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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S MICROFINANCE ACTIVITIES

AUDIT REPORT NO. 9-000-09-003-P
December 4, 2008

WASHINGTON, DC

Office of Inspector General

December 4, 2008

MEMORANDUM

TO: EGAT/PR/MD Director, Conan French

FROM: IG/A/PA Director, Steven H. Bernstein /s/

SUBJECT: Audit of USAID's Microfinance Activities (Audit Report No. 9-000-09-003-P)

This memorandum transmits our final report on the subject audit. The report contains two recommendations for your action to improve the efficiency of the microfinance activities and the achievement of planned results at missions worldwide. In finalizing the report, we considered your comments on the draft report and have included them as an appendix. In your response, you indicated planned actions and target dates to address both recommendations. Therefore, we consider that management decisions have been reached for both recommendations. Please coordinate final action to close the recommendations with the Audit, Performance and Compliance Division (M/CFO/APC).

Thank you for the cooperation and courtesy extended to my staff during this audit.

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CONTENTS

SUMMARY OF RESULTS

This report summarizes the results of six audits of USAID's microfinance activities at missions in Egypt, Kazakhstan, Nigeria, Peru, Romania, and Uganda (see appendix III).

USAID finances technical assistance to support a broad range of microfinance development activities. As a part of the banking system, microcredit targets the very poor, providing micro and small loans to individual borrowers for personal, entrepreneurial, and established small business activities where few alternative credit options exist. Microfinance activities also provide the predominant source of income and employment for hundreds of millions of people (see page 3).

The audit objectives were to determine whether USAID implemented microfinance activities efficiently and whether it achieved selected planned results (see page 4).

Based on the results of the six audits, three missions audited had implemented microfinance activities efficiently. Two missions had not implemented their microfinance activities efficiently, and the audit team was unable to determine if one mission implemented its microfinance activities efficiently because the program was less than a year old at the time of the audit and quantifiable measures of efficiency were unavailable (see page 5). The following international benchmarks were used to determine the efficiency of the microfinance programs:

- Operating expense ratio
- Operational sustainability ratio
- Borrowers per loan officer
- Loan writeoff ratio
- Portfolio at risk greater than 30 days
- Borrowers per staff member
- Active clients per staff member
- Cost per active client

Four of the missions had achieved planned results for their microfinance activities. One mission partially achieved planned results, and the audit team was unable to determine the achieved planned results for the remaining mission because of problems identified with the definitions of key program indicators (see page 7).

The audit results were as follows:

1) USAID/Egypt had not implemented its microfinance program efficiently but achieved overall planned results for fiscal years (FYs) 2005 and 2006.
2) USAID/Kazakhstan had not implemented its microfinance activities efficiently but had partially achieved planned results for FY 2006.
3) USAID/Nigeria had implemented its microfinance activities efficiently and had achieved planned results for FY 2006.
4) USAID/Peru, during the past 5 years, had implemented its microfinance activities efficiently and had achieved planned results for FYs 2005 and 2006.
5) USAID/Romania had implemented its microfinance activities efficiently and had achieved planned results by FY 2007.

6) Because of the short-term nature of activities implemented during 12 or fewer months, USAID/Uganda had not documented quantifiable measures of efficiency to conclusively determine whether the mission's activities were implemented efficiently. Furthermore, the audit was unable to determine whether USAID/Uganda's microfinance activities had achieved planned results because of problems with the definitions of key program indicators.

This report contains two recommendations and summarizes the findings identified during the mission audits related to loan eligibility requirements, data verification, and program monitoring controls. In responding to a draft of this report, USAID management presented plans to implement the recommendations within 90 days. Accordingly, management decisions have been made on both recommendations.

BACKGROUND

In December 2004, Congress enacted Public Law 108-484,[1] the Microenterprise Results and Accountability Act of 2004, to address concerns that too many program resources were being spent on expensive consultants and contractors rather than reaching entrepreneurs in the developing world. This law included a call for a microenterprise office within USAID to approve the strategic plans of field missions and coordinate preparation of the yearly report to Congress.

USAID has included microenterprise activities in its strategy for economic development and poverty reduction. According to USAID's Microenterprise Development office, microenterprise activities are composed of four major components, including microfinance. In many countries, microfinance—small, informally organized commercial operations owned and operated mostly by the poor—constitute the majority of businesses. They account for a substantial share of total employment and gross domestic product and contribute significantly to poverty reduction.

Over the past three decades, support for microfinance development has been an important feature of U.S. foreign assistance. As the leading bilateral donor for microfinance development, USAID has advanced its vision of strengthening economic opportunities for poorer households to enable families to build assets; cope with the risks and vulnerability that accompany poverty; plan for better futures for their children; and contribute to key sectors of local, national, and regional economies. As the predominant source of income and employment for hundreds of millions of people worldwide, the microfinance sector's influence on individuals, households, and national economies is clear and profound.

USAID's microenterprise development strategy seeks to address two pressing challenges:

- To link microenterprises to greater opportunities for growth, which include integrating them on more favorable terms into the formal economies of their countries and connecting them to expanded information and resource networks.

- To bring the benefits of microfinance and business development services to poorer people, ensuring that the positive impacts of microenterprise development programs reach those most in need.

According to the microenterprise report to Congress, funding levels for microfinance activities worldwide totaled $228 million for fiscal years (FYs) 2005 and 2006. The funding for the six missions audited was $33 million, or 14 percent of the $228 million funded for microfinance worldwide activities.

[1] 22 USC 2211a, titled Authorization, Implementation, Targeted Assistance, sections (a)(1) through (a)(4), and (b)(2)(C) authorize assistance in developing countries to increase the availability of credit, savings, and other services to microfinance and microenterprise clients lacking full assess to capital, training, technical assistance, and business developments.

AUDIT OBJECTIVES

As part of the Office of Inspector General's audit plan for FY 2007, the audit team conducted this multicountry audit to answer the following questions:

- Did USAID implement its microfinance activities efficiently?

- Did USAID's microfinance activities achieve planned results?

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

AUDIT FINDINGS

Did USAID implement its microfinance activities efficiently?

Three of the six missions audited implemented microfinance activities efficiently. Of the remaining three missions, two did not implement their microfinance activities efficiently, and the audit team was unable to determine if one mission implemented its microfinance activities efficiently. (See appendix I)

The auditors used the results of several indicators and compared the results with international benchmarks established in 2006 by the Microfinance Information Exchange Market—a global, Web-based microfinance information platform used by missions audited to measure efficiency and performance of their microfinance institutions. These international benchmarks were portfolio at risk greater than 30 days, writeoffs and operating expense ratios, cost per active client, borrowers per loan officer, active clients per staff member, borrowers per staff member, and operational sustainability ratio.

The efficient implementation of the microfinance activities by USAID/Nigeria, USAID/Peru, and USAID/Romania revealed that, in general, program implementers provided both business development and financial activities to microfinance institutions and tracked their efficiencies based on financial indicators (ratios and measures).

With respect to the remaining three missions, USAID/Egypt showed improvements in efficiency in its microfinance program from calendar year 2005 to 2006. However, it did not implement its microfinance program efficiently, having met only 7 of 18 international benchmarks for the three microfinance institutions reviewed during 2006. Although USAID/Kazakhstan did not implement its microfinance activities efficiently in 2006, it did improve efficiencies for some of its benchmarks between FYs 2003 and 2006. Because of the short-term nature of USAID/Uganda's activities implemented during 12 or fewer months, the mission did not have any quantifiable measures of efficiency available to conclusively determine whether its activities were implemented efficiently.

The audit found that some missions should strengthen management controls regarding compliance with eligibility requirements for loan applications, as discussed below.

Eligibility Requirements Should Be Followed

<table><tr><td>USAID's Automated Directives System (ADS) chapter 219.3.5.2 documents some of the eligibility requirements that should be satisfied before USAID enters into agreements with microfinance institutions. Three of the six missions audited did not obtain the required written commitments that acknowledge the microfinance institutions' acceptance of the responsibility to obtain financial sustainability. Mission officials did not understand the ADS requirements, assumed that the requirements were incorporated under the cooperative agreement with the implementing partner, believed that some sections were not applicable to their programs, or believed that compliance with those sections was the responsibility of the partner and not the mission. Consequently, missions were not assured that their microfinance activities operated efficiently to ensure long-term sustainability.</td></tr></table>

USAID policy under ADS chapter 219.3.5.2, "Microfinance Institution Commitment to Attain Full Financial Substantiality," states that missions must obtain a written commitment from microfinance institutions to attain full financial sustainability on that institution's financial service activities within 7 years of the initial provision of USAID assistance, prior to entering an agreement.

Three of the six missions audited did not receive financial commitments from the microfinance institutions. USAID/Egypt did not receive the required written commitments from any of its seven microfinance institutions. According to mission officials, they did not understand that USAID guidance required commitment letters apart from and before cooperative agreements were signed with the institutions. At USAID/Kazakhstan, officials explained that they did not obtain financial sustainability commitment letters from seven microfinance institutions because the mission assumed that the requirement was incorporated into the cooperative agreement with the implementing partner. However, a review of the cooperative agreement did not find such language. At USAID/Nigeria, officials did not ensure that institutions met eligibility requirements before signing the memorandums of understanding because they did not think that the requirements were applicable to the mission or that the partner was responsible.

Without being required to prepare commitment letters, the microfinance institutions may not be aware that they need to operate efficiently to ensure long-term sustainability. Additionally, noncompliance with the ADS requirement increases the risk that unqualified microfinance institutions will receive assistance. Compliance with this requirement provides evidence that microfinance institutions know that, within 7 years, they will have to operate efficiently to attain full financial sustainability.

Given that USAID guidance already specifies adherence to the ADS, which specifies prior written commitments that sustainability be achieved within 7 years of the initial provision of USAID assistance, and that three mission-level audit reports have already made specific recommendations to correct the problem identified, this report does not make a recommendation related to this issue.

Did USAID's microfinance activities achieve planned results?

Four of the six missions audited achieved planned results. One mission partially achieved its planned results, and the audit team was unable to determine whether one mission's microfinance activities achieved planned results because of problems identified with the definitions of key program indicators.

The following summarizes the results of the six missions:

(1) USAID/Egypt achieved the overall planned results for its microfinance program in FYs 2005 and 2006. This audit's determination of overall planned results was based on planned and reported results within the mission's performance management plan covering seven microfinance institutions that dealt specifically with the value of small and microenterprise loans disbursed and the annual number of loans at the poverty level (under $350.)

(2) USAID/Kazakhstan partially achieved the planned results for its developing and expanding microfinance institutions. This mission's microfinance activities achieved four of the seven performance targets reviewed, while activities for the mature microfinance institutions achieved five of the six targets reviewed.

(3) USAID/Nigeria achieved the planned results by meeting or exceeding targets for almost all of the project indicators for FY 2006. In addition, the program made a positive impact on the microfinance institutions with which it worked, their beneficiaries, and the microfinance policy environment in Nigeria.

(4) USAID/Peru achieved all three planned results pertaining to the value of loan portfolio outstanding, the number of active clients/borrowers, and the percentage of active women clients reported in FYs 2005 and 2006.

(5) USAID/Romania achieved its planned results by exceeding six of the eight planned objectives specified for that fiscal year while making substantial progress in achieving the remaining two. As of March 2007, in addition to meeting its targets, the loan program had achieved the overall program objectives established at its inception.

(6) At USAID/Uganda, the audit team was unable to determine whether microfinance activities achieved planned results because of the problems identified with the definitions of key program indicators. For three of the four program indicators reviewed, the indicator definitions used in the mission's performance management plan differed from those used by the implementing partner in reporting data to USAID.

Photograph of a worker at a factory in Timisoara, Romania, making shoes from raw materials purchased with a short-term loan received through the Micro, Small, and Medium Enterprises loan program, May 2007.

Although four of the six missions achieved their planned results, the audit found that some missions should strengthen management controls pertaining to data verification, monitoring, and evaluation controls. The following section discusses these issues.

Data Should Be Verified Prior to Reporting

According to ADS chapter 203.3.5.2, the operating unit and strategic objectives teams should be aware of the strengths and weaknesses of their data. However, two missions reported data to Congress that were inconsistent with data recorded because of weaknesses in data verification procedures. A third mission did not verify data reported because of a lack of specific directions to verify data before submissions; and a fourth mission did not issue its final report on its data quality assessment because it was awaiting comments from partners. Consequently, USAID may have based some of its management decisions on inaccurate data, as well as reported some inaccurate information to stakeholders such as Congress.

ADS chapter 203.3.5.2 requires operating units and other teams to be aware of the strengths and weaknesses of their data and the extent to which data integrity can be trusted to influence management decisions. As stated in "Analyzing Performance Data," results-oriented management requires that reported data be accurate and reliable, and missions should take steps to ensure that submitted data are adequately supported.

In addition, USAID's Analyzing Performance Data Toolkit supplementary guidance states that the goal of assessing data from implementing partners and secondary sources is to be aware of data strengths and weaknesses and the extent to which data can be trusted when making management decisions.

However, of the six missions audited, two reported inaccurate information to stakeholders, a third did not verify and cross check the microfinance data in its annual reporting activities, and a fourth did not finalize its data quality assessments. For example, in its FY 2006 annual report to Congress, USAID/Egypt reported data that were inconsistent with the data recorded at the mission because of weaknesses in its data entry and verification procedures. For one of the two institutions USAID/Egypt reported, the difference noted was 34 percent. In addition, the database that supports the information reported to Congress contained several errors for two of the three microfinance institutions.

USAID/Peru reported inaccurate and inconsistent data to Congress in its FY 2005 and 2006 microfinance results reports because the staff member responsible for information verification did not verify the information; she thought that she was responsible only for recording it. As a result, there were significant differences between reported and audited figures for two of the three results reported by USAID/Peru's partners in FY 2005, pertaining to the number of borrowers and the number of savings account clients. The number of savings account clients was overreported by 308 percent, while the number of borrowers was underreported by 63 percent. There were also inconsistencies in the FY 2006 microenterprise results report. According to documented results, USAID/Peru provided assistance to 315,117 borrowers, while the report to Congress included only 22,467 borrowers because data for two institutions were not included.

USAID/Nigeria did not verify some of the information that it reported to USAID headquarters regarding the value of loans because of an oversight and lack of specific directions to verify data before submissions. As a result, the value of total loans was underreported by $13.2 million because the contractor erroneously dropped the last three digits of the local currency equivalent and, to compound the problem, reported the local currency amounts in U.S. dollars. Similar errors were noted for three components of this indicator: (1) the mission underreported the value of loans to women by $12.6 million, (2) the mission overreported the value of loans to other disadvantaged groups by $34.2 million, and (3) the mission underreported the value of micro loans by $13.2 million.

An auditor interviewing a Caritas borrower who operates a small hotel on the island of Los Uros, Puno, Peru (group loan $3,142). Taken by an auditor on June 15, 2007.

In June 2006, a USAID/Uganda contractor conducted a data quality assessment of the mission's microfinance activities but had not issued the final report on data quality assessment. According to the mission, a final data quality assessment report had not been issued because some of the major stakeholders (the mission's strategic objective teams and their implementing partners) had not yet provided comments owing to their busy schedules.

In the absence of a final data quality assessment report, it was difficult to determine whether the issues addressed in the draft report had merit and how outstanding issues would be resolved. In addition, without a final data quality assessment, it was difficult for the mission to ensure that its implementing partners could mitigate data quality issues.

Without data quality control and verification, USAID cannot be assured that decision makers will have the best available information with which to make decisions. Since microfinance activities in four of the six missions audited had data quality issues, the audit team is concerned that microfinance activity in other missions might also have data quality issues. Given the importance of data quality assurance, all missions with microfinance activities should be provided clear and explicit guidance. Therefore, this audit makes the following recommendation.

Recommendation No. 1: We recommend that USAID's Director of Microenterprise Development office in the Bureau of Economic, Growth, Agriculture and Trade issue guidance to all missions with microfinance activities to provide assurance that (a) data quality assessments are conducted properly and (b) reported results are properly verified, in accordance with the established agency guidance.

Monitoring Controls Should Be Strengthened

According to Agency policy, cognizant technical officers are responsible for ensuring that USAID exercises prudent management of assistance awards. One mission did not have a business plan to assess performance because mission officials did not perceive the need for performance targets within a business plan that goes beyond institutional financial information. Additionally, this mission did not monitor its technical assistance to microfinance institutions because the implementing partner's plans did not meet the USAID's requirements. Another mission set unrealistic targets because there were few or no historical data to follow, while three missions did not document sites visits mainly because of insufficient time. As a result, management is at risk of not having timely information on program performance to measure progress and influence decision making.

USAID policy stipulates that cognizant technical officers are responsible for ensuring that USAID exercises prudent management of assistance awards and for making the achievement of program objectives easier by monitoring and evaluating the recipient and its performance. Specifically, ADS chapter 203.3.2, "Performance Management," states that missions are responsible for establishing systems to measure progress toward their intended objectives. In addition, ADS 203.3.4.5 states that USAID operating units should set performance targets that can optimistically but realistically be achieved within the stated timeframe and with the available resources. ADS 303.2(f) states that cognizant technical officers are responsible for monitoring and evaluating USAID implementers' work performance to ensure that program objectives are achieved. Required technical officer action includes contact through site visits and liaison with the implementing partners and contractors providing technical assistance, as well as reviewing implementation plans with performance indicators.

At USAID/Egypt, none of the three microfinance institutions reviewed had a business plan to assess and track performance information according to USAID policy because officials from USAID/Egypt and management of the three microfinance institutions did not perceive the need for performance targets within a business plan that goes beyond institutional financial information. A business plan that incorporates performance targets would provide managers of microfinance institutions with an important tool to monitor the institution's progress and compare it with the targets. It would also allow USAID managers to effectively monitor the progress of microfinance institutions. Without this information, USAID/Egypt's management decisions would not be based on established performance-based business plans.

In addition, USAID/Egypt did not monitor the progress of its technical assistance to microfinance institutions. For example, the mission had not approved an implementation plan with associated indicators for its technical assistance contractor because the indicators did not meet USAID's requirements. Also, indicators within the implementation plan did not align with performance indicators in the mission's performance management plan, and quarterly reports did not report progress against approved indicators. The contractor started to report more useful performance information, but this information still did not align with the unapproved implementation plan. Consequently, the mission could not be assured that progress for technical assistance to microfinance institutions was meeting expectations.

At USAID/Kazakhstan, according to the mission and the implementing partner, the target established for one indicator was too conservative and the targets for two other indicators were too optimistic. This was the first microenterprise cooperative agreement, and according to the mission and the implementing partner, few or no historical data from the microfinance institutions were available to help develop targets, and therefore the mission and partner relied on estimates. Additionally, the mission did not perform adequate oversight and monitoring of the program that would have identified and adjusted excessive variances in a timelier manner. Making targets more realistic keeps them relevant and encourages improved results. Targets that are set too low or too high are not useful in gauging performance, enhancing the quality of the loan portfolio, or managing resources.

At USAID/Egypt, USAID/Kazakhstan, and USAID/Uganda, mission staff did not document site visits for various reasons. Officials at USAID cited competing work priorities that did not allow sufficient time to adequately document the information reviewed during field trips. At USAID/Egypt, the technical officer documented some site visits to microfinance institutions but none to the technical assistance contractor responsible for providing direct assistance to the microfinance implementing partners. Nor did the technical officer follow up with the implementing partners to address performance targets. USAID/Egypt had not established any performance targets for the technical assistance contractor, even though these targets were required by USAID, because of unresolved flaws in the implementation plan. USAID/Kazakhstan officials reported that the technical officer had not documented any site visits from 2003 to 2005 because documenting each site visit became a lower priority in the overall workload. In addition, temporary staff reassignments caused a lack of program oversight at USAID/Kazakhstan. When staff assumed other responsibilities at another mission for 8 months, mission officials did not adjust the workload and assign an alternate staff person to assume the oversight duties. USAID/Uganda also lacked site visit documentation.

Since site visits were not conducted routinely, USAID risked inconsistent program management that may adversely impact loan performance and loan losses. In one example, auditors on a site visit found that a 1987 tractor used for loan collateral was not operational. Another tractor with a 1968 model year also was used for collateral, but it was in operating condition. Although it is understandable that staff may have assumed that the later model vehicle would be operational, the reverse was true.

Photograph of a nonoperational 1987 tractor, Shymkent, Kazakhstan. Taken by an auditor on March 11, 2007.

This audit is not making recommendations related to the lack of a performance-based business plan or the lack of monitoring technical assistance at USAID/Egypt; these findings were already addressed at the mission audit level. Similarly, this audit does not make a recommendation for unrealistic targets identified at USAID/Kazakhstan; this finding also was addressed at the mission audit level.

However, USAID management relies on timely and accurate information about program performance to make its decisions. Site visits provide opportunities for mission staff to personally monitor USAID programs and document observations. These documented observations can influence managerial decisions and ensure that the beneficiaries, the implementer, and the mission all achieve desired results.

Given the importance of monitoring, all missions with microfinance activities should be provided with specific guidance. Therefore, this audit makes the following recommendation.

Recommendation No. 2: We recommend that USAID's Director of Microfinance Development office in the Bureau of Economic, Growth, Agriculture, and Trade issue guidance that reiterates to the program's cognizant technical officers the importance of the established agency guidance for monitoring microfinance activities and assessing the recipients' performance.

EVALUATION OF MANAGEMENT COMMENTS

The Microenterprise Development office concurred with both recommendations.

With respect to recommendation no. 1, the Microenterprise Development office plans to issue guidance within 90 days that reminds missions that (a) data quality assessments must be conducted properly and (b) results must be properly verified in accordance with the established Agency guidance. This guidance will be incorporated into the annual guidance issued for reporting microenterprise results and will include reference to relevant ADS sections and other established agency guidance.

With respect to recommendation no. 2, the Microenterprise Development office plans to issue guidance within 90 days that reiterates to the program's cognizant technical officers the importance of the established Agency guidance for monitoring microfinance activities and assessing the recipients' performance. This new guidance will be incorporated into the annual guidance issued for reporting microenterprise results and will include reference to relevant ADS sections and other established agency guidance.

Based on these plans of action, management decisions have been reached for both recommendations.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General conducted this audit to answer the following questions: (1) Did USAID implement its microfinance activities efficiently? (2) Did USAID's microfinance activities achieve planned results? This report summarizes the audit work conducted at USAID headquarters in Washington, DC, and at selected overseas missions.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit fieldwork was conducted from February 23, 2007, through May 27, 2008, as follows:

- Kazakhstan – February 23 through March 16, 2007
- Romania – April 23 through May 18, 2007
- Uganda – April 24 through June 13, 2007
- Egypt – May 6, 2007, through May 27, 2008
- Nigeria – May 8 through May 25, 2007
- Peru – June 4 through June 20, 2007

The funding for the six missions audited was $33 million, or 14 percent of the $228 million funded for microfinance worldwide activities.

In planning and performing these audits, we reviewed and assessed the effectiveness of management controls related to the microfinance activities. We identified management control as the missions annual self-assessment of management control as required by the self-assessment of management control as required by the Federal Managers' Financial Integrity Act; mission policies and procedures; monitoring activities; accurate and timely recording of transactions and events; maintenance of documents; and the collection and verification of data supporting reported program results and financial data.

Methodology

To answer the audit objectives, we obtained an understanding of the microfinance program by reviewing the applicable laws, regulations, guidance, and program documents. We interviewed implementing partners, microfinance institutions, loan borrowers, and USAID's mission and Washington, DC, officials. We also reviewed relevant documentation such as award documents, cooperative agreements and amendments, mission correspondence, and performance plans, as well as financial and field visit reports produced by the missions and annual work plans produced by implementing partners and microfinance institutions.

To answer the first audit objective, we used the results of several indicators and compared the results with international benchmarks established in 2006 by the Microfinance Information Exchange Market—a global, Web-based microfinance information platform used by missions to measure the efficiency and performance of their microfinance institutions. The audit team selected the following international benchmarks:

- Operating expense ratio
- Operational sustainability ratio
- Borrowers per loan officer
- Loan writeoff ratio
- Portfolio at risk greater than 30 days
- Borrowers per staff member
- Active clients per staff member
- Cost per active client

To answer our second audit objective, we compared reported results to several targeted indicators, including active loan portfolio outstanding, jobs created and sustained, level of financial sustainability, number of loans disbursed, percentage of portfolio at risk, and percentage of active women clients.

MANAGEMENT COMMENTS

To: IG/A/PA Director, Steven H. Bernstein

From: EGAT/PR/MD, Director, Conan French

Cc: AA/EGAT, Jacqueline E. Schafer
[Name redacted by OIG due to privacy considerations]
[Name redacted by OIG due to privacy considerations]

Subject: EGAT Response to Draft Audit of USAID's Microfinance Activities

Comments regarding Recommendation No.1

Recommendation No.1: We recommend that USAID's Director of the Microenterprise Development office in the Bureau of Economic, Growth, Agriculture and Trade, issue guidance to all missions with microfinance activities to provide assurance that (a) data quality assessments are conducted properly and (b) reported results are properly verified, in accordance with the established agency guidance.

EGAT/PR/MD concurs with this recommendation and will take the following action:

Within 90 days of the approval of this report, EGAT/PR/MD will issue guidance to all missions with microfinance activities reminding them that a) data quality assessments must be conducted properly and that (b) the missions ensure that reported results are properly verified in accordance with the established agency guidance. This guidance will be incorporated into the annual guidance issued for the Microenterprise Results Reporting.

EGAT/PR/MD will include in its guidance to missions reference to relevant ADS sections and other relevant established agency guidance. Missions will be responsible for ensuring their own compliance to the agency guidance.

Comments regarding Recommendation No.2

Recommendation No. 2: We recommend that USAID's Director of the Microenterprise Development office in the Bureau of Economic, Growth, Agriculture, and Trade issue guidance that reiterates to the program's cognizant technical officers the importance of the established agency guidance for monitoring microfinance activities and assessing the recipients' performance.

EGAT/PR/MD concurs with this recommendation and will take the following action:

Within 90 days of the approval of this report, EGAT/PR/MD will issue guidance that reiterates to the program's cognizant technical officers the importance of the established agency guidance for monitoring microfinance activities and assessing the recipients' performance. This guidance will be incorporated into the annual guidance issued for the Microenterprise Results Reporting.

EGAT/PR/MD will include in its guidance to missions reference to relevant ADS sections and other relevant established agency guidance. Missions will be responsible for ensuring their own compliance to the agency guidance.

WORLDWIDE AUDIT REPORTS ISSUED

The following reports were issued as part of the Inspector General's worldwide audit of USAID's microfinance activities and are available on USAID's Web site at http://www.usaid.gov/oig/public/aud_usaid.htm.

Report No. 6-263-08-004-P, *Audit of USAID/Egypt's Microfinance Activities*, May 27, 2008.

Report No. 9-901-07-008-P, *Audit of USAID/Kazakhstan's Microfinance Activities*, September 24, 2007.

Report No. 7-620-08-002-P, *Audit of USAID/Nigeria's Microfinance Activities*, November 5, 2007.

Report No. 1-527-07-012-P, *Audit of USAID/Peru's Microenterprise Activities*, September 27, 2007.

Report No. 8-186-07-003-P, *Audit of USAID/Romania's Microenterprise Activities*, July 10, 2007.

Report No. 4-617-07-010-P, *Audit of USAID/Uganda's Microfinance Activities*, August 30, 2007.

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