



Investing in rural people

Republic of Uganda

Project for Financial Inclusion in Rural Areas (PROFIRA)

Supervision report

Main report and appendices

Mission Dates: 6-17 November 2017
Document Date: 22-Nov 2017
Project No. 900-UG
Report No: 4615-UG

East and Southern Africa Division
Programme Management Department

Contents

Abbreviations and acronyms	iii
A. Introduction	1
B. Overall assessment of project implementation	1
C. Outputs and outcomes	2
D. Project implementation progress	3
E. Fiduciary aspects	9
F. Conclusion	11

Appendices

Appendix 1:	Updated logical framework: Progress against objectives, outcomes and outputs	13
Appendix 2:	Summary of key actions to be taken within agreed timeframes	19
Appendix 3:	PROFIRA Results Framework	23
Appendix 4:	Financial: Actual financial performance by financier; by component and disbursements by category	29
Appendix 5:	Compliance with legal covenants: Status of implementation	33

Abbreviations and acronyms

AWPB	Annual Work Plan and Budget
CCA	Canadian Cooperative Association
CFF	Central Financing Facility
CSCG	Community Savings and Credit Group/s
DCO	District Commercial Officer
FSD	Financial Services Department (of MFPED)
GoU	Government of the Republic of Uganda
HIV-AIDS	Human immunodeficiency virus infection and acquired immune deficiency syndrome
IFMS	Integrated Financial Management System
KM	Knowledge Management
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MFPED	Ministry of Finance, Planning and Economic Development
MIS	Management Information System
MoU	Memorandum of Understanding
MTIC	Ministry of Trade, Industry & Commerce
MTR	Mid Term Review
NGO	Non-governmental Organisation
ORMS	Operational Results Management System
OSS	Operational Self Sufficiency
PMU	Project Management Unit
POC	Project Oversight Committee
PP	Procurement Plan
PPDA	Public Procurement and Disposal of public assets Authority
PROFIRA	Project for Financial Inclusion in Rural Areas
RFSP	Rural Financial Services Programme
SACCO	Savings & Credit Cooperative
SDR	Special Drawing Rights
SoE	Statement of Expenditure
SP	Service Provider
TA	Technical Assistance
TOT	Trainer of Trainers
UCCK	Uganda Cooperative College Kigumba
UCSCU	Uganda Cooperative Savings and Credit Union
UGX	Uganda Shilling
UMRA	Uganda Microfinance Regulatory Authority
USD	United States Dollars
UWESO	The Uganda Women's Effort to save Orphans
VSLA	Village Savings and Loan Association
WA	Withdrawal Application

A. Introduction

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

2. An IFAD supervision and implementation support mission¹ was held from 6 to 17 November 2017 with the objective to i) review the implementation progress of the project; ii) review the implementation of the recommendations from previous missions; iii) review the status of execution of the AWPB 2017/18; iv) review fiduciary aspects, focussing on financial management, disbursement and procurement issues and assess provision of counterpart funds in terms of amount and timeliness, where applicable and compliance with loan covenants and; and v) to provide the necessary implementation support as required. The mission visited the project operations in support of SACCOs in the districts of Masindi, Kiboga, Mupende, Hoima and Buliisa and those in support of CSCGs in the districts of Bukedea, Sironko and Tororo. In Kampala, the mission met and interacted with several project stakeholders, including the Director for Debt and Cash Management and the Commissioner for Financial Services, Ministry of Finance, Planning and Economic Development (MFPED); the Commissioner for Cooperative Development, Ministry of Trade, Industry and Commerce; other officials from MFPED and MTIC, the Board and staff of UCSCU and other relevant stakeholders from the sector, including the service providers selected for the provision of training services to SACCOs and CSCGs. The mission would like to thank the GoU and all other partners for their collaboration and support.

B. Overall assessment of project implementation

3. Overall project implementation is progressing well, with a clear upward trend of increasing performance after a slow start, due to the intrinsic complexity of the procurement processes to contract the main service providers. All service providers are now in place since more than a year and have been undertaking the envisaged activities as planned and with the required quality. As a result, the disbursement rate for the IFAD loan 'jumped' from 22% in January 2017 to the current 41% in only 9 months, shifting the project performance from moderately unsatisfactory to moderately satisfactory compared to the disbursement profile of similar projects in IFAD.

4. The major capacity building programs for SACCO strengthening are now being delivered consistently with the plans. There is emerging evidence of the positive effects of capacity building on SACCOs operations. Some concerns remain, however, for the slow implementation with respect to some of the areas, in particular MIS support, which is deemed to become increasingly important in the context of the emerging regulatory framework for tier 4 institutions, as well as the support to turn-around SACCOs. These two areas will require strong focus over the next six months to catch up with the accumulated delays. Furthermore, a considerable number of SACCOs included in the contracts for capacity building support have become non-performing since their selection in 2014 for PROFIRA support and will most certainly require an adjustment of the support packages provided to them. Overall, given the changes occurred in the SACCO sector since project design more than three years ago, a review and adjustment of the investment targets and strategies for this component will soon be

¹ The mission was led by Alessandro Marini, IFAD Country Director and included Dagmawi Habte-Selassie, IFAD Programme Officer; Rauno Zander, Rural Finance Specialist; Jorma Ruotsi, Rural Finance Specialist, and Fredrick Kagaba, Financial Management Specialist.

needed, to adapt them to the changed circumstances in the sector and further improve the delivery of a well performing component.

5. Institutional support to UCSCU remains an area where performance is mixed. While UCSCU's performance strictly measured by its Operational Self-Sustainability (currently standing at 68%) is overall good, this is highly dependent on the contract with PROFIRA for SACCOs capacity building, representing 50% of its overall revenue. With the contract coming to an end in 18 months and UCSCU having done little effort to increase alternative sources of income, concerns remain about the medium term sustainability of the institution.

6. The progress of the CSCGs component continues to be very satisfactory. All service providers for both the establishment of new CSCGs and innovation with established CSCGs are delivering consistently high quality services and in most cases over-achieving the targets as per their contracts. The demand by the communities in the area of operations to join the CSCGs remains very high and the SPs are proactively responding to the emerging opportunities in this respect. The process for the procurement of SPs for the second phase of CSCGs' investment has started and is fully consistent with the plans. The component is thus fully on-track to deliver the expected outputs and outcomes.

7. The support by PROFIRA to the process of establishment and operationalization of the Tier 4 regulatory framework has produced the expected outputs, in terms of approval of the Tier 4 Act; drafting of the Regulations; and initial establishment of the Uganda Microfinance Regulatory Authority (UMRA). Resources under this sub-component of PROFIRA have now been almost fully utilized. Some challenges remain in the near future for MFPED to fully operationalize UMRA and ensure the responsiveness of the sector to the upcoming regulatory requirements. PROFIRA will continue to support SACCOs in building their systems and capacity for future reporting to UMRA.

8. With respect to the partnership with MTIC, progress continues to be relatively slow in delivering the expected outputs related to the operationalization of the SACCO database; the turn-around or liquidation of SACCOs; and the establishment of SACCO fora at both district and regional levels.

9. The Project Management Unit is fully staffed with all necessary management systems and processes in place for financial management, procurement, planning, monitoring and evaluation and other key functions. The Project Oversight Committee meets regularly twice a year. All key loan covenants have been complied with.

C. Outputs and outcomes

10. For component 1, as of mid-November 2017, out of a target of 500 SACCOs by the end of the project, a total of 253 (51%) have been reached with capacity building for credit and default management. For the capacity building in the other six key areas, out of a target of 350 by the end of the project, achievements at the end of August 2017 vary between 76 (22%) for the business skills development module and 304 (87%) in financial management module, with an average of 185 (53%) across the six different modules. Such wide variation depends on the actual sequencing of the different trainings by the service providers. Progress is slower for the 46 SACCOs to be supported for turn-around, which should eventually receive the capacity building above, with only 15 of them so far engaged by MTIC, but none having reached the final stage. For MIS support, no SACCO has so far been reached. Overall, the component is on track in terms of output achievement for the major capacity building activities, with the exception of the MIS support activities.

11. With respect to the main component outcomes as of June 2017, the number of fully paid-up members in supported SACCOs was 410,224 of which 31% women (above the target of 30%) and 8% youth (below the target of 15%). The total share capital in supported SACCOs amounts to UGX 35.2 billion, the total savings collected to UGX 81.5 billion and the total outstanding loans to UGX 163.9 billion.

12. For component 2, by the end of October 2017, a total of 3,568 new CSCGs have become operational, which represents 48% of the overall target at the end of the current 3 years contract (7,500), fully in line with the projected numbers for this period. The overall figure, though, disguises a

below average achievement in the North Eastern region, with only 32% of the overall cumulative target by the end of the contract. As the average size of the groups exceeds the planned level (29 versus 25) the total number of members in these groups has reached 104,000, which is 17% more than the projected number for the period and 55% of the total number of people to be reached by the end of the 3 years contract. Women constitute a high share of the new CSCG members, varying from 71% in North East to 77% in West Nile region, all above the target of 70%. The share of youth in the new groups is aligned with the target of 15% in Eastern and West Nile regions but exceptionally high in Mid-North (33%) and especially in North Eastern region (45%), indicating high interest and commitment to small businesses by young women and men in these challenging environments.

13. Concerning the support activities for strengthening already operational CSCGs under sub-component 2.2, a total of 1,184 mature CSCGs have been engaged so far, representing 79% of the overall target for the current 3 years contract, which is fully aligned with the expected achievements for the period.

14. With respect to outcomes for component 2, the cumulative savings in newly established CSCGs as of the end of June 2017 reached a total of UGX 4.7 billion, while cumulative loans were at UGX 4.9 billion. With the recent instalment of an MIS for the group operations, more accurate data on the development of the financing operations of the groups are expected during the next six-months period.

D. Project implementation progress

Component 1 – SACCO strengthening and sustainability

Sub-Component 1.1 -- SACCO Strengthening

14. Support for strengthening of SACCOs is being achieved through two routes: through service providers (SPs) for training and on-site technical assistance; and through the support of the dealing government department, the Cooperatives Development Department in the Ministry of Trade, Industries and Cooperatives, for 'turnaround' SACCOs that would eventually qualify the capacity building by the SPs in specific areas.

15. **SACCO strengthening through service providers.** Two SPs have been contracted to provide capacity building support in credit and default management to a total of 453 SACCOs identified so far for collaboration with PROFIRA. Out of this total, 330 SACCOs are planned to receive capacity building in six different essential modules by four other SPs. The capacity building support is structured in initial courses of 3-5 days on-site or off-site, followed by monthly technical assistance visits throughout the 3-year contracts and some refresher courses. As of the end of August 2017, progress on imparting the different PROFIRA capacity building modules is as presented in the table below:

Progress of SACCOs' Capacity Building (as of end August 2017)			
	Targeted	Trained	% of total
Credit & Default Management	453	253	56%
Financial Literacy	330	232	70%
Governance	330	139	42%
Business Skills Development	330	76	23%
Financial Management	330	304	92%
Strategic Planning	330	159	48%
Savings & Other Prod. Dvt.	330	197	60%

16. **'Dormant' SACCOs.** A significant number of the 453 SACCOs identified in 2014 as suitable for support, have in the meantime deteriorated in performance and stopped to function. The PMU estimates of the number of dormant SACCOs around 100. While these SACCOs are still part of the contracts with the SPs, the rationale of continuing to provide to them the standard packages of capacity building services is questionable. It is therefore urgent for the PMU to clearly identify

'dormant' SACCOs on the basis of simple criteria agreed with the SPs and renegotiate and adjust the SPs contracts and MoUs with the respective SACCOs accordingly. Adjustments might entail reducing the number of SACCOs targeted with the currently envisaged capacity building packages; replacing some of the 'dormant' SACCOs with other eligible ones, identified by the SPs and the DCOs; and, more important, developing a tailored capacity development package for 'dormant' SACCOs. This tailored package should focus on re-empowering the membership base and cleansing those SACCOs from non-performing boards and management, as applicable. Specifically, SPs could coordinate with MTIC in convening special membership meetings to discuss the way forward, initiate special audits and assist these SACCOs in reconstituting their boards and managers. Additional support should focus on financial literacy training for members and potential members as well as TA on-site support for the development and implementation of a SACCO revival plan. Special attention should also be on exposing single large-scale defaulters and prompting them to repay their arrears to their SACCO. **Agreed action:** PMU to review and renegotiate the contracts with SPs and SACCO MoUs to cater for a tailored strategy to deal with 'dormant' SACCOs.

17. **MIS Support.** The MIS support targets 57 SACCOs from among the 453 already targeted by capacity building services at three different levels: (a) "basic", covering mainly software licence and training; (b) "advanced basic", including MIS installed in branches; and (c) "networking", including hardware and systems for branches that are fully networked. The support is provided on a matching grant basis, with 30% SACCO contribution. The PMU has started the process of selecting suitable SACCOs and up to mid-November 2017 11 grant applications have been received and are currently under review. **Agreed action:** PMU to sign Grant Agreements with at least 10 SACCOs for MIS support by end of December 2017.

18. **'Turn-around' SACCOs.** Progress has been slower in the case of the 46 SACCOs that were identified for direct support by the Cooperatives Department and the District Commercial Officers (DCOs) for turn-around. The turn-around process involves initial membership meetings and, where fraud appears to be the main issue for dormancy, special departmental audits. In parallel, the broader membership gets informed on conflict resolution mechanisms and, where necessary, is assisted in voting in new board members and management into the concerned SACCO. The process is finalized with a certification of the dealing DCO that a turn-around was successfully completed. Out of a total of 46 SACCOs planned to undergo a turn-around support programme, MTIC has so far engaged with 15 of these. None of these 15 SACCOs has so far completed the turn-around cycle foreseen. **Agreed action:** MTIC to ensure completion of the turn-around process for all 46 SACCOs by 30 May 2018.

19. **Targets for SACCOs capacity building.** As per original targets, PROFIRA should support a total of 500 SACCOs with capacity building services, all of which should receive credit and default management trainings, while 350 of them should also be supported with the full package of six training modules. Based on the census and training needs assessment conducted at the inception of the SPs' contracts, a total of 453 SACCOs have been planned for credit and default management support, of which 330 SACCOs will also receive the complete six training packages. Both figures are already short of the original targets. Furthermore, an estimated 100 or more SACCOs from among the above 453 have become dormant and will most likely require tailored capacity building. MTIC has identified for turn-around about 46 SACCOs, which could eventually qualify for capacity building support through the contracted SPs. Finally, assuming that the tier 4 regulation and the new regulatory authority come into force, more stringent requirements will start to apply for at least some SACCOs to comply with the new regulatory framework, including MIS requirements and attachment of a credible business plan to the license application. This is likely to influence the training and TA needs of SACCOs over the coming months, as partner SACCOs are likely to use the PROFIRA SPs to obtain support in the license application process. Overall, the situation in the SACCO sector has substantially changed since the PROFIRA targets were set almost three years ago. In this respect, it is imperative that the identification of the dormant SACCOs, the completion of the turn-around process and the testing of the MIS matching-grant support be all accomplished before the project Mid-Term Review (MTR) planned for mid of next year (see below) to allow for the review and adjustment of project targets and strategies to adapt to the changed circumstances in the SACCO sector.

20. **Partnership with Uganda Cooperative College Kigumba (UCCK).** The support provided by UCCK under the MoU with PROFIRA has proved useful and all activities envisaged have been delivered. It should be considered to amend the current MoU to both increase its scope and duration. In particular, the following could be considered: UCCK taking the lead in developing special financial literacy TOTs for the dormant SACCOs; expanding the certificate courses to a further 50 SACCO managers (from the current 100 completed ones); providing refresher and a limited number of new additional trainings for newly recruited DCOs to ensure a countrywide coverage; and assistance to UCCK in strengthening their web presence to attract paid participants and international collaborations on course contents. **Agreed action:** an amended MoU with UCCK will be signed by end of January.

Agreed action	Responsibility	Agreed date
Adjust SPs' contracts and SACCOs' MoUs for support to dormant SACCOs	PMU	28 Feb 2018
Sign GAs with at least 10 SACCOs and start to implement MIS support	PMU	31 Dec 2017
Complete turn-around for 46 SACCOs	MTIC	30 May 2018
Sign amended MoU with UCCK	PMU	31 Jan 2018

Sub-Component 1.2 – Developing a SACCO Union

21. **UCSCU Performance.** UCSCU has made some progress with respect to the performance targets driving the union key objective of Operational Self Sufficiency (OSS) at 100% by end of June 2019. Current OSS stands at 68% (against a target of 46%) and the operating deficit at UGX 740 million (against a target of UGX 807 million) for the financial year 2016/2017. In addition, the union has improved its operational efficiency by updating the accounting backlogs, introducing a staff performance management system and improving their budget control systems. However, a major share of these achievements highly depends on the contract with PROFIRA for SACCOs training, which constitutes 50% of the overall union revenue. With such contract ending in 18 months, there is a concrete risk for UCSCU of not being able to sustainably maintain 100% OSS in the medium term. There is therefore a need for a more concerted effort by the union to further reduce expenditures and increase medium-term revenue sources.

22. The fragility of UCSCU's apparent good performance is confirmed by the fact that it was only able to recruit 13 new members during 2016/17 compared to a target of 90. In addition, only 52% of the member SACCOs have paid their annual contribution. The Central Financing Facility (CFF) has also not picked up as expected. In the past reporting year, only 4% of the UGX 730 million were loaned out to members, while the balance remained in a fixed deposit account, translating into only 72% achievement in the CFF income target. There is a need for UCSCU to better market the services offered to its members. The Board of UCSCU has confirmed that rebranding and an aggressive marketing campaign were high on the strategic plan of the union. **Agreed action:** UCSCU to prepare a clear action plan to ensure OSS will remain above 100% after mid-2018.

UCSCU 5 Years Revised Projections (UGX million)

	2014/15	2015/16	2016/17	2017/18	2018/19
Total internal generated revenue	252	342	677	995	1,357
Total recurrent expenditure	840	1,081	1,486	1,445	1,345
Revised Projected (Deficit)/surplus	(588)	(740)	(809)	(450)	12
Actual Deficit posted	(575)	(1,416)	(740)		
Operational Self Sufficiency (OSS)	0.30	0.32	0.68	0.69	1.01

23. **Performance-based incentive.** Cumulatively, UCSCU has so far received a grant of UGX 2.7 billion from PROFIRA. As per the provisions of the MoU, UGX 224.4 million has been disbursed for the 1st and 2nd quarter of 2017/18. It should be noted however, that the prime factor to achieving this target is income received from the service provider contract entered into with PROFIRA. At the expiry of this contract (May 2019), unless alternative sources of income are actively pursued, the targets are likely not to be sustained.

24. **UCSCU financial management.** As per recommendations of previous missions, UCSCU entries are regularly updated on a real time basis in its financial management system. However, the financial statements for different financing sources are disjointed, and consolidated through manual systems. Since the chart of accounts for different sources is similar, the system should be configured to automatically generate the required reports. The internal auditor was recruited in August 2017 and an audit plan was drawn. However, this plan was not approved by the board of directors, and the audit scope was limited to reviewing regions where UCSCU operates. Audit plans, including the current one, should be more detailed, and guided by performance of a 'risk assessment', in the areas of organisation and staffing, budgeting, internal controls etc, the basis of which will provide a plan for the specific audit tasks to be completed.

25. **CCA technical assistance (IFAD grant).** CCA has held 2 support missions in 2017, the latest in October. The missions involved training management, board, and staff on issues such as governance, training and auditing while providing some technical support in the development of the CFF policy and customer service charter for the union. CCA has now agreed with UCSCU that the next support mission will only be triggered if UCSCU achieves a set of agreed actions, putting some pressure on the union to comply with the recommendations agreed.

Agreed action	Responsibility	Agreed date
Prepare action plan to ensure OSS will remain > 100%	UCSCU	30 Apr 2018

Component 2 – Community Based Financial Services

Sub-component 2.1 – Establishment of new CSCGs

26. The four SP contracts for this sub-component were signed in April 2016 and currently, approaching mid-term of contract execution, the progress towards the envisaged targets is overall commendable. The quantitative targets for CSCG formation have been surpassed in Mid-North, West Nile and Eastern regions. In North Eastern region, however, only 78% of the cumulative CSCG target and 88% of the membership target had been reached for the period ending 31 October 2017. Based on the PROFIRA follow-up visits and the mission's field observations, the quality of the new CSCGs is promising, both concerning the savings and credit activity and the related income generating operations. The willingness to save more and to take bigger and longer loans is obvious. It was agreed that the option to include well performing groups from the current 2.1 support to the forthcoming 2.2 operations of the Phase 2 contracts will be actively used in all regions.

27. **Contract for North Eastern region.** This region, with a low population density consisting largely of pastoral migrant communities and with a large number of operational donor organisations, has proved to be challenging for large-scale CSCG operations of the PROFIRA type. At the same time the region includes districts and sub-counties with more dense population and a great deal of interest among low-income people in joining the groups. The SP (CARE/KPSDC) is convinced that with a more focused geographical approach, the full contract targets for the area can be reached. **Agreed action:** the SP in North Eastern region will conduct a new mapping exercise to re-focus the operations in the remaining 18 months in the more potential, stable districts and sub-counties, and present the new implementation plan to PROFIRA for approval by mid-January 2018.

28. **Contract for Eastern region.** Although the SP for Eastern region is fully aligned with its targets so far, the current contractual situation is raising concerns with respect to its capacity to fully achieve the targets with adequate quality for the remaining period of the contract. This contract was won by CARE International, with UWESO as a sub-contractor, with a cost per member well below the one in the other three regions. Furthermore, the mapping and the related selection of the implementation area was conducted without adequate focus, resulting in costly implementation arrangements. Consequently, while so far meeting the quantitative targets, the implementation performance has started to suffer in areas such as the quality of training and the accuracy of reporting on CSCGs, with related problems in intra-consortium relationships. **Agreed action:** CARE/UWESO will identify a solution for this situation, clearly indicating how they will, within the agreed contract amount, ensure

the achievement of the quantitative and qualitative targets defined for the Eastern region for the remaining 18 months of the contract.

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

29. The four SP contracts for Sub-component 2.2 have now been operational for one year. In all four areas, the needs assessments for the selected CSCGs have been carried out, the trainings are on-going and the registration of the mature groups in the districts has started. In addition, the contract for Lot 5, covering 26 districts outside the 4 core regions, was signed in August 2017 with a consortium of three local NGOs and the field operations have started.

30. **Increased focus on financial services innovations.** While activities in this sub-component have generally started well, there is a clear need to sharpen the focus in implementation. A great deal of attention in all regions has so far been given to relatively general training activities in areas such as financial literacy, business development and some cross-cutting issues such as HIV-AIDS and environment. A major shift in approach is now needed towards issues linked to advanced VSLA operations, with emphasis on linkages with banks, MFIs and SACCOs; on the carry-over of share capital from one cycle to the next one; and on topics such as clustering of CSCGs for improved and more efficient financial service provision.

Phase 2 contracts

31. For Phase 2 operations in support of CSCGs, the target for the establishment of new CSCGs will be 500 for North East, 2,600 for Mid-North, 2,500 for Eastern and 1,500 for West Nil. For Sub-component 2.2, the target is to work with 550 CSCGs in North East and 400 in each of the other three regions. Phase 2 contracts for both sub-components should start by July 2018 to allow for a full three-year implementation before project completion. The related procurement process is currently on schedule, with requests for Expression of Interest already launched in mid-October. The response by service providers was strong. A total of 29 institutions/consortia expressed interest for sub-component 2.1 and 30 for sub-component 2.2. As practically all the best known VSLA operators in Uganda and the region expressed interest, the situation augers well for effective future operations under Component 2.

Agreed action	Responsibility	Agreed date
Re-mapping and new implementation plan for sub-comp. 2.1 in North East	SP	15 Dec 2017
Develop a solution for contractual issue for sub-comp. 2.1 in Eastern region	SP	15 Jan 2018

Component 3 – Policy and Institutional Support and Project Management

Sub-component 3.1 – Policy, regulatory and institutional environment

32. **Tier 4 Act and UMRA.** The Tier 4 MFI and Moneylenders Act was passed by Parliament in May 2016 and assented to by the President in July 2016. The commencement date of the new law was 1 July 2017. The Financial Services Department (FSD) of MFPED is currently working on the related Regulations and on the establishment of the Uganda Microfinance Regulatory Authority (UMRA). After providing assistance to the preparations of the Tier 4 Act, PROFIRA has in the past six months continued in various ways to support the operationalisation of the new Act. Firstly, it has provided finances for the secondment of a Policy Advisor from the Bank of Uganda to the FSD. Secondly, it has financed a related capacity building programme at Boulder Institute in Italy for twelve individuals from different relevant public institutions. Third, it has funded a dissemination workshop programme through which the implications of the new law are introduced to Tier 4 financial institutions all over Uganda.

33. While the drafting of Tier 4 Regulations, the census of MFIs and the preparations for the establishment of UMRA continue, the remaining PROFIRA finances for policy, regulatory and institutional environment support are limited. Most of the funds will be used for the planned eight regional dissemination workshops to be arranged in 2017/18. It was agreed that with the remaining balance, PROFIRA could support a visit of senior staff from FSD, to visit a similar Tier 4 regulatory

authority in Kenya, to learn from the Kenyan experience and apply this knowledge when planning for the future activities of UMRA with Ugandan Tier 4 institutions.

34. **SACCO database in MTIC.** Data on SACCOs from all districts in the country are now available at the Cooperative Development Department. However, challenges remain with the maintenance and updating of the database. The database currently capturing all data from the SACCO census is not configured for regular updating, which is actually done in excel by MTIC. **Agreed action:** MTIC to prepare technical specifications for a database software for consideration for financing under PROFIRA.

35. **De-registration of SACCOs.** MTIC has made announcements in the local media on SACCOs that are candidates for de-registration. No further action was taken in this respect during the past 12 months with a view to give adequate time for objections to the cancellation of the registration certificates. Only few of the listed SACCOs placed their objections to MTIC. It is understood that de-registration is only one step in the process that might eventually lead to liquidation, which is an issue that falls within the mandate of UMRA. **Agreed action:** MTIC will issue notice of de-registration to those SACCOs remaining out of compliance.

36. **SACCO fora.** Under PROFIRA, MTIC has not yet started to support these fora. Where they exist, they are a remnant of the erstwhile RFSP. Compliance with tier 4 regulations as a precondition for licensing of SACCOs will result in many SACCOs requiring information and guidance on these processes, which could be a useful function of these fora. In addition, MTIC should use the SACCO fora as a platform to inform about a pre-legal arbitration mechanism as a way to prompt defaulters to repay. This is contained in the Cooperative Code of 1991 (sections 73) but little known and applied practically.

Agreed action	Responsibility	Agreed date
Prepare technical specifications for database software for SACCOs	MTIC	31 Mar 2018
Issue notice of de-registration to SACCOs	MTIC	31 Jan 2018

Sub-component 3.2 – Project management

37. **Project Management Unit (PMU).** The PMU is fully staffed with competent and motivated professionals in all key areas. All necessary management systems and processes are in place and properly functioning to effectively and efficiently support the work of the technical units.

38. **Project Oversight Committee.** The Project Oversight Committee (POC) has been highlighted by MFPED management as a key instrument to ensure proper coordination with all stakeholders and to proactively find solutions as issues arise. During 2017, the POC has met once and the next meeting is scheduled for December. **Agreed action:** POC meetings to be held, regularly, on a semi-annual basis.

39. **Management Information System (MIS).** The MIS for the SACCO component is fully operational and the technical backstopping contract from the service provider ended in September 2017. The rollout of the SAVIX MIS for CSCGs has progressed well. VSL associates Ltd, the service provider, has completed the installation, set-up and training at relevant locations for all service providers and PROFIRA staff. The first SAVIX reports were produced in July 2017 and the fine tuning of the system is on-going. At the time of the mission, the service provider was providing training on the use of the mobile application version of the system.

40. **Data quality and reporting.** Given the project implementation arrangements, heavily relying on a number of service providers, the PMU needs to play an important role in ensuring that the data received and processed is sound. The M&E team should thus work on a more thorough validation plan of the data being received from service providers. Furthermore, it was noted that SACCO performance is not always reported by the service providers as stipulated in the contract, as these mainly focused on reporting at output level, which is the payment trigger. **Agreed action:** payment to the service providers in the SACCO component will only be effected if the reports include performance indicators for the SACCOs serviced.

41. **Logical framework.** IFAD has recently adopted a new Operational Results Management System (ORMS) to streamline key corporate results reporting. The logical framework is a key reporting tool in ORMS. The mission has worked with the M&E team to review and validate the PROFIRA logical framework and retrofit key core indicators as necessary to ensure its compliance with the ORMS.

42. **Knowledge management.** The main KM tool being used by the project is the reflection forums, where all stakeholders are invited in each region to reflect on the implementation and challenges of the interventions, as well as specific forums with services providers of each component. This generates a wealth of knowledge and lessons. As PROFIRA is nearing its midterm, more efforts need to be done in capture these lessons.

43. **Gender and youth.** The project is on track to reach its targets on women participation, set at 30% for women in SACCO membership (31% actual as of June 2017) and 70% among CSCG members (74% actual as of June 2017). For youth participation, targets are being achieved for the CSCGs (15% actual at June 2017, as per target) while they lag behind for SACCOs, with only 8% of youth membership against a target of 15%). Project indicators are disaggregated by gender and youth. Service providers have been sensitized on the importance of disaggregating their outreach numbers and have been reporting accordingly. It was however noted during the field visits that women participation in the board and decision making bodies of SACCOs is still inadequate. The PMU should sensitize the service providers on ensuring that attention be given to this area when trainings are being rolled out.

44. **Mid-term Review.** The Project has just entered its fourth year of implementation and is thus approaching the middle of its implementation period. IFAD and the Government agree that a Mid-term Review (MTR) will be timely and useful at this stage to reflect on any necessary adjustments to further improve the performance of an already successful project, as well as to allow for a strategic reflection on the project's contribution to the development of the sector. A team of experienced individual consultants will be recruited to support the PMU in undertaking this exercise. **Agreed action:** MTR to be undertaken in May 2018.

Agreed action	Responsibility	Agreed date
Hold Project Oversight Committees regularly	MFPEP	Continuous
Pay SACCOs' SPs only if reports include SACCOs' performance indicators	PMU	Continuous
Undertake MTR	PMU/IFAD	30 May 2018

E. Fiduciary aspects

45. **Financial management.** The project is using the government recommended Integrated Financial Management System (IFMS). IFMS permits in principle customised reporting and the PMU is working with the Accountant General's office to use operationalize this option in order to meet the project reporting requirements. So far, some progress has been made and an SoE can be generated with all the required disclosures, although based on spot, rather than historical, exchange rates. Furthermore, while at data capture expenses can be segregated by category, component and activity, the required reporting templates cannot be produced due to the restricted access to the analytical reporting tools embedded within the system. To meet the project's reporting needs, Sage Pastel is therefore still being used alongside IFMS, which implies a cumbersome process and considerable duplication for data entry. This however, allows to ensure proper financial reporting as per IFAD requirements. **Agreed action:** the PMU will continue to liaise with the Accountant General's office to enable SoEs to reflect the historical exchange rate and develop the required analytical reporting templates in IFMS.

46. **Disbursement of IFAD Loan.** As of 31 October 2017, the cumulative disbursement for the IFAD loan stood at SDR 7.9 million, representing 41% of the total allocation of SDR 19.3 million. Considering WA 12 for USD 340,952, already with the Accountant General for processing, will raise the disbursement rate to 42%. This means an impressive increase over the last 9 months, from 22% in January 2017, with a change the project performance from moderately unsatisfactory to moderately

satisfactory in less than one year. This upward trend is highly likely to continue, given that all contracts for service provision are performing well and procurement for new contracts is on schedule.

47. **Designated account.** As at 30 October 2017, the designated and operation accounts had a combined cash balance of USD 2.1 million (73% of initial advance). The WA in the pipeline was USD 340,952 (11%) and funds withdrawn and not claimed were USD 459,713 (15%). The expected payments for the next two months are estimated at approximately USD 1.33 million. Given the above, the mission does not foresee any liquidity issues for the project. This represents good cash flow management practice.

48. **Disbursement of IFAD Grant.** Currently, IFAD has disbursed to CCA a total of USD 0.747 million (74.8%). Since disbursements are done directly by IFAD to CCA, these are not properly captured in the project's financial reporting. **Agreed action:** CCA will provide regularly to the PMU the SoEs used to request replenishments from IFAD, to allow for their incorporation into the project books of account.

49. **SoEs review.** Documentary support for SOEs included in Withdraw Applications (WA) 10, 11, and 12 were reviewed on sample basis (30% of expenditure items) and found to be adequate. A systematic filing system is in place to enable easy access to the payment vouchers.

50. **AWPB execution.** Current execution AWPB 2017/18 stands at 8% (UGX 1.9 billion out of 24 billion). This performance may seem low after four months of implementation, but it is mainly attributed to the batching of payments for the contracts for service providers and the fact that the IFMS was closed to the users during the months of July and August. Given the expenditures in the pipeline for contracted service providers, however, AWPB execution is expected to 'jump' to 28% during the second quarter.

51. **Counterpart funds.** GoU counterpart financing is to cover for taxes and the PMU office rent. To date, 9% (USD 442,000) of the foreseen USD 4.9 million has been disbursed. Since a large number of the contracts are being implemented by NGOs, which are tax exempt, actual counterpart financing will continue to be low when measured against the target as per the Financing Agreement. Office rent is always paid on time. Overall, the required GoU counterpart financing is available as and when needed and no shortages nor delays have so far been registered.

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

53. **Procurement.** Procurement systems, controls and templates as per PPDA (Public Procurement and Disposal of public assets Authority) regulations and IFAD guidelines are fully in place and complied with. The quality of procurement processes is overall highly satisfactory. All major procurements for service providers have already been completed and most of the remaining ones as per the current year procurement plan (PP) are either through micro-procurement or request for quotations. To ensure transparency, and value for money, a market survey has been conducted by the user departments to ascertain market prices for assorted items, on the basis of which proforma invoices will be collected. The only major procurement remaining to be carried out is the procurement of service providers for the second phase for component 2. This is now at the level of expression of interest and is being carried out as per plan.

54. **Contract management.** This function is partly effected through the IFMS, through which the project can efficiently track all payments on a particular commitment and feed them into the contract monitoring forms (CMF). Some shortfalls were identified with respect to the contract for VSL Associates for the SAVIX system, whose duration goes beyond project completion, as well as with respect to the payments of facilitation fees to the DCOs, for which no formal agreement is in place to define their eligibility as project expenditures. **Agreed actions:** amend the VSL Associates contract and the MTIC MoU to cater for the above shortfalls.

55. **Statutory Audit.** The draft audited financial statements for the year ended on 30 June 2017 have been submitted to the Auditor General for review and approval. The mission has reviewed them and noted that an unqualified opinion was issued by the external auditors. A few issues were

highlighted in the management letter that are not of financial management nature, but mainly pertain to performance of contracted service providers.

56. **Internal Audit.** An annual audit plan was prepared by the Internal Audit firm, and the mission finds the scope and objective of the audit adequate. The reports too, were found to be of high quality. However, since there is increased activity in the field and given that the external auditor has highlighted issues related to the performance of contracted service providers, the internal audit should ensure regular field verifications.

Agreed action	Responsibility	Agreed date
Follow-up with the AG's office to ensure relevant reporting from IFMS	PMU	Continuous
Amend contract for VSL associates and MTIC MoU	PMU	31 Dec 2017

F. Conclusion

57. A summary of the main actions agreed is provided at the end of each section above. It is agreed that the next IFAD Implementation Support Mission will be combined with the Mid-Term Review planned for second quarter of 2018. A Supervision and Implementation Support Mission will then be undertaken in the last quarter of 2018. This Aide Memoire was discussed and agreed upon in a wrap up meeting on 17 November 2017, chaired by Ms Maris Wanyera, Director of Debt and Cash Management. The mission members, as well as the PMU, relevant staff from MFPED and other key stakeholders also participated in the meeting. IFAD and the Government of Uganda endorse the findings of the mission.

Appendix 1: Updated logical framework: Progress against objectives, outcomes and outputs

Results Hierarchy	Indicators					Means of Verification		Project Yr 3 - 2017			
	Name	Multiplier Name	Baseline 2015	Mid-Term 2018	End Target 2021	Source	Assumption	Year Targets	Year Results	Cumulative	
(OUTREACH)	Households receiving project services	Beneficiary Households	300 000	525 000	750 000	M&E data (Results Framework) Service Provider Reports	A dynamic economy that allows for investment in enterprises and other income generating activities. Conducive Tier 4 Regulatory Framework.	468 750	482 514	482 514	
	Total number of beneficiaries/individuals receiving project services	Beneficiary people	300 000	525 000	750 000			468 750	482 514	482 514	
	Individuals receiving project services (men)	Beneficiary Men	150 000	262 500	375 000			234 375	241 257	241 257	
	Individuals receiving project services (Youth)	Beneficiary Youth	45 000	78 750	112 500			35 156	36 189	36 189	
	Individuals receiving project services (women)	Beneficiary Women	150 000	262 500	375 000			234 375	241 257	241 257	
	Estimated corresponding number of total households members	Beneficiary people	1800 000	3150 000	4500 000			2812500	2895 084	2895084	
PROJECT GOAL											
Project Goal Increased income, improved food security and reduced vulnerability in rural areas	% of the rural poor in the selected project intervention areas with improvements in assets ownership index and food security at project completion	Percent of the rural poor	Wealth Quintiles: 1(-1.13); 2(-0.67); 3(-0.27); 4(0.47); 5(1.59)		Wealth Quintiles: 1(-0.904); 2(-0.536); 3(-0.216); 4(0.564); 5(1.908)		Household Level Baseline	(A) Political stability			
	Prevalence of child malnutrition in rural households (data disaggregated by gender) at project completion		weight for age	14.1%		11.3%	Impact Study				
			height for age	18.2%		14.6%					
			weight for height	4%		3.2%	Project Completion				

	Improved Women's Empowerment in Agriculture Index (WEAI).	WAEI	84.98%				Study			
DEVELOPMENT OBJECTIVE										
Development Objective Sustainably increase the access to and use of financial services by the rural poor	Persons in rural areas accessing financial services	Active Borrowers				M&E Data (Results Framework) Service Provider Reports	Supported FSPs provide quality and user-friendly financial services			
		Active Borrowers								
		Voluntary Savers								
		Voluntary Savers								
OUTCOMES										
Outcome 1: Sustainably increase the access to and use of financial services by the rural poor through SACCOs	Members of project supported SACCOs that actively save increasing amounts and repay SACCO loans	Number of fully paid-up members in supported SACCOs	717 159	954 539	1 270 491	M&E data (Results Framework) Service Provider Reports UCSCU Annual Report	(A) Dynamic economy creates opportunities for investment in enterprises and other income generating activities	867 762	410 224	410224
		% of fully paid-up female members in supported SACCOs	23.8%	30%	30%		(A) Conducive Tier 4 regulation passed (R) MTIC not able to provide effective regulation/sup port to SACCOs	30%	31%	0
		% of fully paid-up youth members in supported SACCOs	-	15%	15%		(R) Self Help Group policy paper allows	15%	8%	8%

	Number of financial service providers supported in delivering outreach strategies, financial products and services to rural areas	Number of new CSCGS	-	7 500	15 000			5 625	2 530	2530
	Members of mature CSCGS that have access to improved financial services and have availed themselves at least one such service (credit, savings or insurance)	Number of members in the supported mature CSCGS	0	187 500	375 000			28 125		
% of female members in the supported mature CSCGS		0	70%	70%			70%			
% of youth members in the supported mature CSCGS		0	15%	15%			15%			
	Number of financial service providers supported in delivering outreach strategies, financial products and services to rural areas	Number of mature CSCGS	-	1 500	3 000			1 124	424	424
	Cumulative savings in newly established CSCGS (UG Shs million)	Cumulative savings in newly established CSCGS (UG million)	0						4 734	4 734
	Cumulative loan value in newly established CSCGS (UG Shs million)	Cumulative loan value in newly established CSCGS (UG million)	0						4 892	4 892
	Cumulative savings in supported mature CSCGS (UG Shs million)	Cumulative savings in supported mature CSCGS (UG million)	0							
	Cumulative loan value in supported mature CSCGS (UG Shs million)	Cumulative loan value in supported mature CSCGS (UG million)	0							
	% of CSCGS formed are operational after 3 years.	% of operational CSCGS	-	80%	80%					
Outcome 3: Contributed to the creation of a conducive environment for the development of inclusive financial services in rural areas	Number of existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment	Number of existing laws and regulations approved	-	1	1	FSD progress reports	The proposed institutions fail to plan and take advantage of the support they are eligible for under the project in a timely manner	1	1	1

OUTPUTS										
Output 1.1 Potential of existing SACCOs to establish sustainable operations enhanced	Number of existing strong and intermediate SACCOs trained in six thematic areas addressing needs over the project implementation period.	Number of SACCOs trained in six thematic areas on demand	-	350	350	M&E data Service Provider Reports Consolidated Report from SACCO Development Unit	Adequate allocation and timely release of funds	210	304	304
		Number of SACCOs provided with continuous technical assistance	-	210	350			70	304	304
		Number of SACCOs provided with refresher training in the six thematic areas	-	100	350					
	All targeted beneficiary SACCOs (500+) are trained in credit and default management over the project implementation period.	Number of SACCOs trained in credit and default management	-	500	500			330	254	254
		Number of SACCOs provided with continuous technical assistance	-	330	500			70	254	254
		Number of SACCOs provided with refresher training in credit and default management	-	150	500					
	Number of existing strong and intermediate SACCOs facilitated to automate their Management Information Systems (MIS) over the project period.	Number of SACCOs	-	50	150					
		Number of SACCOs that already have a software that will be assisted to upgrade equipment, if required and obtain refresher training to improve their financial management and prepare for eventual prudential regulation over the project period	-	60	100					

Output 1.2 UCSCU enabled/facilitated to develop into a sustainable SACCO Union	UCSCU provided with financial support in form of performance-based incentives, which will fund the annual operating loss as specified in the UCSCU Strategic Plan over a period of five (5) years of the project period.	Financial Support provided to UCSCU to fund its annual operating loss (in Uganda Shillings)	1,176,000,000	3 429 096 517	3 429 096 517	UCSCU Progress Reports	772 432 324	1 775 158 861	2 722 593 586
Output 2.1 CSCGs established	Number of persons in rural areas trained in financial literacy and/or use of financial products and services	Persons trained in basic financial literacy	-	131,250	262 500	M&E data Service Provider Reports Consolidated Report from CSCG Support Unit	65 625		
	Number of members in established CSCGs trained in basic business skill development modules	Members trained in business skill development modules	-	131,250	262 500		65 625	73 370	73 370
Output 2.2 Mature CSCGs assisted to expand their operations	Provided focused training and promoted innovations, linkages and partnerships amongst mature CSCGs over the project period.	Number of members in mature CSCGs trained in advanced financial literacy modules	-	37,500	75 000		18 750	23.964	23.964
	Number of members in established CSCGs trained in advanced business skill development modules	Number of members in mature CSCGs trained in advanced business skill development modules	-	37,500	75 000		18 750	3 225	3 225

Appendix 2: Summary of key actions to be taken within agreed timeframes

NO	AGREED ACTION	RESPONSIBLE PERSON/OFFICE	AGREED DATE	ACTION TAKEN
1.	Finalize SACCO selection for SACCO Strengthening	PMU	31 st May, 2017	Done. Working with service providers and District Commercial Officers, the project was able to identify replacements for all SACCOs that were found dormant/closed. However, this exercise of replacing SACCOs might continue as SACCOs face challenges in order to maintain the targeted numbers.
2.	Finalize additional MoUs for SACCO Strengthening	PMU	31 st May, 2017	Done. MOUs for the SACCOs that will replace the dormant/closed SACCOs, have been prepared, signed and delivery to respective SACCOs has been done. New ones will continue to be signed as and when deemed necessary.
3.	Renegotiate with SPs the contracts based on final SACCO numbers	PMU/SP	30 th June, 2017	Stayed. The project focused on identifying replacements for all SACCOs that were found dormant/closed, so as to maintain the same number of SACCOs targeted in the existing service providers' contracts.
4.	Start monthly TA visits to all SACCOs immediately after the first training	SPs	Continuous	Done. Service providers are providing TA to all supported project SACCOs according to their work plans.
5.	Sign first MIS "basic" matching grant agreements with SACCOS	PROFIRA	31 ST May, 2017	Yet to be achieved. The Project had a working meeting with MIS vendors and beneficiary SACCOs for 20 th September 2017, to address this action.
6.	Reduce the UCSCU grant for 2016/17 to 76% of the maximum possible grant level – to UGX 587 million, communicate formally to UCSCU	FAM/PROFIRA	31 st March, 2017	Done. The UCSCU grant amount was adjusted accordingly.
7.	Adjust UCSCU's Q2 release to recover the excess funds of UGX 46.25 million released in Q1 of 2016/17	FAM/PROFIRA	31 ST March, 2017	Done. The disbursements made to UCSCU for Q2, Q3 & Q4 of the FY 2016/17, were accordingly adjusted to recover the UGX 46.25 million released in Q1 of 2016/17.
8.	Increase training focus on business development and project selection	SPs	Continuous	Service providers supporting the establishment of groups have started providing business skills training.
9.	Organize workshops on Component 2 for all DCDOs in programme area	CBFSM/PMU/SPs	31 st December, 2017	Ongoing. Forty (40) DCDOs have been trained in financial literacy by Bank of Uganda. Twenty-one (21) DCDOs were trained in the CSCG methodology in April 2017. The same trainings have been planned for the rest of the DCDOs in the remaining part of this financial year.

NO	AGREED ACTION	RESPONSIBLE PERSON/OFFICE	AGREED DATE	ACTION TAKEN
10.	Organize SP workshop to discuss key implementation issues	CBFSM/PMU	30 th May, 2017	A Progress Review meeting for all the service providers under this component was undertaken on the 5 th of October, 2017.
11.	Aim at timely payment of SP invoices, as per contracts	PMU	Continuous	This is a continuous. All invoices are being honoured/paid in time.
12.	Execute the first SP payment of 2.2 contract in West Nile	PMU	Soonest	Done. Payment was effected.
13.	Finalize contract for Region 5, organize Inception Workshop	PMU/SP	30 th April, 2017	Done. Inception workshop held on the 27 th of October, 2017.
14.	Advertise for all Phase 2SP contracts for Component 2	PROFIRA	31 st August, 2017	Done. Call for proposal was made in October, 2017.
15.	Speed up liquidation of dormant SACCOs	MTIC	Continuous	This is a continuous exercise. The processes are on-going on a case-by-case basis. Special audits, investigations etc. are underway in some SACCOs. Another notice of non-compliance has been issued in the press for the SACCOs that are operating in Kampala District.
16.	Train DCOs in key PROFIRA support areas/modules	PMU/UCCK/SPs	Continuous	Done. All DCOs have received training in the support areas/modules offered to SACCOs under the project. The DCOs are accordingly backstopping and/or participating in the trainings conducted by service providers. They are also providing hands on coaching to SACCOs.
17.	Hold POC meetings quarterly	PMU	Continuous	Done. The POC meeting for quarter 4 of FY 2016/17 was held in May, 2017.
18.	Submit formal request for budget adjustment at activity level to IFAD	PMU	1 st April, 2017	Done. No Objection was provided.
19.	Ensure that both MIS systems are fully operational	PMU	August, 2017	Done. Both systems are fully operational. The M&E MIS is populated with data from the PROFIRA Administrative Unit and SACCOs; whereas the online Saving Group MIS (SAVIX) is also populated with data from service providers and supported groups to-date.
20.	Ensure that new MIS enables disaggregation of data by gender and age	PMU	Continuous	Done. Both systems enable disaggregation of data by gender and age.
21.	Start pro-active implementation of PROFIRA communication strategy	PMU	Continuous	Activities in the Workplan and Budget are in line with the Communication and Learning Strategy. Implementation of the activities is to be mainstreamed in the respective components.

NO	AGREED ACTION	RESPONSIBLE PERSON/OFFICE	AGREED DATE	ACTION TAKEN
22.	Profile the technical managers in IFMS for the role of user department in payment processing cycles	FC Accountant General	31 st May, 2017	Stayed. The IFMS Team at the Ministry of Finance has decided to retain the current controls on the system, because they have proved to be operating adequately.
23.	Continue to engage the Accountant General's office on IFMS set-up to meet the project financial reporting demands	FAM/PROFIRA	30 th June, 2017	The process is on-going. A draft SOE was loaded on IFMS test instance. The project reviewed it and gave comments to Accountant General's office for incorporation.
24.	Submit a WA requesting for an increase in the AA to USD 3million (up from the current USD 2 million).	FAM/PROFIRA	31 st May, 2017	Done. This was done and IFAD has since disbursed the additional USD 1 million.
25.	Establish a mechanism of real time updates between the procurement and finance units regarding the status of commitments	Procurement Officer and Finance Officer	31 st May, 2017	Done. Records have been harmonized between the Procurement and Finance Units. The records are always attached to the withdrawal applications.
26.	Implement issues still pending on the internal and external audit logs	FAM/PROFIRA	31 st May, 2017	Done.
27.	Post UCSCU entries and update its pastel system on real time basis as transactions occur	UCSCU/Finance Manager	31 st May, 2017	Done. This is also continuous. UCSCU now posts entries into Pastel, as soon as transactions take place.

Appendix 3: PROFIRA Results Framework

OBJECTIVE	PERFORMANCE INDICATOR	INFORMATION SOURCE	BASELINE JUNE 2015	TARGET JUNE 2016	ACTUAL JUNE 2016	TARGET JUNE 2017	ACTUAL JUNE 2017	TARGET JUNE 2018	TARGET JUNE 2019	TARGET JUNE 2020	TARGET JUNE 2021		
	DEVELOPMENT OBJECTIVE/ OUTCOME												
Sustainably increase the access to and use of financial services by the rural poor	Outreach and Usage		RIMS Indicators										
	A	Number of fully paid-up members in supported SACCOs	1 st Level	SACCO Census	717,159	788,875	241,053	867,762	410,224	954,539	1,049,992	1,154,992	1,270,491
	B	% of fully paid-up female members in supported SACCOs	1 st Level		23.8%	23.8%	31%	30%	31	30%	30%	30%	30%
	C	% of fully paid-up youth members in supported SACCOs	1 st Level			15%	8%	15%	8%	15%	15%	15%	15%
	D	%age of project supported SACCOs that offer at least 2 savings and 3 loan products to their members	1 st Level		97.8%	97.8%	100%	100%	100%	100%	100%	100%	100%
	E	Number of members in the newly established CSCGs	1 st Level	Service Providers' Annual Reports	0	37,500	18,419	140,625	72,290	187,500	225,000	328,125	375,000
	F	% of female members in the newly established CSCGs	1 st Level		0	70%	76%	70%	74%	70%	70%	70%	70%
	G	% of youth members in the newly established CSCGs	1 st Level		0	15%	-	15%	36%	15%	15%	15%	15%
	H	Number of members in the supported mature CSCGs	1 st Level		0	7,500	-	28,125	-	37,500	45,000	65,625	75,000
	I	% of female members in the supported mature CSCGs	1 st Level		0	70%	-	70%	-	70%	70%	70%	70%
	J	% of youth members in the supported mature CSCGs	1 st Level		0	15%	-	15%	-	15%	15%	15%	15%
	K	Total Share Capital in supported SACCOs (UG Shs million)	1 st Level	SACCO Census	60,724	66,796	16,546	73,476	35,170	80,823	88,906	97,796	107,576
	L	Total savings in supported SACCOs (UG Shs million)	1 st Level		90,811	99,893	35,686	109,882	81,517	120,870	132,957	146,259	160,878
	M	Total loan portfolio in supported SACCOs (UG Shs million)	1 st Level		151,718	166,890	51,319	183,579	163,910	201,936	222,130	244,343	268,777
	N	Cumulative savings in newly established CSCGs (UG Shs million)	1 st Level	Service Providers' Annual Reports	0	-	180		4,734				
O	Cumulative loan value in newly established CSCGs (UG Shs million)	1 st Level		0	-	133		4,892					
P	Cumulative savings in supported	1 st Level		0	-	-	-	-					

Republic of Uganda
 Project for Financial Inclusion in Rural Areas (PROFIRA)
 Supervision report - Mission dates: 6-17 November 2017
 Appendix 3: PROFIRA Results Framework

OBJECTIVE	PERFORMANCE INDICATOR		INFORMATION SOURCE	BASELINE JUNE 2015	TARGET JUNE 2016	ACTUAL JUNE 2016	TARGET JUNE 2017	ACTUAL JUNE 2017	TARGET JUNE 2018	TARGET JUNE 2019	TARGET JUNE 2020	TARGET JUNE 2021
		mature CSCGs (UG Shs million)										
	Q	Cumulative loan value in supported mature CSCGs (UG Shs million)	1 st Level	0	-	-	-	-				
	R	% of CSCG members operating viable Income Generating Activities	1 st Level	0	-	-	-	-				
	S	No. of potential 'turnaround' SACCOs supported	MTIC Progress Report	0								50
	T	Number of SACCOs with UCSCU membership	UCSCU Annual Reports	1,253	1,253	1,274	1,253	1,252	1,253	1,253		
	U	Number of SACCOs that have renewed their membership through making annual subscriptions and statutory contributions to UCSCU		112	200	300	300	169	350	400		
	<u>Sustainability</u>											
	V	% of supported SACCOs with OSS>100%	2 nd Level SACCO Census	85.9%	90%	68%	100%	51%	100%	100%	100%	100%
	W	% of CSCGs formed that are still operational after three years of support	2 nd Level Service Providers' Annual Reports						80%			80%
	X	UCSCU OSS	UCSCU Audited Financial Statements	31%	33%	34%	61%	47%	75%	100%		
	OUTPUTS		-									
1.1. Potential of existing SACCOs to establish sustainable operations enhanced	1.1.1	Number of SACCOs trained in six thematic areas ² on demand	- Service Provider Reports to PMU	█	70	232	210	304	350			
	1.1.2	Number of SACCOs provided with continuous technical assistance	- Consolidated Report from SACCO Development Unit	█		232	70		210	350		
	1.1.3	Number of SACCOs provided with refresher training in the six thematic areas		█		█		█	100	210	350	
	1.1.4	Number of SACCOs trained in credit and default management		█	70	20	330	254	453	500		
	1.1.5	Number of SACCOs provided with continuous technical assistance		█		█	70	254	330	500		
	1.1.6	Number of SACCOs provided with refresher training in credit and default management		█		█		█	150	300	500	

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

Republic of Uganda
 Project for Financial Inclusion in Rural Areas (PROFIRA)
 Supervision report - Mission dates: 6-17 November 2017
 Appendix 3: PROFIRA Results Framework

OBJECTIVE	PERFORMANCE INDICATOR	INFORMATION SOURCE	BASELINE JUNE 2015	TARGET JUNE 2016	ACTUAL JUNE 2016	TARGET JUNE 2017	ACTUAL JUNE 2017	TARGET JUNE 2018	TARGET JUNE 2019	TARGET JUNE 2020	TARGET JUNE 2021	
	1.1.7	Number of sites ³ supported with automating their Management Information Systems (MIS) over the project period.							10 - 20			
1.2. UCSCU enabled/facilitated to develop into a sustainable SACCO Union	1.2.1	Financial support (Amt. in Uganda Shillings) provided to UCSCU to fund its annual operating loss.	UCSCU Business Plan 2014/15 – 2018/19	1,176,000,000	997,434,725	997,434,725	772,432,324	2,722,593,586	483,670,625			
	1.2.2	Management Information System improved for data processing and timely financial reporting; and a standardised reporting system instituted.	CCA Progress Reports									
	1.2.3	New business model developed shifting focus from external funding to member owned, controlled and self-financing										
	1.2.4	UCSCU organogram, job placements, byelaws, apex structure and reporting systems to improve communication reviewed										
	1.2.5	Field Services Manual and SACCO Performance Standards Developed										
	1.2.6	Field Staff trained on their roles and responsibilities										
	1.2.7	CFF accounts separated from operating accounts; sound policies developed; new products and services introduced and marketed.										
	1.2.8	UCUSCU facilitated to capitalise and launch its CFF.										
	1.2.9	UCSCU BOD, Staff and SACCOs trained and sensitized on CFF operations										
	1.2.10	Competitive pricing system introduced										
	1.2.11	Core group of internal auditors trained and equipped with audit tools										
2.1. CSCGs established	2.1.1	Number of CSCGs established, trained and provided with technical assistance in use of the Village Savings and Loan Association (VSLA) methodology	- Service Provider Reports to PMU		1,500	634	5,625	2,530	7,500	9,000	13,125	15,000
	2.1.2	Number of members in established CSCGs trained in basic financial literacy modules	- Consolidated Report from SACCO Development				65,625		131,250		196,875	262,500 ⁴
	2.1.3	Number of members in established CSCGs trained in basic business skill development modules			18,386		65,625	73,370	131,250		196,875	262,500

³ We are considering number of sites that will benefit from MIS support and not number of SACCOs. The number of SACCOs might be less the sites, since one SACCO and its branches can also benefit.

⁴ This is 70% of the total targeted members with this type of support.

Republic of Uganda
 Project for Financial Inclusion in Rural Areas (PROFIRA)
 Supervision report - Mission dates: 6-17 November 2017
 Appendix 3: PROFIRA Results Framework

OBJECTIVE	PERFORMANCE INDICATOR		INFORMATION SOURCE	BASELINE JUNE 2015	TARGET JUNE 2016	ACTUAL JUNE 2016	TARGET JUNE 2017	ACTUAL JUNE 2017	TARGET JUNE 2018	TARGET JUNE 2019	TARGET JUNE 2020	TARGET JUNE 2021
2.2. Mature CSCGs equipped to expand their operations	2.2.1	Number of mature CSCGs provided with focused training and are exposed to more advanced financial services through innovations, linkages and establishing partnerships	Unit		300	-	1,125	424	1,500	1,800	2,625	3,000
	2.2.2	Number of members in mature CSCGs trained in advanced financial literacy modules				-	18,750	23,964	37,500		56,250	75,000 ⁵
	2.2.3	Number of members in mature CSCGs trained in advanced business skill development modules				-	18,750	3,225	37,500		56,250	75,000
3.1. Contributed to the creation of a conducive environment for the development of inclusive financial services in rural areas	A/ MFPED supported to facilitate its role of overall coordination for the rural finance sector during the project period (See Note 4)		Progress Report from FSD/MFPED									
	B/ Assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs during the project period (See Note 5)		Progress Report from DCD/MTIC									
	3.1.1	Facilitate turn-around activities to support SACCOs facing difficulty in their operations		20	-	30	-	40	50	50	50	50
	C/ Partner with Bank of Uganda to implement the National Financial Literacy Strategy (See Note 6)		Progress Report from BOU									
3.2. Project Management	3.2.1	Quality of Project Management and Administration	IFAD PSR ratings – Implementation Support Mission Reports	4	4	5	4	?	4	4	4	4
	3.2.2	Quality of Financial Management		4	4	5	4	?	4	4	4	4
	3.2.3	Performance of M&E, Communication and KM		4	4	4	4	?	4	4	4	4
	3.2.4	Compliance with Procurement Guidelines		4	4	4	4	?	4	4	4	4
	3.2.5	Likelihood of achieving SACCO Component outputs and outcomes		4	4	4	4	?	4	4	4	4
	3.2.6	Likelihood of achieving CSCG Component outputs and outcomes		4	4	4	4	?	4	4	4	4

⁵ This is 100% of the total targeted members with this type of support.

NOTES:

1. More data provided on SACCOs' Performance:

	Parameter	Outreach/Financial Performance Per SACCO			Financial Performance Per Member		
		BASELINE JUNE 2015	ACTUAL JUNE 2016	ACTUAL JUNE 2017	BASELINE JUNE 2015	ACTUAL JUNE 2016	ACTUAL JUNE 2017
i.	Average Membership	1,583	920	1,207			
ii.	Share capital	134,047,848.84	63,152,757.19	103,441,434	84,672.54	68,640.60	85,734
iii.	Savings	200,466,860.85	136,207,986.73	239,756,628	126,626.71	148,044.18	198,714
iv.	loan portfolio	334,917,820.10	195,874,382.07	482,088,750	211,553.88	212,895.45	399,563

2. More data provided on CSCGs' Performance:

	Parameter	Outreach/Financial Performance Per CSCG			Financial Performance Per Member		
		BASELINE JUNE 2015	ACTUAL JUNE 2016	ACTUAL JUNE 2017	BASELINE JUNE 2015	ACTUAL JUNE 2016	ACTUAL JUNE 2017
i.	Average Membership		30	29			
ii.	Savings		288,701	1,871,030		9,781	63,719
iii.	Loan portfolio		213,519	1,933,450		7,234	65,845

DETAILS ON THE FOLLOWING INFORMATION REQUIREMENTS HAVE BEEN PROVIDED IN THE PROGRESS SECTIONS:

3. Regular assessments on the quality of trainings provided to SACCOs and CSCGs by the service providers is made and shared in the project activity reports. Feedback is provided to service providers during regional reflection forums and during contract management/ implementation review meetings.
4. In terms of reporting on the projects efforts to support the Financial Services Department (MFPED) to facilitate its role of overall coordination for the rural finance sector; progress on the following interventions is reported on - in the period under review:
 - i. The FSD/MFPED facilitated to hold consultative meetings for the review and elaboration of the financial services strategy; developing the Financial Inclusion Policy; and for establishing Tier IV Regulation and the Regulatory Authority.

- ii. The FSD/MFPED facilitated to undertake study tours for developing the Financial Inclusion Policy; and for establishing Tier IV Regulation and the Regulatory Authority.
 - iii. Promoted the revitalization of the Uganda Microfinance Forum through facilitating stakeholder workshops.
5. In terms of reporting on the projects efforts to assist the Department of Cooperative Development to carry out its mandate for registering, monitoring and enforcing compliance of SACCOs; progress on the following interventions is reported on in the period under review:
 - i. The Department of Cooperative Development (MTIC) facilitated to operationalize and upgrade its computer systems used to maintain the SACCO registry and database.
 - ii. The Department of Cooperative Development (MTIC) facilitated to update the SACCO registry through field based verification on the status of SACCOs.
 - iii. Initiation and operationalization of local and regional SACCO forums funded. These will be used to provide information on new regulations and stimulate exchange of knowledge and good practices.
6. In terms of reporting on the partnership with Bank of Uganda to implement the National Financial Literacy Strategy; progress on the following interventions will be reported on in the period under review:
 - i. BOU facilitated to develop and translate Financial Literacy Materials into local languages of the Project Implementation Area.
 - ii. BOU facilitated to multiply/produce copies of available Financial Literacy Material for distribution in the Project Implementation Area.
 - iii. BOU facilitated to prepare training manuals to tailor national messages to SACCOs and CSCGs.
 - iv. BOU facilitated to conduct sensitization campaigns in relatively poor communities in catchment areas of SACCOs and CSCGs being supported under the project.

Appendix 4: Financial: Actual financial performance by financier; by component and disbursements by category

Financier	Appraisal	Actual	% Actual	Balance
IFAD Loan	29,000	11,740	40%	17,259.53
Government	4,935	442	9%	4,492.92
IFAD grant	1,000	748	75%	251.59
CCA/WOCCU	250	-	0%	250.00
Beneficiaries	1,443	-	0%	1,443.00
Total	36,628	12,931	35%	23,697.04

Component	IFAD loan			GoU			IFAD grant			CCA/WOCCU			Beneficiaries			Total		
	Appr	Actual	%	Appr	Actual	%	Appr	Actual	%	Appr	Actual	%	Appr	Actual	%	Appr	Actual	%
A. SACCO strengthening and sustainability																		
1.1 SACCO strengthening	9,110	2,881	31.6%	1,774	32	1.8%			-				1,443			12,327	2,913	23.6%
1.2 Developing a sustinsble SACCO Union	1,258	566	45.0%	208	-	0.0%	1,000	335	34%	250	-	-				2,716	901	33.2%
Sub-total	10,368	3,447	33.2%	1,982	32	1.6%	1,000	335	34%	250	-	-	1,443	-	-	15,043	3,815	25.4%
2. Community based financial services																		
2.1 Establishment of new community savings and credit group	8,132	2,236	27.5%	1,346	1	0.1%			-							9,478	2,236	23.6%
2.2 CSGC Strengthening, innovations and partnerships	3,823	673	17.6%	633	0	0.0%			-							4,456	673	15.1%
Sub-total	11,955	2,908	24.3%	1,979	1	0.0%	-	-	-	-	-	-	-	-	-	13,934	2,909	20.9%
3. Policy and institutional support and project management																		
3.1 Policy, regulatory and institutional enviroment	1,786	1,260	70.6%	372	6	1.6%			-							2,158	1,266	58.7%
3.2 Project management	4,891	1,830	37.4%	602	386	64.1%			-							5,493	2,216	40.3%
Sub-total	6,677	3,090	46.3%	974	392	40.2%	-	-	-	-	-	-	-	-	-	7,651	3,476	45.4%
Total	29,000	9,446	32.6%	4,935	425	8.6%	1,000	335	34%	250	-	-	1,443	-	-	36,628	10,206	27.9%
Initial advance (Unspent)		2,295		-	-			413								-	2,708	
Grant total	29,000	11,740	40.5%	4,935	425	8.6%	1,000	748	74.8%	250	-	-	1,443	-	-	36,628	12,914	35.3%

Code	Category description	Allocation	Disbursed up to WA 11	WA- In progress (WA 12)	%ge	Balance
123202	Equipment and materials	190,000	145,005		76.3%	44,995
123203	Other investment costs	14,910,000	4,433,538	180,828.78	30.9%	10,295,633
123204	Operating costs	2,270,000	1,137,588	61,100.92	52.8%	1,071,311
123205	Unallocated	1,930,000	-		0.0%	1,930,000
	Total	19,300,000	5,716,131	241,929.70	30.9%	13,341,939
270001	Authorised allocation	0	2,173,615			-2,173,615
	Total	19,300,000	7,889,746	241,929.70	42.1%	11,168,325

Appendix 5: Compliance with legal covenants: Status of implementation

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

Technical Annex 1

COMPONENT 1: SAVINGS AND CREDIT COOPERATIVE SOCIETIES

This Working Paper contains selective more detailed information and recommendations on aspects that are covered in the main supervision aide memoire. First, the overall objective of the SACCO development component of PROFIRA is recalled for reference. Then observations and recommendations follow, grouped with a view to already inform preparations for the Mid Term Review.

I. Development Objective

As an outcome to the different SACCO support activities of PROFIRA, the 500 SACCOs earlier selected for PROFIRA support will operate more sustainably and provide enhanced levels of services to more members. Specifically, by the end of PROFIRA, there would be 300,000 members in the 500 project supported SACCOs, of which 150,000 are new ones and 30% women that actively save increasing amounts of deposits.

II. Results Management through simplified set of core indicators for SACCO development

Core indicators for measuring results of capacity development measures of trained SACCOs can be summarized by extracting from and simplifying the current RIMS based RESULTS framework which is well applied and maintained by the PMU. It is proposed for the forthcoming MTR mission to consider applying the following results based outcomes indicators for easy assessment of progress in the SACCO Strengthening and Development component 1:

(1) Growth in Savings

In line with international practices, this would usefully focus on the net growth after inflation. Accelerating deposit mobilization is crucial for a new type of SACCO that is not based on lending, but on a "Savings First" approach that is only slowly percolating as a yardstick for SACCO Development in the country⁶

(2) Growth in Active Membership

Additional members entrusting their savings to the SACCO, or reactivation of existing but inactive members both are key indicators for a developing and growing SACCO. The RESULTS framework has gender and age-disaggregated figures which provide useful additional information on the percentage of women and of youths currently as members in PROFIRA supported SACCOs.

(3) Growth in Loan Portfolio

Unusually in the regional and wider international context, rural SACCOs in Uganda are generally loan driven with loan portfolio totals in excess of the combined savings and share capital totals. This is due to a limited access to external refinancing, through the Uganda Microfinance Support Center (MSC), and also through borrowing from commercial sources. There is need to organically shift the growth path of rural SACCOs from a lending driven to a savings driven model that would be more in line with modern credit union development ("Savings First"). All the same, a growth in the loan portfolio remains important from the rural client perspective and should therefore remain a core performance indicator. Aggregate deposits (see (1) above) should over time grow proportionally stronger than the aggregate loan portfolio. For this reason, the ratio between the two should be monitored as well.

(4) Reduction in Loan Defaults

⁶ Usefully, CCA consulting advice to UCSCU also focuses on this "new model SACCCO" which should be savings led and operate with lending resources out of internally mobilized funds.

Measuring the incidence of loans in arrears is a standard indicator in the reporting format of SACCOs to date. The information is provided as per the book value of loans in arrears and in the case of rural SACCOs in many cases not sub divided into different categories considering the ageing of these arrears. The general incidence of under capitalization of these societies often results in arrears remaining in the books for many years. In spite of these two draw backs (no ageing, no or insufficient write offs above all in financially weaker SACCOs), the loan default rates at book value in SACCOs are a workable proxy for lending quality. Moreover, comparing values over different periods of time permits conclusions for improvement or reduction of lending quality within a given period. Related indicators for monitoring could then also include the percentage of general loan loss provisions (if any) and dates and incidences of arrears write offs (especially after PROFIRA Financial Management Trainings).

III. Other Aspects Related to SACCO Strengthening

Treatment of Loan Default Issues in Training Module: As currently implemented, loan default and credit management issues are grouped together in one single module. Within the modular outline, arrears management receives less attention as compared to general credit issues. Missing in particular are non-wilful defaults and the management of this in the lending cycle process.

In terms of selecting participants for the credit and default management trainings, it is recommended that at least member of the SACCO Supervisory Committee should attend the credit and default management trainings.

UCCK: The College has taken on increasing tasks related to training of SACCO managers as well as capacity development for District Commercial Officers. During MTR, a more holistic view at the current functionality of the College and future accentuation of its Knowledge Center function could be envisaged. In particular, new emerging opportunities for distance and digital learning should receive more focus. As an initial step, a detailed outline of the eight modules currently used for the SACCO Manager Certificate Course should be put on the UCCK web site (once the site is reactivated again).

COMPONENT 3 – POLICY AND INSTITUTIONAL SUPPORT AND PROJECT MANAGEMENT

Sub-component 3.1 – Policy, regulatory and institutional environment

Role of DCOs under PROFIRA and beyond for SACCO Development: The PMU has taken steps during the first years of project implementation to integrate DCOs into PROFIRA supported SACCO development activities. Limited and focused support through PROFIRA to capacity development of DCOs could be assessed by the forthcoming MTR. In particular, a commonly agreed strategic framework for these support activities and close collaboration with MTIC to ensure a viable and sustainable approach could be considered. The following DCO activities would merit PROFIRA support:

- (1) Mobilization of new societies, here in particular transforming pre coops into registered cooperative societies
- (2) DCOs could likewise become more active in forming pre-cooperative groups among areas of common economic interest. These groups could then later request registration as a cooperative.
- (3) For on-site and decentralized trainings, DCOs would be responsible once the work of PROFIRA financed Service Providers comes to an end with the close of the project.

Preparing a Sub-Group of PROFIRA SACCOs for Licensing: Based on the currently considered version of the Tier 4 MFI and Moneylenders Act, the licensing process for SACCOs is essentially a one-way process: once licensed, there is no way back for a SACCO. The process and eventual implications of licensing have to be carefully considered. MTR should agree with all stakeholders on the way forward in supporting SACCOs for this process. This could also include a number target (such as 20% or 100 of the PROFIRA supported SACCOs should have received a license by project

closing) but the pros and cons of this need to be carefully weighed and considered.

Sub-component 3.2 – Project Management

Present PMU staffing under the SACCO Strengthening component comprises two professional staff, the component manager and a senior officer. It is recommended to re-assess this staffing table during MTR and when the profile of component activities in the light of (i) the separation of SACCOs from the PROFIRA pool that are not presently functioning according to expectations and (ii) work implications for PROFIRA on account of the tier 4 legislation has become clearer.

Technical Annex 2: Community Based Financial Institutions

1. Introduction

1. The Government of Uganda and the International Fund for Agricultural Development (IFAD) have jointly designed the Project for Financial Inclusion in Rural Areas (PROFIRA). This 7-year development project is supported by an IFAD loan of around USD 30 million. The overall *goal* of PROFIRA is to increase income, improve food security and reduce vulnerability in rural areas. Its *development objective* is to substantially increase access to and use of financial services by the poor rural population. PROFIRA aims to achieve its goal and objective through the implementation of three operational components: (a) SACCO Strengthening and Sustainability, (b) Community Based Financial Services and (c) Policy and Institutional Support.

2. Component 2 of PROFIRA, Community Based Financial Services, aims at a major impact in financial inclusion in rural Uganda. With Sub-component 2.1, PROFIRA will contract service providers (SPs) to form approximately 15,000 new community savings and credit groups (CSCGs) with around 375,000 members, over the seven-year project period, broadly using the VSLA methodology. Many of these groups are already operational ones but “new” in the sense that with PROFIRA support, they would start to operate savings and credit activities in a systematic manner.

3. With Sub-component 2.2, the operations of approximately 3,000 mature CSCGs (75,000 members) will be further developed through focused training, innovations and linkages, to facilitate for more advanced financial inclusion.

4. The total contributions from the IFAD loan to Component 2 activities is around USD 11 million. This Technical Annex documents the progress so far achieved in the CSCG operations of PROFIRA and the agreements made during the November 2017 support mission to ensure a successful component implementation in the coming years.

2. Overall Progress towards Implementation Targets

5. Since the last support mission in March 2017, the overall progress of Component 2 towards the agreed implementation targets has been satisfactory. By the end of October 2017, a total of 3,568 new CSCGs have become operational, which is exactly the target number for this period. As the average size of the groups exceeds the planned level, the total number of members in these groups has reached 104,000, which is 17% more than the projected number for the period. Women constitute a high share of the new CSCG members, varying from 71% in North East to 77% in West Nile region. The share of youth in the new groups is at the target 15% level in Eastern and West Nile regions but exceptionally high in Mid-North (33%) and especially in North Eastern region (45%), indicating high interest and commitment to small businesses by young women and men in these challenging environments. Concerning the support activities with already operational CSCGs under Sub-component 2.2, a total of 1,184 mature CSCGs have been engaged in these PROFIRA operations in the four core regions, which exceeds the target for the period. With the recent instalment of an MIS for the group operations, detailed data on the development of the financing operations of the groups will start to emerge during the next six-months period.

3. Sub-Component 2.1: Implementation Progress and Corrective Actions

6. The four three-year Service Provider (SP) contracts for the sub-component were signed in April 2016 and aim at establishment of a total of 7,500 new CSCGs with 187,500 members in the target regions. The progress towards this target at the mid-term of contract implementation has been commendable. By the end of October 2017, a total of 3,568 new CSCGs have become operational, which is exactly the target number for this period. As the average size of the groups exceeds the planned level, the total number of members in these groups has reached 104,000, which is 17% more than the

projected number for the period. Women constitute a high share of the new CSCG members, varying from 71% in North East to 77% in West Nile region. The share of youth in the new groups is at the target 15% level in Eastern and West Nile regions but exceptionally high in Mid-North (33%) and especially in North Eastern region (45%), indicating high interest and commitment to small businesses by young women and men in these challenging environments.

7. Table 1 below shows the progress in the establishment of the new CSCGs in the four target reason of Component 2. The quantitative targets for CSCG formation have been fully met in Mid-North, West Nile and Eastern regions. In North Eastern region, only 78% of the cumulative CSCG target and 88% of the membership target had been reached for the period ending 31 October 2017. This region, with a low population density consisting largely of pastoral migrant communities and with a large number of operational donor organisations, has proved to be challenging for large-scale CSCG operations of the PROFIRA type. At the same time the region includes districts and sub-counties with more dense population and a great deal of interest among low-income people in joining the groups. The Service Provider CSARE/KPSDC) is convinced that with a more focused geographical approach, the full contract targets for the area can be reached. It was agreed that the SP in North Eastern region will in November 2017 conduct a re-mapping exercise, focusing the operations in the coming 18 months in the more potential, stable districts and sub-counties, and present the new implementation plan to PROFIRA for approval.

Table 1: Progress in Establishment of New CSCGs by Region - End of October 2017

Region	Service Provider	No. of CSCGs Planned for Period	No. of Established CSCGs	Number of Members in New CSCGs
Eastern	Care with UWESO	1,187	1,235	35,762
Mid-North	MNPCDC & APCDC	997	1,093	31,959
West Nile	FURA & CREAM	902	921	27,345
North-East	Care with KPCDC	475	319	8,934
Total		3,561	3,568	104,000

8. A major concern in Sub-component 2.1 implementation is the situation with the SPs in Eastern region. This contract was won by CARE International with UWESO as a sub-contractor. The contact value per member in this bid was well below the contact values of the winners in other three regions. Furthermore, the mapping and the related implementation area selection was conducted without adequate focus, resulting in costly implementation arrangements. Consequently, while so far meeting the quantitative targets, the implementation performance has started to suffer in areas such as the quality of training and the accuracy of reporting on CSCGs, with related problems in intra-consortium relationships. It was agreed that CARE/UWESO will work out a solution for this situation by the end of November 2017, and present it to PROFIRA. This solution should clearly indicate how the SP will, within the agreed contract amount, achieve the quantitative and qualitative targets defined for the Eastern region for the remaining 18 months of the 2.1 contract. The proposed solution would then be discussed in a meeting between PROFIRA and the management of CARE/UWESO, with representation from the IFAD Uganda Country Office.

9. Based on the PROFIRA follow-up visits and the mission's field observations, the quality of the new CSCGs is promising, both concerning the savings and credit activity and the related income generating operations. The willingness to save more and to take bigger and longer loans is obvious. The group members clearly see the CSCGs as instruments to learn important lessons, to develop their skills and on-farm and off-farm activities, and to increase their future income. They showed very strong ownership of their newly established CSCGs. The Community-Based Trainers of the SPs have delivered their messages with confidence and skills and made sure the members have understood the new concepts that are crucial for successful CSCG operations. Finally, groups and members are clearly geared to financing income generating activities, rather than home improvements or consumption.

10. To further develop the new groups, it was agreed that the option to include well performing groups from the current 2.1 support to the forthcoming 2.2 operations of the Phase 2 contracts will be actively used in all regions.

11. If the higher than expected group size will prevail also in the future, this sub-component is likely to engage around 200,000 new households in the CSCG activity during this bidding round, and a similar number in Project Years 4-7. This very large direct outreach makes it an important development activity even nationwide. This situation calls for close and continuous cooperation between the SPs and PROFIRA/IFAD not just to ensure effective implementation but also to learn from the process and document it for wider utilisation (see more below). National meetings of all the SPs engaged in the Component 2 operations, one of which was organised during this mission, will be important instruments in mutual learning and knowledge management processes in this large-scale financial inclusion operation.

4. Sub-Component 2.2: Implementation Progress and Corrective Actions

12. The selection of Service Providers for Sub-Component 2.2 was intentionally started later than in the case of Sub-component 2.1, partly because the bidding institutions are mostly the same for both activities. The key change made from the original design approach was the inclusion, based on a GoU request, of the fifth contracting area (called "Lot 5") to Sub-component 2.2, covering selected districts outside the four core Component 2 regions.

13. The four SP contracts for Sub-component 2.2 in the original four core regions have now been operational for one year. While their approaches differ, all include elements of advanced financial literacy programmes; business skills training modules; linkage banking operations between banks and mature, trained CSCG groups and their members; models to accumulate a part of the group savings from one CSCG cycle to the next one; and models to establish 2nd tier organisations for CSCGs in the form of clusters, cooperatives or federations or other similar apex arrangements.

14. By the time of this mission, in all four core regions, the needs assessments for the selected CSCGs have been carried out, the trainings in financial literacy and BDS are on-going, and the registration of the mature groups in the districts has started. A total of 1,184 mature CSCGs have already been engaged in these operations, which exceeds the target for the period.

15. At the same time, while acknowledging that the Sub-component 2.2 activities have generally progressed well, there is a clear need to sharpen the focus in the sub-component implementation. A great deal of attention in all regions has so far been given to relatively general training activities in areas such as financial literacy, business development, HIV issues and environmental aspects of development. It was agreed with all SPs that a major shift in approach will now be made in all regions towards issues linked more directly to advanced VSLA operations, with emphasis on linkages with banks, MFIs and SACCOs; on the carry-over of share capital from one cycle to the next one; and on topics such as clustering of CSCGs for improved and more efficient financial service provision. This change is required to ensure that the key targets of more advanced financial inclusion through the Sub-component 2.2 operations will be achieved.

16. In addition, the contract for "Lot 5", covering 26 districts outside the original four core regions, was signed in August 2017 with a consortium of three local NGOs (FURA, READ and COMVIS). The Inception Workshop was held on 27 October 2017, after which the field operations with typical Sub-component 2.2 activities in "Lot 5" area have started. The implementation targets are split even between the three SPs, each covering 100 mature CSCGs in their separate geographical areas of implementation.

5. Component 2: Bidding for Phase 2 Contracts

17. The PROFIRA Completion Date is 31 December 2021, by which date all the payments to Service Providers have to be made. The planned Component 2 second round operations require three full years

from the contract signing to the final payment. Therefore, to implement a contract of three years' duration, the last feasible contract signing date for the round two contracts of Component 2 is around mid-2018. Experience from recent biddings show that it takes a minimum of seven months to process a large contract following PROFIRA/GoU/IFAD rules, from Expression of Interest to contract signing.

18. To adhere to the above overall time schedule and following the agreements reached during previous missions, the display in the media of the Request for Expression of Interest to participate in the Phase 2 implementation of both Sub-components 2.1 and 2.2 took place 12 October 2017. For the Phase 2 operations, the target for the establishment of new CSCGs for North East will be reduced to 500 groups, while the target is Mid-North is 2,600, in Eastern 2,500 and in West Nile, 1,500 CSCGs. For Sub-component 2.2, the target is to work with 550 mature CSCGs in North Eastern region and with 400 in other three core regions. The mission and PROFIRA agreed on minor adjustments to the evaluation criteria in the SP selection process, especially to emphasise the issues of sustainability in the CSCG operations after the expiry of the SP contracts.

19. The response by service providers to participate in Phase 2 operations of Component 2 was strong. A total of 29 institutions/consortia expressed interest in Sub-component 2.1 operations, and 30 in Sub-component 2.2 implementation. As practically all the best known VSLA operators in Uganda and the region expressed their interest, the situation augers well for effective future operations of Component 2 of PROFIRA. Following largely the procurement practices and procedures used during Phase 1 bidding, the target is to complete the SP selection process for both sub-components with contract signings latest in July 2018. This would allow for the completion of the three-year contract periods well before the closure of PROFIRA.

6. Training for Community Development Officers

20. District Community Development Officers (DCDOs) are the focal point persons at the district level for the CSCG operations. Their responsibilities cover a number of CSCG activities, including: (a) registration of CSCGs at either sub-county or district level, (b) monitoring the operations of these groups, and (c) linking the registered groups to other government programmes. They are another structure that can add sustainability to PROFIRA's CSCG interventions during and especially after project completion.

21. During April 2017, as a PROFIRA initiative, 21 DCDOs in Eastern region were trained in the CSCG methodology. This 3-day TOT workshop aimed at: (a) forging a working relationship between the DCDOs and the contracted SPs, (b) equipping the DCDOs with knowledge on the CSCG methodology so as to support their group monitoring function and (c) giving the DCDOs an in-depth understanding of PROFIRA and its implementation modalities. In addition to this PROFIRA training, a total of 40 DCDOs have so far undergone a 5-day TOT workshop in Financial Literacy, organised by the Bank of Uganda.

22. Considering the key role of these local government officers, there is urgent need to complete the TOT trainings of the DCDOs in the CSCG methodology. It was agreed that the same type of 3-day training that was organised in Eastern region, will during the 2017/2018 financial year be conducted in North East, Mid North and West Nile regions. The training will be carried by the experienced staff of contracted SPs with guidance from the Component 2 Manager in PROFIRA. Furthermore, same type of training should in the future also be considered for the sub-county Community Development Officers in the PROFIRA implementation areas, since they directly interface with the CSCGs at the sub-county and parish levels.

7. Reporting, M&E and Field Follow-up

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

2.2, however, is more complicated. For activities such as linkages, accumulation of savings over cycles and the establishment of CSCG apex organisations for mature groups, the standard VSLA indicators on membership numbers and loan and savings values do not provide much useful information. This situation requires much attention as the M&E systems, especially SAVIX MIX, for Component 2.2 are being developed.

24. To support the follow-up operations, a contract for the procurement of SAVIX MIS was signed with VSC Associates on 1 February 2017. After installation and training, the first SAVIX reports were produced in July 2017. The Data Clerks of the SPs enter data on a monthly basis on each PROFIRA-supported group into the system, which will then be aggregated by the M&E Officers of the SPs. The system is expected to automatically aggregate the data from each SP into PROFIRA-level aggregate figures. A positive feature in this procurement contract is that it includes backstopping and systems development support by the supplier till the end of the PROFIRA implementation period.

25. During the time of the mission, the fine-tuning of the system was still on-going. The mission emphasised to PROFIRA that it is critically important that the system will be able to automatically produce for every quarter one-page summary reports for the key performance indicators of Sub-component 2.1 and 2.2. This information would then form the core of the periodical progress reports of PROFIRA for Component 2.

26. Field visits to Component 2 SPs and groups, to review progress, validate data and verify reported results, do not function as well as they should in an SP-based project of this type. Since July 2017, only one such visit has been organised. It was agreed that Component 2 management will from now on visit in the field every SP of Component 2 at least once in every quarter, preferably on joint missions with the M&E and Procurement staff of PROFIRA. Required recourses, including vehicles, need to be available from PROFIRA for these important field follow-up visits.

8. Innovation, Networking and Knowledge Management

27. In the coming four years, PROFIRA will be the leading supporter of community-based financial arrangements in Uganda. Its network of service providers and their sub-contractors holds a critically important knowledge base on appropriate CSCG development approaches and methods for Uganda. Furthermore, the number of community-based financial groups in the PROFIRA network will gradually increase towards nearly 20,000, and the number of group members to over 400,000. This large network will create great opportunities for mutual learning, with significant potential benefits for the whole PROFIRA operation and the overall VSLA activity in the region.

28. PROFIRA has a general knowledge management strategy covering the whole project, including the operations of Component 2. In the coming 12 months, interesting data will start to emerge from Component 2 operations, particularly with the support of SAVIX MIS. Together with the data of component achievements and performance, individual success stories and descriptions of successful innovations will be documented by the SPs and PROFIRA itself. PROFIRA's knowledge management strategy defines the channels to be used to make these stories "common goods" in Uganda, in the region but also globally, using the IFAD networks and the wider UN and development sites. In the future, PROFIRA is expected to include such knowledge management operations in its annual plans, as well as sufficient allocations in its budgets to effectively carry out the above type of publicity activities.

Technical Annex 3

Fiduciary Aspects

58. **Financial management.** The project is utilising the government recommended Integrated Financial Management System (IFMS). Being a highly structured system, it entails careful assignment of responsibilities and approval processes (based on the existing GoU expenditure approval structures), both at project level and ministry of finance level. This has ensured effective internal control processes, accounting, budget monitoring, and commitment control. Through the 'Oracle Discover tool', and other reporting analysis tools, IFMS can be tailored to suit project reporting requirements. So far, an SoE can be generated but not based on the historical exchange rate (it captures the spot exchange rate). At data capture too, expenditure can be segregated by category, component and activity, but because there is restricted access to the analytical reporting tools embedded within the FMS, the project cannot develop the required reporting templates, and hence has to liaise with the Accountant general's office to facilitate the same.

59. To ensure reporting in the required dimensions, the project is using Sage Pastel FMS, alongside the IFMS. Data is exported from the IFMS to excel, organised, and analysed in a cashbook batch format, and then uploaded into Sage Pastel. It is a tedious process, but most importantly, the ultimate goal of analytical reporting is achieved. Going forward then, the project will continue to work with the Accountant General's office to;

- a) Enable SoEs to capture the historical exchange rate, and
- b) Accountant General to develop the required analytical reporting templates.

In the meantime this is achieved, the project will continue to use the two systems simultaneously.

60. **Disbursement of IFAD Loan.** As of 31st October 2017, the cumulative disbursement for IFAD loan 900 - UG was SDR 7.889 million; this represents 40.87% of the total allocation of SDR 19.3 million. Pending WA 12 for USD 340,952 submitted to the Accountant General for approval, raises the disbursement rate to 42.1%. Compared to the most recent ISM, where disbursement was 29%, a 13% increase is commendable. This upward trend is highly likely to continue, since most of the activities in the project components have been committed or are in the process of being committed.

61. A treasury plan has been drawn and it is projected that the last payments to the already contracted service providers in subcomponent 2.1 will be done by May 2019, and December 2019 for subcomponent 2.1. These alone if disbursed (approx USD 7.3 million) by the projected date, would raise the disbursement rate to 73%. Other key lined up activities include, Phase II activities for CSCGs, and MIS grant to SACCOs, which if combined are estimated to cost USD 7.7 million. However, the project is encouraged to continuously monitor the treasury plan as implementation progresses to avoid over committing.

IFAD Financial performance and projections by sub-component (31/10/2017)						
Component	Appraisal	IFAD loan				%ge
		Utilization			Total	
		Actual	Firm commitments	Projections		
A. SACCO strengthening and sustainability						
1.1 SACCO strengthening	9,110	2,881	4,288	959	8,128	89%
1.2 Developing a sustainable SACCO Union	1,258	566	66		632	50%
Evoking the inflation clause on the signed contracts (est at 15% inflation)				990	990	
Sub-total	10,368	3,447	3,447	1,949	9,750	94%
2. Community based financial services						
2.1 Establishment of new community savings and credit group	8,132	2,236	1,547		3,783	47%
2.2 CSGC Strengthening, innovations and partnerships	3,823	673	712	6,750	8,135	213%
Sub-total	11,955	2,908	2,908	6,750	11,917	100%
3. Policy and institutional support and project management						
3.1 Policy, regulatory and institutional environment	1,786	1,260			1,260	71%
3.2 Project management	4,891	1,830	193	2,498	4,521	92%
Sub-total	6,677	3,090	3,090	2,498	5,782	87%
Total	29,000	9,446	9,446	11,197	27,449	95%
Initial advance (Unspent)		2,295				
Grant total	29,000	11,740	9,446	11,197		
Total Actual and firm commitments			21,186			
%ge			73%			

62. **UCSCU.** For the year ended 31st June 2017, the UCSCU target for a performance based incentive was over achieved by 211% (target was a loss of 807.1 while actual loss was 382.5 million). Subsequently, as per the provisions of the MoU, UGX 224.4 million has been disbursed for the 1st and 2nd quarter. It should be noted however, that the overriding factor to achieving this target, is income received from the service provider contract entered into with PROFIRA. At the expiry of this contract (April 2018), unless the number of active members who pay annual subscription increases, the targets are likely not to be achieved. For example, active member contribution - a major factor towards achieving self-sufficiency, was UGX 95.4 million (8% of 2.1 billion total revenue) for the financial year ended 2016/17. This contribution is so low, and given that the MoU is expiring in June 2018, self-sufficiency cannot be guaranteed.

UCSCU Achievements VS Revised targets (UGX)			
Details	2014/15 (000,000)	2015/16 (000,000)	2016/17 (000,000)
Total internally generated revenue	252	342	677
Total recurrent expenditure	840	1,081	1,486
Revised Projected (Deficit)/surplus	(588)	(740)	(807)
Actual Deficit posted	(575)	(1,416)	(383)
%ge achieved	102%	52%	211%
Note: UCSCU financing is performance based, thus, due to under performance during the financial year 2015/16, no funds were disbursed by PROFIRA for the FY ended 2016/17.			

63. The recommendation by the previous ISM to 'Post UCSCU entries and update its pastel system, on a real time basis as transactions occur', has been implemented. However, the financial statements for different financing sources are disjointed, and consolidated through manual systems. The relevance of an FMS is defeated if the final output (financial reporting) is not achieved. Since the chart of accounts for different sources is similar, the FMS should be configured to automatically generate the required consolidated reports.

64. The internal auditor (IA) for UCSCU was recruited in August 2017, and an audit plan was drawn. However, this plan was not approved by the board of directors, and the audit scope was limited to reviewing regions where UCSCU operates. Future audit plans should be more detailed, and guided by performance of a 'risk assessment', in the areas of e.g organisation and staffing, budgeting, internal controls etc, the basis of which will provide a plan for the specific audit tasks to be completed.

65. **Designated account (DA).** As at 30th October 2017, the designated and operation accounts had a combined cash balance of USD 2.1 million (73% of AA). WA in the pipeline was USD 340,952 (11%), and funds withdrawn and not claimed was USD 459,713 (15%). The probable payments for the next two months – including payments to service providers, are estimated at approximately USD 1.33 million. Given the status of the DA the mission does not foresee the project running out of liquid cash. This represents good cash flow management practices and the Authorized Allocation is considered adequate.

66. There are reconciling figures on the DA; WA 10 - USD 46,376, WA 11 - USD 163,616 and WA 12 – USD 6,135, reported to be; (a) VAT deducted and not reimbursed at the time of WA preparation and (b) cash balances on advances issued. It is important that this figure is always disaggregated and justified with separate schedules. This way, the trend for VAT refunds can be analyzed against VAT deductions, and the refunds on advances can be negated from the respective SoE category sheets in the ensuing WA.

67. **Disbursement of IFAD/CCA Grant .** Currently, IFAD has disbursed a total of USD 0.747 million (74.8%); through an AA of USD 0.413, and USD 0.335 as replenishment to the CCA DA. For purposes of project reporting, CCA should furnish to PROFIRA fund utilization reports (say by category) and activity reports. These will in turn form a basis for capturing of the same into the project books of account.

68. **SoEs review.** Documentary support for SOEs, included in Withdraw Applications (WA) 10, 11, and 12 were reviewed on sample basis and found to be adequate. It was also noted that there is a systematic filling system which enables easy access to the payment vouchers.

69. **AWPB execution. AWPB execution.** Currently, actual implementation of the 2017/18 AWPB stands at 8% (UGX 1.9 billion of 24 billion). This performance is rated low after four months of implementation, and is mainly attributed to the fact that the IFMS was closed to PROFIRA up to August, thus no payments could be undertaken during that period. However, given the expenditures in the pipeline (for contracted service providers) amounting to approximately UGX 4.8 billion, AWPB absorption is expected to improve to 28% (or 6.8 billion of 24 billion) during the second quarter.

SUMMARY OF FINANCIAL PERFORMANCE BY COMPONENTS AS AT 31/10/2017								
Components	AWPB execution 2017/18			Commitments (To Dec 17)	Actual and commitments			
	A	B	C		D	E	F	G
	Budget	Actual	%ge		C + E	F of B		
1. SACCO Strengthening	8,957,587,768	552,052,127	6%	2,218,730,519	2,770,782,646	31%		
2. Developing a Sustainable SACCO Union	2,090,293,278	224,457,115	11%	177,600,000	402,057,115	19%		
S/TOTAL	11,047,881,046	776,509,242	7%	2,396,330,519	3,172,839,761	29%		
B Community Based Financial Services								
1. Establishment of New Community Based Savings and Credit Groups	5,174,582,670	8,695,000	0%	1,496,323,920	1,505,018,920	29%		
2. CSCG Strengthening, Innovation and Partnerships	3,263,575,071	320,703,840	10%	953,480,212	1,274,184,052	39%		
	8,438,157,741	329,398,840	4%	2,449,804,132	2,779,202,972	33%		
C Policy and Institutional Support and Project Management								
1. Policy, Regulatory and Institutional Environment	1,238,200,000	253,992,003	21%		253,992,003	21%		
2. Project Management	3,295,938,751	577,160,430	18%	20,000,000	597,160,430	18%		
	4,534,138,751	831,152,433	18%	20,000,000	851,152,433	19%		
Contingency					-	-		
					-	-		
TOTAL	24,020,177,538	1,937,060,515	8%	4,866,134,651	6,803,195,166	28%		
				USD	1,333,187.58			

70. **Counterpart funds.** GoU counterpart financing covers taxes and PMU office rent. To date, 9% (USD 442,000) of the foreseen USD 4.9 million has been disbursed. Since a large number of the contracts are being implemented by NGOs, which are tax exempt, actual counterpart financing will continue to be low when measured against appraisal targets. Office rent and VAT refund is always paid on time.

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

72. **Procurement.** Procurement systems, controls and templates as per PPDA regulations and IFAD guidelines are fully in place and complied with. The quality of procurement processes is overall highly satisfactory. All major procurements for service providers have already been completed and the remaining ones, as per the current year procurement plan (PP) are either through micro-procurement or request for quotations. To ensure transparency, and value for money, a market survey has been conducted by the user departments to ascertain market prices for assorted items, on the basis of which proforma invoices will be collected. The only major procurement remaining to be carried out is the procurement of service providers for the second phase for component 2. This is now at the level of expression of interest and is being carried out as per plan.

73. **Contract management.** This function is partly effected through the IFMS's 'Purchasing and commitment module'. This way, the project has been able to efficiently track all payments on a particular commitment and feed into the contract monitoring forms (CMF). However, contract execution period as an element of contract management has not been well controlled. For example, the contract with Ms VCL associates was signed in February 2017 for a duration of six years, implying that it will be completed in 2023 after project closure (December 2021). Since no payments can be made after project completion, the payment schedule and duration of this particular contract should be amended. Similarly, facilitation fees paid to DCOs, have no formal agreement that defines the relevance of these payments, legal framework and the expected deliverables. This too should be formalized by amending the MTIC MoU to clearly indicate terms and the expected deliverables.

74. **Statutory Audit.** The draft audited financial statements for the year ended on 30 June 2017 have been submitted to the Auditor General for review and approval. The mission has reviewed them and noted that an unqualified opinion was issued by the external auditors. A few issues were highlighted in the management letter that are not of financial management nature, but mainly pertain to performance of contracted service providers.

75. **Internal Audit.** An annual audit plan was prepared by the Internal Audit firm, and the mission finds the scope and objective of the audit adequate. The reports too, were found to be of high quality. However, since there is increased activity in the field and given that the external auditor has highlighted issues related to the performance of contracted service providers, the internal audit should ensure regular field verifications.

Agreed action	Responsibility	Agreed date
Follow-up with the AG's office to ensure relevant reporting from IFMS	PMU	Continuous
Amend contract for VSL associates and MTIC MoU	PMU	31 Dec 2017
UCSCU to configure sage pasted to consolidate financial reports	Finance Director	Dec 31st 2017
The BoD to always approve UCSCU IA plans	IA	Continuous

Attachment 1: Financial Management Assessment at Supervision

Country: Uganda	Loan ID: 900-UG
Project Name: PROFIRA	
Executing Agency: MFPED	CPM: Alessandro Marini
FMS: Kagaba Frederic	Date of this review: November 2017

	Topic	Risk Rating (H/M/L)	Issues / Comments / Recommendations
	A. Inherent Risks		
	B. Control Risks		
	1. Organization and Staffing		
a.	Adequacy of organizational structure to meet functional needs of the project.	L	MoFPED is the lead agency, project oversight committee is available and functional, skills and numbers are sufficient at PMU. PMU is fully constituted with all positions filled with a function Project Oversight Committee.
b.	Availability of clear job description for key project positions, including fiduciary positions.	L	Clearly stated in the PIM
c.	Adequacy of project financial management staff (numbers and skill) matching functional needs of project.	L	Adequate: FAM, finance officer, project support officer for finance. FAM and finance officer are qualified accountants.
d.	Availability and adequacy of operating manuals and guidelines for staff.	L	PIM that includes FM section is available
e.	Existence of a performance based evaluation system in place and timely completion of performance evaluation for all staff.	L	Staff appraisal for 2016/17 was seen
f.	Adequacy of health insurance coverage for all staff (where applicable).	L	Service provider is; International Air Ambulance (IAA)
g.	Timely payment of social security fees (where applicable).	L	Yes, NSSF both employee and employer contribution
h.	Staff adequately informed about IFAD's national and anti-corruption policy and relevant contact details.	L	
	2. Budgeting		
a.	Timely preparation and approval of AWPB.	M	2017/18 AWPB – request submitted on 28 th April 2017, and No objection was received on 8 th August 2017.
b.	AWPB in line with expenditure categories in Financing Agreement Schedule 2.	L	Yes
c.	Financing sources and implementing agencies for each category in the AWPB are identified.	L	Yes
d.	Linkage between AWPB and Procurement plan are identified (for cost estimate and activities). Check assumptions to support cost estimates.	L	

	Topic	Risk Rating (H/M/L)	Issues / Comments / Recommendations
	Test check high value items.		
3. Fund flows and Disbursements / Withdrawals			
a.	Timeliness of funds disbursed by different sources (and co-financiers funding if applicable).	L	.
b.	Timeliness of counterpart funds disbursed.	L	VAT refunds are received on time, and office rent paid on time
c.	Efficiency of the funding channels. Timeliness and traceability of funds flows.	L	
d.	Efficiency of the funding channels for credit lines. Timeliness and traceability of funds flows, if applicable.		N/A
e.	Special Account(s)/Dedicated Account(s) Management, Disbursements.		
	i) Adequacy of the authorized allocation to ensure a smooth flow of funds	L	Yes; USD 3 million is adequate
	ii) Appropriateness of disbursement methods used	L	
	iii) Adequacy of documentary support for SOE disbursements, reimbursements, direct payments and Special Commitments. (refer to Appendix IV and complete, reflecting finding in rating).	L	Review was done for WA 10, 11, &, 12.
	iv) Timely preparation and accuracy of Withdrawal Applications	L	Timely
	v) Authorization of WA preparation.	L	
	vi) Status on expenditures withdrawn from Special Account but not yet claimed for replenishment (old cases to be noted)	L	USD 459,713 (15% of AA)
	vii) Regularity of Special Account(s) monitoring and monthly reconciliations signed by the project manager. Review and assess the reconciliations	M	SA reconciliation only done while preparing WA.
	viii) Disbursement rate compared to the AWPB and whether satisfactory given the remaining implementation time. Provide comments as appropriate	H	8% vs budget at almost half year
	ix) Recovery of SA balances by loan closure		N/A
4. Internal Controls			
a.	Segregation of duties - are the following functional responsibilities performed by different units or persons: (i) authorization of a transaction (ii) execution of a transaction (iii) recording of the transaction; and (iv) custody of assets involved in the	L	The IFMS fully provides for this.

	Topic	Risk Rating (H/M/L)	Issues / Comments / Recommendations
	transaction.		
b.	Clarity and adequacy of decision processes and sequence of events for control functions in project implementation reflected in the Financial Manual (or equivalent there-of).	L	
c.	Adherence to Financial Manual.	L	
d.	Effectiveness and efficiency of internal controls over inflows of funding sources other than IFAD.	L	Capture of CCA contribution and grant expenditures have been done.
e.	Adequacy of contract management (use of contracts register and monitoring form) and filing there-of.	M	Expiry dates of contracts entered into should be monitored not to exceed project completion date.
f.	Effectiveness and efficiency of internal controls over expenditures (full cycle from commitment, payment, receipt of good and services, approval of payments, classification, etc.)	L	Yes
g.	Documentary evidence to confirm delivery and acceptance of contracted goods, works or services.	L	Yes
h.	Physical controls over cash, documents and records. Adequacy of filing systems. Is the petty cash subject to monthly reconciliation as well as surprise checks; custody of cash box and control of keys.	L	Yes
i.	Adequacy of physical management of cash.	L	Yes
j.	Timely payment to suppliers and consultants.	L	Yes
k.	Eligibility of expenditures with respect to Financing Agreements.	L	Yes
l.	Legality/eligibility of advances from project funds and timely justification for use there-of.	L	
m.	Compliance with financial management covenants in the Financing Agreements and LTB.	L	Yes
n.	Adequacy of up-to-date record keeping for fixed assets and inventories.	L	Yes
o.	Adequacy of controls concerning project assets including: i) Vehicle and other assets management (are assets property tagged, is a physical inventory count done on a regular basis?) ii) Fuel management (do drivers maintain a log book?) iii) Travel authorisations (incl. DSA paid to staff)	L	Yes

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
p.	Adequacy of vehicles and assets insurance.	M	Only vehicles are insured
q.	Workshops: i) Availability of list of participants ii) DSA paid to participants iii) Receipts for workshop expenditure	L	OK – building from the RFSP experience in managing workshops
r.	Adequacy of controls and authorization process for use of funds (payments, transfers, Cash/Bank balance management) / and other operational accounts – non-special account.	L	Yes
s.	Banking arrangement and controls (reconciliation of bank statements with financial accounts).	L	Done on a monthly basis within Pastel
t.	Existence of a proper IT support unit in place.	L	
5. Accounting			
a.	Basis of accounting (cash, accrual) and whether accounting standards are in line with IFAD's requirements (e.g. IFRS/IPSAS/IPSAS cash).	L	IPSAS cash basis
b.	Adequacy and reliability of accounting system, (is double entry accounting used, specify software used, is budget data entered into the accounting system, can the accounting system produce regular automated financial reports?).	M	Two Systems used concurrently. IFMS used for transaction processing and SoEs, and Sage pastel for other reporting requirements that IFMS cannot provide.
b.	Record keeping (including documentation and filing/archiving)	L	Filed chronologically by EFT
c.	Fixed assets register maintained and reconciled (sample and physical check).	L	Yes
d.	Adequate documentation and controls for Information Systems, including documented accounting procedures, backup of financial records, integration of all sub-systems.	L	Back up of financial records is maintained on server.
e.	Adequacy of chart of accounts for project accounting purposes.	L	chart of accounts fully covers both expenditure and disbursement accounts.
f.	Timeliness of recording transactions, regularity of performance and approval of reconciliations, controls on erroneous recordings.	L	Payment voucher extracted from the system.
g.	Appropriate/ adequate accounting and reporting of counterpart funds contributions (incl. tax and tax exemptions) as well as beneficiary contributions.	L	
6. Financial Reporting & Monitoring			

Topic		Risk Rating (H/M/L)	Issues / Comments / Recommendations
a.	Completeness, accuracy, usefulness, and timeliness of financial reports.	L	Reports have now been preset and be printed from Pastel at a click of a button and the SOE's for withdrawal applications are automatically generated from the IFMS.
b.	Interim FM reports and linkage to progress reports - timely preparation, submission to IFAD.	L	As above
c.	Preparation of reports showing actual vs budget income/expenditure and AWPB execution rate.	L	Commitment control now in place.
d.	Follow up of previous aide-memoirs fiduciary recommendations.	L	compliant
e.	Reasonable alignment between disbursement rate of recurrent versus investment cost categories.	M	Currently 52 % of the allocation at appraisal, and 6% of the overall allocation. Being the third year of implementation, there could be a need for re-allocation.
7. Internal Audit			
a.	Existence of Internal Audit arrangements.	M	Cooperate governance requires that IA reports to an independent person. In this case the IA reports to the project manager. An oversight audit committee should be formed from the steering committee.
b.	Adequacy of internal audit arrangements (organization - staff capacity).	N/A	
c.	Adequacy of internal audit scope of work and quality of reports.	N/A	
d.	Assessment of matters raised in audit reports.	N/A	
8. External Audit⁷			
a.	Adequacy of scope and ToR.	L	OK. The Office of the Auditor General (OAG) appointed an External Auditor.
b.	Adherence to ToR.	L	Done
b.	Timeliness of audit report.	L	Draft audit report now at the auditor general's office for review and approval.
c.	Quality of audit.	L	All disclosures provided in the draft audit report
d.	Implementation of audit recommendations/agreed action plan in place to address these.	L	

⁷ Refer to IFAD audit review.

Attachment 2

Summary of Project Fiduciary Risk Assessment at Supervision⁸

Implementing Agency : MFPED

	Risk Assessment H/M/L	Proposed Mitigation
Inherent Risk		N/A
Control Risks		
1. Organization and Staffing	L	
2. Budgeting	L	IFAD to approve AWPBs on time
3. Funds flow & Disbursement Arrangements	L	Activities on special account reconciliation to be supported with VAT schedules/advance refunds to ensure monitoring.
4. Internal Controls	L	To insure all project assets – not only vehicles.
5. Accounting	L	
6. Financial Reporting and Monitoring	M	Develop the required analytical reporting templates in the IFMS to avoid double work
7. Internal Audit	M	An oversight audit committee should be formed from the existing national steering committee
8. External Audit	L	
Overall Project Fiduciary Risk	L	
H=High, M=Medium, L= Low		

⁸ This is a summary of the findings documented in the 'Project Supervision Financial Management Assessment – Guidance Questionnaire – see Appendix I. It is to be completed by the Finance Officer.

Attachment 3: SoE Review Sheet

Sum Sheet	Item	Vcher No.	WA	Instrument	WA Amount USD	Category	Transaction description	UGX	USD Equip	Eligibility	Comments
1	1	PROF1535	11	L-I-900	1 717 349.69	I	Supply of a desk top computer and UPS to finance unit	3 705 400	1 031.32	YES	Fully supported
	2	PROF1554				II	Transport refund during product development in Lira	3 810 000	1 060.43	YES	Travel costs to central training locations met by the PMU through SPS. These costs are not part of the SP contractual sum, and are paid directly by the PCU
	2	PROF1643				II	Refund towards facilitations during Lira training	3 260 000	907.35	YES	As above
	2	PROF1713				II	Refund during training in Soroti	3 720 000	1 035.38	YES	As above
	2	PROF1837				II	Refund training in soroti in may 9th- 11th	3 090 000	865.12	YES	As above
	3	PROF1596				II	Training in Mbale in April	3 340 000	929.62	YES	As above
	3	PROF1708				II	Refund during training in mbale	3 250 000	904.57	YES	As above
	3	PROF1719				II	Refund training in Gulu	3 160 000	879.52	YES	As above
	4	PROF1548				II	UCA: Refund for transport refund during strategic planning in kabale	2 810 000	782.10	YES	Fully supported
	4	PROF1549				II	UCA: Transport refund strategic planning Ntungamo	2 905 000	808.54	YES	Fully supported
	4	PROF1550				II	Transport refund savings and other product trainings in Ntungamo	2 580 000	718.09	YES	Fully supported
	4	PROF1707				II	Refund during training in mbarara	2 690 000	748.70	YES	Fully supported
	9	Direct				II	Backstopping sacco components in EASTERN region	16 560 000	4 636.38	YES	Advances for field activities yet to be accounted for, but since it is cash basis of accounting, it is okay to replenish.
	9	Direct				II	Backstopping saccos in central region	19 320 000	5 409.11	YES	As above
	9	Direct				II	Backstopping saccos in western region	15 900 000	4 451.60	YES	As above
	9	Direct				II	Backstopping saccos in Northern region	19 440 000	5 442.71	YES	As above
	14	PROF1590				II	Facilitation during feedback meeting with DCOs from Eastern region	7 860 000	2 187.66	YES	Fully supported
	15	PROF1802				II	DAN; FUEL for backstopping in East, West, North and central	2 392 000	669.70	YES	Fully supported
	15	PROF1791				II	component 1.0 LOT 1 Networking	7 700 000	2 155.81	YES	Fully supported
	15	WT 17570552-2				II	Withholding Tax - DEMIS CONSULTS LIMITED - PROF1488 /	15 931 962	4 434.32	YES	Fully supported
	15	WT 17571490-2				II	Withholding Tax - Friends Consult Limited - PROF1489 /	5 618 254	1 563.72	YES	Fully supported
	15	WT 18459237-2				II	Withholding Tax - International Institute of Rural Reconstruction - PROF1715 /	11 039 729	3 090.85	YES	Fully supported
	16	Withholding Tax - 18459109 - 2				II	Withholding Tax - Association Of Microfinance Institutions Of Uganda - PROF1709 /	39 655 513	11 102.54	YES	Fully supported
	16	Withholding Tax - 18490696 - 2				II	Withholding Tax - Uganda Cooperative Savings and Credit Union Ltd - PROFIRA2 - PROF1729 /	30 431 201	8 519.97	YES	Fully supported
	16	Withholding Tax - 18497571 - 2				II	Withholding Tax - BEST-AFRICA CONSULT LIMITED - PROF1731 /	25 061 505	7 016.59	YES	Fully supported
	16	Withholding Tax - 18607017 - 2				II	Withholding Tax - Uganda cooperative Alliance Ltd - PROF1804 /	37 495 409	10 497.77	YES	Fully supported
	16	PROF1544				II	Verification of MIS Beneficiaries	14 520 000	4 041.33	YES	Fully supported
	17	PROF1709				II	Payment for sacco trainings LOT 4 - Association of Microfinance institutions	660 925 213	183 954.16	YES	The CMF indicates a payment of UGX 621,269,700, while the payment here is seen as UGX 660,925,213. This is because withholding tax (UGX 39,655,513 below) has been deducted and not yet remitted to URA.
	17	PROF1709				II	Association Of Microfinance Institutions Of Uganda	-39 655 513	(11 037.25)	YES	This represents withholding Tax retained on the above payment to be remitted to URA at a later date.
	17	PROF1731				II	Payment for sacco trainings LOT 4 - Association of Microfinance institutions	417 691 753	116 255.41	YES	Fully supported
	17	PROF1804				II	3rd payment for sacco training - Best Africa consult	624 923 478	174 962.83	YES	Fully supported
	17	PROF1729				II	UCA; INV NO: 0006 Training saccos LOT 2 FOR QUARTERS 3&4	507 186 682	141 164.38	YES	Fully supported
							TOTAL WA 11	2 478 317 586	691 190.32		
							% ge reviewed		40%		