



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/RWANDA'S AGRICULTURAL ACTIVITIES

AUDIT REPORT NO. 4-696-11-008-P
JULY 1, 2011

PRETORIA, SOUTH AFRICA



Office of Inspector General

July 1, 2011

MEMORANDUM

TO: USAID/Rwanda Mission Director, Dennis Weller

FROM: Acting Regional Inspector General/Pretoria, Rob Mason /s/

SUBJECT: Audit of USAID/Rwanda's Agricultural Activities
(Report Number 4-696-11-008-P)

This memorandum transmits our final report on the subject audit. We have considered management's comments on the draft report and have incorporated them as appropriate. Management comments have been included in their entirety in Appendix II.

This report includes four recommendations to strengthen the mission's agricultural activities. Based on management's comments on the draft report, management decisions have been reached on all four recommendations. Please provide the Office of Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendations 1–4.

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

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Abbreviations	
The following abbreviations appear in this report:	
ADS	Automated Directives System
COMESA	Common Market of Eastern and Southern Africa
FY	fiscal year
PEARL	Partnership for Enhancing Agriculture in Rwanda through Linkages
PHHS	Post-Harvest Handling and Storage Project
PLWHA	people living with HIV/AIDS
RWASHOSCCO	Rwanda Smallholder Specialty Coffee Company
SPREAD	Sustaining Partnerships to Enhance Rural Enterprise and Agribusiness Development

SUMMARY OF RESULTS

According to the World Bank, 80 percent of Rwandans rely on subsistence agriculture,¹ with nearly nine in ten living on less than \$2 per day.² Coffee, however, is one of the bright spots in Rwandan agriculture, and future growth in this sector is crucial for continued economic development and poverty reduction. Since 2000, U.S. Government assistance to Rwandan agriculture has emphasized coffee productivity and private sector competitiveness through the formation of local cooperatives and the identification of export markets. This assistance has expanded beyond coffee to include commodities such as pyrethrum (a source of natural insecticide), chili peppers, and dairy products.

In 2000 USAID/Rwanda began strengthening the coffee value chain—the series of steps and actors involved in transforming coffee from raw material to finished product—through the Partnership for Enhancing Agriculture in Rwanda through Linkages (PEARL). This support continued in September 2006 with a 5-year, \$6.1 million cooperative agreement with Texas Agricultural Experiment Station to implement the Sustaining Partnerships to Enhance Rural Enterprise and Agribusiness Development (SPREAD) Project. Both PEARL and the SPREAD project were designed to develop high-value markets with the potential to increase the incomes of farmers and others in the coffee value chain. In addition to coffee, the SPREAD project formed two partnerships with private entities to increase sales of pyrethrum and chili peppers.

The second major agricultural program supported by USAID/Rwanda was the USAID Dairy Competitiveness Project, a 5-year,³ \$5 million cooperative agreement signed in 2007 and implemented by Land O'Lakes, Inc. This project aimed to improve milk quality in Rwanda to meet the standards of the Common Market of Eastern and Southern Africa (COMESA). As part of the project, the African Breeders' Service Total Cattle Management and CHF International provided technical and business advice to associations of people living with HIV/AIDS on developing dairy-related businesses and becoming integrated into the mainstream economy.

A third major USAID/Rwanda agricultural initiative, launched in September 2009, is the Post-Harvest Handling and Storage (PHHS) Project. Implemented through a \$4.5 million contract with CARANA Corporation, this 2.5-year project aims to improve food security by linking surpluses of smallholder staple crops to markets. PHHS works with private sector agribusinesses to reduce losses through investment in storage infrastructure and improvements in postharvest conditioning, grading, sorting, and packaging. Having storage facilities would free smallholders from the need to sell crops primarily at harvest time, when prices are typically at their lowest.

The objective of the audit was to determine whether USAID/Rwanda's agricultural activities were achieving their main goals of increasing rural incomes and employment. The results are mixed. Although anecdotal evidence and some quantitative data suggest that the mission's agricultural interventions, particularly in coffee, have benefited farmers, no overall data were available measuring the mission's progress toward meeting its main goals (page 4). The results for specific activities are summarized on the following page.

¹ "Rwanda: Country Brief," World Bank, April 2011.

² *World Development Indicators 2011*. Table 2.8, p. 64.

³ This agreement was later reduced to 3.5 years because of a project realignment to avoid duplication with other donor-funded dairy activities.

SPREAD Coffee. Data from the Rwanda National Coffee Authority and the Rwanda Smallholder Specialty Coffee Company (RWASHOSCCO) indicate that Rwandan coffee production, exports, and price per kilogram increased from 2005 through 2009, relative to the previous 5-year period. Implementing partners, Government of Rwanda officials, and coffee farmers themselves largely attributed these increases to SPREAD. According to these stakeholders, SPREAD's activities have led to marked improvements in the quality of specialty coffee. Program beneficiaries and others stated that farmers received noticeable economic benefits. Furthermore, several independent articles⁴ have lauded improvements in Rwandan coffee and its increasing recognition in the global specialty coffee market over the period of USAID involvement.

To confirm these reports, after audit fieldwork the mission undertook a rigorous impact assessment of its specialty coffee programs over the past 10 years. Preliminary results indicated that SPREAD and its predecessor project delivered 82 percent higher incomes for its beneficiaries compared with a control group from 2000 to 2010, as well as 17 percent lower poverty by 2010.

Despite these positive findings, some of SPREAD's reported results were unsupported or inaccurate (page 10). In addition, USAID branding was not present at all SPREAD locations (page 11).

SPREAD Pyrethrum. Although the project had enhanced drying facilities, conducted business training, and exceeded its annual target for production of pyrethrum, few farmers interviewed stated that their incomes had improved because of those activities. However, it was premature to assess the long-term impact of the program on rural incomes and employment because the partnership had been operating for only 1 year.

SPREAD Chili Pepper. The goals set for chili pepper production had not been realized because the private partner, PROMAGRI, had not been able to find a suitable foreign buyer. At the conclusion of audit fieldwork, USAID/Rwanda was collaborating with SPREAD to find alternative partners or buyers. Subsequently, the mission decided to drop future chili pepper activities from its agricultural portfolio (page 7).

USAID Dairy Competitiveness Project. Although USAID/Rwanda's Dairy Competitiveness Project has focused on strengthening the dairy value chain in Rwanda by improving milk quality, there was limited evidence that farmers' incomes had increased. The project had achieved several milestones, such as the establishment of Rwanda's first milk quality-testing laboratory and the creation of the Rwanda National Dairy Board. In addition, the project's targeted assistance to people living with HIV/AIDS resulted in significant income gains (page 5).

Post-Harvest Handling and Storage. The first 6 months of the project were devoted to analyzing postharvest storage infrastructure and identifying possible private sector entrepreneurs to invest in additional capacity. Key first-year targets for the weight and value of commodities entering USAID-supported storage were not achieved because the mission initially underestimated the difficulty of enlisting private sector support. However, the project recently leveraged more than \$900,000 in private investment and helped facilitate five deals between banks and cooperatives that are nearing completion (page 8).

⁴ For example, see "Coffee Helps Rwandan Industry," *Detroit Free Press*, November 14, 2010, p. D17; Laura Fraser, "Coffee, and Hope, Grow in Rwanda," *The New York Times*, August 6, 2006.

The report recommends that USAID/Rwanda:

1. Develop and implement a cost-effective written plan to measure the impact of its agricultural activities (page 5).
2. Prepare a written strategy for adapting and extending successful interventions targeted to people living with HIV/AIDS under the Dairy Competitiveness Project to the general rural population in future dairy programming (page 7).
3. Prepare a written analysis of successful strategies employed in its specialty coffee activities that can be adapted for use in future dairy programming (page 7).
4. Include a section in its standard site visit report template to verify compliance with USAID branding policies and regulations (page 12).

Details of the findings summarized above appear in the following section. The audit scope and methodology are described in Appendix I. Management comments are included in their entirety in Appendix II, and our evaluation of management comments is included on page 13.

AUDIT FINDINGS

Impact Indicators Were Not Measured

USAID policy⁵ defines performance management as a systematic process of monitoring program achievements and collecting and analyzing performance information to track progress toward planned results. As part of USAID performance management policy,⁶ missions should collect baseline data to determine the value of performance indicators prior to USAID interventions.

USAID/Rwanda's overarching objective for its agricultural activities is to expand economic opportunities in rural areas. The mission's results framework utilizes changes in rural incomes and employment generated by U.S. Government assistance as indicators to measure progress toward achieving the overall assistance objective.

Although anecdotal evidence and some data on coffee production and exports suggest that these activities have benefited farmers, there was no portfolio-wide, quantitative measurement of USAID/Rwanda's progress toward achieving its main goal of expanding economic opportunities in rural areas. No baseline data were collected that measured incomes and employment of targeted rural populations prior to the mission's activities. Furthermore, the mission was not measuring changes in rural incomes or employment to determine whether rural areas have benefited from USAID interventions.

According to mission officials, collection of baseline data and measurement of progress toward meeting high-level objectives have been challenging. Data collection on incomes proved difficult and exceedingly costly. As a result, the mission's emphasis shifted from measuring overall impact to using output-level indicators, such as measuring coffee production. According to the mission, USAID's introduction of the operational plan also contributed to this shift by requiring overseas missions such as USAID/Rwanda to devote more time and resources to collecting output indicator data while simultaneously de-emphasizing results frameworks.⁷

In addition, mission officials noted that the original indicator measuring employment was poorly defined. The indicator was defined in the October 2004 performance management plan as the *Percentage of persons employed in target areas*, which initially were all in the Butare District (shown in the map on the following page), where coffee activities were being implemented. This has been changed in the mission's current results framework to measure the *Number of person-days of employment generated by U.S. Government assistance*.

⁵ Automated Directives System (ADS) 203.3.2, "Performance Management."

⁶ ADS 203.3.4.5, "Setting Performance Baselines and Targets."

⁷ An operational plan provides details on the use of foreign assistance funding for a specific fiscal year, while a results framework is a planning tool that illustrates the cause-and-effect linkages between outputs, intermediate results, and the assistance objective (the final result or outcome) to be achieved with the assistance provided.

Map of Rwanda



Source: CIA World Factbook.

According to Automated Directives System (ADS) 200.3.1.2, USAID views achieving program results as crucial to maintaining the credibility of the Agency and being accountable to stakeholders. Without measuring its impact indicators, USAID/Rwanda was not able to evaluate the extent to which its agricultural activities have benefited the targeted population. However, after audit fieldwork, the mission undertook a rigorous impact assessment of its programs in specialty coffee over the past 10 years. Preliminary results indicated that SPREAD and its predecessor project delivered 82 percent higher incomes for its beneficiaries compared with a control group from 2000 to 2010, as well as 17 percent lower poverty by 2010. Mission officials noted that the impact assessment was an attempt to make up for the absence of data on impact indicators, given the cost and difficulty of data collection. As a result, this audit makes the following recommendation.

Recommendation 1. *We recommend that USAID/Rwanda develop and implement a cost-effective written plan to measure the impact of its agricultural activities.*

Dairy Project Had Mixed Results

The main goal of the USAID Dairy Competitiveness Project was to expand economic opportunities related to the dairy sector and improve well-being in rural areas by increasing the competitiveness of the Rwanda dairy sector. Although Land O'Lakes noted that milk quality was not the original focus of the project, it concluded that the main goal was not attainable unless the project addressed milk quality. Consequently, the project focused on improving milk quality in Rwanda and raising rural incomes by introducing price differentiation into the dairy market. Price differentiation would incentivize farmers to produce milk with lower bacteria counts for dairy processors (and ultimately consumers) that were willing to pay premium prices for higher-quality milk.

Milk Quality and Price. To help create the foundation for sustainable price differentiation, the project engaged in a number of activities. For example, the project helped establish Rwanda's first milk quality-testing laboratory. This facility tests milk and provides farmers with information on bacteria counts and other key parameters. In addition, the project supported the start of the Rwanda National Dairy Board, which advocates for improved policies on behalf of the dairy industry. On a local level, the project worked with 12 dairy cooperatives in Gatsibo and Nyagatare districts to help farmers produce milk with reduced bacteria counts.

Despite these accomplishments, economic incentives for higher-quality milk have not translated into higher prices. In 2008, a zero baseline was established for the indicator *Farm-level milk prices differentiated according to measured quality factors*, with a 10 percent increase targeted by 2010–2011. Although some milk processors have committed to initiating payments based on bacteria counts, this has not occurred on a nationwide scale. Consequently, no change had been reported in the indicator as of June 30, 2010.

According to mission officials, higher prices were not realized because transitioning from an environment where price premiums are not paid for higher quality milk to one where such premiums are institutionalized is a long-term process. Mission officials contrasted USAID's decade-long involvement in fostering the specialty coffee industry with the more recent intervention in dairy and noted that, although the value chain for specialty coffee had made significant advances in 10 years, the coffee program was not yet self-sustaining. The SPREAD impact assessment also indicated that the development of industry expertise to manage product quality and associated incentives was still one of the critical features needed to make the coffee program self-sustaining. These remaining challenges in coffee, when viewed in conjunction with the income gains mentioned earlier, indicate that it is premature to judge definitively the success or failure of the mission's dairy intervention. This was essentially the conclusion of a March 2011 end-of-project evaluation, which recommended continued investment in the Rwandan dairy sector.

Income Generation for People Living With HIV/AIDS. As a corollary to its broad-based work with dairy farmers and cooperatives, the Dairy Competitiveness Project agreement included an objective to integrate people living with HIV/AIDS (PLWHA) into dairy-related income-generating activities. To achieve this goal, the project provided small grants and training to PLWHA to start businesses and help them increase milk production. According to the March 2011 evaluation, overall income for these PLWHA farmers increased by about 400 percent when compared with their income before receiving assistance. This increase was confirmed anecdotally during the audit, as PLWHA farmers and grantees indicated that activities had improved their milk production and helped one grantee start a business.

Dairy is a major component of Rwandan agriculture, and the inability of the Dairy Competitiveness Project to introduce price differentiation has made it more difficult for USAID/Rwanda to achieve its goal of increasing rural incomes and employment. However, the significant income gains realized by the PLWHA target group indicate that support for extension services and the establishment of complementary small businesses can lead to the greater availability of surplus milk and thus higher incomes. As the mission intends to continue dairy activities under the Feed the Future initiative,⁸ this audit makes the following recommendations to help plan future programming.

⁸ Feed the Future is a U.S. Government initiative to help eradicate global hunger and achieve food security. USAID plays a leading role in this multiagency effort.

Recommendation 2. *We recommend that USAID/Rwanda prepare a written strategy for adapting and extending successful interventions targeted to people living with HIV/AIDS under the Dairy Competitiveness Project to the general rural population in future programming.*

Recommendation 3. *We recommend that USAID/Rwanda prepare a written analysis of successful strategies employed in its specialty coffee activities that can be adapted for use in future dairy programming.*

Chili Pepper Project Did Not Succeed

Under the Global Development Alliance,⁹ the mission helped initiate a partnership in 2009 between the SPREAD project and a private Rwandan company, PROMAGRI, to facilitate linkages between suppliers and international exporting companies. The partnership promoted the development of high-value markets to increase the incomes of farmers who grow bird's eye chili peppers¹⁰ and others involved in the value chain. According to the memorandum of understanding between SPREAD and PROMAGRI, the latter would purchase export-grade chili from SPREAD-supported cooperatives and find a suitable export market for the chili peppers. For its part, SPREAD built a drying furnace and related attachments for PROMAGRI and supplied it with a moisture meter, cocoons,¹¹ sacks, and other items needed to properly dry, process, and store the chili peppers for export. SPREAD also provided drying tables to three other chili pepper growers formerly supported by an organization that was no longer viable so that PROMAGRI could purchase their chili peppers. The total estimated USAID outlay for the above items, not counting the cost of technical assistance by SPREAD, was 11,350,000 Rwandan francs (about \$20,000).

Despite this arrangement, PROMAGRI had not purchased all of the export-grade chili pepper from the farmers. Ten tons of chili pepper initially purchased from the chili farmer cooperatives were sitting in cocoons at PROMAGRI's premises, and another 10 tons were indefinitely in storage at the largest chili farmer cooperative supported by SPREAD, in Gashonga (pictured below). According to PROMAGRI officials, approximately another 2 tons of chili peppers were available at smaller SPREAD-supported cooperatives. These officials stated that not all of the chili had been purchased from the cooperatives because pricing and other contract terms were still under negotiation with a potential buyer in the Netherlands, and PROMAGRI was concerned that it might sustain a loss because it did not have appropriate storage facilities for the additional chili pepper. As a result, the partnership had not yet been effective in helping to increase farmers' incomes as originally envisioned. Because the mission has decided to drop future investments in chili pepper from its agricultural portfolio, the audit makes no recommendations in this area.

⁹ The Global Development Alliance is USAID's business model promoting public-private alliances as a central element of the Agency's strategic assessment, planning, and programming efforts.

¹⁰ Bird's eye chili pepper, often referred to as *piri-piri*, is a very hot pepper popular in Southeast Asian, African, Spanish, and Portuguese cooking.

¹¹ Vacuum-sealed protective storage bags.



Chili pepper dries at a cooperative in Gashonga. (Photo by RIG/Pretoria, October 19, 2010)

Post-Harvest Activity Failed to Meet Key First-Year Targets

The PHHS project contract with CARANA Corporation seeks to improve food security by linking producers of surplus staple crops to markets through increased private sector investment in postharvest storage. According to the USAID performance management plan for PHHS, the key indicator measuring the success of the PHHS project is the *Weight and value of commodities entering USAID-supported storage*. For its initial year ended September 30, 2010, PHHS had established a target to store 5,000 metric tons of commodities, benefiting 18,000 farmers. These goals were to be accomplished using 100 postharvest facilities constructed or purchased with project assistance. Additionally, PHHS would provide 11,000 individuals with short-term agricultural productivity training and leverage \$50,000 in private sector funds to support postharvest storage, conditioning, and processing centers.

The PHHS project reported mixed results for its initial year. Although PHHS did produce an initial assessment of postharvest storage conditions, as required under the contract, it reported training only 91 individuals on addressing postharvest losses and handling problems identified in the assessment.¹² Moreover, PHHS did not store any commodities because it did not

¹² PHHS uses a training-of-trainers approach, training trainers who in turn are supposed to train three to four others each. After audit fieldwork, the mission stated that by March 31, 2011, about 3,900 trainers had been trained. PHHS planned to verify that these trainers had passed on their training as envisioned by the end of the fiscal year.

construct or purchase any postharvest storage containers. Toward the end of its first year, however, PHHS did successfully leverage \$387,000 in private sector funding to construct a grain-bulking center in Kirehe (site shown in the following photo). Project officials estimate that this private sector alliance will result in 10,000 metric tons of maize passing through storage facilities in 2011 and benefit 16,000 farmers, helping to create new markets in maize and beans.



This land in Kirehe District is the proposed site of the Grain Bulking Center. (Photo by RIG/Pretoria, October 11, 2010)

The PHHS project has suffered from turnover of some key employees, which has disrupted project continuity. According to contractor officials, these employees were not effective in dealing with Rwandan officials and were unable to provide adequate leadership and guidance to technical staff. Mission officials noted that although PHHS staffing did adversely affect the project, first-year targets were not achieved primarily because the mission underestimated the difficulty of convincing the private sector to invest in storage infrastructure for low-margin staple crops. After the initial assessment revealed this difficulty, PHHS and the mission began exploring options to attract private sector investment, such as utilizing financing available through a related project run by USAID/East Africa and establishing a Development Credit Authority guarantee with a local microfinance institution to encourage greater lending for staple crops.¹³

¹³ The Development Credit Authority is a USAID mechanism designed to encourage financial institutions to lend to creditworthy but underserved borrowers by extending risk-sharing guarantees, which generally cover up to 50 percent of the losses on loans made by financial institutions and investors.

By not meeting its first-year targets, PHHS did not expand rural economic opportunities to the extent it could have if those targets had been met. Mission officials stated that the contractor has hired a new chief of party and expressed confidence that the PHHS project was back on track to meet future targets. For example, the mission noted that the project recently leveraged more than \$900,000 in private investment and helped facilitate five deals between banks and cooperatives that were nearing completion. Because the mission and PHHS have already taken steps to address the audit findings, this audit is not making any recommendations in this area.

Some Data Reported Were Unsupported or Inaccurate

USAID's results-oriented approach to management calls for its managers to consider performance information when making decisions. Sound decisions require accurate, current, and reliable information, and the benefits of USAID's results-oriented approach depend on the quality of performance information available. To this end, ADS 203.3.5.1d discusses the importance of reliable data. To be reliable, data should reflect stable and consistent data collection processes and analysis methods over time so that USAID managers can be confident that progress toward performance targets reflects real changes rather than variations in data collection methods. Additionally, the Government Accountability Office's *Standards for Internal Control in the Federal Government*,¹⁴ requires accurate and timely recording of all transactions and significant events. These standards also require that transactions and significant events be clearly documented, with the documentation readily available. Despite this guidance, the audit found the following deficiencies:

- SPREAD could not provide supporting documentation for its reported contributions to two standard agricultural sector capacity indicators: *Number of rural households benefiting directly from U.S. Government interventions* (40,000) and *Number of individuals who have received U.S. Government-supported short-term agricultural sector productivity training* (4,023). According to SPREAD officials, supporting documentation was not available because the person who compiled the results was no longer with the project. The SPREAD director agreed that supporting documentation should not be dependent on an individual employee but rather on proper accounting and data control systems.
- In its FY 2010 third quarter progress report, SPREAD reported FY 2009 coffee production data that could not be reconciled with details provided in a spreadsheet for that year. In addition, some FY 2009 and FY 2010 beneficiary training data could not be substantiated because the person who compiled the data was no longer with SPREAD, and the documentation could not be found.
- SPREAD did not have adequate internal controls to verify production and export data in its quarterly reports to USAID. For example, SPREAD reported inaccurate production and export data for bird's eye chili pepper in its FY 2010 third quarter report. The report gave the impression that the results for each quarter represented that quarter's production, when actually the result for FY 2010 first quarter was a cumulative amount carried over from FY 2009. Consequently, the data for first quarter FY 2010 and the total for the FY 2010 columns were also incorrect. When asked to provide supporting documentation for the data reported, a SPREAD official pointed out that the data as reported were wrong, based on his

¹⁴ GAO/AIMD-00-21.3.1 (November 1999).

knowledge of the production history. The supporting details he provided, however, were handwritten, without a clear cutoff in periods represented, and otherwise susceptible to various interpretations and errors in reporting. Additionally, he was unable to explain how the data in the quarterly report were gathered.

Mission officials stated that they did not evaluate the reported data even though they read the quarterly reports and provided feedback to SPREAD. Likewise, the mission's site visit reports did not include data quality checks. The audit concluded that these deficiencies occurred primarily because mission officials lacked definitive guidance regarding the specific monitoring and evaluation responsibilities of various mission offices and teams. To address this situation, after audit fieldwork USAID/Rwanda issued a mission order delineating the roles and responsibilities of mission offices, teams, and implementing partners in fulfilling monitoring and evaluation requirements. In addition, the mission's current site visit template now includes a section on monitoring data quality.

Reliable, accurate data are a key element in USAID performance management and decision making. Without such data, it is more difficult for the mission to properly manage the program and make sound management decisions. Because the mission has already issued a detailed and thorough mission order to improve data quality and performance management, the audit is not making any recommendations in this area.

Some Activity Locations Lacked USAID Branding

Section 641 of USAID's framework legislation, the Foreign Assistance Act of 1961,¹⁵ as amended, requires that all programs under the Foreign Assistance Act be identified appropriately overseas as "American Aid." To help ensure compliance with this requirement, ADS 320, "Branding and Marking," contains USAID's policy directives and required procedures on branding and marking USAID-funded programs, projects, activities, public communications, and commodities. In accordance with ADS, the agreement with Texas Agricultural Experiment Station initiating the SPREAD project stated that the branding strategy and marking plan were part of the cooperative agreement. The agreement noted that USAID approved the branding and marking strategy with the provision that the recipient work with USAID on project name, logo, and marking prior to any production.

Despite these requirements, not all SPREAD activity locations had adequate USAID branding. Signage and posters were lacking at 5 of 12 SPREAD sites visited. Signage or posters identifying USAID as a project sponsor were not in evidence at the Maraba Cooperative offices in Cyarumbo. Adequate branding was also absent from the National Specialty Coffee Quality Laboratory and Training Center building in Cyarumbo, at the Karaba Cooperative offices as well as at its coffee washing station in Nyamagabe, and at the facility built for PROMAGRI in Kigali. These facilities were all part of the SPREAD project.

Mission officials had no explanation for why the signs were not at these locations or why they did not notice the absence of signs during their site visits. According to mission officials, implementing partners typically place signs for USAID-supported structures on the road just before the turn to their locations. Whereas this was true for the Maraba coffee-washing station, no signposts with the USAID logo announced the other sites noted above. Given the mission's

¹⁵ Foreign Assistance Act of 1961, Public Law 87-195, Section 641 (codified at 22 U.S.C. 2401).

manner of signage for USAID-supported structures, which are quite prevalent in Rwanda, mission officials were surprised to learn about the absence of USAID branding at SPREAD locations. Adequate monitoring of compliance with USAID branding policies and regulations during routine site visits can help ensure that the public diplomacy benefits of U.S. foreign assistance are maximized. Consequently, this audit makes the following recommendation.

Recommendation 4. *We recommend that USAID/Rwanda include a section in its standard site visit report template to verify compliance with USAID branding policies and regulations.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Rwanda partially agreed with Recommendation 1, agreed with Recommendations 2 and 3, and did not agree with Recommendation 4 but reported plans for alternative corrective action. We revised Recommendations 1 and 4 after evaluating the mission's comments, and management decisions have been reached on all recommendations. Our detailed evaluation of management's comments follows.

Recommendation 1. USAID/Rwanda did not agree with the first part of the draft recommendation, to prepare an analysis of the relative costs and benefits of obtaining periodic impact assessments versus measuring impact indicators for its agricultural activities, since it recognizes the importance of both conducting periodic impact assessments and regularly monitoring performance data, and stated that it will do both. The mission agreed with the second part of the draft recommendation: to develop and implement a cost-effective written plan to measure the impact of its agricultural activities. Because Rwanda is a Feed the Future focus country, the mission stated that it would work with a USAID contractor to develop a comprehensive monitoring and evaluation system to measure programmatic impact and inform program design by December 31, 2011. In our opinion, the mission's response meets the overall intent of the draft recommendation, which was to measure impact indicators regularly to assess the performance of its agricultural portfolio. Consequently, we revised Recommendation 1 in this report, retaining only the second part. As a result, a management decision has been reached on Recommendation 1.

Recommendation 2. USAID/Rwanda agreed to prepare a written strategy for adapting and extending successful interventions targeted to people living with HIV/AIDS (PLWHA) under the Dairy Competitiveness Project to the general rural population in future programming. To address this recommendation, the mission's planning document for future dairy programming contained a major directive to explore sustainable and scalable techniques and approaches in which the interventions previously piloted for PLWHA farmers can be expanded to a much larger target rural population. The mission's intent is that this directive will be incorporated into the final agreement of its future dairy program, which it estimates will be awarded by December 31, 2011. Based on management's comments, a management decision has been reached on Recommendation 2.

Recommendation 3. USAID/Rwanda agreed to prepare a written analysis of successful strategies employed in its specialty coffee activities that can be adapted for use in future dairy programming. As part of this effort, the mission undertook a long-term impact assessment of USAID's investments in the specialty coffee sector. A major goal of the assessment is to determine whether the value chain approach applied in the coffee sector has broader applicability in transforming other agricultural value chains in Rwanda. In our opinion, achievement of this goal meets the intent of the recommendation. Additional correspondence with the mission indicated the assessment should be complete by September 30, 2011, which would permit the incorporation of the assessment's findings into the future dairy program. Based on management's comments, a management decision has been reached on Recommendation 3.

Recommendation 4. USAID/Rwanda did not agree with the draft recommendation to ensure that adequate branding is present at all SPREAD project activity locations because the project is ending in September 2011 and it would not be cost-effective to do so. Alternatively, the mission agreed to ensure adequate branding in a successor program to SPREAD by adding a specific section on branding to the mission's existing site visit template. In our opinion, the mission's response is reasonable, corrects the cause of the problem, and benefits the mission's other programs in addition to agriculture. Consequently, we revised Recommendation 4 in the final report to recommend the addition to the site visit template broached by the mission. In follow-up correspondence, the mission estimates that it will add the specific section on branding to the template by September 30, 2011. As a result, a management decision has been reached on Recommendation 4.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Pretoria conducted this performance audit in accordance with generally accepted government auditing standards.¹⁶ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. The objective was to determine whether USAID/Rwanda's agricultural activities were achieving their main goals of increasing rural incomes and employment. We believe that the evidence obtained provides that reasonable basis. Audit fieldwork was conducted from October 4 through 26, 2010, and covered FYs 2009 and 2010 (through June 30, 2010).

The audit covered the following three programs:

- *SPREAD (Sustaining Partnerships to Enhance Rural Enterprise and Agribusiness Development)*, a 5-year, \$6.1 million cooperative agreement with Texas Agricultural Experiment Station starting in September 2006. As of June 30, 2010, cumulative obligations and expenditures under the program totaled approximately \$5,298,000.
- *The Dairy Competitiveness Project*, a 3.5-year, \$5 million cooperative agreement signed in 2007 and implemented by Land O'Lakes, Inc. As of June 30, 2010, cumulative obligations and expenditures under the program totaled \$4,999,995.
- *PHHS (The Post-Harvest Handling and Storage Project)*, a 2.5-year, \$4.5 million contract signed in September 2009 with CARANA Corporation. As of June 30, 2010, cumulative obligations and expenditures under the program totaled approximately \$2,500,000.

The audit covered agricultural program activities since the inception of the three projects, and included (1) assessing the impact of the interventions on the targeted farmers' incomes and employment, (2) validating selected reported results associated with the projects' activities during FY 2009, and (3) assessing the status of all three projects as of June 30, 2010, which was the latest period of activities reported.

In planning and performing the audit, the audit team assessed relevant controls used by the mission to manage the agricultural projects and ensure that their implementers were providing adequate oversight of project activities. These controls included maintaining regular contact with the implementer as well as reviewing weekly and quarterly progress reports. These reports provided a narrative overview on the status of activities in each of the projects, including any significant issues or new developments. Additionally, the auditors examined the mission's FY 2010 annual self-assessment of management controls, which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act of 1982,¹⁷ to check whether the assessment cited any relevant weaknesses.

Audit fieldwork was performed at USAID/Rwanda, the implementers' main offices in Kigali, and the offices of private partners in Butare and Musanze. In addition, field trips were made to the

¹⁶ *Government Auditing Standards*, July 2007 Revision (GAO-07-731G).

¹⁷ Public Law 97-255, as codified in 31 U.S.C. 3512.

eastern, northeastern, northern, western, southwestern, and southern districts of Rwanda to cover programs in PHHS, dairy, pyrethrum, chili peppers, and coffee. During these trips, the audit team visited one cooperative included in the PHHS project (with 1,800 farmers), a proposed site for a warehouse for PHHS, three dairy farmer families living with HIV/AIDS, four dairy farmer cooperatives and milk collection centers, a milk-processing plant and laboratory, a wholesaler and a retailer of molasses (both living with HIV/AIDS) and targeting similar dairy farmers as customers, four pyrethrum farmer cooperatives with about 400 members, the largest chili pepper cooperative in Rwanda supported by USAID, and three of the largest coffee farmer cooperatives in Rwanda supported by USAID.

The audit team interviewed implementing partners and Government of Rwanda officials in Kigali at the Office des Cultures Industrielles du Rwanda/Café, the government's national coffee authority; the Rwanda Animal Resources Development Authority; and the National University of Rwanda's Agriculture Faculty, where USAID had supported coffee research. Additionally, the audit team met with Heifer International in Kigali to discuss dairy activities and with the National Rwanda Dairy Board president and vice-chairman. Due to the judgmental selection of activities reviewed and data tested as well as the qualitative nature of most of the audit work performed, this audit does not comment on the value of amounts tested relative to the total project obligation amounts audited as a basis of arriving at conclusions.

Methodology

To determine whether the program was achieving its main goals, the audit team initially interviewed staff at USAID/Rwanda's Office of Economic Growth and the implementers' main country offices to gain an understanding of the agricultural projects, all of the key players and their roles and responsibilities, and the reporting procedures and controls in place for monitoring the projects. Further work to answer the audit objective was divided into three parts and involved (1) assessing the impact of the interventions on the targeted farmers' incomes, employment levels, and livelihoods; (2) validating reported results associated with the projects' activities during FY 2009; and (3) assessing the status of all three projects as of June 30, 2010.

In assessing the impact of the projects on the targeted populations, the audit judgmentally selected a sample of the farmers and farmer cooperatives supported by USAID/Rwanda and asked them specific questions about the impact of the projects on their lives. Farmers at pyrethrum, dairy, chili pepper, and coffee cooperatives, plus beneficiaries at milk collection centers, a dairy processing plant and laboratory, coffee-washing stations, and other locations, were judgmentally selected to provide a balanced and adequately representative sample of beneficiaries. In each selected location, the audit interviewed farmers and the managers of farmer cooperatives, as well as observed the physical structures and other indicators of project activities. The audit reviewed cooperative registers to verify the numbers of farmers reported to USAID, and cross-checked various production data between the cooperatives' and implementing partners' records. Judgmental sample results cannot be projected to the population.

To validate the reported results for the projects' activities, the audit reviewed supporting records for indicators reported by the mission in its FY 2009 Performance Plan and Report. For FY 2010, the validation of results was limited to judgmentally selecting results data for output indicators in partners' quarterly progress reports as of the third quarter, June 30, 2010, and reconciling them to their detailed supporting records from the partners.

In assessing the up-to-date status of the activities being carried out during FY 2010, the auditors relied primarily on the implementers' latest, third quarter (June 30) progress reports and on interviews conducted with partners' staff regarding specific implementation problems and issues reflected in these reports and through the end of fieldwork on October 26, 2010. In addition, audit site visits, including those to partners' and Government of Rwanda offices, occurred contemporaneously through the end of audit fieldwork. The audit also included a review of applicable procedural guidance, including detailed flow charts, relating to the management of specific program components.

No materiality threshold was set for this audit, as the objective was to determine the overall impact of the program activities on the targeted beneficiaries. However, neither the baseline nor targets for the two indicators that would measure the impact of the projects on their beneficiaries had yet been set by the mission. Therefore, the auditors relied on the overall responses of beneficiaries in the judgmentally selected samples, observations at sites visited, interviews with Government of Rwanda officials, and anecdotal evidence of project activities' impact in reaching their overall conclusions on whether USAID/Rwanda's agricultural activities were achieving their main goals. Subsequent to audit fieldwork, the mission commissioned an independent evaluation of the impact of the SPREAD and Dairy Competitiveness projects. The auditors considered the results from the evaluations in arriving at the conclusions and recommendations in this report.

MANAGEMENT COMMENTS



June 2, 2011

MEMORANDUM

TO: Christine M. Byrne, Regional Inspector General (RIG), Pretoria

CC: Charline Eastin, Controller, USAID/Rwanda
Zdenek Suda, Program Officer, USAID/Rwanda
Brian Frantz, General Development Officer, USAID/Rwanda

FROM: Dennis Weller, Mission Director, USAID/Rwanda /s/

SUBJECT: Management Comments on “Audit of USAID/Rwanda’s Agriculture Activities (Report Number 4-696-11-00X-P)”

Please find attached USAID/Rwanda’s Management Response Letter to RIG/Pretoria’s Audit Report Number 4-696-11-00X-P.

Each of the four recommendations from the report is copied below along with USAID/Rwanda’s management response. Some additional comments, updating certain facts presented in the report, are also included.

I wish to extend my thanks and appreciation for the constructive approach taken to this audit, particularly the healthy discussion that resulted in the report’s findings and recommendations.

**Management Comments on
“Audit of USAID/Rwanda’s Agriculture Activities
(Report Number 4-696-11-00X-P)”**

Audit Recommendations and Management Responses

***Recommendation 1.** We recommend that USAID/Rwanda (a) prepare a written analysis of the relative costs and benefits of obtaining periodic impact assessments versus measuring impact indicators for its agriculture activities; and (b) develop and implement a cost-effective written plan to measure the impact of its agriculture activities.*

USAID/Rwanda appreciates the RIG’s recognition of the quality of the recently undertaken long-term impact assessment of its investments in the specialty coffee sector, demonstrating the effectiveness of the PEARL and SPREAD projects over a 10-year period. Nevertheless, USAID/Rwanda agrees with the finding that data on objective-level impact indicators was not collected with sufficient frequency to adequately monitor the impact of its overall agricultural portfolio. Further, USAID/Rwanda understands the importance of regular monitoring of performance data, including objective-level impact indicators. As such, **USAID/Rwanda does not believe it is necessary to prepare a cost-benefit analysis of regularly collecting objective-level impact data versus undertaking periodic impact assessment (part (a) of this recommendation).** Both are necessary to inform decision-making, and USAID/Rwanda will do both.

USAID/Rwanda agrees with part (b) of this recommendation: develop and implement a cost-effective written plan to measure the impact of agriculture activities. In recognition of the centrality of sound monitoring and evaluation (M&E) to the success of the Administration’s Feed the Future (FTF) food security initiative, USAID’s Bureau of Food Security has recently contracted with Weidemann Associates to provide technical assistance in the planning and design of FTF M&E systems for USAID Missions in six FTF focus countries, including Rwanda, and to train Mission staff on key FTF M&E system components and activities. Weidemann Associates’ Statement of Work notes, “It is USAID’s intent that FTF countries have a comprehensive plan and integrated system for monitoring project performance and evaluating impact. This comprehensive plan and integrated system will provide the best available empirical evidence to demonstrate FTF results to stakeholders and inform policies, investment decisions, and the design of effective and sustainable development practices.” USAID/Rwanda believes that, with support from Weidemann Associates, part (b) of this recommendation can be completed by the end of 2011.

***Recommendation 2.** We recommend that USAID/Rwanda prepare a written strategy for adapting and extending successful interventions targeted to people living with HIV/AIDS under the Dairy Competitiveness Project to the general rural population in future programming.*

USAID/Rwanda agrees with this recommendation and is already taking corrective action. In light of the findings of the March 2011 evaluation of the USAID Dairy Competitiveness (UDC) project, which estimated that the incomes of people living with HIV/AIDS (PLWHA) that benefited from USAID investments in livestock extension rose by 400%, USAID/Rwanda

plans to extend this successful component of the UDC project to the general rural population. The attached Activity Approval Document prepared for a follow-on program for which a full-and-open solicitation will be issued shortly identifies the following as one of three major program components:

“Exploring sustainable and scalable techniques and approaches in which the interventions piloted for PLWHA farmers can be rolled out to a much larger target rural population, such as improving cattle management practices through applied trainings including feeding and Artificial Insemination (AI) services. The [UDC project] evaluation reported successful and cost-effective results as [the UDC project] helped to significantly increase the lactation period and yields of milk production per cow and therefore income and households nutritional status. [The follow-on program] will expand this activity to a larger group of rural smallholders. It will collaborate and partner with other stakeholders, especially existing extension services, for rapid, multiplier effect on producers and small holders in the whole country.”

Once the planned UDC follow-on program is awarded, USAID/Rwanda believes it will have successfully implemented this recommendation.

***Recommendation 3.** We recommend that USAID/Rwanda prepare a written analysis of successful strategies employed in its specialty coffee activities that can be adapted for use in future dairy programming.*

USAID/Rwanda agrees with this recommendation and is already taking corrective action.

The recently undertaken long-term impact assessment of USAID/Rwanda’s investments in the specialty coffee sector had both quantitative and qualitative components. A key hypothesis to be tested by the qualitative component was (from the impact assessment Statement of Work): “To determine whether the value chain approach applied to the coffee value chain has broader applicability in transforming other Rwandan agricultural value chains.” The impact assessment report is currently in draft form, but once it is finalized for publication, USAID/Rwanda believes it will have successfully implemented this recommendation. USAID/Rwanda will share a copy of the finalized report with RIG/Pretoria as soon as it becomes available.

***Recommendation 4.** We recommend that USAID/Rwanda develop and implement policies and procedures requiring adequate branding is present at all Sustaining Partnerships to Enhance Rural Enterprises and Agribusiness Development project activity locations, in accordance with USAID policy.*

USAID/Rwanda agrees with the finding that SPREAD-supported activity sites are not adequately branded despite the fact that the approved SPREAD “Branding Strategy and Marking Plan” is part of Texas A&M University’s Cooperative Agreement with USAID. However, the SPREAD project is scheduled to end in September 2011. **USAID/Rwanda believes it would not be a good use of time and resources to correct these branding oversights in the limited time available to the project.** Instead, USAID/Rwanda will ensure that activity sites supported by a potential SPREAD follow-on program are adequately branded, in accordance with the project’s approved branding strategy and marking plan. It will do this, in part, by adding a specific section on branding to the Mission’s existing site visit template that will remind Mission

officials undertaking field visits to verify the adequacy of USAID branding and marking.

Additional Management Comments

SPREAD Chili Pepper: USAID/Rwanda is pleased to report that, in May 2011, SPREAD was able to broker a contract between Promagri, SPREAD's private partner in Rwanda, and Sameer Agriculture & Livestock Limited, a company based in Kenya, for the purchase of 12 metric tons (MT) of dried chili pepper for \$37,200. SPREAD is also in the process of brokering a contract with an American company for the remaining six MT held by Promagri. Nevertheless, despite these late-breaking achievements, USAID/Rwanda has no plans to continue its work in the chili pepper sector under the FTF initiative.

Post-Harvest Handling and Storage (PHHS): USAID/Rwanda is pleased to provide the following updates regarding the PHHS project:

- According to the project's quarterly progress report for the period January – March 2011, the project succeeded in delivering short-term agricultural productivity training to 11,368 individuals as of 31 March in FY 2011 using its "training of trainers" cascade training model. This suggests adequate progress toward the FY 2011 target of 20,000.
- Of the five deals the project was facilitating between banks and cooperatives, two have been finalized. Both are working capital loans in the range of \$80-85,000 that will allow the cooperatives to meet their contractual obligations to the World Food Program from the upcoming agricultural season A, for which planting usually takes place in September and harvest the following January.
- Construction on the grain bulking center in Kirehe, for which the PHHS project successfully leveraged over \$387,000 in private sector financing, is progressing. The warehouse foundation is complete, warehouse pillars are nearing completion (see photo below from mid-April), and materials for elevating warehouse walls are en route to the site.



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