



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/BOSNIA-HERZEGOVINA'S FOSTERING INTERVENTIONS FOR RAPID MARKET ADVANCEMENT PROJECT

AUDIT REPORT NO. 9-168-13-003-P
MAY 30, 2013

WASHINGTON, D.C.



Office of Inspector General

May 30, 2013

MEMORANDUM

TO: USAID/Bosnia-Herzegovina, Mission Director, David Barth

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

SUBJECT: Audit of USAID/Bosnia-Herzegovina's Fostering Interventions for Rapid Market Advancement Project (Report No. 9-168-13-003-P)

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

The report contains 11 recommendations to help strengthen the implementation of the Fostering Interventions for Rapid Market Advancement project. Based on your response to the draft report, we determined that final action has been taken on Recommendations 1, 4, and 6, and that management decisions have been reached on the Recommendations 2, 3, 5, 7, 10, and 11. Management decisions have not been reached on Recommendations 8 and 9. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close the eight open recommendations.

Management decisions on Recommendations 8 and 9 can be reached when you provide us with firm target dates for implementing them. Please advise our office within 30 days of the planned dates to implement these recommendations.

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

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
ATA	Adventure Tourism Association
BiH	Bosnia and Herzegovina
CDCS	country development cooperation strategy
DCA	Development Credit Authority
EU	European Union
KM	convertible mark
OIG	Office of Inspector General
Sida	Swedish International Development Cooperation Agency
SMEs	small and medium-sized enterprises
TEC	technical evaluation committee

SUMMARY OF RESULTS

Bosnia and Herzegovina's (BiH's) 3-year interethnic war that ended in December 1995 left it politically unstable and economically vulnerable. To join the European Union (EU), the country needs to make structural reforms to improve its business climate. Furthermore, more direct foreign investment is needed to spur economic growth and to create more jobs, especially in small and medium-sized enterprises (SMEs).¹

The mission's 5-year country development cooperation strategy (CDCS) for BiH states that the U.S. Government is committed to help it:

- Become a stable, prosperous, sovereign, democratic, multiethnic, vibrant society that values tolerance and diversity, and that allows women and minorities to flourish.
- Focus on sustainable economic growth at national and local levels, and in the public and private sectors.
- Create a single functioning economy that supports free trade.
- Fully integrate with the EU and NATO.
- Develop SMEs to become productive and profitable, and to create jobs.

In December 2008 USAID and the Swedish International Development Cooperation Agency (Sida)² agreed to finance the Fostering Interventions for Rapid Market Advancement project. Its goals are to support sustainable economic growth, and improve employment opportunities and competitiveness in selected sectors in BiH.

The project is governed by a 5-year, \$19.6 million cost-plus-fixed-fee contract that began in August 2009. Cardno Emerging Markets USA Ltd. is the contractor. Its subcontractors are SIPU International, J.E. Austin Associates Inc., Making Cents International, ORGUT Consulting AB, and Pi Consulting. In addition, Cardno worked with four regional development agencies in BiH.

The project includes a \$3 million grant fund to help people, businesses, and regional development agencies promote new ideas that help SMEs meet international quality standards and provide vocational training and employment. As of August 31, 2012, the project had spent almost \$11.4 million out of more than \$15.5 million obligated to the contract.

The Office of Inspector General (OIG) conducted this audit to determine whether the project's activities were increasing sustainable economic growth and employment in BiH's wood processing, tourism, and light manufacturing/metal processing sectors.

The audit found that the project is progressing and that many of its activities are assisting companies in the targeted sectors (page 4). For example, it helped 35 wood processing

¹ According to EU Commission Recommendation 2003/361/EC, an SME employs fewer than 250 people and either makes less than 50 million euros and/or has an annual balance sheet that does not exceed 43 million euros.

² The agency oversees most of Sweden's assistance to developing countries.

companies obtain international quality certifications. The project sponsored workshops and seminars that helped 80 SMEs become authorized exporters. In addition, the project helped more than 102 companies attend international trade fairs. Finally, the audit determined that the project's grant program is comprehensive and implemented in a way to help many SMEs.

Nevertheless, the audit found some problems, which are discussed below.

- Beneficiaries had difficulty obtaining funds through the Development Credit Authority (DCA)³ (page 7). Lack of financing potentially hindered their economic growth.
- The project's staff and the joint management committee (JMC) that USAID/BiH and Sida established to oversee small grants did not track the grant program properly (page 8). Therefore, some activities might have to be curtailed.
- The mission did not consider gender issues when it planned the project (page 10). As a result, the project did not promote women's participation in BiH's economic growth as well as it could have.
- The mission did not verify that work plans and quarterly reports were accurate and consistent (page 11). Partners and other stakeholders need reliable, accurate information to make the best management decisions.
- Performance targets were set too low (page 12). Thus, they were achieved too easily.
- The Adventure Tourism Association was not sustainable (page 14). The money that USAID gave it could have been used on other activities.

The report recommends that USAID/BiH:

1. Implement a plan to improve outreach with partner banks to promote the Development Credit Authority Program to small and medium-sized enterprises (page 8).
2. Work with Cardno to review all unspent balances, close all completed grants, deobligate unspent balances, make the deobligated funds available for future grant activities and document the results. (page 9).
3. Work with Cardno to implement procedures to assess whether funds are available in the grant's budget before approving new grant activities (page 9).
4. Implement a plan to conduct a timely gender analysis, and incorporate its findings and recommendations in the mission's country assistance strategy (page 11).
5. Finalize the gender analysis report, performance management plan, and mission order pertaining to gender inclusion, and implement them in monitoring and assessing progress (page 11).

³ DCA provides credit guarantees to private lenders. These advance USAID's development objectives by covering up to 50 percent of the lender's risk.

6. Require Cardno to report in writing sex-disaggregated data for indicators that would help the mission assess its progress toward addressing obstacles women encounter in small and medium-sized enterprises (page 11).
7. Implement a plan to verify and assess the quality of data reported by Cardno (page 12).
8. Require Cardno to strengthen its data quality and verification procedures, and document the results (page 12).
9. Work with Cardno to review and adjust the project's targets to make them realistic and document the results (page 14).
10. Direct Cardno in writing to reassess its grant with the Adventure Tourism Association and either implement a plan to help it become sustainable or cancel the grant (page 14).
11. Work with Cardno to implement procedures to evaluate sustainability thoroughly when reviewing grant applications (page 15).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments (without attachments) appear in Appendix II, and our evaluation of management comments is on page 16.

AUDIT FINDINGS

Project Was Making Progress

The project's overall purpose is to help increase sustainable economic growth and employment by enhancing SMEs' competitiveness. It is doing this by working with three sectors of the economy: wood processing, tourism, and light manufacturing/metal processing. These three sectors together comprise nearly 25 percent of BiH's manufacturing gross domestic product and almost 40 percent of its exports. The project's primary activities include:

- Facilitating collaboration among firms and stakeholders.
- Providing training and technical assistance to improve quality, productivity, and managerial effectiveness.
- Supporting workforce development.
- Facilitating access to finance and promoting investment.
- Improving connections to global markets.
- Enhancing the policy, legal, and regulatory environment for doing business.

Since August 2009, the project planned 315 activities in BiH⁴ (shown on the map on the following page) and has conducted more than 57 training sessions. According to Cardno's 2012 survey, these activities have helped 314 SMEs through February 2012. Officials from almost 200 SMEs said the project benefitted them significantly. They also reported combined total sales of almost \$530 million and total exports of nearly \$300 million.

Cardno committed nearly \$530,000 to help more than 102 companies attend 27 international trade fairs. These companies reported sales of almost \$17 million from initial sales and in the 6 months after the fairs. Some of the fairs and their benefits are described below:

- Nordbygg, Stockholm, Sweden, March 2012: Three metal processing SMEs organized 13 meetings with Swedish counterparts. Officials from the companies said they expect their exports to increase by 10 to 20 percent and their hiring to increase by 5 percent.
- Interiors UK, Birmingham, England, January 2012: Nine wood processing SMEs participated in this fair, and four of them secured orders totaling almost \$97,000.
- Internationale MöbelMesse (IMM) Cologne, Germany, January 2012: Ten SMEs exhibited their products and sold more than \$800,000 of furnishings.

⁴ BiH consists of the joint Federation of Bosnia and Herzegovina, the Republika Srpska, and Brcko District. The federation is divided into ten cantons: Una-Sana, Posavina, Tuzla, Zenica-Doboj, Bosnian Podrinje, Central Bosnia, Herzegovina-Neretva, West Herzegovina, Sarajevo, and Canton 10.

Map of Bosnia and Herzegovina



Source: www.freeworldmaps.net

- INTERIO, Sarajevo, March 2012: BIH's wood processing SMEs participated for the third consecutive year at the annual furniture exhibition. The fair provided opportunities for 30 SMEs, students, and teachers to participate in meetings and in workshops on wood industry management and workforce development.



Companies supported by the project display goods at the IMM fair in Germany in 2012. (Photograph by project staff)

Cardno provided technical support and operational guidance to the wood processing, tourism, and light manufacturing/metal processing sectors. In addition:

- Cardno reported that it brought together businesses, educational and training institutions, and local government representatives to establish a vocational education and training advisory council to address BiH's lack of skilled labor and declining productivity. This council is located in five municipalities, and has improved and standardized technical curricula to develop job skills. The Education Ministry adopted the council's training programs and curricula to use as a model for BiH schools. Cardno also reported that this training attracted new investment in a factory that created 321 new jobs, with the potential to create another 600 by the end of 2012.
- Cardno collaborated with Republika Srpska and the Banja Luka and Prijedor municipalities to help 35 wood processing companies obtain international quality certifications.
- Cardno signed a cooperative agreement to designate Sarajevo as a prime tourism destination. This agreement paved the way for investments to improve tourist attractions such as the Old City Hall and the first Sarajevo Holiday market, and to finance a Sarajevo tourism magazine.
- Cardno sponsored workshops and seminars that addressed administrative procedures to enable SMEs to apply for special export status. This resulted in 80 companies becoming authorized exporters.
- Cardno helped develop the policy to establish the Competitiveness Council of the Federation of BiH. The council consists of representatives from the private and public sectors and academia. Cardno reported that the council developed policies to help economic development and growth by targeting certain sectors and products.
- Cardno sponsored an open water lifeguard training program that complied with international lifeguard association standards for the tourism sector. The Buk diving club trained and certified 51 lifeguards. The project's plan is to certify a total of 80 lifeguards.

Grant Program Was Comprehensive. The contract includes a \$3 million grant fund to help finance activities that could have a broad, positive impact on the wood processing, tourism, and light manufacturing/metal processing sectors. Grants were designed to make progress in the following areas: (1) promote new, innovative ideas, (2) help producers meet international quality standards, (3) promote collaboration on marketing and product promotion, (4) conduct specific research, workshops, training, and public education, or (5) serve other industries or overall public good.

Table 1 on the following page shows that the project has given 185 grants and the number of grants in each category.

Table 1. Grant Program by Sector (Audited)

Grants		Category				
Sector	Status	Promote new, innovative ideas	Meet international quality standards	Collaborate on marketing and promote products	Research, workshops, training, and education	Serve other industries or overall public good
Wood	Completed	1	3	22	9	0
	Ongoing	0	2	10	2	6
Tourism	Completed	0	0	27	8	4
	Ongoing	0	0	15	7	3
Metals	Completed	2	2	17	11	2
	Ongoing	0	0	2	1	1
Cross-Cutting*	Completed	0	4	1	12	1
	Ongoing	0	4	0	3	3

* Issues or themes that surface in various projects.

Table 2 shows the grants each sector received, the amounts the grant recipients matched, and the money that other companies invested. Thirty-three percent of the grant program's funds came from the project; the remaining 67 percent consisted of matching funds.

Table 2. Actual Grant Program Cost Shares (Unaudited)

Sector	Cost Share (\$)			
	Project	Recipients	Other Partners	Total
Wood	537,908	619,543	483,227	1,641,677
Tourism	667,862	408,179	1,250,229	2,326,271
Metals	512,931	259,423	620,962	1,393,316
Cross-cutting	309,337	209,076	239,910	758,324
Total	2,029,037	1,496,220	2,594,326	6,119,587

Source: USAID/Bosnia/Herzegovina, May 31, 2012

Beneficiaries Had Difficulty Obtaining Funds Through Development Credit Authority

The project's access to finance component consists of (1) helping SMEs apply for loans from commercial banks, (2) facilitating lending through DCA,⁵ and (3) funding new projects. In response, Cardno introduced the qualified business finance consultant program in November 2010 to develop trustworthy, competent consultants to help SMEs approach financial institutions, while giving financial institutions confidence that SMEs were creditworthy. Cardno trained and certified 45 consultants.

The consultants were able to prequalify SMEs for loans; however, they were not able to help them get loans from DCA. Table 3 on the next page shows that the project secured two DCA loans for approximately \$700,000 at the end of the second year, which was below the target of 18 loans for approximately \$1.2 million. The project did not secure any new loans or financing in the third year.

⁵ DCA works with investors, local financial institutions, and development organizations to design and deliver investment alternatives that unlock financing for U.S. Government priorities.

Table 3. Private Financing (Unaudited)

Indicator	Year 1		Year 2		Year 3*	
	Target	Actual	Target	Actual	Target	Actual
Private financing mobilized with a DCA guarantee—Number of Loans	12	0	18	2	32	2
Private financing mobilized with a DCA guarantee (million KM)**	1.2	0	1.8	1.05	3.2	1.05

Source: Cardno's May 2012, quarterly report; actual/target results are cumulative.

* Through May 2012

** Convertible mark.

According to Cardno, accessing funds through DCA was harder than initially envisioned because BiH's major banks set high lending criteria that hinder borrowing. In addition, Cardno did not promote DCA properly, and that hindered beneficiaries from getting loans. Cardno acknowledged in its October 11, 2011, annual report that its DCA program has not succeeded in attracting finance and promoting investment.

The mission gave these reasons for why DCA was being underutilized.

- DCA helps small, fast-growing companies with insufficient collateral. These companies were considered risky, and larger banks avoided them. Small, local banks charge higher interest rates because their sources of capital are more expensive. Therefore, the smaller banks offer less attractive rates.
- Three of the 29 banks in BiH participate in the DCA program. Therefore, companies that want DCA guarantees must transfer their business to these three banks. This makes the companies new clients, which prevents them from getting favorable rates because they do not have a history with the bank.
- Partner banks do not promote DCA guarantees well to potential clients. People tend to change jobs often in these banks, and new employees might not understand the program.
- DCA rules do not allow DCA funds to be comingled with other government or donor funds unless individual waivers are obtained. Therefore, the Republik Srpska Investment-Development Bank and the Development Bank FBiH, two banks that administer World Bank lines of credit, could not participate in the DCA program.

Because SMEs had difficulty getting loans through DCA, they might have difficulty expanding their operations, preventing them from increasing sales, exports, and employment. Therefore, we make the following recommendation.

Recommendation 1. *We recommend that USAID/Bosnia-Herzegovina implement a plan to improve outreach with partner banks to promote the Development Credit Authority Program to small and medium-sized enterprises.*

Project Grants Were Not Tracked Properly

USAID Automated Directives System (ADS) 202.3.7.3 states that one way to track a project is by comparing its planned expenditures with its actual expenditures. The difference between the

planned and actual expenditures might mean that there is a potential overrun, that time has elapsed and targets might not be met, or that planned outputs and results might have to be modified.

According to Cardno, the JMC that USAID/BiH and Sida established reviews and approves the small grants fund. The grant manual states that grants given through the project must be approved by a technical evaluation committee (TEC), which consists of the project's technical management team, the mission's contracting officer's representative for the project, and the manager for the project from Sida.

Cardno allocated \$1.7 million of the \$3 million budgeted for the grants program during its base period (August 2009 through August 2012). According to the project's activities database,⁶ \$3,094,892⁷ was committed to 181 grants as of March 2012. However, neither the JMC nor TEC tracked spending properly.

- The project spent \$2,092,307 by March 2012 for completed and ongoing grant activities, which was almost \$393,000 more than its planned allocation of \$1.7 million for the base period.
- Instead of retaining \$1.3 million for the last 2 years, project officials allocated that money during the base period.
- The project overcommitted its \$3 million grants fund by nearly \$95,000.
- The project budgeted \$1,753,479 for grants that were completed by June 2012. The actual amount spent was \$1,484,859 for completed activities, leaving \$268,620 unused. Even though the remaining \$268,620 was no longer needed by the completed activities, Cardno had not freed those funds so that they were available for other projects waiting for funding.

Cardno overcommitted grant funds because grants were in demand and the exchange rate has fluctuated because the U.S. dollar had depreciated with respect to the local currency. Since the grants fund has run out of money, some of the project's initiatives might have to be curtailed. Therefore, we make the following recommendations.

Recommendation 2. We recommend that USAID/Bosnia-Herzegovina work with Cardno Emerging Markets USA Ltd. to review all unspent balances, close all completed grants, deobligate unspent balances, make the deobligated funds available for future grant activities, and document the results.

Recommendation 3. We recommend that USAID/Bosnia-Herzegovina work with Cardno Emerging Markets USA Ltd. to implement procedures to assess whether funds are available in the grant's budget before approving new grant activities.

⁶ The database tracks costs, stakeholders, events, performance indicators, and qualitative results for all activities.

⁷ These amounts were calculated using an exchange rate of \$1 = 1.5 KM.

Mission Did Not Consider Gender Issues

ADS 201 dated September 23, 2009, was in effect when the project was launched. Section 201.3.9.3 stated that the Agency must consider gender issues in planning because they can be central to the achievement of assistance objectives. According to the standard, operating units must consider whether gender relations would affect a project's ability to achieve sustainable results and whether proposed results would affect the relative status of men and women. It says that gender considerations and any gender analysis performed should be documented at the assistance objective, project, or activity approval stage. When gender is not an issue to the assistance objective, it should be documented in the approval statement, along with a brief rationale explaining why gender does not hinder the project's objectives.

In addition, ADS 201.3.11.6 dated September 23, 2009, states:

All projects and activities must consider gender issues in a manner consistent with the findings of any analytical work performed during development of the Mission's long-term plan or for activity design. Findings from gender considerations, such as any recommendations to overcome potential obstacles to achieving targeted results, may help to determine how gender can be addressed in the project or activity. The conclusion of any gender considerations should be documented in the Activity Approval Document. If the AO [Assistance Objective] Team determines that gender is not a significant issue, this should be stated in the Activity Approval Document.

The mission's 2012-2016 CDCS states that:

1. According to BiH statistics, the unemployment rate in 2010 was more than 40 percent. The rate was particularly high for youth and women.
2. Only 5 percent of managers in public enterprises are women, and 25 percent of BiH's entrepreneurs are women.

The project's contract included a gender consideration provision that required Cardno to include men and women in all aspects of the project as much as possible, and to collect, analyze, and submit sex-disaggregated data and proposed actions that addressed any gender-related problems. In its 2010 performance management plan, Cardno said it would report sex-disaggregated data for two indicators: *Growth in employment of project beneficiaries* and *Growth in sales of project beneficiaries*. However, it did not do so, nor did it set gender-based targets for the indicators.

USAID/BiH's personnel responsible for gender did not monitor the project's performance in relation to gender inclusion. Nor did the mission conduct a gender analysis to support its strategic planning for the period from 2009—when the project began—to 2012.

However, USAID/BiH conducted a gender analysis in 2005, 4 years before the project began. According to that analysis, the small number of participating women was a key constraint in political and economic decision-making.

The mission's country assistance strategy also did not address whether gender would affect the project and whether the ultimate proposed results would affect the relative status of men and women. Meanwhile, Cardno did not disaggregate any of its performance indicators by gender though it noted that all data would be disaggregated by gender whenever meaningful.

Mission officials seemed to be confused about the role of gender in the project. They concluded that the project was not gender-specific and that it was therefore gender-neutral. Yet the mission's memorandum approving SME activities indicated that the contractor would account for the role of women in the project. It also said that when there is evidence of gender bias in the project, the implementing partner would recommend solutions to lead to a more equitable outcome.

The mission's delays in identifying the causes of gender inequalities in its strategy and the project's lack of gender inclusion hindered its ability to promote women in BiH's economic growth. Moreover, by not collecting, analyzing, and reporting sex-disaggregated data, USAID/BiH cannot assess whether its programs have benefitted women. Therefore, to help the mission improve opportunities for women and correct gender inequalities, we make the following recommendations.

Recommendation 4. *We recommend that USAID/Bosnia-Herzegovina implement a plan to conduct a timely gender analysis and incorporate its findings and recommendations in the mission's country assistance strategy.*

Recommendation 5. *We recommend that USAID/Bosnia-Herzegovina finalize the gender analysis report, performance management plan, and mission order pertaining to gender inclusion, and implement them in monitoring and assessing progress.*

Recommendation 6. *We recommend that USAID/Bosnia-Herzegovina require Cardno Emerging Markets USA Ltd. to report in writing sex-disaggregated data for indicators that would help the mission assess its progress toward addressing obstacles women encounter in small and medium-sized enterprises.*

Mission Did Not Verify That Work Plans and Quarterly Reports Were Accurate and Consistent

Having high quality data is an important element in making sound management decisions. ADS Section 203.3.5.1 dated September 1, 2008, includes the following standards for data quality: validity, integrity, precision, reliability, and timeliness.

Some of the performance data that Cardno reported in its work plans and its quarterly and annual reports were not accurate, consistent, and reliable. Some examples are listed below.

- The mission did not review the project's second- and third-year work plans for accuracy and consistency. Cardno also did not review and update the plans to reflect activities accurately. For example, it reported activities that had not started as ongoing. Some activities that had many subparts—like the international fairs—were listed as one activity.
- Cardno underreported the number of grants that were approved and the amount of money spent in the quarterly report for December 2011 to February 2012.

- Cardno reported different overall results for the program’s first and second years in three of its quarterly reports. For example, the May 2011 quarterly said the first year’s actual increase in the amount of beneficiaries’ sales was 11.9 percent, whereas the February 2012 quarterly report said the first year’s actual results was 10.8 percent. The May 2011 quarterly report said the second year’s actual results was 28.3 percent, yet the February 2012 and May 2012 quarterlies said the second-year results were 20.3 and 21 percent, respectively.
- The third year’s work plan included 129 program activities that were reported as completed, ongoing, not started or cancelled. However, 19 of them were completed but reported as ongoing. Moreover, Cardno’s report did not show that it had cancelled 14 activities. According to officials there, the activities were cancelled because they were expensive, businesses were not interested in them, or BiH did not support them. Therefore, these activities should not have been listed.
- Cardno reported incorrect expenditures in all four sectors in its February 2012 quarterly report, as shown in Table 4.

Table 4. Reported and Confirmed Program Funds (KM) (Audited)

Sector	Reported	Confirmed	Difference (percent)
Wood processing	1,140,766	1,431,139	20
Tourism	1,437,457	1,592,535	10
Metal processing/light manufacturing	813,376	925,350	12
Cross-cutting	829,321	976,640	15
Total	4,220,920	4,925,664	14

This problematic data reported by Cardno were not identified because neither the mission nor Cardno periodically assessed data quality to confirm that reported results were accurate and consistent.

As a result, USAID/BiH may not be able to monitor the project’s performance and activities properly. Since partners and other stakeholders rely on reported results to make decisions about the project and funding, we make the following recommendations.

Recommendation 7. *We recommend that USAID/Bosnia-Herzegovina implement a plan to verify and assess the quality of data reported by Cardno Emerging Markets USA Ltd.*

Recommendation 8. *We recommend that USAID/Bosnia-Herzegovina require Cardno Emerging Markets USA Ltd. to strengthen its data quality and verification procedures and document the results.*

Performance Targets Were Not Realistic

ADS 203.3.9, “Setting Performance Baselines and Targets,” and 203.3.10, “Changing Performance Indicators,” require that project teams have baselines and set ambitious, but realistic targets that can be achieved within the stated period and with the resources that are available. Additionally, missions might need to change or adjust performance indicators because of project dynamics during implementation and through evaluations.

According to *Performance Monitoring and Evaluation TIPS No. 8*—a supplemental reference to ADS 203—targets should be realistic, based on evidence, and ambitious to help implementing partners and stakeholders measure progress. Since easily achievable targets are not useful, the mission’s senior managers and staff, as well as implementing partners, should review performance information and targets as part of their ongoing project management responsibilities.

Table 5 lists 6 of the 17 indicators in Cardno’s quarterly reports: three associated with competitiveness, and the other three associated with workforce development. Most of Cardno’s reported results for these indicators exceeded the targets set for the project’s initial 3 years. Moreover, Cardno’s reported results already exceeded its fifth-year targets for four indicators nearly 9 months into the third year of its contract.

Table 5. Selected Competitiveness and Workforce Development Indicators (Unaudited)

Indicator	Year 1		Year 2		Year 3		Year 4	Year 5
	Target	Actual	Target	Actual	Target	Actual	Target	Target
Competitiveness								
<i>Firms with improved management practices as a result of USG* assistance (#)</i>	65	11	190	417	315	344	440	565
<i>Firms receiving USG assistance that obtain certification for international standards (#)</i>	20	22	40	189	60	189	80	100
<i>Firms receiving USG assistance that obtain EU-aligned standards or certifications (#)</i>	10	no data	30	189	50	189	85	100
Workforce Development								
<i>Persons completing USG-funded workforce development programs (#)</i>	225	359	750	1,212	1,275	1,643	1,800	2,325
<i>Persons gaining employment or better employment as a result of participation in USG-funded workforce development programs (#)</i>	150	125	350	728	550	1,236	750	950
<i>Persons participating in FIRMA-supported [workforce development] programs from disadvantaged/excluded groups (#)</i>	50	No data	100	438	150	690	200	250

Source: Cardno’s May 2012 quarterly report.

* Through May 2012.

** U.S. Government.

This shows that the targets were achieved easily. Furthermore, the targets for Years 4 and 5 appear to be set low compared with the actual results for the past 3 years. Thus, the performance targets are not useful for management and reporting purposes.

USAID/BiH's official said the mission focuses on the impact indicators of its assistance programs rather than simple output indicators like those in Table 5. The official said such indicators are used only by the contractor to track output of particular types of activities and are not used to manage the project.

However, by not focusing on targeted outputs and the achievement of those outputs as the project progresses, the mission cannot track project progress properly and take corrective action. By not establishing evidence-based, meaningful targets, the mission staff, implementing partners, and local government agencies do not have appropriate benchmarks to measure progress toward achieving project goals. Therefore, we make the following recommendation.

Recommendation 9. *We recommend that USAID/Bosnia-Herzegovina work with Cardno Emerging Markets USA Ltd. to review and adjust the project's targets to make them realistic, and document the results.*

Adventure Tourism Association Was Not Sustainable

According to the project contract, all activities were to be conducted in close cooperation and partnership with local counterparts to make sure they supported them and could take over when USAID's funding ended. Project officials said they based grant approval on an applicant's (1) professional experience in implementing similar activities, (2) financial capability and cost-sharing capacity, and (3) management and organizational capacities.

The TEC approved a grant of nearly \$28,000 (KM 42,700) to BiH's Adventure Tourism Association. The association was expected to contribute goods and services worth almost \$5,000 (KM 7,500).

However, the association did not turn out to be sustainable. The only full-time employee, the executive director, resigned in September 2011, 2 months after the grant began, and the board did not find a replacement until March 2012. This interrupted the association's planned activities and prompted the project to give the association a no-cost extension.

As of March 2012, the association had received almost \$5,600. It and other partners contributed \$120, far less than the nearly \$5,000 they were supposed to give. In addition, the audit observed that the association relies on Cardno to provide office space, a computer, phone service, office supplies, and other administrative support services.

Although we could not determine why the association was approved, we believe that Cardno may not have sufficiently assessed whether it had the required professional experience, and the financial, managerial, and operational capabilities to ensure success.

As a result, the association lacks capacity and is neither sustainable at present nor may be in the future, which makes this project activity a waste of grant funds. Therefore, we make the following recommendations.

Recommendation 10. *We recommend that USAID/Bosnia-Herzegovina direct Cardno Emerging Markets USA Ltd. in writing to reassess its grant with Adventure Tourism Association and either (1) implement a plan to help the Adventure Tourism Association achieve sustainability or (2) cancel the grant.*

Recommendation 11. *We recommend that USAID/Bosnia-Herzegovina work with Cardno Emerging Markets USA Ltd. to implement procedures to evaluate sustainability thoroughly when reviewing grant applications.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/BiH agreed with all the recommendations in the draft report. Based on the information provided in the mission's response to the draft report, we determined that final action has been taken on Recommendations 1, 4, and 6, and that management decisions have been reached on the Recommendations 2, 3, 5, 7, 10, and 11. Management decisions have not been reached on Recommendations 8 and 9.

Recommendation 1. In response to the recommendation that it implement a plan to improve outreach with partner banks to promote the DCA program to SMEs, USAID/BiH met with senior management for two of the three DCA banks, resulting in six training sessions at five locations. The mission's actions indicate that USAID/BiH management decided to address this recommendation through engaging senior bank officials and training bank staff. Accordingly, the mission has made a management decision and has taken final action on this recommendation.

However, it should also be noted that while USAID/BiH's response indicated that seven new DCA loans were issued between August 2012 and April 2, 2013, given the range of dates of these loans, OIG cannot conclude from material provided by the mission that the additional loans resulted from the training mentioned above.

Recommendation 2. In response to the recommendation that it work with Cardno to review all unspent balances, close all completed grants, deobligate unspent balances, make the deobligated funds available for future grant activities, and document the results, USAID/BiH asked Cardno to prepare and submit to the mission a monthly grant balance report. Subsequently, Cardno provided a status report dated February 28, 2013, which presented the amounts approved and spent as well as the balance remaining for both completed and ongoing grants. In addition, according to a letter from Cardno that the mission provided, \$509,058 has been removed from completed grants and returned to the grant pool. A management decision has been reached on this recommendation, and final action may be achieved when the mission provides M/CFO/APC with evidence supporting the return of \$509,058 to the grant pool.

Recommendation 3. In response to the recommendation that USAID/BiH work with Cardno to implement procedures to assess whether funds are available in the grant's budget before approving new grant activities, USAID/BiH requested in writing that Cardno submit an updated grant balance report to the TEC before each TEC meeting. The mission indicated that the TEC would not approve new grants unless the report is submitted as part of the meeting's agenda and shows that there are sufficient funds available in the grant budget. Mission officials expect this procedure will be implemented and documented at the next TEC meeting in June 2013. Based on this information, we consider that a management decision has been reached for this recommendation and that the target date for final action is June 30, 2013.

Recommendation 4. OIG recommended that USAID/BiH implement a plan to conduct a timely gender analysis, and incorporate its findings and recommendations in the mission's country assistance strategy. In preparation for its 2012-2016 CDCS, USAID/BiH completed a gender assessment report in 2011. It discussed the status of women in BiH and efforts to address gender issues. The CDCS summarized findings and lessons learned on gender in its appendix.

Based on this new information, OIG considers that final action has been taken on this recommendation.

Recommendation 5. USAID/BiH referenced and attached its 2011 gender assessment report to the 2012–2016 CDCS to respond to the recommendation that it finalize the gender analysis report, performance management plan, and mission order pertaining to gender inclusion, and implement them in monitoring and assessing progress. Furthermore, the mission indicated that it had submitted its initial performance monitoring plan for the duration of the CDCS to USAID/Washington for review. The mission expects that the plan will be finalized by May 1, 2013. USAID/BiH also agreed to issue a mission order by June 1, 2013, stating that gender needs to be integrated into all of its development activities. Finally, the mission agreed with the necessity of ensuring that its results monitoring, evaluation, and assessment integrate a gender perspective. Based on the mission’s response, a management decision has been reached on this recommendation, and the target date for final action is June 1, 2013.

Recommendation 6. OIG recommended that USAID/BiH require Cardno to report in writing sex-disaggregated data for indicators that would help the mission assess its progress toward addressing obstacles women encounter in SMEs. In response, USAID/BiH requested that Cardno incorporate sex-disaggregated data for two indicators: *Growth in employment of project beneficiaries* and *Growth in sales of project beneficiaries*.

The mission expects Cardno to submit a comprehensive report on sex-disaggregated data for the two indicators by May 31, 2013. Furthermore, Cardno has committed to reporting sex-disaggregated data for indicators on a quarterly and annual basis. Accordingly, the mission has taken final action to address the recommendation.

Recommendation 7. In response to the recommendation that the mission implement a plan to verify and assess the quality of data reported by Cardno, USAID/BiH decided to institute a process to do so. The contracting officer’s representative will review data that Cardno reports and document the results of that review in the official project files. Those findings will be reviewed and verified by the mission’s Economic Development Office director and the mission’s monitoring and evaluation specialist. In addition, the mission stated that it would use data quality assessments to periodically and systematically review reported data. The mission expects the first assessment to be completed by May 31, 2013.

During regular field visits, the contracting officer’s representative also will periodically spot-check the data to confirm whether they are valid and reliable, and document the result in a memorandum filed with official project records. Consequently, we consider that a management decision has been reached for this recommendation and that the target date for final action is May 31, 2013.

Recommendation 8. OIG recommended that USAID/BiH require Cardno to strengthen its data quality and verification procedures, and document the results. USAID/BiH plans to conduct a data quality assessment by May 31, 2013, that examines Cardno’s data collection, verification, and reporting for key impact indicators. However, while the mission indicates that it will require Cardno to implement recommendations resulting from the assessment for the following reporting cycle, it has not provided a target date for communicating those recommendations and requirements to Cardno. Although USAID/BiH’s plan meets the intent of this recommendation, in the absence of a target date for final action, a management decision has not been reached.

Recommendation 9. In response to the recommendation that it work with Cardno to review and

adjust the project's targets to make them realistic and document the results, USAID/BiH agreed that project's output indicators need to be adjusted. Cardno proposed new targets for years 4 and 5 and submitted a revised performance management plan to USAID/BiH and the JMC for approval. The revised plan has been reviewed by the contracting officer's representative and will be reviewed by the JMC, the Economic Development Office director, and the monitoring and evaluation specialist. While these actions meet the intent of the recommendation, the mission did not provide a final action target date, and, as a result, a management decision has not been made.

Recommendation 10. In response to the recommendation that it direct Cardno in writing to reassess its grant with the Adventure Tourism Association and either implement a plan to help it become sustainable or cancel the grant, USAID/BiH asked Cardno to assess whether the association is sustainable. In response, Cardno provided USAID/BiH with an update in which the association said it exceeded its expected \$5,000 cost-share by raising \$5,931 as of March 2013. The update also states that the association received an additional \$4,563 from another donor. The mission expects to receive a detailed sustainability plan from Cardno by April 30, 2013, and plans to determine whether to continue support by May 30, 2013. USAID/BiH has made a management decision on this recommendation. The target date for final action is May 30, 2013.

Recommendation 11. OIG recommended that USAID/BiH work with Cardno to implement procedures to thoroughly evaluate sustainability when reviewing grant applications. The mission indicated that it would direct Cardno to include a detailed narrative on all relevant aspects of sustainability along with its current sustainability score sheet for all grant applications. USAID/BiH also plans to have the TEC review the sustainability sections at the next expected TEC meeting in June 2013. The mission has made a management decision with a target date for final action of June 30, 2013.

SCOPE AND METHODOLOGY

Scope

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

Sida commissioned a financial audit and an evaluation report of project activities in July and November 2011 respectively. The audit identified some weaknesses in implementation and issued eight recommendations to improve and strengthen the project. In addition, the midterm evaluation of the activities resulted in five recommendations to help the project get beneficiaries more involved and improve the sustainability of its activities. However, we are not following up on the recommendations because the evaluation report was not conducted in accordance with generally accepted government auditing standards.

The audit's objective was to determine whether selected activities are achieving the project's main goals of increasing sustainable economic growth, competitiveness, and employment in BiH's wood processing, tourism, and light manufacturing/metal processing sectors.

The project is governed by a 5-year, \$19.6 million cost-plus-fixed-fee contract awarded to Cardno on August 27, 2009. As of August 31, 2012, the amount obligated was more than \$15.5 million, and Cardno spent more than \$11.3 million. We tested nearly \$3.2 million, or almost 30 percent of the total expenditures. We used our judgment to choose 23 project activities from 315 based on the activity's significance, materiality, sector, and location.

We conducted this audit at USAID/BiH's and Cardno's offices in Sarajevo and Banja Luka from June 20 to July 20, 2012. In addition, we conducted field visits in Sarajevo, Banja Luka, Tuzla, Tesanj, Kalesija, Zenica, Mostar, Bihac, and Konjic. We conducted interviews with staff members from the mission, Cardno, and organizations in the wood processing, tourism, and light manufacturing/metal processing sectors.

Our audit covered policies, procedures, and internal controls from April 2010 through March 2012, with updates through May 2012. These controls included those related to award processes, project planning, performance management plans, data quality assessments, monitoring and evaluation, and performance progress reporting. We also reviewed USAID/BiH's FY 2010 and FY 2012 Federal Manager's Financial Integrity Act of 1982 (FMFIA) certifications; FYs 2011 and 2012 work plans; quarterly and annual reports; contract agreement and modifications; performance management plans and indicators; site visit reports; and supporting documentation, such as training attendance sheets, activity approval requests, and cost-sharing records.

Methodology

To answer the audit objective, we reviewed project activities in Cardno's work plans and activity

approval requests, which described the specific program activities including schedules for when individual activities were to be completed. We determined whether Cardno's 17 performance indicators can be traced to the work plans and are achieving desired results of providing sustainable economic support and employment to SMEs in the wood processing, tourism, and light manufacturing/metal processing sectors. We compared actual results achieved with planned targets, and to determine the impact of the activities, we assessed the percentage increases in sales, employment, sustainability, and accession to EU criteria.

To answer the audit objective, we reviewed the following documents:

- ADS Chapters 200, "Introduction to Programming Policy" ; 201, "Planning"; 202, "Achieving"; 203, "Assessing and Learning"; 302, "USAID Direct Contracting"; 320, "Branding and Marking"; and 621, "Obligations."
- *Performance Monitoring & Evaluation TIPS No. 8*, "Baselines and Targets."
- Project contract and related modifications.
- Subcontracts for J.E. Austin Associates Inc., SIPU International, Making Cents International, ORGUT Consulting AB, and Pi Consulting.
- Simplified grant agreements for SMEs in our sample.
- Project funding agreement between Sida and USAID/BiH.
- Cardno's 2011 and 2012 work plans.
- Annual and quarterly progress reports from April 2010 through March 2012.
- Project activities list.
- Correspondence among USAID/BiH, Sida, Cardno, and grantees.
- USAID/BiH and Cardno organization charts and position descriptions.

To verify reported results, we judgmentally selected and tested 23 of 315 activities that we determined were instrumental for the project's success. The selection was based on project activities' significance, materiality, sector and location. The sample included activities in the wood processing, tourism, and light manufacturing/metal processing sectors. In addition, we reviewed the performance indicators that measured project results. We verified the reported results by matching them to documents such as training, sales, and employment records.

We interviewed Cardno's personnel and beneficiaries, and reviewed supporting documentation to determine the impact of project activities during site visits to 23 activities. We also analyzed performance indicators in relation to the activities to determine whether they were beneficial.

We set the materiality threshold at 10 percent to evaluate project results. In other words, if activities or indicators achieved 90 percent or more of the targeted results, we determined that the project achieved its planned results.

MANAGEMENT COMMENTS



To: Nathan Lokos, Acting Director, Performance Audits Division, OIG

From: David J. Barth, Mission Director, USAID/BiH Mission /s/

Date: April 2, 2013

Subject: USAID/BiH Response to Audit Recommendations

The Draft Audit Report of FIRMA Project was submitted to the Mission on February 14, 2013. The Mission is required to provide the response to the OIG Audit Team within 30 days from the date of the Audit report, which is by March 15, 2013. USAID/BiH has asked for a two-week extension period for the submission of its response, and the OIG agreed that USAID/BiH submit its response by April 2, 2013.

USAID/BiH has thoroughly examined the Audit Recommendations, as well as all relevant Mission files and has prepared a response, as attached. The Mission response has been prepared with the goal to enable immediate closure of several Audit Recommendations (#1, #2, #4, #6, and #9) and to provide a credible plan for actions that will lead to closure of remaining Audit Recommendations in nearest future. In addition to the Economic Development Office (EDO) staff, the Mission's M&E Specialist, Program Office and Mission Management will formally participate in addressing Audit Recommendations, as relevant. Closure of all open items will be monitored by the Mission's Management through the MCRC committee.

Please note that the USAID/BiH Economic Development Office, through FIRMA's COR has already initiated several actions to implement the Audit Recommendations. Actions that have already been initiated by the FIRMA COR, responses from Cardno and other relevant evidence are documented as attachments to this Memo. Also, some of the actions undertaken by FIRMA's COR have been principally discussed with Sida, as Sida is a member of the JMC responsible for approval of key FIRMA project documents (for example, the PMP).

USAID/BiH would like to thank the OIG team for the comprehensive analysis of the FIRMA project and management recommendations to strengthen the implementation of the FIRMA project and related Mission processes

Please see below Mission's responses to findings and recommendations of the Draft Audit Report.

Recommendation 1: Implement a plan to improve outreach with partner banks to promote the Development Credit Authority Program to small and medium-sized enterprises.

USAID BiH response to Recommendation 1: USAID/BiH agrees with this recommendation.

Since the Audit field work has been carried out, USAID/BiH held meetings with the senior management of the two DCA banks (Raiffeisen BiH and VolksBank) to address relatively low utilization of the DCA facility and discuss future activities that may result in an increase of the DCA utilization. A new cycle of training/presentations/promotion of the DCA guarantee facility to the Raiffeisen Bank account managers, sale and risk managers has been discussed and top management support has been secured for this. Following this, in January and February 2013, five trainings/workshops in four towns in BiH (Sarajevo, Mostar, Zenica and Tuzla) focused on the DCA facility were carried out for 48 representatives of the Raiffeisen Bank BiH (including representatives of sale and risk departments) in regional branches: Sarajevo, Mostar, Zenica and Tuzla. The attached sheet documents Raiffeisen Bank's staff attendance. Similar training has been organized earlier (September, 2012) for VolksBank staff in Sarajevo (attached attendance sheet documents VolksBank's staff participation), and the suggestion to do this training in other locations has also been offered, but for the time being, the VolksBank management did not find that this was necessary.

Since the Audit field work has been carried out to date, we have seen new loans placed under the DCAs, (seven loans, valued at over US\$ 3.5 million), as detailed below:

Loans placed under the DCA (August 1, 2012- to April 2, 2013):

Volksbank BH 3 loans, valued at US\$2,507,457 approx.

Raiffeisen Bank BiH 3 loans, valued at US\$ 769,346 approx.

UniCredit Bank 1 loan, valued at US\$ 285,414 approx.

Total: 7 loans, valued at US\$3,562,217 approx.

While the Mission and its projects promote the DCA, the decision to approve and place any given loan under the DCA (DCA utilization) is solely a Bank decision and depends on a number of bank-internal and external factors (such as the country macro-economic environment) outside USAID manageable control. During an economic recession and when overall bank lending in the country is not experiencing substantial growth (which has been the case in BiH), it cannot be expected that lending under the DCA is going to experience strong growth. In addition to external factors, there are also a number of Bank internal factors that may affect utilization of the DCA that are outside USAID manageable control, such as change in ownership of the Bank and senior staff turnovers that may affect bank's strategy but also their respective lending policies and staff practice and subsequently lending under the DCA.

The Mission requests that the Audit team review the actions taken to date in regard to active promotion of the DCA and requests that the Audit team consider this recommendation closed.

Recommendation 2: Work with Cardno Emerging Markets Ltd. to review all unspent balances, close all completed grants, deobligate unspent balances and make deobligated funds available to future grant activities and document results.

USAID BiH response for Recommendation #2: USAID/BiH agrees with this recommendation.

The FIRMA COR has already instructed Cardno in writing to submit a Report on Grants Balance (using the February 28, 2013 as a cut-off date). In this report all unspent balances have been reviewed, all fully disbursed grants are properly accounted for, including where applicable-grants have been closed, unspent balances have been de-committed by Cardno and de-committed funds were accounted for.

The Cardno Report on the Grants Balance (as of 2/28/13) is attached for auditor's review.

As highlighted in the Audit report, during the base period of the FIRMA contract Cardno exceeded its planned allocation for grants for the base period due to accelerated utilization of the grant facility in response to development opportunities. As part of the Contract Modification to Exercise the Contract Option (May, 2012), Cardno submitted to the RCO a spreadsheet with detailed project expenditures for the base period as of May 2012; however a formal modification to realign the budget and augment the grant facility was not executed at the time.

Given that as of 2/28/13, total grants approved exceed the planned allocation for grants for the contract period, as programmatic opportunities for small grants continued to exceed the allocated grant funds under FIRMA contract, the Mission intends to pursue a budget realignment to increase the grants line item in the FIRMA contract. This action has already been included on the Mission procurement plan and the Mission expects this action to be completed by the end of May 2013 and will notify the Audit team when the modification is done.

The Mission has also requested Cardno to prepare the Grant Balance Report on a monthly basis, and submit it to the Mission on a monthly basis, but also as a separate Annex to the Quarterly Reports (cumulative for the quarterly period). The Mission expects this procedure to be initiated immediately and implemented until the end of the contract, and all Grant Balance Reports filed with official project records.

Management asks you to consider this recommendation closed.

Recommendation 3: Work with Cardno Emerging Markets Ltd. to implement procedures to assess whether funds are available in the grant's budget before approving new grant activities.

USAID BiH response: USAID/BiH agrees with this recommendation.

As noted in response to Recommendation #2, the Mission intends to pursue a budget realignment to increase the grants line item in the FIRMA contract. This procurement action has already been included on the Mission procurement plan and the Mission expects this action to be completed in May 2013 and will notify the Audit team when this action is completed.

The Mission has requested in writing for Cardno to submit to the Technical Evaluation Committee (TEC) an updated Grants Balance Report before each TEC meeting. The next TEC meeting will happen once the budget realignment that will increase the grants line item is

completed and is expected to take place in June, 2013. The TEC will formally review the Grants Balance Report prior to approving any additional grants. The TEC will not consider approval of new grants unless the Grants Balance Report is submitted as part of the agenda for the TEC meeting and unless the Report shows that there are sufficient funds available in the grant budget (per budget re-alignment that will be completed). Following the TEC meeting, Cardno will prepare a summary memorandum including the effects of the newly approved grants to the grants pipeline and available funds. In this summary memorandum Cardno will certify that the value of all approved grants is within the approved grant line item, (per budget realignment). The summary memorandum will be submitted to the COR and kept in official project records. The Mission expects this procedure to be implemented and documented at the next TEC meeting following the budget realignment that will increase the grants line item (expected in June, 2013).

The Mission intends to submit to the Audit team the TEC meeting minutes as evidence that an improved process for grant approvals has been initiated. Following this, the Mission will request, that the audit team consider closing this Recommendation.

Recommendation 4: The Mission is to implement a plan to conduct timely gender analysis and incorporate its findings and recommendations in the Mission Country Assistance Strategy

USAID BiH response: USAID/BiH has completed this recommendation.

The Draft Audit Report (page 11) notes that “USAID/BiH conducted a gender analysis in 2005, 4 years before the project began.” However, more recently the Mission completed the “Gender Assessment Report” in 2011 (report attached); the purpose of the gender assessment is to integrate gender into USAID/BiH’s Country Development Cooperation Strategy (CDCS). The “Gender Assessment Report” was formally reviewed during the Mission’s drafting of the Country Development Cooperation Strategy (CDCS 2012-2016), and this review is documented in the approved CDCS, the Gender Assessment Report is also specifically referenced as the Annex to the CDCS.

The “Gender Assessment Report” specifically highlighted FIRMA as one of the Mission’s projects that address the role played by gender in development activities. The following is an excerpt from the “Gender Assessment Report” that relates to FIRMA:

“The FIRMA project works with three sectors of BiH economy: wood processing, tourism, and light manufacturing. FIRMA tries to mainstream gender issues in its activities and increasing social inclusion. In that regard, FIRMA conducted a baseline survey of 504 companies from FIRMA-targeted sectors. The main findings of this survey showed that the workforce participation rate of women is very low compared with the pre-1990s. To improve the gender balance in these three sectors of industry, FIRMA started to include grants to support the development of women’s networking in tourism, helped develop skills of women entrepreneurs through grants for Business Development and Service Providers, and promoted public-private dialogue with the goal of increasing awareness on equal rights and opportunities of women in labor and employment in the tourism, light manufacturing and wood sectors.”

This is actively being done, the Mission Management asks you to consider this recommendation closed.

Recommendation 5: The Mission needs to finalize the gender analysis report, performance mentoring plan, and mission order pertaining to gender inclusion and implement them in monitoring and assessing process.

USAID BiH response: USAID/BiH agrees with this recommendation.

As noted above, the Mission completed the “Gender Assessment Report” in 2011 (report attached). The “Gender Assessment Report” was formally reviewed during the Mission’s drafting of the Country Development Cooperation Strategy (CDCS 2012 -2016), and this review is documented in the approved CDCS; the Report is also specifically referenced as the Annex to the CDCS.

The Mission’s Initial Performance Monitoring Plan for the duration of the CDCS has been submitted by the Mission to Washington for review. We are awaiting response and plan to finalize by May 1, 2013.

Mission agrees with the necessity to adopt and implement a Mission Order on integrating a gender perspective in all of its activities and ensuring results monitoring, evaluation and assessment integrate a gender perspective. We are committed to adopting this Mission Order by June 1, 2013.

Recommendation 6: Require Cardno Emerging Markets Ltd. to report in sex-disaggregated data for indicators that would help the mission assess its progress toward addressing obstacles women encounter in small and medium-sized enterprises.

USAID BiH response: USAID/BiH agrees with this recommendation.

The Mission has already taken action to address this recommendation and in March, 2013, the COR requested Cardno to incorporate sex-disaggregated data for the following indicators that the Audit team had found as not being reported (attached is the COR instructions to Cardno):

1. “Growth in employment of project beneficiaries” and
2. “Growth in sales of project beneficiaries” in quarterly and annual reports.

The sex-disaggregated data for “Growth in sales of project beneficiaries” refers to sales of women-owned beneficiaries.

The Mission expects to receive a comprehensive Report on sex-disaggregated data for the above two indicators for all project beneficiaries from Cardno by the end May, 2013, by when Cardno will have compiled results from the annual survey of 2012 business results of its beneficiaries and disaggregated select indicators by gender. Following this, regular reporting on sex-disaggregated data for indicators on a quarterly and annual basis will be done by FIRMA. This data will be shared with the Mission Gender specialist and Mission M&E specialist.

Please note that Cardno is already reporting in quarterly and annually reports on the gender-specific, customized indicator titled “Women-led businesses in the 3 FIRMA focus sectors”, as documented in the attached excerpt from the quarterly report (attachment no. 6). In addition, Cardno provides sex-disaggregated data for participants of FIRMA-supported activities (such as trainings, fairs and other), as documented in the attached excerpt from the quarterly report (attachment no.7).

Since the Mission has already taken management action on this recommendation and has already requested Cardno to report the sex-disaggregated data, the Mission asks you to consider this recommendation closed.

Recommendation 7: Implement a plan to verify and assess the quality of data reported by Cardno Emerging Markets Ltd.

USAID/BiH response to Recommendation 7 The Mission agrees with this recommendation.

The Mission intends to institutionalize a formal procedure to document the Mission's review process that will verify and assess the quality of data reported by Cardno. The procedure will consist of the formal review of the quality of the data reported conducted by the COR, and will be documented in a written Memorandum; findings from the COR review will also be reviewed by the EDO Director and the Mission's M&E Specialist⁸. The findings of the COR review will be documented in a Memorandum which will be kept with official project files. The Mission expects this action to be implemented immediately for the Quarterly and Annual Reports received to date, covering the period of 2012 and 2013. For future Quarterly and Annual Reports, the Mission will require COR to follow the same procedure for reviewing and documenting its findings in a separate Memorandum and retain a copy in official project files.

In addition, the Mission will utilize its Data Quality Assessment (DQA) process to conduct a periodic and systematic review of the data submitted by Cardno to strengthen data reporting. The Mission will follow ADS 203 and consult procedures outlined in Tips for Conducting Data Quality Assessments (reference: TIPS Number 18, 1st Edition, 2010, this publication is a supplemental reference to the Automated Directive System (ADS) Chapter 203). The DQA will be conducted jointly by the project's COR and the Mission's M&E Specialist. The TIPS notes this as a feasible approach, when a monitoring and evaluation (M&E) expert is partnered with the Mission's COR to conduct the assessment jointly. The outcomes of the DQA will be documented and filed with official project records and Mission's M&E records. The Mission expects the DQA to be completed by the end of May of 2013. As part of the DQA and also for the purpose of subsequent verification of data submitted by Cardno, the COR will also perform periodic spot-checks of data validity as part of regular field visits. The COR will document findings from spot checks in a memorandum to official project records.

A copy of DQA Report will be submitted to Audit Team at which point we will request closure of this recommendation.

Recommendation 8: Require Cardno Emerging Markets Ltd to strengthen its data quality and verification procedures and document the results.

USAID BiH response to Recommendation 8: USAID/BiH agrees with this recommendation.

As noted in response to Recommendation #7, the Mission intends to institutionalize a formal review process of the data quality of Cardno's reporting to USAID. The Mission will also use the Data Quality Assessment process to examine the Cardno's system for collecting, verification and reporting of data to USAID. The Mission review process will focus on Cardno's data compilation and verification for data reported by Cardno on key Impact Indicators (such as increase in sales, jobs, finance mobilized and scale of project's assistance).

⁸ This is a senior FSN position requiring expertise in monitoring and evaluation, and was recently established by the Mission.

The DQA will be conducted jointly by the project's COR and the Mission's M&E Specialist. The Mission expects that the DQA will be completed by the end of May 2013. Following this, recommendations for strengthening Cardno's system of data collection, verification and reporting will be communicated in writing to Cardno and Cardno will be required to implement the Mission recommendations in the first forthcoming reporting cycle.

The Mission will provide the Audit Team with a copy of the instructions to Cardno at which time Mission will request closure of this recommendation.

Recommendation 9: Work with Cardno Emerging Markets Ltd. to review and adjust project's targets to make them realistic and document the results.

USAID BiH response to Recommendation 9: The Mission agrees with this recommendation.

The Mission recognizes that output indicators (number of firms/persons trained and other) need to be adjusted because of project dynamics during implementation. For the key impact indicators, which are specifically stated in the FIRMA Award, the Mission is of the opinion that these represent ambitious targets and should remain valid as originally defined. For FIRMA's output indicators which significantly exceeded targets for previous reporting periods, the Mission has already required Cardno to re-evaluate these indicators/targets for year 4 and 5, propose new realistic targets, and submit a revised PMP to USAID and the JMC for approval, which Cardno has done (as attached).

The revised PMP has been reviewed by the COR, and will also be reviewed by the EDO Director, the M&E Specialist and the JMC. The JMC concurrence will be documented in writing.

Mission management asks you to consider this recommendation closed.

Recommendation 10: Direct Cardno Emerging Markets Ltd. in writing to reassess its grant with Adventure Tourism Association and either (1) implement a plan to help the Adventure Tourism Association achieve sustainability or (2) cancel the grant.

USAID BiH response to Recommendation 10: The Mission agrees with this recommendation.

The Mission has already requested Cardno in writing to provide a sustainability assessment of the Adventure Tourism Association (ATA), as documented in the attached document received from Cardno. As the attached memo documents, FIRMA's assistance to the ATA started in July of 2011 in an attempt to address the lack of coordination and promotion of outdoor tourism in BiH as a single country. To date, the cost-share collected from ATA in the amount of KM 8,896, exceeded the anticipated KM 7,500. In addition, the ATA obtained KM 6,845 from Italian subsidiary of Oxfam, International which indicates solid prospects for organizational sustainability. In addition, the Mission has instructed Cardno in writing to provide a detailed sustainability plan for the ATA. The Mission expects to receive a detailed sustainability analysis by the end of April, 2013 and will make a determination whether to continue support to ATA. The decision whether to continue with the support for ATA will be reviewed by the COR, the EDO Director, the PPO Director and the Mission Director, in consultation with the Sida representative at the JMC.

The Mission will document its decision on this grant and share it with the Audit team by May 30, 2013, at which time Mission will request closure of this recommendation.

Recommendation 11: Work with Cardno Emerging Markets Ltd. to implement procedures to evaluate sustainability thoroughly when reviewing applications.

USAID BiH response to Recommendation 11: The Mission agrees with this recommendation.

Cardno currently provides a numerical score for the sustainability component for all grants submitted to USAID/JMC approval. The sustainability score specifically requires that following issues are considered:

- Whether there will be an identified organization responsible for and committed to continue to implement the activity in the future, during and beyond FIRMA
- Will the activity support creation or significant strengthening of a viable value chain development support institution (NGO, development agency, association business development service provider, lead firm)
- Will the activity yield sustained improvement in business results, instead of one-time or short-term, whether or not is repeated

In response to Recommendation 11, the Mission will request Cardno to add a narrative section on sustainability, in addition to the above referenced score sheet, to all Activity/Grant Approval Requests submitted to TEC. The narrative section will provide detailed information on all relevant aspects of sustainability. The TEC will be required to specifically review the sustainability section for all grant approval documents. Cardno will be required to document TEC comments in TEC Minutes.

The Mission expects to implement this at the next TEC (expected in June, 2013) at which time the Mission will request closure of this recommendation.

Attachments:

- 1) DCA Bank staff attendance sheets (Rec #1)
- 2) COR's instruction to Cardno to submit Grants Balance Report (ref: Recc#2 and #3)
- 3) Grants Balance Report Submitted by Cardno (ref Recc #2)
- 4) Mission Gender Assessment Report (ref Recc # 4 and #5)
- 5) COR's instruction to Cardno to provide sex-disaggregated reporting in selected indicators (ref: Recc#6)
- 6) Copy of extract from Quarterly Report, PMP (Ref: Recc #6)
- 7) Copy of extract from Quarterly Report, narrative (Ref: Recc #6)
- 8) Memo on proposed revisions to Project's PMP submitted by Cardno
- 9) ATA Sustainability Report submitted by Cardno

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
<http://oig.usaid.gov>