OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/UGANDA'S MICROFINANCE ACTIVITIES

AUDIT REPORT NO. 4-617-07-010-P
August 30, 2007

PRETORIA, SOUTH AFRICA

Office of Inspector General

August 30, 2007

MEMORANDUM

TO: USAID/Uganda, Acting Mission Director, Deborah Grieser

FROM: Regional Inspector General/Pretoria, Nathan S. Lokos /s/

SUBJECT: Audit of USAID/Uganda's Microfinance Activities (Report No. 4-617-07-010-P)

This memorandum transmits the Office of Inspector General's report on the subject audit. In finalizing this report, we considered management comments on the draft report and have included those comments in their entirety in Appendix II.

The report includes three recommendations to strengthen USAID/Uganda's management of its microfinance activities. In responding to the draft report, the Mission concurred with all three recommendations. In the case of Recommendation Nos. 1 and 2, actions taken by the Mission are sufficient to achieve final action. For Recommendation No. 3, a management decision has not been reached because the Mission has not indicated how it will communicate the need to properly document site visits to its staff. Please provide my office with written notice, within 30 days of the date of this memorandum, on additional information on actions planned or taken to implement Recommendation No. 3.

I sincerely appreciate the cooperation and courtesy extended to my staff during this audit.

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CONTENTS

SUMMARY OF RESULTS

The Regional Inspector General/Pretoria conducted this audit as part of a series of audits of USAID's microfinance activities conducted by the Office of Inspector General. The objectives of this audit were to determine whether (1) USAID/Uganda implemented microenterprise activities efficiently, and (2) USAID/Uganda microenterprise activities achieved planned results (see page 4).

The audit was not able to determine whether USAID/Uganda's microenterprise activities were being implemented efficiently. Because of the short-term nature of activities being implemented (durations of less than 1 year), quantifiable measures of efficiency were not available. However, the microenterprise activities were being implemented in a manner to achieve efficiency. The Mission's microenterprise activities include both business development activities and financial activities. This audit focused on the financial activities that were conducted in fiscal year 2006. These activities were implemented to increase access to financial services in rural communities in Uganda. The activities reflected outreach efforts to a diverse pool consisting of (1) financial institution subpartners both large and small, (2) the donor community, and (3) the Ugandan government. These efforts not only addressed the needs of rural Uganda and its poor but also complemented the Mission's objective of "Expanded Sustainable Economic Opportunities for Rural Sector Growth" (see pages 5 and 6).

The audit team was unable to determine whether USAID/Uganda's microenterprise activities achieved planned results because of problems identified with definitions of key program indicators. For three of the four program indicators reviewed, the indicator definitions used in the Mission's Performance Management Plan (PMP) differed from the definitions used by the implementing partner in reporting data to USAID. Because the definitions used by the subpartners were broader than those in the Mission's PMP, reported results were overstated compared with the results that should have been reported using the PMP definitions.

USAID/Uganda reported meeting three of four targets for key financial indicators in fiscal year 2006 under the Rural Savings Promotion and Enhancement of Enterprise Development Program. These indicators were developed from microenterprise activities as well as rural financial sector activities. USAID/Uganda's assistance resulted in improved operations for microfinance institutions (see pages 6 to 8).

The report contains three recommendations to help USAID/Uganda strengthen its management of microfinance activities. These include recommendations to address the need to (1) finalize the Mission's data quality assessment, (2) clarify the definitions for three key indicators, and (3) document site visits to subpartner financial institutions. The Mission has concurred with all three recommendations in its written response to the draft report. Due to actions taken by the Mission, final action has been achieved for Recommendation Nos. 1 and 2. For Recommendation No. 3, the Mission has not indicated how it will communicate the need to properly document site visits to its staff. Thus, no management decision has been reached on this recommendation (see pages 9, 11, and 12).

BACKGROUND

USAID provides assistance to microenterprises in the areas of financial services, enterprise development, and enabling environment. USAID's *Microenterprise Results Reporting: Annual Report to Congress Fiscal Year 2005* stated that—

> Financial services and enterprise support are critical for poor households and businesses, enabling them to respond to new economic opportunities, build household assets, or cope with emergencies and crises. Improvements to the enabling environment allow micro-entrepreneurs to participate in markets from which they have been excluded, increase their earnings and realize the benefits of international trade.

USAID/Uganda has several microenterprise activities being funded under the Mission's Strategic Objective (SO) 7 Team "Expanded Sustainable Economic Opportunities for Rural Sector Growth." In fiscal year (FY) 2006, $2.5 million was obligated for microenterprise financial activities through the Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED) Program. The objective of Rural SPEED is to deepen and strengthen Uganda's financial sector in response to rural sector demand for financial services. This program is designed to meet the needs of micro, small, and medium enterprises and is being carried out under SO7's intermediate result, "Rural Financial Services System Strengthened."[1]

The performance of rural financial institutions in Uganda has historically been affected by several challenges. These include poor leadership, inefficient management, low membership and savings, lack of funds for loans, poor portfolio quality, and a lack of financial sustainability. As a result of these problems, growth of rural finance has suffered. In response, Rural SPEED's FY 2006 activities were carried out through grants (on a cost-share basis) made to subpartner financial organizations that ranged from tier I (commercial banks) to tier IV (unlicensed financial institutions) organizations to support access to finance in rural areas. These activities included (1) feasibility studies, (2) design and rollout of new loan and savings products, and (3) design and rollout of technology-based systems. Several microdeposit-taking institutions and savings and credit cooperative organizations (SACCOs) were provided assistance for savings mobilization campaigns. In addition, other forms of assistance were provided, such as training, technical assistance, and computers.

In addition to Rural SPEED, $2.2 million in FY 2006 funding was obligated for business development assistance (noncredit) activities that, in part, included the following:

- Agricultural Productivity Enhancement Program—This program aims to expand rural economic opportunities for and increase household income in the agriculture sector by increasing food and cash crop productivity and marketing.

[1] Included among USAID/Uganda's microenterprise activities being carried out under Rural SPEED was the Development Credit Authority (DCA) guarantee (FY 2005 funding was used for this activity). Under this mechanism, USAID signs an agreement with a partnering bank and agrees to partially guarantee individual loans made by the bank to borrowers meeting strict eligibility guidelines. DCAs were not included as part of this audit because the Mission had been the subject of an Office of Inspector General audit last year (Report No. 4-617-06-004-P, "Audit of USAID/Uganda's Development Credit Authority," dated February 13, 2006).

- Fisheries Investment for Sustainable Harvest—This activity focuses on jump-starting commercial development of aquaculture by providing the foundation for a sustainable aquaculture industry on proven feed-based technologies and best management practices.
- Uganda Private Sector Dairy Industry Development Activity—This activity aims to encourage dairy farmers and producer groups to adopt improved animal genetics and farm management practices.
- Productive Resource Investments for Managing the Environment—This project strives to conserve biodiversity by reducing threats to the forest, woodland, and aquatic ecosystems through economic opportunities and conflict resolution for rural communities.

This audit examined Rural SPEED microfinance activities for FY 2006 and did not focus on SO7's business development (noncredit) microenterprise activities.

A matoke (a type of banana) trader in the market in Kabwohe Town, Uganda. This trader has received several short-term loans from a USAID subpartner microfinance institution to purchase matoke. Before having access to these short-term loans, this trader did not have money to purchase matoke regularly. *Source:* Photograph taken in May 2007 by RIG/Pretoria auditor.

AUDIT OBJECTIVES

This audit, which was included in the Office of Inspector General's FY 2007 annual audit plan, was conducted as part of a worldwide audit of USAID's microfinance activities.

The audit was conducted to answer the following questions:

- **Did USAID/Uganda implement its microenterprise activities efficiently?**
- **Did USAID/Uganda microenterprise activities achieve planned results?**

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

AUDIT FINDINGS

Did USAID/Uganda implement its microenterprise activities efficiently?

Because of the nature of the activities being implemented, quantifiable measures were not available to determine whether USAID/Uganda's microenterprise activities were being implemented efficiently. However, the microenterprise activities being conducted under Rural SPEED were being implemented in a manner to achieve efficiency[2] as defined in USAID's microenterprise results reporting to Congress. The Mission's SO7 "Expanded Sustainable Economic Opportunities for Rural Sector Growth" included a comprehensive set of activities that benefit microenterprises in rural Uganda. The Rural SPEED Program is geared toward increasing access to financial services in rural communities in Uganda and, thereby, benefits microenterprises and the poor.

Because of the short-term nature of the Rural SPEED activities, which are implemented using a series of 1-year grants over a period of 3 years with various subpartner institutions, analysis of trends of financial ratios for the financial institutions who have received assistance was not useful in measuring efficiency.[3] Therefore, program efficiency as described in the *Microenterprise Results Reporting: Annual Report to Congress Fiscal Year 2005* was the basis for determining whether activities had been established to help achieve efficiency. The report stated that—

> By drawing on a diverse pool of partners with a wide range of skills, working across micro-, meso- and macroeconomic levels, and tailoring its assistance to specific local conditions, USAID ensures that it can implement comprehensive programs efficiently.

The Rural SPEED Program includes a diverse pool of subpartners, from commercial banks (tier I institutions) to microfinance institutions and unlicensed SACCOs. In addition to working closely with financial institutions, Rural SPEED has also worked closely with the Ugandan government and donor community. For instance, in the case of the donor community, Rural SPEED was able to identify a donor to provide capital for a new financial product that Rural SPEED helped develop. Rural SPEED is reprogramming its performance-monitoring tool, which will be distributed to financial institutions and the donor community to produce financial reports in 2007. As part of this effort, the monitoring tool is being customized to meet the needs of microfinance institutions, microdeposit-taking institutions, and SACCOs. As described, $2.2 million was obligated in FY 2006 for business development activities. (For specific activities, please see this report's background section.) These noncredit business development activities benefit individuals (microentreprenuers) and producer groups. Once individual producers and producer organizations are ready for financing, they are referred or linked to subpartners under the

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[2] USAID/Uganda's Rural SPEED activities represent more than 50 percent of the FY 2006 obligations for microenterprise activities.

[3] Program ratios that measure efficiency and productivity for Rural SPEED subpartners were not among the key indicators used by the Mission to assess the success of the Mission's microenterprise activities.

Rural SPEED Program. Finally, the Rural SPEED activities complement the overall strategy being implemented by the Mission's SO7.

Did USAID/Uganda microenterprise activities achieve planned results?

The audit team was unable to determine whether USAID/Uganda's microenterprise activities achieved planned results because of problems identified with definitions of key program indicators. For three of the four program indicators reviewed, the indicator definitions used in the Mission's Performance Management Plan (PMP) differed from the definitions used by the implementing partner in reporting data to USAID. Because the definitions used by the subpartners were broader than those in the Mission's PMP, reported results were overstated compared with the results that should have been reported using the PMP definitions.

USAID/Uganda reported meeting three of four planned results for key program indicators in FY 2006 under the Rural SPEED Program. These indicators were developed from microenterprise activities as well as rural financial sector activities. The reporting on USAID/Uganda's SO7 key indicators came from a broad range of reporting sources, including banks, microdeposit-taking institutions, microfinance institutions, and SACCOs.[4] Targets were reportedly met for (1) number of new savers, (2) value of savings, and (3) value of new loans. The target for number of new borrowers was not met. However, as stated in the previous paragraph, problems with the key indicator definitions examined in the audit resulted in our not being able to determine whether planned microenterprise activities results had been achieved. (See Appendix III for the reported indicators for FY 2006.)

Improved operations for microfinance institutions and microenterprises have occurred because of USAID/Uganda's assistance through the Rural SPEED Program.[5] Following are examples of these improved operations:

<u>Microleasing</u>—In an effort to promote leasing at the micro level to help small-business owners, Rural SPEED developed a feasibility study and conducted pilot-testing of a microlease for a subpartner microfinance institution. This has resulted in the first microleasing product in Uganda. In addition, Rural SPEED identified a nongovernmental organization to finance this leasing on a 50 percent matching basis with the financial institution. According to an official from this microfinance institution, these leases have been profitable after the first 4 months of operation and have resulted in new member savings. The transportation sector has benefited greatly from microleasing. Many motorcycles used to transport people and agricultural products have been made available to previously unemployed persons or have allowed employees who were working for others to start their own businesses. Other examples of the impact of the leasing program are as follows:

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[4] Program ratios that measure (1) sustainability and profitability, and (2) portfolio quality of subpartner/microfinance institution (MFI) performance for Rural SPEED subgrantees were not among the key indicators used by the Mission to assess the success of the Mission's microenterprise activities.

[5] Per a Mission official, other factors, such as overall growth in Uganda's economy, have contributed to the increases reported by USAID's partners for their financial indicators.

- An individual obtained a lease for a commercial oven for his wife, who baked cakes at their house. Without the commercial oven, 70 to 90 cakes were produced each week and sold to four retail outlets. With the leased oven, 1,500 cakes are produced weekly and sold to 55 retail outlets, including the lessee's own retail shop. The additional income has expanded operations with the purchase of a charcoal oven and hand mixer and has enabled the owner to hire employees.

A bakery employee stands behind the commercial oven leased from the subpartner microfinance institution that received assistance from USAID/Uganda in developing microleasing. *Source:* Photograph taken in May 2007 in Kitigoma, Uganda, by an official from a microfinance institution.

- A grain miller began operations in 1978. However, armed conflicts in Uganda resulted in the mill being vandalized and the grain stock looted. As a result, the miller had to cease milling in the early 1990s. In an effort to obtain capital for milling equipment to restart the mill, he tried unsuccessfully to sell his property. Under the microleasing program, he sold his equipment to the microfinance institution and then leased it back. The sale proceeds were used to repair the equipment and purchase grain stock. He is now an active miller and has hired several part-time employees.

A grain miller stands in front of milling equipment in Kitigoma, Uganda. This equipment was leased from a subpartner microfinance institution that received assistance from USAID/Uganda in developing microleasing. *Source:* Photograph taken in May 2007 by RIG/Pretoria Auditor.

Short-Term Loans—One of the new agricultural loans that Rural SPEED assisted in developing, piloting, and launching was a rapid sales loan for a subpartner SACCO. This loan is for short-term, small-value revolving trade loans with rapid turnover transactions that are low risk and highly liquid. This loan was developed for bicycle traders who sold matoke (a green banana grown in Uganda). Originally, 1-day loans were being used. Now they are being made available for other agriculture and nonagriculture traders as 6-

day loans. An official from this SACCO said that the impact from these loans has been substantial in terms of their operations. At the time the market survey was conducted for this loan (around February 2006), their institution had the equivalent of $89,021 in member savings with 3,020 members. At the time of the audit, member savings were valued at the equivalent of $148,368 with 4,040 members.[6] Among other benefits noted by this institution was that the Rural SPEED Program provided organizational training, enhancement of enterprise development, and rural savings promotion.

- Two matoke traders who had received short-term loans were interviewed. One trader said that she had already obtained four short-term loans from this subpartner institution. Her business was doing much better because of the short-term loans. She had been a matoke trader before receiving the short-term loans, but previously did not have the necessary capital to make much money. The second trader has already obtained 10 short-term loans and noted that his business is doing well. He said that before obtaining the short-term loans he did not have sufficient funds to purchase matoke on a regular basis.

<u>Savings Services</u>—Rural SPEED assisted in developing and piloting savings services for a subpartner microdeposit-taking institution. These savings services included a broader strategy for the institution that included rebranding and other activities, such as improving branch offices' physical appearance, as well as conducting "client days" for potential rural clients. According to an official from this institution, before the branding campaign, it was a newly licensed institution and was struggling to get customers. He noted that, after the branding campaign, the institution's savings portfolio has been growing. He attributes this growth to the increased public awareness. This official said that without Rural SPEED, the institution would have experienced a decrease in total savings. The official reported that the total value of savings before the branding campaign on August 31, 2005, was $3,652,336. After the branding campaign on December 31, 2006, the value of savings totaled $4,074,207. During this period, significant increases were experienced and compulsory savings increased from $352,206 to $1,428,337.[7]

According to this official, by the middle of 2006, the institution was seeing huge increases in time deposits, and large institutions (which were new customers) were opening savings accounts.

Notwithstanding these accomplishments, USAID/Uganda could strengthen its oversight of microenterprise activities in some areas. These areas include finalizing a data quality assessment, clarifying definitions of key financial indicators, and documenting site visits.

Data Quality Assessment Report Needs to Be Finalized

Summary: A data quality assessment (DQA) was performed in 2006 as required by Automated Directives System (ADS) 203. Although the DQA was performed in June 2006, only a draft has been provided to the Mission. A final report has not been issued because the Mission wanted comments from the major stakeholders

[6] This amount is based on a May 18, 2007, exchange rate of 1,685 Uganda shillings to US$1.
[7] These figures are based on a May 18, 2007, exchange rate of 1,685 Uganda shillings to US$1.

whose activities were also part of the DQA. At the time of the audit, one SO Team still had not provided comments. Without a final report, it is difficult to determine how issues raised in the draft report were resolved. As a result, it is difficult for the Mission to ensure that its implementing partner's actions have mitigated the data quality issues that were identified during the assessment.

USAID's ADS 203.3.5 recognizes the importance of data quality standards in managing for results and ensuring credible reporting. This guidance states that—

> Data reported to USAID/Washington for Government Performance and Results Act (GPRA) reporting purposes or for reporting externally on Agency performance must have had a data quality assessment at some time within the three years before submission…. Operating units may choose to conduct data quality assessments more frequently if needed.

In June 2006, a DQA of the Mission's SO7 for Rural SPEED activities was conducted. Indicators included in the assessment were (1) number of new borrowers, (2) value of new loans, (3) number of new savers, and (4) value of savings. The results of the DQA, which included the results from two other Mission SO Teams, were sent in draft form to the Mission on October 18, 2006, by the DQA contractor. As of the end of this fieldwork, a final report had not yet been issued.

According to the Mission, a final DQA report had not been issued because the Mission had wanted the major stakeholders (i.e., specific SO Teams and their partners) whose activities were included in the DQA to comment on the report. According to a Mission official, two of the three SO Teams that had been part of the DQA had provided comments to the DQA contractor. One SO Team had not yet provided its comments because of a busy schedule.

The Rural SPEED implementing partner provided comments on the DQA draft report on December 11, 2006. According to the Mission, the Rural SPEED implementing partner disagreed with non-data quality issues related to performance report quality and the utilization of monitoring and evaluation findings. The DQA contractor agreed to review the source documents from the review and indicated that these issues would be addressed in the final report. In the absence of a final DQA report, it was difficult to determine whether the issues addressed in the draft report had merit and how outstanding issues would be resolved. In addition, without a final DQA, it was difficult for the Mission to ensure that its implementing partners were able to mitigate data quality issues.

The efforts of USAID/Uganda in having a contractor provide DQAs are noteworthy. However, the benefits gained by having a DQA performed are significantly diminished when a final report is not issued on a timely basis—in this case, a year elapsed without a final report. As a result, the Office of Inspector General recommends the following course of action to further strengthen the Mission's DQA process:

Recommendation No. 1: *We recommend that USAID/Uganda obtain a finalized data quality assessment within 30 days of the issuance of this report.*

Clarified Definitions Needed for Indicators

Summary: Three performance indicators do not comply with the requirements of ADS 203.3.4.2. Clarity is needed for the indicator definitions to meet the characteristics of good performance indicators. Subpartner financial institutions inconsistently reported the "number of new borrowers," "new savers," and "value of savings," because these indicator definitions were not uniformly defined. This has made it difficult for the Mission to quantifiably measure the effectiveness of its outreach interventions. For instance, some of the reporting subpartner financial institutions had overstated their number of new borrowers and new savers.

ADS 203.3.4.2, "Characteristics of Good Performance Indicators," states that performance indicators should be unambiguous about what is being measured. In addition to being precisely defined in the PMP, performance indicators should be useful for the relevant level of management decision-making.

Some of the Rural SPEED subpartner financial institutions used different criteria to report the number of new borrowers and new savers. For example, some were reporting a client who obtained multiple loans as a new borrower for every new loan obtained. Others were reporting new clients only once, regardless of the number of loans obtained. Moreover, some were reporting a client who opened different savings accounts as a new saver for every new account opened, whereas others were reporting based on the first savings account opened.

Three of SO7's four key indicators, namely "Number of New Borrowers," "Number of New Savers," and "Value of Savings," are not uniformly defined to collect and report data as the Mission had intended. For example—

- Number of new borrowers is defined in SO7's PMP as a "New borrowers accessing credit services through financial service delivery points such as commercial banks, MFIs [microfinance institutions], exporters, processors, traders, input suppliers, producer associations, supported by USAID funded activities." Rural SPEED's implementing partner defined new borrowers similarly to the SO7 PMP. Added to this definition, however, they also included "As it is impractical to ensure uniqueness in the number of borrowers reported by financial institutions a new borrower is defined as a borrowing transaction, i.e., the number of new loans."

- Number of new savers is defined in SO7's PMP as "New savers accessing saving services through financial service delivery points such as commercial banks, MFIs, exporters, processors, traders, input suppliers, producer associations, supported by USAID funded activities." Rural SPEED's implementing partner defined the number of new savers similarly to the SO7 PMP. Added to this definition, however, they also included "A saver is defined as a savings account that has a positive balance at the end of the reporting period, i.e., positive closing balance."

- Value of savings was defined in SO7's PMP as "Total value of new savings held by clients of USAID supported commercial banks, MFIs, exporters, processors, traders, input suppliers, producer associations." The implementing partner defined value of savings (not addressing "new") as "total value of savings held by clients of financial institutions supported by Rural SPEED. This is a snap shot of total savings per reporting period."

According to the implementing partner, the indicator data provided to the Mission were consistent with the implementing partner's indicator definitions described above. The Mission officials stated that they were interested in obtaining the number of new borrowers and new savers who had used the financial institutions for the first time as a result of USAID interventions to strengthen the financial sector in rural areas. The Mission further stated that it measures the impact of its outreach program by the increase in the number of new clients who use financial services in the rural areas rather than by the increase in the number of products used by the same client. The implementing partner concurred that the definitions for the subject indicators needed clarification.

According to a Mission official, this situation has made it difficult for the Mission to quantifiably measure the effectiveness of its outreach interventions. For example, some of the reporting financial institutions had overstated the number of "new borrowers" and "new savers."

Accordingly, the Office of Inspector General makes the following recommendation:

> ***Recommendation No. 2:*** *We recommend that USAID/Uganda clarify the defined indicators "new savers," "new borrowers," and "value of savings" found in the Mission's Performance Management Plan with the Rural Savings Promotion and Enhancement of Enterprise Development Program implementing partner so that these indicators reflect the Mission's needs to establish an accurate level of its outreach interventions, including a methodology that supports the collection of this data.*

Site Visits to Financial Institutions Are Not Being Documented

Summary: Site visits carried out in FY 2006 were not documented as required by USAID and Mission policies and procedures. The responsible cognizant technical officer (CTO) cited too many work responsibilities and lack of sufficient time as reasons for not preparing trip reports. As a result, it was difficult to determine whether the site visit activity was appropriate to accomplish the necessary monitoring as required by the ADS and the Mission Order.

According to USAID's ADS 303.3, CTOs are responsible for monitoring and evaluating a recipient and its performance during the award to facilitate the attainment of program objectives. Required CTO action includes contact through site visits and liaison with the recipient, as well as reviewing and analyzing performance and financial reports. CTO responsibilities are further defined in the CTO Checklist found in USAID's *Guide Book for Managers and Cognizant Technical Officers on Acquisition and Assistance* (November 1998). Among the CTO's responsibilities are the following:

- Maintaining reasonable contact with the contractors to become aware of and gain an understanding of its problems and work schedules.

- Documenting significant actions, conversations, and so on as they occur.

- Establishing and maintaining a separate file for documents and correspondence pertaining to the contract.

Furthermore, as stated in USAID/Uganda's Mission Order No. 200-6A, dated January 2, 2002, a trip report must be written upon completion of each site visit. This report must capture factual and objective assessment of the progress of the activities in relation to the benchmarks. Moreover, the Mission Order includes a form that has been developed to report on site visits.

Although site visits to monitor the activities of the subpartner financial institutions were carried out by the Mission in FY 2006, documentation of these monitoring efforts was lacking. The responsible CTO noted having too many work responsibilities to allow her sufficient time to prepare trip reports.

Without trip reports, it was difficult to determine whether the site visit activity was appropriate to accomplish the necessary monitoring required by the ADS and the Mission Order. Furthermore, it is important to document significant events and observations that may have influenced managerial decisions affecting the program. To enable the Mission to capture significant events, observations, and the decisions made thereafter, the Office of Inspector General makes the following recommendation:

> ***Recommendation No. 3:*** *We recommend that USAID/Uganda communicate to Mission staff the importance of, requirement for, and the mechanism for properly documenting site visits.*

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Uganda concurred with all three recommendations. The Mission described the actions taken and planned to address our concerns. The Mission's comments and our evaluations to those comments are summarized below.

In response to Recommendation No. 1, concerning the finalization of the data quality assessment (DQA) within 30 days of the issuance of this report, the Mission concurred. A final DQA report was issued on June 20, 2007. A copy of this report was provided in the Mission's comments. Therefore, final action has been taken on this recommendation upon the issuance of this report.

Recommendation No. 2 recommended that USAID/Uganda clarify the defined indicators to reflect the Mission's needs to establish an accurate level of its outreach interventions, including a methodology to support the collection of these data. The Mission concurred with this recommendation. It noted that the language and definitions in the recently released Microfinance Institution (MFI) Performance Monitoring Tool (version 2007) are "in harmony with the Economic Growth SO7 Performance Monitoring Plan requirements and represent an accurate level of its outreach interventions, including a robust methodology that supports the collection of this data." The Mission has provided a copy of this monitoring tool. Therefore, final action has been taken on this recommendation upon the issuance of this report.

Recommendation No. 3 recommended that the Mission communicate to its staff the importance of, requirement for, and the mechanism for properly documenting site visits. USAID/Uganda concurred with this recommendation. In response, the Mission noted that it would maintain in its program files copies of site visit schedules, site visit reports, and biennial reviews. It also noted that the program office would monitor and ensure staff compliance with Mission Order No. 200-6A (dated January 2, 2002) and report progress in the Mission FY 2008 Risk Assessment. Although these actions will help strengthen the Mission's oversight of documenting site visits, they do not address how the Mission will communicate to its staff the need to properly document site visits. Because the Mission's need to communicate these requirements is the focus of Recommendation No. 3, no management decision has been reached.

The Mission's comments are included in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General (RIG)/Pretoria conducted this audit in accordance with the U.S. Government's generally accepted auditing standards. Fieldwork was conducted in Uganda from April 24, 2007, through June 13, 2007, at USAID/Uganda, Kabwohe Town, Kampala, Kitigoma, and Lyantonde.

This audit was conducted as part of a series of audits conducted by the Office of Inspector General. The objectives of the audit were to determine (1) whether USAID/Uganda implemented its microenterprise activities efficiently and (2) whether USAID/Uganda microenterprise activities achieved planned results. The scope of this audit included USAID/Uganda's microenterprise activities carried out during fiscal year (FY) 2006. From the total $4.6 million in microenterprise activities for FY 2006, the activities selected were chosen from the $2.5 million obligated toward the microenterprise finance program, which represented more than 50 percent of the FY 2006 obligations for microenterprise activities. Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED) was the Mission's program used for these selected activities.

Although Rural SPEED carried out activities under the Development Credit Authority (DCA) guarantee (using funds obligated in FY 2005), these activities were not included in the scope of this audit. These activities were not included because the Mission had been the subject of a RIG/Pretoria audit of its DCA program last year. Furthermore, this audit did not include Business Development Services for microenterprise activities, because the focus of this audit was on financial services supporting microenterprise activities.

In conducting this audit, the audit team assessed the effectiveness of internal controls related to the implementation of this program, such as the following: (1) adherence of the implementing partner to the contract (including deliverables), (2) selection of the eligible subpartners for strategic activity funds, (3) the reporting process for selected key indictors by the subpartners to the implementing partner, and (4) quality assessments and corrective measures taken to address the deficiencies identified. Furthermore, the audit team reviewed the Mission's annual self-assessment of internal control in accordance with the Federal Managers' Financial Integrity Act of 1982 for FY 2006.

Methodology

To answer the audit objectives, the audit team met with USAID/Uganda staff for Strategic Objective (SO) 7 ("Expanded Sustainable Economic Opportunities for Rural Sector Growth"). The staff were responsible for the Mission's microenterprise activities and for the Rural SPEED implementing partner. The audit team reviewed the implementing partner's FY 2006 annual report and, with collaboration from USAID/Uganda, selected 4 of the 21 reported indicators for the purpose of this audit. The four key indicators used by the Mission to assess the success of the program were (1) number of new borrowers, (2) value of new loans, (3) number of new savers, and (4) value of savings. The audit team compared the numbers reported for the subject indicators against the established targets to determine whether they attained the targets.[8]

The team then selected 3 of the implementing partner's 14 subpartners. These subpartners had contributed to the four indicators described above for the fieldwork. The selection criteria required the subpartners to come from financial institutions within tier III (microdeposit-taking finance institutions) and tier IV (microfinance institutions) organizations that had received USAID assistance in FY 2006. The amount of grants given to the three selected subpartners totaled $134,866, which was 14 percent of the total of $972,129 disbursed to all subpartners for FY 2006.

The audit team interviewed officials in the selected subpartner institutions about the extent and impact of the USAID program on their respective financial institutions. The audit team asked about the reporting processes for the selected indicators for the implementing partner in Kampala, reviewed the supporting documents for the indicator data reported, and obtained a sample of beneficiaries for the matoke loans and microleases. The audit team interviewed microentrepreneurs to determine the impact of these new products in improving their livelihood and the challenges that need to be addressed.

[8] As stated previously, the Mission did not use program ratios that measured (1) efficiency and productivity, (2) sustainability and profitability, and (3) portfolio quality of subpartner/microfinance institution performance as key indicators in assessing the success of the Mission's microenterprise activities.

MANAGEMENT COMMENTS

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MEMORANDUM

TO: **Acting Regional Inspector General/Pretoria, Matthew Rathgeber**

FROM: **Debbie Grieser, Acting Mission Director, USAID/Uganda /s/**

SUBJECT: **USAID/Uganda Comments on the July 10, 2007 Draft Audit of USAID/Uganda's Microenterprise Activities (Report No. 4-617-07-XXX-P)**

DATE: **August 10, 2007**

The Mission has reviewed the draft copy of the RIG Audit Report of USAID/Uganda's Microenterprise activities and concurs with all three recommendations. The Mission has initiated actions to address these recommendations, submits supporting documentation for closure.

Mission's response to the 3 recommendations

Recommendation No. 1: *We recommend that USAID/Uganda obtain a finalized data quality assessment within 30 days of the issuance of this report.*

Mission Response: Mission concurs with this recommendation.

The Mission has followed up with the contractor of its Monitoring and Evaluation Management Services (MEMS) project, Management Systems International (MSI) under contract GS-23F-8012H, to incorporate comments received from Strategic Objective (SO) Teams and implementing partners of the three strategic objectives assessed - Economic Growth, Investing in People and Democracy and Governance. The final DQA report was issued on June 20, 2007 and is electronically attached.

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With the completion of the FY 2006 DQA, Mission requests that RIG/Pretoria close this recommendation.

- However, we wish to make the following clarifications:The Data Quality report referred to above covers all the Mission's Implementing Partners except those that are exclusively implementing HIV/AIDS activities. Data Quality Assessments for these activities are carried out by the Monitoring and Evaluation of Emergency Plan Progress (MEEPP) contract 617-C-00-05-00001-00, which is mandated to provide monitoring and evaluation technical assistance to the United States/Uganda Emergency Plan Team (EPT).

- We refer to your finding on page 9 of your draft report that states that "*The Rural Speed contractor provided comments on December 11, 2006, which identified several areas where they did not agree with the DQA draft report. The DQA contractor agreed to review the source documents from the review and indicated that these issues would be addressed in the final report. In the absence of a final report, it is difficult to determine if the issues that were addressed in the draft report had any merit. Some issues had been challenged by Rural Speed's contractor. Without a final report it is not known how the outstanding data quality issues were resolved".*

- Findings challenged by the Rural SPEED contractor included non–data quality issues. Annually, MEMS carries out a wider assessment of our Implementing Partners monitoring and evaluation (M&E) performance and capacity at the same time that it conducts data quality assessments. The assessment focuses on quality of performance reports, performance monitoring plan (PMP) quality (including indicator and data quality), utilization of monitoring and evaluation (M&E) data, dissemination of M&E findings and M&E capacity.

  The non– data quality issues that the Rural SPEED Contactor disagreed with were related to performance report quality and utilization of monitoring and evaluation (M&E) findings. We wish to point out that we review both the draft Activity Report and Data Quality Assessment report with our implementing partners at the same time (the review of Rural SPEED Activity Report Card and Data Quality Assessment findings was held on December 11, 2006, the date you mention in your draft report). By the time your Audit took place, the FY 2006 Activity Cards had also not yet been finalized. They have since been finalized and the final Activity Report Card for Rural SPEED is attached. The actions/recommendations matrix arising from the December 11, 2006, review meeting between MEMS and Rural SPEED is also attached.

Recommendation No. 2: *We recommend that USAID/Uganda clarify the defined indicators "new savers", "new borrowers", "value of savings" found in the Mission's performance management plan with the Rural SPEED contractor in order for these indicators to reflect the Mission's needs on establishing an accurate level of its outreach interventions, including a methodology that supports the collection of this data.*

Mission Response: Mission concurs with this recommendation.

To harmonize the language and definitions of indicators that measure Microfinance Institution (MFI) portfolio and outreach, USAID/Rural SPEED worked with the

Association of Microfinance Institutions of Uganda to include revisions to the Microfinance Performance Monitoring Tool (PMT) version 2004 that edited language under fields: A3 - *Number of clients taking first loan (during the period)*, A21 - *Value of compulsory savings (end of period)*, A22 - *Number of voluntary savers* and A23 - *Value of voluntary savings* (see electronic version attached).

The language and definitions in the revised MFI PMT version 2007 are currently in harmony with the Economic Growth SO7 PMP requirements and represent an accurate level of its outreach interventions, including a robust methodology that supports the collection of this data.

Mission requests RIG/Pretoria close this recommendation given the release and institution of the MFI Performance Monitoring Tool version 2007 version.

Recommendation No. 3: *We recommend that USAID/Uganda communicate to Mission staff the importance of, requirement for, and the mechanism for properly documenting site visits.*

Mission Response: Mission concurs with this recommendation.

Electronic and paper copies of summaries of the site visit schedule, site visit reports and biennial reviews will be maintained in the program files.

Program Office shall work to monitor and ensure staff compliance with Mission Order 200-6A dated January 2, 2002 (attached) and will report progress in the Mission's FY 2008 Risk Assessment (FMFIA).

Attachments:
(1) USAID/Uganda Performance Data Quality Report, June 20, 2006
(2) Microfinance Performance Monitoring Tool, 2007
(3) Mission Order No. 200-6A
(4) MEMS SO7 FY06 Activity Report Cards, June 20, 2007
(5) Rural SPEED Report Card

Selected Key Indicators for Fiscal Year (FY) 2006

Indicator Name	Target for FY 2006 per Contract Modification No. 3[9]	Revised Targets for FY 2006[10]	Actual Results for FY 2006[11]	Attained against Mod No. 3 Targets	Attained against Revised Targets
Number of new borrowers	25,000	33,713	24,027	96%	71%
Value of new loans ($)	5,341,246	17,980,309	40,472,407	758%	225%
Number of new savers	62,000	135,388	173,219	279%	128%
Value of savings ($)	22,433,234	144,343,855	142,127,527	634%	98%

Note: The value of new loans and value of savings are converted to dollars based on a May 18, 2007, exchange rate of 1,685 Uganda shillings to US$1.

[9] Because of budget cuts experienced by USAID/Uganda's Strategic Objective (SO) 7 on June 1, 2006, the statement of work was revised to incorporate yearly and life-of-project activity performance targets (illustrated in contract modification no. 3). The revised amounts are illustrated in the table above.

[10] According to Mission staff, when the actual numbers were reported for the indicators, the targets established in contract modification no. 3 were conservative. As a result, the Mission and the implementing partner informally agreed on revised numbers, as stated in the revised targets, to establish more realistic targets. That agreement was not formalized in writing. In evaluating actual results versus targets, the audit team used the revised targets, because they were used in the Rural SPEED FY 2006 annual report.

[11] As stated previously, the audit team was not able to determine whether USAID/Uganda's microenterprise activities achieved planned results because of problems that were identified with definitions for three of four key program indicators.

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