development Alliances (GDAs) are agreements between USAID and other parties—both governmental and private sector—in the development community to jointly define a development problem and jointly contribute to its solution. While working closely with development partners is certainly not new to USAID, since 2001 the concept of public-private alliances has been emphasized as a business model to increase USAID’s effectiveness in delivering foreign assistance. (See page 6.)

This audit, which was performed by the Office of Inspector General’s Performance Audits Division, is the pilot in a series of worldwide audits to be conducted by our Regional Inspector General offices. Its objectives were to determine whether (1) USAID/Zambia considered utilizing GDAs in planning its activities, (2) reported its GDAs accurately and completely, and (3) whether selected GDAs achieved their intended results. (See page 6.)

USAID/Zambia did consider utilizing GDAs in planning its activities. Four of its five strategic objective teams had either implemented, were planning, or had actively considered GDAs, while the fifth team provided a rationale for not doing so. (See page 7.) However, USAID/Zambia did not always report its GDAs accurately and completely, and it did not maintain readily available documentation to support that its GDAs met the criteria to be reported as GDAs or to support the partner contributions reported to USAID/Washington. (See page 8.) In addition, the one GDA funded in fiscal year 2003 and reporting results for that year was not achieving its intended results. (See page 17.)

This report includes three recommendations to assist USAID/Zambia in strengthening the GDA information in its Annual Report, improving its documentation system and support for reported partner contributions, and revising indicators and targets for one alliance. (See pages 11, 17, and 22.) Management concurred with all three recommendations; management decisions have been reached on two of the three recommendations. See page 22 for our evaluation of management comments.

Management comments are included in their entirety (without attachments) in Appendix II.

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## Background

Over the last 30 years, financial resources dedicated to assisting the developing world have undergone a major transition. In 1970, 70 percent of the money that went to the developing world from the United States came from the Federal Government and only 30 percent came from other sources. By 2000, when total U.S. resource flows to the developing world surpassed \$70.5 billion, only 20 percent of such resources came from the Federal Government, with 80 percent furnished by other sources. As a result, sources such as non-governmental organizations, universities, foundations, and corporations now play a significant role in financing development activities.

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In recognition of this major shift, USAID established the Global Development Alliance (GDA) business model in 2001. GDAs are agreements between USAID and other parties in the development community to jointly define a development problem and jointly contribute to its solution. According to USAID’s guidelines, GDAs require a minimum one-to-one matching of partner contributions to USAID resources. In addition, the partners’ contributions must include non-public resources equal to at least 25 percent of the USAID contribution. GDAs are sometimes referred to as “public-private alliances.”

While working closely with development partners is certainly not new to USAID, since 2001 public-private alliances have been emphasized as a business model to increase USAID’s effectiveness in delivering foreign assistance. To this end, USAID established the GDA Secretariat in 2001. The Secretariat is a small temporary staff office that reports directly to the Administrator. It is tasked with providing training to USAID staff, performing outreach to prospective and current alliance partners, and facilitating the effective use of alliances in USAID programs.

In fiscal year 2003, USAID reported that it had initiated or substantially expanded an estimated 140 alliances with USAID funding of approximately \$273 million—leveraging an estimated \$1.2 billion in partner contributions. These alliances covered a variety of USAID initiatives ranging from economic growth to humanitarian assistance. During this same period, USAID/Zambia reported seven<sup>1</sup> GDAs with USAID funding of nearly \$5 million and partner contributions amounting to nearly \$10 million.

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## **Audit Objectives**

This audit was conducted as a pilot in a series of worldwide audits of Global Development Alliances, as part of the Office of Inspector General’s fiscal year 2005 annual audit plan. The audit was conducted to answer the following questions:

- Did USAID/Zambia consider utilizing Global Development Alliances in planning its activities?
- Did USAID/Zambia report its Global Development Alliances accurately and completely?
- Did selected USAID/Zambia’s Global Development Alliances achieve their intended results?

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<sup>1</sup> This included the Producer Owned Trading Company GDA managed by USAID/Mozambique, in which USAID/Zambia participated.



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

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**Audit Findings**     **Did USAID/Zambia consider utilizing Global Development Alliances in planning its activities?**

USAID/Zambia considered utilizing Global Development Alliances (GDA) in planning its activities. Four of its five strategic objective (SO) teams had either implemented, were planning, or had actively considered GDAs, while the fifth team provided a rationale for not doing so.

Various forms of USAID guidance encourage the use of GDAs in planning activities. Both USAID's Automated Directive System (ADS) Section 201 (*Planning*) and *Tools for Alliance Builders*<sup>2</sup> state that operating units should actively consider building public-private alliances directly into strategic plans, selected SOs, or intermediate results. Additional GDA Secretariat guidance<sup>3</sup> states that if alliance building is not incorporated into a particular sector, the mission should be able to provide a rationale for its decision.

USAID/Zambia had five SO teams, and four of them had incorporated alliance building into its work.

1. The private sector SO team led the Mission in developing alliances. It implemented three alliances in fiscal year 2003, had four alliances in various stages of funding for fiscal year 2004, and was working on two potential GDAs.
2. The education SO team had included GDA-specific language in its program description in a pending agreement with the Educational Development Center.
3. The health SO team's fiscal year 2004 Request for Applications requested that proposals include a GDA.
4. The HIV/AIDS SO team was in the early negotiation stages with two potential GDAs.
5. Although the government accountability SO team was not considering GDAs in planning its activities, it had a rationale for this decision.

USAID/Zambia also incorporated the GDA business model into its fiscal year 2004-2010 strategic plan. For example, a section of the Overview was devoted to

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<sup>2</sup> The GDA Secretariat issued *Tools for Alliance Builders*, version four, on September 9, 2003. It is cross-referenced in ADS Sections 200-202.

<sup>3</sup> *A Practical Framework: Ten Steps for Analyzing and Integrating Public-Private Alliances into USAID Strategic Planning*, dated January 12, 2004, was available on USAID's intranet.

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the Mission's strategic alliances and stated that USAID/Zambia intends to "...aggressively mobilize the GDA business model to leverage more resources for the new strategy." In another section of the strategic plan, the Mission stated that "each SO will encourage local and international partnerships and utilize the GDA business model to build local capacity, enhance partner knowledge...and increase sustainability." One team, the private sector SO, even incorporated GDAs into its results framework and established a specific indicator related to the number of alliances fostered.

### **Did USAID/Zambia report its Global Development Alliances accurately and completely?**

USAID/Zambia did not always report its GDAs accurately and completely. For example, the Mission's fiscal year 2004 Annual Report<sup>4</sup> did not include all the GDA information required by USAID's Annual Report Guidance. The Mission did, however, report additional GDA data directly to the Secretariat's database, as required. Although the USAID funding reported to the GDA Secretariat was eventually determined to be accurate and complete, partner contributions were not accurately reported in two of three cases. Finally, USAID/Zambia did not maintain readily available documentation<sup>5</sup> to support its reported partner contributions. These issues are discussed in detail below.

### **GDA Information in the Annual Report Was Incomplete**

**Summary:** USAID/Zambia's 2004 Annual Report did not include 8 out of 15 GDA-related elements required by the 2004 Annual Report Guidance. Mission personnel stated they were not able to provide all the required information because the Bureau for Policy and Program Coordination's 2004 Annual Report Guidance dictates that the Mission must describe its program within a certain number of pages. This forced Mission personnel to condense and remove information from the program narrative. Because the annual report did not have all the required data elements, it limited USAID's ability to use the Mission's Annual Report to evaluate the full scope and effectiveness of the Mission's GDAs.

The Annual Report is USAID's primary program result-reporting mechanism. It is used to collect and analyze program and resource information for a variety of purposes, including the Congressional Budget Justification, the Performance and Accountability Report, and the Annual Budget Submission.

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<sup>4</sup> USAID's 2004 Annual Report reports performance information for fiscal year 2003.

<sup>5</sup> For this audit, readily available meant supporting documents were located within the Mission's program, financial, or other related files during the fieldwork.

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According to Mission personnel, after receiving the 2004 Annual Report Guidance from USAID/Washington, USAID/Zambia's Program Office directed each SO team to prepare a data sheet and a performance narrative. The data sheet summarized the main functional areas of assistance under each SO, and the performance narrative described the Mission's programs. These two documents were used to collect information for the seven GDAs reported in USAID/Zambia's 2004 Annual Report.

To help ensure the accuracy of the GDA-related information to be incorporated into the Annual Report, USAID/Zambia's Program Office reconciled the information it collected against comments made during a GDA workshop hosted by USAID/Zambia that included some of the Mission's alliance partners. Additionally, USAID/Zambia established a review process whereby the Program Office and Mission Director would review the performance narratives.

Despite these review mechanisms, USAID/Zambia's 2004 Annual Report did not include 8 out of 15 GDA-related elements required by USAID's Annual Report Guidance. Mission personnel stated that certain GDA-related information was not included because they were forced to condense and remove information from their program narratives to ensure that the final version submitted to Washington would fit within the specified page limits. The Annual Report Guidance dictates that the overall performance narrative must be no longer than four pages and each SO narrative must be no more than three pages. Because all seven reported GDAs were in the same SO, Mission personnel felt they did not have sufficient space to report all required elements. Mission personnel stressed that including all the required GDA elements for each GDA would consume space needed to report the other requirements dictated by the Annual Report Guidance. The following chart explains the eight missing elements in more detail.

**GDA Required Elements Not Included in  
USAID/Zambia’s Fiscal Year 2004 Annual Report**

Required Element	Data Included in USAID/Zambia’s FY 2004 Annual Report
The SO narrative should identify the key partners participating in the alliances.	While the report does mention the major partners of the Warehouse Receipts GDA, it does not list the key partners for the other GDAs.
The SO narrative should identify the “value added” contributed by the partners.	While the report does mention the success of the Milk Collection Centers, Small and Medium Enterprises, and Warehouse Receipts GDAs, it does not attribute results to the partners.
The SO narrative should identify results being achieved by GDAs and their relationship to the SO.	The report discusses the leveraging achieved by using GDAs, and it discusses results achieved by the Milk Collection Centers, Small and Medium Enterprises, and Warehouse Receipts GDAs. Nevertheless, it does not clearly discuss the results achieved by the other GDAs.
The report should identify those resources that are planned for public-private alliances. The report should explain the Mission’s plans for developing public-private alliances and the impact on the budget request.	While the report does briefly describe the Mission’s plans for developing public-private alliances, it does not state their effect on the Mission’s budget request.
The report should explain how leveraged resources will be brought to the alliances.	The report does not explain how leveraged resources will be brought to the alliances.
The report should explain how effectiveness will be monitored and evaluated.	The report does not explain how effectiveness will be monitored and evaluated.
The report should indicate the cash value of any in-kind contributions.	The report does not indicate the cash value of in-kind contributions.
Where a public-private alliance has contributed to the achievement of a significant result reported under an SO, the Mission should report that information under the GDA section of the Performance Measures Table.	The Annual Report stated that GDAs were integrated into SO 1, and according to Mission personnel, the GDAs were achieving significant results. Nevertheless, the GDAs’ contribution was not included in the Performance Measures Table.

The Annual Report is USAID’s mechanism for tracking the results and impact of its GDAs. Although USAID has another mechanism for tracking GDA information, that system only has a limited ability to track results. Thus, without complete GDA information in USAID/Zambia’s Annual Report, USAID will not

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have the information needed to fully evaluate the successes and challenges of using GDAs in Zambia.

The GDA Secretariat has worked with the Bureau for Policy and Program Coordination to establish new reporting requirements for USAID's fiscal year 2005 Annual Report. Under the new guidance, the Mission will be required to report seven of the eight elements that were not included in the fiscal year 2004 report. Because the Mission must again include this information within specific space limitations, it will presumably have similar challenges complying with the required GDA reporting in 2005. Accordingly, we are making the following recommendation to ensure that future Annual Reports are complete:

**Recommendation No. 1: We recommend that USAID/Zambia coordinate with the Bureau for Policy and Program Coordination to develop a method for reporting the required Global Development Alliance information in accordance with the Annual Report Guidance.**

**Documentation to Support Partner Contributions Was Not Readily Available**

**Summary:** Missions must maintain supporting documentation for significant information. USAID/Zambia did not maintain readily available supporting documentation for three GDAs reported to the Secretariat. For two of these GDAs, reported partner contributions were significantly understated. The Mission was unaware that the Secretariat would use the information in USAID's Performance and Accountability Report and thus did not know what type of supporting documentation was needed. Without adequate supporting documentation, USAID/Washington did not have the required reasonable assurance that the partner contributions reported to Congress and the public under its GDA business model were reliable, accurate, and complete. Additionally, without adequate supporting documentation it also increased the risk that the Mission could not support that the reported GDAs possessed the required elements to be considered official GDAs.

The *Standards for Internal Control in the Federal Government*<sup>6</sup> states that all transactions and other significant events need to be clearly documented and that the documentation needs to be readily available for examination.<sup>7</sup> However, despite this requirement, our tests revealed that USAID/Zambia did not maintain sufficient readily available supporting documentation.

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<sup>6</sup> The *Standards for Internal Control in the Federal Government* was issued by the Government Accountability Office in November 1999.

<sup>7</sup> For the purposes of this audit, "readily available" was defined as having supporting documents in the Mission's program, financial, or other related files during the audit fieldwork.

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We performed detailed testing on the following three GDAs that had funding instruments—either a contract, grant or cooperative agreement—issued by the end of fiscal year 2003 and which were reported to the Secretariat as GDAs:

- Milk Collection Centers Alliance,
- Small and Medium Enterprises Alliance, and
- Fresh Vegetables Export Alliance.

We determined that USAID/Zambia did not maintain readily available documentation to support that:

- these activities possessed the three required elements to be considered a GDA<sup>8</sup> or
- the alliance partners' cash and in-kind leveraging contributions<sup>9</sup> were accurate.

Mission personnel used estimated values to report partners' contributions to the GDA Secretariat. However, USAID/Zambia's files did not include documentation supporting all of the estimated values, explanations for how they were derived, or why the reported amounts differed from the supporting documentation that was available.

Without adequate documentation on file to support how the estimates were derived, we had to ask Mission personnel and partners for additional information. Ultimately, through extended audit procedures, we were able to determine that USAID funding reported to the GDA Secretariat was accurate and complete, but partner contributions were not accurately reported in two of three cases. Further information on each alliance tested is provided below.

**Milk Collection Centers Alliance** – For the Milk Collection Centers Alliance,<sup>10</sup> the Mission had documentation to support some of the reported values and to establish that the GDA met the reporting criteria established by the GDA Secretariat. However, readily available documentation could only support certain partnership contributions. As detailed below, a comparison of partner contributions reported by the Mission to contributions identified in supporting

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<sup>8</sup> To be reported as a GDA, an alliance must meet the following criteria: (1) it must be a public-private alliance in which total USAID resources committed over the life of the alliance is leveraged at least on a 1:1 basis; (2) beginning in fiscal year 2003, partner contributions must include private sector funds equal to at least 25 percent of the value of the expected USAID resources; (3) the activity should exhibit joint planning, joint problem definition, and shared risks and responsibilities.

<sup>9</sup> USAID does not have a contractual relationship with the alliance partners providing leverage contributions. The partners are therefore not contractually required to contribute the amounts promised. Contributions can and do change over the life of an alliance.

<sup>10</sup> Grant GDG-G-00-01-00015-00, Modification No. 1.

documents on file at the Mission revealed significant variances—which caused us to question the reasonableness of the estimates used by the Mission.

**Readily Available Documentation for Contributions  
Promised by Milk Collection Center Alliance Partners**

Partner	Reported Contribution	Supported by Readily Available Documentation
CARE International	\$60,000	\$35,000
EBAS	20,000	0
Japanese Grant to Dairy Alliance	100,000	100,000
Zambia Dairy Processors Committee	1,000,000	0
Land o Lakes	85,000	125,000
Zambia Dairy Processors Association	150,000	180,000
Smallholder Farmers	10,000	0
Golden Valley Agricultural Trust	20,000	0
<b>Total</b>	<b>\$1,445,000</b>	<b>\$440,000</b>

By extending our audit procedures, we were eventually able to obtain documentation from the implementing partner, an independent consultant, and the alliance partners indicating that alliance partners had committed to contribute as much as \$1.5 million. Thus, we were able to obtain documentation indicating that the Mission could support that the GDA met the required leverage criterion as well as support the partner contributions reported to the Secretariat.



Photograph taken September 14, 2004 by an OIG auditor of the manager of a GDA-supported milk collection center in Magoye, Zambia. The manager explained that many farmers transport their milk to the center using bicycles.

**Small and Medium Enterprises Alliance** – For the Small and Medium Enterprises Alliance,<sup>11</sup> the Mission had documentation to support some of the reported contributions and to prove that the GDA met some of the criteria established by the GDA Secretariat. However, readily available documentation could only support certain partner contributions. For example, while the Mission reported that the European Union Private Sector Development Program (EU PSDP) intended to provide \$200,000 to the GDA, supporting documents could only validate that the EU PSDP intended to provide \$82,911 as of the end of fiscal year 2004.

**Readily Available Documentation for Contributions  
Promised by Small and Medium Enterprises Alliance Partners**

Partner	Reported Contribution	Supported by Readily Available Documentation
EU PSDP	\$200,000	\$82,911
Freidrich Ebert Stiftung	200,000	36,316
Ecumenical Church Loan Fund	150,000	0
Ministry of Finance, Microprojects Unit	150,000	0
District Business Associations	34,000	0
<b>Total</b>	<b>\$734,000</b>	<b>\$119,227</b>

Similarly, although Mission personnel could provide memorandums of understanding and other documentation suggesting that certain organizations were working with USAID’s implementing partner, the program files did not contain written documentation signed by these alliance partners stating the amounts they intended to provide to the GDA. Nevertheless, we were eventually able to obtain additional documentation indicating that alliance partners may have been willing to contribute as much as \$1.7 million. Therefore, we were able to obtain the documentation necessary to indicate that the GDA met the required leverage criterion, although the partners’ contributions reported to the Secretariat were understated.

**Fresh Vegetable Exports Alliance** – For the Fresh Vegetable Exports Alliance,<sup>12</sup> the Mission had documentation to support some of the reported values and to establish that the GDA met some of the criteria established by the GDA Secretariat. However, readily available documentation could only support certain partnership contributions. As shown below, the significant variances between the documented and reported amounts call into question the reasonableness of the values reported by the Mission.

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<sup>11</sup> CA 690-A-00-01-00117-00 and CA 690-A-00-03-000173-00.

<sup>12</sup> Contract 690-C-00-99-00251-00, Modification 3.



**Readily Available Documentation for Contributions  
Promised By Fresh Vegetable Export Alliance Partners**

Partner	Reported Contribution	Supported by Readily Available Documentation
Agriflora Annual Inputs	\$520,000	\$520,000
Agriflora Fixed Investment	300,000	300,000
Agriflora Management	200,000	0
ZNFU/GRZ/NORAD Project	400,000	0
JICA/Japanese Embassy	300,000	0
<b>Total</b>	<b>\$1,720,000</b>	<b>\$820,000</b>

We were eventually able to obtain documentation from the implementing partner and alliance partners demonstrating that the alliance partners had the capability and were committed to contributing \$2.1 million. Therefore, we were able to obtain documentation indicating that the GDA met the required leverage criterion, although the partners' contributions reported to the Secretariat were understated.



Photograph taken September 21, 2004 by an OIG auditor of a year-round irrigation system provided by USAID funding to farmers near Lusaka, Zambia.

The preceding examples make evident that USAID/Zambia did not maintain adequate, readily available documentation to support key aspects of its GDAs. Maintaining this documentation is important because it serves to support the credibility of information that is reported both within and outside of USAID. For example, like other missions, USAID/Zambia reports alliance data directly to the GDA Secretariat, which maintains a database to collect, summarize, and report significant information regarding GDAs. The database is the primary source for USAID's GDA reporting in its annual Performance and Accountability Report,

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which receives wide distribution outside of USAID.<sup>13</sup> Among other things, this database contains the amount of USAID funding, names of implementing and alliance partners, alliance partner contributions, and the implementation status of each GDA. Missions submit this information using an Excel spreadsheet template provided by the Secretariat.

In the Management's Discussion and Analysis section of USAID's fiscal year 2003 Performance and Accountability Report, USAID reported its GDA accomplishments to Congress and the public. It reported an estimated 140 alliances with USAID funds equaling approximately \$272.8 million and leveraged alliance partner contributions equal to an estimated \$1.2 billion. Since a substantial portion of USAID's total GDA results is generated at the mission level, unreliable mission data could result in unreliable reported results at the aggregate level. Inaccurate figures for the number of GDAs, the amount of USAID funding, and the amount of partner contributions could significantly overstate or understate what has actually been accomplished.

In the absence of accurate and verifiable supporting documentation for the amounts reported by USAID/Zambia, USAID/Washington did not have the required reasonable assurance that the leverage contributions provided by alliance partners and reported to the public under its GDA business model were reliable, accurate, and complete.

When asked, Mission personnel indicated that the GDA Secretariat had not provided clear guidance regarding the level of documentation needed to support the GDA database reporting process. For example, the SO Team was not aware that USAID/Washington would use the GDA data in its annual Performance and Accountability Report. As a result, Mission personnel were not aware of the importance or eventual use of the data reported.

Additionally, Mission personnel stated that they used estimated values for reporting partner contributions to USAID/Washington because it was difficult to determine who was an official alliance member and exactly what each partner would contribute. They believed these estimates were sufficient until the alliance partners signed a consolidated memorandum of understanding that would provide satisfactory support for the reported amounts. Mission personnel also stated that maintaining support for the estimated values would require placing information in the program files that would be quickly outdated and would eventually make the files disorganized and unreliable.

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<sup>13</sup> The fiscal year 2003 database is the primary source for statistical data reported in the fiscal year 2004 Performance and Accountability Report. In the 2003 Performance and Accountability Report, data in the 2002 database was supplemented with information reported by the missions to USAID/Washington through a separate "data call" requested by the Secretariat.

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We agree that there are times of uncertainty when it is necessary to make and use reasonable and well-informed estimates. However, in our opinion, maintaining supporting documentation for such estimates and other information reported to USAID/Washington is an important practice that should be followed regardless of whether or not the Mission has been specifically directed to do so. Accordingly, we are making the following recommendation to strengthen documentation maintained at the Mission and provide reasonable assurance that amounts reported to USAID/Washington are accurate and complete:

**Recommendation No. 2: We recommend that USAID/Zambia require documentation—at the time of reporting to USAID/Washington—for each of its reported Global Development Alliances, supporting (a) the existence of all three required alliance elements and (b) the accuracy of leveraged contributions from alliance partners and that this documentation be maintained and readily available for examination.**

**Did selected USAID/Zambia’s Global Development Alliances achieve their intended results?**

USAID/Zambia’s Small and Medium Enterprise Alliance (SME) did not achieve its intended results as defined by the cooperative agreement’s proposal. However, there was no evidence that the inability to achieve these results was caused by the GDA mechanism itself.

Although USAID/Zambia reported seven<sup>14</sup> GDAs in fiscal year 2003, we only evaluated the SME Alliance. We did not select the other six GDAs for the following reasons:

- For four of the reported alliances, the Mission had not issued any funding documents by the end of fiscal year 2003.
- For the Milk Collection Alliance, the agreement was not signed until August 2003, and funds were not obligated until the end of the fiscal year. Therefore, this GDA did not report any results during fiscal year 2003.
- The Fresh Vegetable Exports Alliance was funded by a contract modification that was in effect throughout fiscal year 2003 to finance an investment fund. The contract modification that established the GDA was one component to the overall contract. It did not contain performance indicators separate from those in the overall contract, so it was not

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<sup>14</sup> This included the Producer Owned Trading Company GDA managed by USAID/Mozambique, in which USAID/Zambia participated.

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possible to identify the anticipated and actual performance of the alliance separate from the performance of the overall contract. However, the contractor did report separately that the majority of funds obligated under the modification had been used by the investment fund.<sup>15</sup>

The SME Alliance is discussed in detail in the following section.

### **Indicators Needed Revising**

**Summary:** The SME Alliance did not achieve its intended results as defined by the cooperative agreement's proposal. It did not meet its membership and business development services goals because the proposal relied upon unrealistic assumptions. As a result, it was difficult for the Mission to manage the GDA toward realistically achievable results—impacting the Mission's ability to accurately evaluate alliance performance, and increasing the risk that USAID/Zambia could not determine whether this GDA was the most effective use of Mission resources to achieve its planned SOs and intermediate results.

ADS 203.3 states that operating units should use performance information to assess progress in achieving results and in making management decisions. Moreover, ADS 200.2 states that SO teams are responsible for managing the achievement of strategic and special objectives, which includes modifying SO approaches when necessary. Having realistic performance targets is important to this process because such targets allow USAID managers to accurately assess the progress of their activities and to decide if and when a change in approach is needed. As detailed below, the Mission's SME Alliance did not have realistic performance targets.

USAID/Zambia's SME Alliance was structured to provide financial assistance and business development services to Zambia's small and medium businesses. USAID funded the GDA through two cooperative agreements awarded to the Zambia Chamber of Small and Medium Businesses Association (ZCSMBA), which served as the implementing partner. According to information reported to the GDA Secretariat, the Mission worked with various alliance partners, such as the European Union Public Sector Development Program and Freidrich Ebert Stiftung, to support this GDA.

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<sup>15</sup> The original contract was signed in August 1999. It was a five-year contract with activities through fiscal year 2004.



**Photograph taken September 14, 2004 by an OIG auditor of an SME Alliance business training beneficiary in Mazabuka, Zambia, who discussed GDA benefits.**

We evaluated the performance of Cooperative Agreement No. 690-A-00-01-00117-00.<sup>16</sup> This agreement included two quantifiable indicators, described in ZCSMBA's proposal, which stated that it intended to (1) increase membership in district business associations (DBAs) and (2) target DBA members to receive business development services.

**Membership Goal** - The cooperative agreement's proposal states that ZCSMBA would increase DBA membership by 7,560. The proposal's background section also states that there were approximately 4,000 existing DBA members. Thus, to achieve its targeted goal, ZCSMBA would need to increase total DBA membership to 11,560. During fiscal year 2003, ZCSMBA reported DBA membership of approximately 8,700, which is 2,860—or almost 25 percent—less than the target of 11,560.

The reported membership only provides a partial picture of the ZCSMBA's progress toward this goal. An independent program assessment conducted by Grant Thornton<sup>17</sup> in 2003 noted that although reported membership increase from early 2001 through early 2003, paid membership had ranged from approximately 1,200 to 1,800 members.<sup>18</sup> Grant Thornton explained that some members had not paid their membership dues because of disillusionment regarding access to

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<sup>16</sup> USAID/Zambia signed a second cooperative agreement (CA 690-A-00-03-000173-00) with ZCSMBA in June 2003, but the Mission did not record an obligation against this agreement until February 2004. The implementing partner did not report any results for this portion of the GDA during fiscal year 2003. Therefore, we could not determine whether this portion of the GDA had achieved its intended results in fiscal year 2003.

<sup>17</sup> Grant Thornton is an accounting, tax, and business advisory organization.

<sup>18</sup> Although the proposal did not define what constitutes an official member, paid membership provides a more accurate manner for gauging beneficiaries' connection to the GDA.

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business development services, such as access to markets and loans. (See page 21.)

The report also stressed that the premise on which the membership goal was established was too optimistic and that the projected increase in members could not be met within the original three-year period.<sup>19</sup> ZCSMBA confirmed that the membership goal was based on the assumption that they could register 840 members in each of Zambia's nine provinces. However, ZCSMBA stated that it was unlikely to do so. This challenge partly arises because Zambia's provinces vary in size. For example, the North-Western Province only has 583,350 individuals while the Copperbelt Province has 1,581,221.

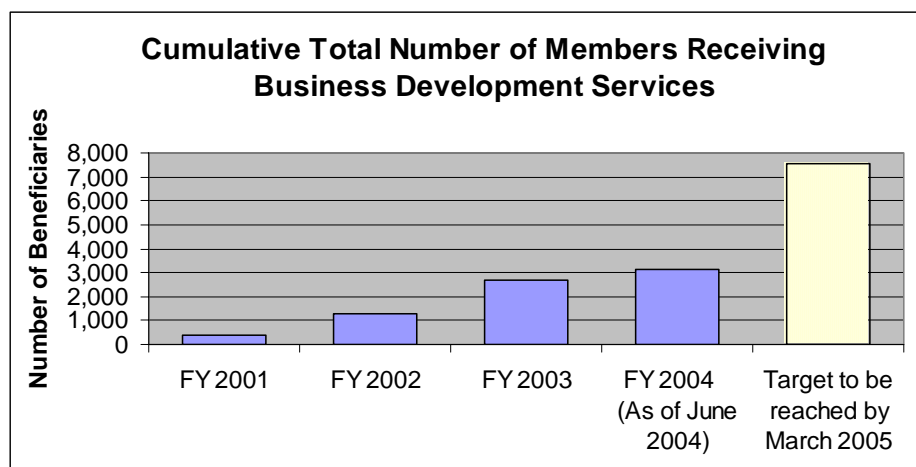
Mission personnel stated that the membership goal was met because they believed that the baseline figure of 4,000 members included in ZCSMBA's proposal was not relevant to the membership goal.<sup>20</sup> Mission personnel also relied on a sentence included in Grant Thornton's independent program assessment that stated that ZCSMBA's membership goal had been met, but this statement was based on an "indicative" figure that only reflected the number of individuals registered with a DBA and not the actual number of paid members. Moreover, as mentioned above, other statements in the report seriously undermined the validity of using the indicative number to assess the effort to increase DBA membership.

**Business Development Services Goal** - The cooperative agreement's proposal states that ZSCMBA would target 7,560 DBA members to receive business development services. These services included providing access to financial support and business training classes. However, based on the quarterly reports prepared by ZSCMBA, only 2,669 members had received business development services as of the end of fiscal year 2003. Moreover, ZCSMBA appeared unlikely to provide services to 7,560 members by the end of the cooperative agreement in March 2005, as shown in the following chart.

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<sup>19</sup> The original life of the cooperative agreement was extended from March 2004 to March 2005.

<sup>20</sup> After the exit conference, the Mission issued a modification to the cooperative agreement that revised the membership goal to 7,500.



The SME Alliance had difficulty providing these services for three reasons:

- Paid members are the DBA members most likely to request services. If the paid membership is less than 2,000 individuals, it is unlikely that all of these members would request, let alone receive, business development services.
- According to the World Bank, lack of reasonably priced insurance serves as a disincentive for commercial interests to engage in cross-border trade. In this environment, it would be difficult for the Zambian economy to support trade shows, one of the services included under this indicator.
- Mission personnel stated that the existing financial service market in Zambia was underdeveloped, making it difficult for ZCSMBA to provide DBA members access to loans. This statement was supported by a report prepared by the International Fund for Agricultural Development that describes how “existing institutions in Zambia do not meet the demand that exists for rural financial services.” The report explains that “despite the presence of a number of microfinance institutions, contract farming-related credit operations and donor-supported programmes [sic], the financial services sector remains small, has little capacity and depth, and focuses mainly on urban/peri-urban clients.”

In response to Grant Thornton’s program assessment that mentioned the difficulties faced by the GDA, ZCSMBA issued a new strategic plan in February 2004 that formalized its plan to facilitate capacity building within DBAs rather than provide business development services directly to DBA members. Nevertheless, the original goals outlined in the cooperative agreement’s proposal were never changed.

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As mentioned earlier, having realistic performance targets is important because such targets allow USAID managers to accurately assess the progress of their activities and to decide if and when a change in approach is needed. Because the SME Alliance was based on unrealistic estimates, it was more difficult for the Mission to manage the GDA toward realistically achievable results and to accurately evaluate the performance of the GDA.

Additionally, because the SME Alliance was not achieving its intended results and the existing indicators did not provide Mission personnel with the best information to determine whether the GDA was directly contributing to the Mission's SO, there was an increased risk that USAID/Zambia could not determine whether this GDA was the most effective use of Mission resources in achieving its planned SOs and intermediate results. TIPS No. 7, *Preparing a Performance Monitoring Plan*,<sup>21</sup> states that activity-level reviews should be conducted by SO teams to assess whether its activities' inputs, outputs, and processes are supporting achievement of SOs and intermediate results. Accordingly, we are making the following recommendation:

**Recommendation No. 3: We recommend that USAID/Zambia revise the Small and Medium Enterprise Alliance targets and indicators to more realistic levels to ensure that performance can be managed toward obtainable targets and that the inputs, outputs, and processes can be assessed to determine whether they are supporting the achievement of intermediate results.**

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## Evaluation of Management Comments

In their response to our draft report, USAID/Zambia concurred with our recommendations and described actions planned and taken to address our concerns. As a result, management decisions were reached on two of the three recommendations. However, a management decision has not been reached on the third recommendation. Additionally, USAID/Zambia proposed that the tables on pages 12-15 be either amended or moved to an appendix. We declined making this change, however, as we feel that the report adequately explains the results of our extended audit procedures related to the figures presented in the tables.

To address Recommendation No. 1, USAID/Zambia plans to report alliances in accordance with the FY 2005 Annual Report Guidance. Accordingly, a management decision has been reached for this recommendation.

To address Recommendation No. 2, USAID/Zambia plans to coordinate with the GDA Secretariat to verify that they have appropriate documentation for reported GDAs. USAID/Zambia also plans to establish procedures for periodic reporting by the alliance partners and, on annual basis, to verify the accuracy of partners'

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<sup>21</sup> TIPS No. 7 is one in a series of papers issued by USAID providing performance monitoring and evaluation guidance.



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leveraged contributions. The target completion date for these actions is May 31, 2005. Accordingly, a management decision has been reached for this recommendation.

To address Recommendation No. 3, USAID/Zambia modified the cooperative agreement with the implementing partner. The modification provided for a six-month “no-additional-cost” extension to March 31, 2005 and explained that the targeted membership goal of 7,500 includes the 4,000 baseline membership. However, this modification does not fully address the recommendation for the following two reasons:

- 1) While the modification lowered the membership goal, the revised goal does not address the significant difference between “reported” membership and “paid” membership. Without clearly defining the standard used to count membership, progress toward achieving this membership goal cannot be objectively measured. This issue is discussed in more detail on pages 19-20 of this report.
- 2) The business development services goal was not modified. This goal also needed to be revised to account for issues that were not sufficiently considered when this goal was originally established. This issue is enumerated on pages 20-21 of this report.

Therefore, a management decision was not reached on Recommendation No. 3.

Management’s Comments are included in their entirety (without attachments) in Appendix II.

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**Scope and  
Methodology****Scope**

The Office of Inspector General, Performance Audit Division conducted this audit in accordance with U.S. generally accepted government auditing standards. This pilot audit was the first of a series of worldwide audits to be conducted by the Regional Inspector General offices. This audit was designed to answer the following three questions: (1) Did USAID/Zambia consider utilizing Global Development Alliances (GDAs) in planning its activities? (2) Did USAID/Zambia report its GDAs accurately and completely? (3) Did selected USAID/Zambia's GDAs achieve their intended results?

To answer audit objective one, the scope included the Mission's most recent country strategic plan—fiscal year 2004-2010—and alliances either planned or implemented during that time frame, as well as alliances implemented in fiscal year 2003. To answer audit objectives two and three, the audit universe included the seven Mission-managed GDAs reported to USAID/Washington for fiscal year 2003. To answer audit objective two, we performed a detailed review of the three GDAs for which a contract, grant, or cooperative agreement had been issued by the end of fiscal year 2003. To answer audit objective three, we were only able to determine if one of the three GDAs funded in fiscal year 2003 had achieved its intended results. This was because only one of the three GDAs funded by the end of fiscal year 2003 reported results which could be compared against specific indicators. Of the remaining two, the agreement for one was obligated at the end of the fiscal year and therefore did not report 2003 results; the other GDA was funded by a contract modification and did not have performance indicators discrete from those in the original contract.

In planning and performing the audit, we assessed the effectiveness of internal controls related to GDAs. We identified pertinent internal controls as (1) maintaining readily available documentation related to the required elements of a GDA, (2) maintaining documentation for GDA-related amounts reported to the GDA Secretariat, (3) maintaining documentation for GDA-related data reported through the Annual Reporting system, (4) GDA-related controls in the Mission's fiscal year 2003 Performance Monitoring Plan, and (5) the Mission's annual self-assessment of internal controls through its annual Federal Managers Financial Integrity Act review. Relevant criteria included Automated Directives System sections 200 through 203, the GDA Secretariat's *Tools for Alliance Builders, A Practical Framework: Ten Steps for Analyzing and Integrating Public-Private Alliances into USAID Strategic Planning*, and the Government Accountability Office's *Standards for Internal Control in the Federal Government*.

In cases where Mission files did not include appropriate supporting documentation, we requested and relied on additional documentation provided by Mission personnel and GDA partners. We did not independently verify the

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accuracy of alliance partner-reported contributions due to the lack of a contractual relationship with those resource partners. There were no prior audit findings affecting the areas reviewed in this audit.

For fiscal year 2003, USAID/Zambia reported seven<sup>22</sup> GDAs—three funded by the end of fiscal year 2003 and four unfunded as of the end of the fiscal year—representing USAID funding of nearly \$5 million and leveraged partner contributions of nearly \$10 million. USAID/Zambia’s GDAs represented over 5.0 percent of the total 140 alliances reported by USAID in fiscal year 2003, as well as nearly 1.8 percent of total USAID GDA funding and nearly 0.8 percent of total partner leveraging contributions.

This report summarizes the results of our audit work. Preliminary fieldwork for this audit was performed in Washington, D.C. from June through August 2004. Mission fieldwork was conducted at USAID/Zambia in Lusaka and at various GDA project and partner locations in Zambia’s Southern and Lusaka Provinces from September 1, 2004 to September 28, 2004.

### **Methodology**

To answer audit objective one, we reviewed the Mission’s fiscal year 2004-2010 country strategic plan, interviewed strategic objective team leaders, and reviewed pertinent documentation. To answer audit objective two, we reviewed the Mission’s 2003 GDA Secretariat reporting templates and Annual Report, reviewed supporting documentation, interviewed responsible Mission officials, and reviewed supplementary documents from alliance partners. To answer audit objective three, we reviewed funding documents, quarterly progress reports, and an independent consultant’s assessment. We also conducted site visits to observe alliance operations and interviewed Mission officials, implementing partners, and GDA beneficiaries.

Additionally, we interviewed USAID officials in Washington, D.C. We reviewed Mission-maintained program files and selected documentation maintained by implementing partners and beneficiaries to determine compliance with USAID guidelines. We conducted site visits to alliance partners and beneficiaries involved in the three GDAs funded as of the end of fiscal year 2003 and observed alliance operations. In addition, for the one GDA reporting results in fiscal year 2003, we reviewed performance reports and a Grant Thornton independent program assessment report to determine if the activity was achieving its intended results.

We did not determine materiality thresholds for any of the three audit objectives.

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<sup>22</sup> See footnote number one for further information.

Management  
Comments



U.S.A.I.D / ZAMBIA  
Memorandum

**Date:** December 17, 2004

**To:** Roosevelt Holt, Acting Director, IG/A/PA

**From:** F. Penoyar, Acting Mission Director, USAID/Zambia /s/

**Subject:** Audit of USAID/Zambia's Global Development Alliances.

**Reference:** Audit Report No. 9-611-05-00X-P

In response to the audit recommendations in subject audit report, the Mission has reviewed the draft audit report and is in agreement with the three recommendations and the following is our management decisions and actions taken/planned:

**Recommendation No. 1: We recommend that USAID/Zambia coordinate with the Bureau for Policy and Program Coordination to develop a method for reporting the required Global Development Alliance information in accordance with the Annual Report Guidance.**

Actions taken:

The Global Development Alliance (GDA) Secretariat and Bureau for Policy and Program Coordination (PPC) had already been working on incorporating alliance reporting into the Annual Report for the last several months. As a result, the 2005 Annual Report now integrates public-private alliance reporting in accordance with Annual Report Guidance.

Planned Actions:

USAID/Zambia mission will report alliances, as needed, in accordance of the Annual Report Guidance for FY 2005.

**Recommendation No. 2: We recommend that USAID/Zambia establish procedures to require documentation at the time of reporting to USAID/Washington for each of its reported Global Development Alliances, supporting (a) the existence of all three required alliance elements and (b) the accuracy of leveraged contributions from alliance partners.**

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The GDA Secretariat recommends that involving the Mission Controller will add an additional level of complexity that could perhaps be substituted with an easier method whereby the SO team (could be the CTO, activity manager, or another appropriate point of contact from the SO team) would report alliances with the following documentation:

- The first document that could provide good estimates would be the Memorandum of Understanding (MoU).
- Then, the activity manager (or whomever has regular contact with the alliance partners) can provide *periodic* reporting on the specifics/updates of alliance components (i.e. required alliance elements, GDA Secretariat comment on leveraged amounts) as needed. Specifically, if *periodic* emails, documents, or memos between the alliance partners provide better accuracy on the original estimates, that documentation could serve to satisfy this Recommendation 2.
- Finally, the Annual Report process will gather the necessary documentation every year, while the periodic reporting can be done on an as needed basis.

However, bearing in mind the experiences of the USAID/Zambia GDA audit, the Mission proposes the following planned actions in order to adequately address Recommendation No. 2.

Planned Actions:

The USAID/Zambia Mission Global Development Alliance (GDA) coordinator will submit to the GDA Secretariat a proposed list of documentation, which will include a memorandum of understanding, which meets all of the three required alliance criteria to qualify an activity to be reported as a GDA for approval. Once the proposed list of documentation has been approved, the Mission through the Strategic Objective Team (SOT) in conjunction with the Mission Controller, will establish procedures for periodic reporting by the alliance partners. Subsequently, the Mission will conduct annual accuracy verifications of leveraged contributions from the alliance partners.

Target completion date: The Mission plans to have procedures for GDA existence and reporting established by May 31, 2005. The Mission Controller, in conjunction with the SOT, will conduct annual verifications of the accuracy of leveraged contributions from alliance partners.

Comment on the Tables on pages 12 and 14 of the draft audit report:

The Mission suggests that the three tables on pages 12 and 13 either be amended by adding an additional column which will show the contributions which the auditors eventually found after meeting with the alliance partners or move the tables to the annexes. Leaving the tables as they are currently in the report gives an impression that the alliance partners did not contribute to the levels required of a GDA, which is not an accurate reflection of the situation .

**Recommendation No. 3: We recommend that USAID/Zambia revise the Small and Medium Enterprise Alliance targets and indicators to more realistic levels to ensure that performance can be managed toward obtainable targets and that the inputs, outputs, and processes can be assessed to determine whether they are supporting the achievement of intermediate results.**

Action taken:

Trough Modification Number 5 to the Zambia Chamber of Small and Medium Business Associations Cooperative Agreement Number 690-A-00-01-00197-00 dated September 29, 2004, copy attached, the Mission has revised the targets of the Small and Medium Enterprise Alliance targets and indicators to more realistic levels to ensure that performance can be managed toward obtainable targets and that performance can be managed toward obtainable targets and that the inputs, outputs, and processes can be assessed to determine whether they are supporting the achievement of intermediate results.

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Therefore, the Mission requests that recommendation number 3 be closed and removed from the audit report.

The above constitutes the management decisions with regard to Recommendation Numbers 1, 2 and 3. Therefore, in accordance with ADS 595.3 this memo constitutes the management decisions and measures planned/taken to address the recommendations in Audit Report No.9-611-05-00X-P.

Attachment: a/s