OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PAKISTAN'S ENTREPRENEURS PROJECT

AUDIT REPORT NO. G-391-15-001-P
OCTOBER 27, 2014

ISLAMABAD, PAKISTAN

Office of Inspector General

October 27, 2014

MEMORANDUM

TO: USAID/Pakistan Mission Director, Gregory C. Gottlieb

FROM: Office of Inspector General/Pakistan Director, William S. Murphy /s/

SUBJECT: Audit of USAID/Pakistan's Entrepreneurs Project (Report No. G-391-15-001-P)

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

Although the report had no formal recommendations, the mission commented in its response to the draft on the findings and pointed out changes it has made as well as changes it plans to make in future programming.

Thank you for the cooperation and assistance extended to us during this audit.

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AOR	agreement officer's representative
FY	fiscal year
HEF	hand-embellished fabrics
MAP	medicinal and aromatic plants
MEDA	Mennonite Economic Development Associates
OIG	Office of Inspector General
PKR	Pakistani rupees

SUMMARY OF RESULTS

In developing economies like Pakistan's, micro and small enterprises suffer from limited production, inadequate financing, poor infrastructure, outdated technology, a lack of pro-business laws, and insufficient information about markets and the business environment. Furthermore, according to the 2009 USAID Pakistan Economic Performance Assessment, slightly less than 20 percent of women participate in the workforce even though they represent about half the country's population.

To address this situation, USAID/Pakistan awarded a 5-year, $30 million cooperative agreement to Mennonite Economic Development Associates (MEDA), effective June 22, 2009, to implement the Entrepreneurs project. That amount was decreased to $28 million in 2014, and the completion date was extended by about 3 months to September 20, 2014. MEDA allocated $7.5 million in grants to nine subimplementers to develop and carry out the project's activities.

The initial goal was to increase the incomes of at least 120,000 predominantly women micro entrepreneurs and small enterprise owners in Pakistan's four provinces. On March 3, 2011, the mission lowered that number to 75,000 and used some of the project's funds to help displaced people recover from conflict and unprecedented floods.

In addition, the project aims to have at least 64,000 micro entrepreneurs benefit from financial literacy training and access to microfinance loans. As of December 31, 2013, USAID/Pakistan had obligated $28 million and disbursed $22 million for the project.

Entrepreneurs focuses on four sectors: dairy, hand-embellished fabrics (HEF), honey, and medicinal and aromatic plants (MAP). In each one, the project's staff helps micro entrepreneurs develop "value chains" in which they process raw materials, distribute them, and sell the finished products to increase their incomes.

OIG/Pakistan conducted this audit to determine whether (1) the Entrepreneurs project succeeded in increasing the incomes of 75,000 mostly women micro entrepreneurs and small business owners, and (2) the mission took corrective action on the recommendations in the audit report of the project issued on April 20, 2012 (No. G-391-12-005-P).

The project achieved only part of its goal. While the incomes of MAP and HEF beneficiaries increased, MEDA did not collect sufficient data to show that the incomes of micro entrepreneurs in the dairy sector changed, and the honey sector's micro entrepreneurs' incomes changed very little.

MAP. The project registered 21,613 beneficiaries and trained nearly 20,000. They were trained to identify, collect, and store MAP. The training included technical and basic business management.

During our fieldwork, we interviewed beneficiaries and examined their income growth. Table 1 on the next page shows the MAP collectors' and sales agents' incomes from fiscal years 2011 through 2013. We noted that incomes increased progressively over the 3-year period because of project activities that involved increasing awareness, improving collection methods, and improving the links among beneficiaries, buyers, and markets. The collectors and sales agents said Entrepreneurs increased their incomes.

Table 1. MAP Average Monthly Income (Pakistani Rupees or PKR) (Audited)

Beneficiaries	2011	2012	2013
Collectors	1,479	1,863	3,186
Sales Agents	931	5,742	13,310

As of September 30, 2013, Entrepreneurs reported that MAP collectors and sales agents made gross sales of approximately $2.25 million due to the project's sponsored exhibitions and trade shows. The photo below shows a display arranged by Human Development Organization Doaba (HDOD), a subimplementer.

USAID/Pakistan is helping Pakistanis harvest and sell herbs and spices as part of its Entrepreneurs project. (Photo by HDOD)

HEF. As of December 31, 2013, Entrepreneurs registered 26,482 beneficiaries, trained almost 21,000 of them in improved production practices, and sponsored 37 exhibitions and trade shows. The project succeeded in enlisting large businesses to contribute time and expertise to develop the HEF beneficiaries' technical and business skills. For example, Coats Pakistan[1] taught beneficiaries to embroider, as well as how to design and trace patterns onto fabric.

The audit noted that the activities had a positive effect on the women embellishers' and sales agents' incomes. We verified and analyzed the incomes of 24 HEF beneficiaries and compared them from FY 2011 through 2013, as shown in Table 2 on the next page.

[1] This is a subsidiary of Coats PLC, a manufacturer and supplier of industrial sewing and embroidery thread based in England.

Table 2. HEF Average Monthly Income (PKR) (Audited)

Beneficiaries	2011	2012	2013
Embellishers	300	440	620
Sales Agents	7,717	12,577	78,356

For example, a woman sales agent with an in-house embellished fabrics business who made about $100 (PKR 10,000) per month now averages between $300 and $400 (PKR 30,000 and 40,000) per month, due to the improved technical skills and profitable market links provided by Entrepreneurs.

Dairy. This is the largest sector, and it received slightly more than $3 million or 42 percent of the total number of all subgrants that the project awarded. Entrepreneurs registered 33,000 beneficiaries and trained 26,476, mostly women, on improved milk production, basic business practices, and animal health management.

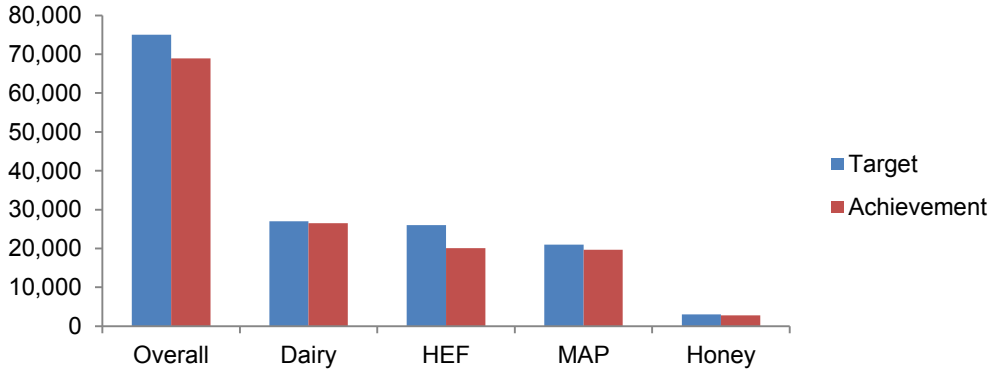
To provide a steady milk supply, the project provided and installed 79 medium and large milk chillers in the Sindh and Punjab Provinces. It also distributed 6,739 water troughs to provide water to milk-producing animals.

However, Entrepreneurs did not record and track changes in beneficiaries' incomes from July 2011 to May 2013. MEDA officials said the beneficiaries had too many transactions, which made it difficult to track and record any changes. Consequently, this audit could not determine whether the project increased their incomes.

Honey. As of December 31, 2013, Entrepreneurs registered 3,141 beekeepers and trained 2,755 in apiculture,[2] basic business management, and marketing. In addition, the project distributed 1,042 alternative transitional hives[3] to local beekeepers.

Due to technical difficulties and implementation challenges such as improper handling of and caring for foreign honeybees and substandard traditional box hives, the foreign bees either died or left their hives. Consequently, Entrepreneurs stopped supplying bees and instead started supplying alternative hives to house local bees. For these reasons, honey was the lowest performing of the four sectors (as shown in the chart below). Because of that, MEDA reduced the number of beneficiaries targeted from 5,000 to 3,000.

Project Beneficiaries—Targets and Actual Results as of December 2013 (Not Audited)



[2] Apiculture is the management and study of honeybees.
[3] Alternative hives are manmade and help bee colonies grow.

Finally, with respect to the corrective actions the mission took on the two recommendations from Entrepreneurs' previous audit, we found that the project did not track and store information in a standardized way and the mission's study to identify challenges in the honey sector did not result in the most effective actions to address those challenges.

Our current audit found a number of implementation challenges as well as a lack of oversight of project activities, listed below.

- The mission did not oversee, monitor, and evaluate project activities properly (page 5). USAID/Pakistan and MEDA did not review the performance data in the implementation plan and the quarterly reports for accuracy and consistency.

- Honey activities did not meet beneficiaries' needs (page 6). Many of the beekeepers' incomes did not increase, and many of them did not receive alternative hives.

- Women faced obstacles in the HEF sector (page 7). Cultural barriers and lack of education might keep them from sustaining the increased incomes resulting from the project.

- Beneficiaries had difficulty getting loans (page 8).

- The mission did not address the previous audit's two recommendations effectively (page 8). Some of the reported results were not accurate and could not be verified.

Because Entrepreneurs ended on September 20, 2014, and was not extended, we are not making any recommendations to USAID/Pakistan. However, the mission should review the problems discussed in this report and take measures to minimize such deficiencies in any future projects.

Detailed findings appear in the following section. Appendix I has information on the scope and methodology. Management comments are included in their entirety in Appendix II. Our evaluation of management comments is on page 10.

AUDIT FINDINGS

Mission Did Not Oversee, Monitor, and Evaluate Project Activities Properly

Automated Directives System (ADS) 303.2(f), "Grants and Cooperative Agreements to Non-Governmental Organizations," states that agreement officer's representatives (AORs) should review and analyze reports, monitor and evaluate the recipient and its performance during the award implementation, conduct site visits, and make sure the recipient complies with the award's terms and conditions.

In addition, ADS Section 203.3.11.1, "Assessing and Learning," states that performance data should be complete and consistent for management decisions. To be useful for performance monitoring and credible for reporting, performance data should meet data quality standards of validity, integrity, precision, reliability, and timeliness. Data that do not meet these standards could result in a lack of confidence in the data or lead to bad decisions.

Some of the performance data reported in the implementation plan and quarterly reports were not accurate or consistent and could be misleading. Examples are listed below.

- The mission did not review MEDA's January to December 2013 annual implementation plan and its July to September 2013 quarterly performance report for accuracy and consistency. In addition, MEDA reported targeted activities as achieved results. For example, it incorrectly reported projected numbers of beneficiaries to be registered and assisted as "number of beneficiaries registered and assisted." It reported the number of groups to be formed in 2013 as "number of groups formed in 2013" and the number of beneficiaries to be trained by December 31, 2012, as "number of beneficiaries trained up to Dec. 31, 2012."

- MEDA's July to September 2013 quarterly report did not reflect MAP net sales consistently. For example, on page 6, MEDA reported sales of $2,655,009, while on page 10, it reported sales of $2,282,223 and on page 16, it reported net sales of $2,249,866.

- The AOR did not monitor or review the implementer's cost-sharing progress, and she could not confirm whether her files contained all the required reports such as the record of approvals, invoices, and correspondence.

The implementer's erroneous reports and incorrect data were not discovered because neither MEDA nor the mission spent time assessing data quality and ensuring that reported results were accurate and consistent.

In addition, the AOR had not visited the project's activities to monitor and evaluate them. She said approximately 45 percent of all activities were taking place in volatile areas of the Swat Valley and other sites in Khyber Pakhtunkhwa Province. She tried to visit project activities many times; however, she did not get clearance to travel to areas where MEDA was implementing project activities. She said she did not have the means to verify cost-share contributions, and because of her workload, she updated her files only recently.

As a result, reported results may not reflect actual project achievements, and inaccurate information may lead to bad decisions because management, partners, and other stakeholders rely on reported results to make decisions about the project and funding.

We are not making recommendations because the mission has taken steps to address our draft findings. Furthermore, the project ended in September 2014 and was not extended.

Honey Activities Did Not Meet Beneficiaries' Needs

ADS 200.3.1.3, "Introduction to Programming Policy," states that the Agency should invest its resources in sectors that are likely to have the greatest impact. Therefore, missions need to understand local conditions and apply clear, measurable, and relevant criteria to choose sectors based on those conditions.

The project provided hives, bee colonies, and other beekeeping accessories to 3,000 beekeepers in the Swat Valley to help them increase their incomes through better practices. However, only 750 reported that their incomes increased. The incomes of the remaining 2,250—75 percent—decreased due to the following programmatic and technical challenges.

- Many bees died due to improper handling during transportation and subsequent transfers into new hives.
- Beekeepers did not maintain the new hives properly because they did not know how.
- Beneficiaries did not give bees the right food and liquids, which caused them to become weak and malnourished.
- MEDA supplied beekeepers with European (*Apis mellifera)* bees, which they had no experience with, instead of supplying them with local bees (*Apis cerana).*[4]
- Species were intermixed, resulting in conflict that weakened the bees and eventually caused them to die or leave their hives.
- MEDA provided substandard hives that were susceptible to cracking.

The mission's May 2012 impact survey noted that the incomes of most of the beekeepers who Entrepreneurs was supposed to help were not increasing. Consequently, the project stopped distributing honeybees and began supplying alternative hives to the beneficiaries. MEDA planned to distribute 4,500 hives—2 to each of 2,250 beekeepers. However, as of December 2013, the project distributed only 1,042.

MEDA's chief of party said the budget for the alternative hives was not sufficient and the unit cost of the alternative hives was much higher than predicted, partly because the hives had to be redesigned to improve their quality.

[4] The European bee tends to be slightly larger than the local bee, which is one of the predominant species found and domesticated in India and Pakistan.

Mission and MEDA officials said certain constraints inherent in beekeeping and other endeavors involving live organisms affected the project's results. However, the mission did not monitor and verify the honey sector's activities properly, and MEDA did not train beneficiaries to handle and care for foreign bees properly because it did not expect them to behave differently.

We are not making recommendations because the mission has taken steps to address our draft findings, like distributing alternative hives. Furthermore, the project ended in September 2014 and was not extended.

Women Faced Obstacles in Hand-Embellished Fabrics Sector

ADS 200.3.1.5, "Introduction to Programming Policy," states that sustainability is about building skills, knowledge, institutions; providing incentives to make the development process self-sustaining; and developing resilience against shocks and other setbacks. The guidance explains that assistance investments are ideal when there is demonstrable local demand and commitment to ensure that activities continue after the USAID project ends. In addition, the cooperative agreement states that Entrepreneurs' value chains would bring quality products and link them to profitable markets to increase production, sustainability, and make the beneficiaries more independent. The agreement also states that project activities were designed to remove barriers and provide opportunities to women micro entrepreneurs.

The project worked with microfinance institutions and community-based savings groups to lend money to beneficiaries to help expand business activities and increase their production. In addition, Entrepreneurs hired an international consultant to support 15 centers for HEF.

Despite MEDA providing support, our audit found that most women beneficiaries were isolated from the market because they did not have access to materials they use to produce their finished products, and they did not get adequate support from MEDA and its subimplementers.

All the women we interviewed saw MEDA and the subimplementers as business entities that would support them by linking them to markets and providing them with training and other assistance indefinitely. They said they could not work together as a group of entrepreneurs without the project's intervention, and the women depended on it to host and sponsor trade shows and exhibitions.

Thus, the HEF activities may not be sustainable because of cultural barriers and societal norms that prevent women from participating in business. Furthermore, lack of education and technological support created barriers for these women, which made market connections more difficult.

Because of these factors, the women may not be able to sustain themselves and make progress when the project ends. They may not be able to increase their incomes without the project sponsoring trade shows and exhibitions.

We are not making recommendations as the project ended in September 2014 and was not extended.

Beneficiaries Had Difficulty Getting Loans

According to the project, at least 64,000 beneficiaries were to benefit from financial literacy training and access to loans provided by financial institutions working with Entrepreneurs.

However, MEDA officials said the project provided financial literacy training to only 350 people, and only 550 people obtained loans totaling PKR 4.72 million ($47,200) as of December 31, 2013. One subimplementer said only 16 of its 156 beneficiaries who applied for microfinance loans actually got them.

The project did not attract and secure loans to promote investments and business expansion for the following reasons.

- MEDA provided microfinance awareness and training for only two of the four sectors.
- Microfinance institutions were charging high interest rates, in some cases at least 22 percent.
- Beneficiaries were reluctant to pay interest for religious reasons.
- Beneficiaries in rural areas could not meet the microfinance institutions' lending criteria.
- Microfinance institutions were reluctant to grant loans to people who rented their homes and did not have collateral.

Because beneficiaries had difficulty applying and qualifying for loans, and they considered the packages offered to be unattractive; they often did not obtain loans, which could limit expansion of their businesses.

We are not making recommendations as the project ended in September 2014 and was not extended.

Mission Did Not Address Prior Audit Recommendations Effectively

In FY 2012 OIG/Pakistan audited the Entrepreneurs project to determine whether it made progress building the capacity of local partners and expanding opportunities for micro entrepreneurs. The audit found that the project did not measure or track the changes in beneficiaries' incomes to assess impact. In addition, the project made little progress in developing the honey sector (also referred to as a value chain). Therefore, the audit made two recommendations.

1. Develop and implement a process to collect information about changes in beneficiaries' sales and incomes to be stored in a standardized format in a database and updated regularly so that well-timed project assessments can be performed.
2. Develop and implement an action plan to increase the pace of development in the honey value chain and redefine or revise the activity objectives.

In response to the first recommendation, the project partially addressed the recommendation. Entrepreneurs established baselines for the beneficiaries' incomes via a countrywide baseline survey in December 2012. The project also surveyed nearly 70 beneficiaries to assess whether the activities increased their incomes. It analyzed the changes in incomes of at least 1,800 and compared the results to incomes from a group of nonbeneficiaries.

However, Entrepreneurs did not track and record changes in beneficiaries' incomes in a standardized way. For example, the dairy sector did not track and document incomes from July 2011 to May 2013. It did not standardize how data were recorded throughout the four sectors, and the honey sector data were incomplete because some beneficiaries did not report their incomes to the project's employees.

In response to the second recommendation, Entrepreneurs conducted a study to identify and address the challenges in the honey sector to increase the pace of implementation. Based on the recommendations from the study, the project decreased the targeted number of beneficiaries from 5,000 to 3,000 and stopped supplying honeybees, focusing instead on distributing alternative hives and providing training.

However, as noted earlier in the finding on this sector, it has not made much progress due to technical difficulties.

Because the project ended in September 2014 and was not extended, we are not making any recommendations.

EVALUATION OF MANAGEMENT COMMENTS

Although there were no formal recommendations in the report, the mission commented on the findings of the audit and pointed out changes it has made as well as changes it plans to make in future programming.

Oversight. The mission has taken steps to address shortfalls in oversight, monitoring, and evaluation of the project. For example, the technical office used the mission's central monitoring and evaluation contract to help the implementer develop a method to track changes in beneficiary incomes during the last 2 years of the project.

Honey. The mission acknowledged its lack of success in introducing a new variety of bees but did note that the planned beneficiaries had received the designated number of hives by the end of the project.

HEF. In activities for HEF, the mission said a key part of the activities' sustainability planning in the final year of the project was to establish 14 common facility centers as separate incorporated entities and to train more than 700 women agents and others.

Loans. The mission said access to loans is a challenging issue in rural Pakistan, and many beneficiaries were unwilling to take them out. Training was provided, therefore, to familiarize beneficiaries with lending procedures.

Past Recommendations. The mission described some actions taken to address the prior report's recommendations such as developing a database and signing a memorandum of understanding between a honey collection center and a major honey buyer.

SCOPE AND METHODOLOGY

Scope

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

In FY 2012 OIG/Pakistan conducted an audit of Entrepreneurs activities. The audit found some weaknesses in measuring and tracking changes in beneficiaries' income to assess the project's impact. It recommended that the mission (1) develop and implement a framework to collect information about changes in beneficiaries' sales and incomes, and (2) store the information in a standardized format, which should be updated routinely so that well-timed project assessments can be performed.

The purpose of this audit was to determine whether the project succeeded in increasing incomes of 75,000 mostly women micro entrepreneurs and small business owners, and to determine whether USAID/Pakistan took corrective action on the recommendations in the 2012 audit.

The mission awarded MEDA a 5-year cooperative agreement for $30 million on June 22, 2009. As of December 31, 2013, USAID had obligated $28 million and disbursed $22 million. The focus of this audit was on project implementation and not specific financial transactions. Therefore, we did not audit the disbursed amount of $22 million.

We used our judgment to choose ten activities based on their significance, materiality, sector, and location. We interviewed and collected sales data from 24 HEF and 24 MAP beneficiaries.

We conducted this audit at USAID/Pakistan and MEDA's offices in Islamabad from August 1 to December 30, 2013. In addition, we visited ten villages in the Khyber Pahktunkwha and Sindh Provinces. We interviewed employees from the mission, MEDA, subimplementers, as well as beneficiaries in all four project sectors.

The audit covered project activities from June 22, 2009, to December 31, 2013. In planning and performing the audit, we assessed significant controls related to implementation, reporting, policies, procedures, and performance measures and indicators. We reviewed documentation that included the project's annual implementation plan, data quality assessments, AOR files, quarterly performance reports, cost-sharing records, and MEDA's cooperative agreement, including modifications.

Methodology

To answer the audit objective, we reviewed project activities in MEDA's annual implementation plans and quarterly performance reports, which described the specific project activities including schedules for when individual activities were to be completed. We determined whether MEDA's 50 performance indicators could be traced to the annual implementation plans and were

achieving desired results of increasing the incomes of 75,000 predominantly women micro entrepreneurs in the dairy, HEF, honey, and MAP sectors. We compared actual results achieved to planned targets. To determine the impact of the activities, we assessed the percentage increases in sales, number of beneficiaries who registered and received help, and number of beneficiaries associated with the project who applied for loans and the amounts they received.

To support our findings, we reviewed the following documents:

- ADS Chapters 200, 201, 202, 203, and 303
- Project cooperative agreement and related modifications
- Subgrants to subimplementers
- MEDA's 2011, 2012, and 2013 annual implementation plans
- Quarterly performance reports from June 2011 through December 2013
- Correspondence among USAID/Pakistan, MEDA, and its subimplementers

To verify reported results, we used our judgment to select ten activity sites that we determined to be representative of the sectors and were instrumental for the project's success. Our sample was small because of the security situation in Pakistan and regional security officers' concerns. We selected the sites based on the activities' significance, materiality, sector, and location.

We verified the reported results by matching them to documents such as training, sales, and beneficiaries' documentation. To determine whether project activities increased incomes of beneficiaries, we verified and analyzed sales data from 48 beneficiaries, including 12 women embellishers and 12 women sales agents from the HEF sector as well as 7 collectors and 17 sales agents involved in MAP activities. Because our sample did not have a statistical basis, our audit results cannot be projected to the project as a whole.

MANAGEMENT COMMENTS

MEMORANDUM

Date	October 03, 2014
To	William Murphy, Director OIG/Pakistan
From	Gregory Gottlieb, Mission Director USAID/Pakistan **/s/**
Subject	Mission Comments on the Performance Audit of USAID/Pakistan's Entrepreneurs Project
Reference	Draft Audit Report No. G-391-14-xxx-P dated August 27, 2014

This memo acknowledges receipt of and provides management comments on the draft audit report for the Entrepreneurs Project (the "Project"), which completed its implementation on September 20, 2014.

The Project, in assisting women micro-entrepreneurs nationwide, was dynamic and responsive throughout its life. It grappled with constant security concerns, responding to massive natural disasters and changing priorities during its initial two years. Nevertheless, the Project met targets and demonstrated a positive impact on the lives of over 70,000 Pakistani women through its targeted value chains. We greatly appreciate the efforts of our partner, Mennonite Economic Development Associates (MEDA), under this program.

Collaboration with OIG throughout the audit process has led to adjustments within the Economic Growth and Agriculture Office (EGA) in order to address and improve the Project prior to its closing, as well as to help improve overall EGA programming, where applicable.

Even though no formal recommendations were made in this audit, the Mission would like to address the five main findings of the audit and changes EGA has and will make in future programming. Comments are organized by sections found in the audit findings.

<u>Mission Did Not Oversee, Monitor, and Evaluate Project Activities Properly</u>

While EGA enjoyed a good working relationship with Islamabad-based implementing staff, due to the on-going security situation in large parts of the implementation area, physical site access was difficult, rendering the ability to work directly with field-based staff and beneficiaries challenging. As the audit findings point out (page 5), "…*approximately 45 percent of all activities were taking place in volatile areas of the Swat Valley and other sites in Khyber Pakhtunkhwa.* [AOR] *tried to visit project activities*

many times; however, she did not get clearance to travel to areas where MEDA was implementing project activities." These travel restrictions resulted from on-going militant activities and corresponding military operations in the project implementation areas. These larger safety concerns and the resultant travel restrictions were not specific to the Project as they affected all project activities in the affected areas regardless of the technical office.

The Mission moved forward with new measures to address monitoring of projects sites in these insecure areas, including arranging a central monitoring and evaluation (M&E) contract within the Mission to assist all programs and provide third party monitoring services. In particular, regarding the Entrepreneurs Project, EGA took a number of steps to address shortfalls in oversight, monitoring, and evaluation of the Project. Acting upon a recommendation in the April 2012 OIG audit, EGA required MEDA to put in place a rigorous evaluation system to assess project impact. EGA used the Mission's central monitoring and evaluation (M&E) contract to assist MEDA in developing a methodology to track changes in beneficiary incomes during the last two years of the project. The final round of data collection takes place in October 2014, and results will be presented in the final project report. In order to verify the data collection methodology and tools used by MEDA, the AOR also used the M&E contract to perform the Data Quality Assessments for the Program, ensuring that the approach to data collection for project indicators was consistent with best Agency practices on indicator monitoring and data collection. In addition, beginning in May 2011 PakInfo, OAPA's web-based knowledge management tool, was introduced at mission level to collect indicator and performance data from the field for verification and quality review. By January 2012, the EGA office had fully integrated all its projects into PakInfo and the Mission's review system. In the long term, this will support EGA's efforts to gather, collate, and track program data and support efforts to accurately reflect project achievements and ensure quality programming decisions were made.

The EGA is also taking steps to ensure that similar issues associated with project management and project oversight are not encountered in future projects. The EGA office conducted a full review of staff training histories and has developed training schedules to ensure all current and new staff have developed Individual Development Plans and are properly trained and certified in USAID project management and monitoring and evaluation procedures and that they understand their responsibilities.

<u>Honey Activities Did Not Meet Beneficiaries' Needs</u>

The original project to introduce European honey bees and equipment in Pakistan had the potential to substantially increase the incomes and production of beekeepers. The use of European bees is common in other parts of Pakistan, and it was believed they would be useful in increasing honey production for beneficiaries. Nevertheless, the project was not successful in introducing the new variety of bees. Participants remained partial to native bees. The focus of the project was redirected to native bees, which led to delays in the construction and distribution of appropriately sized beehives. The original party contracted to build the hives did not meet the material or quality standards set forth in the contract and was terminated. While a new construction contract was issued, the project saw an increase in cost per hive and delays in distribution. Still by the end of the project, all targeted beneficiaries received the designated number of hives.

EGA does not have future plans for bee or honey production work in upcoming agriculture or economic growth activities. The experiences and lessons learned through Entrepreneurs on agricultural

commodity selection and technology application have been documented to ensure that better selection criteria are used in future project designs.

Women Faced Obstacles in Hand-Embellished Fabrics (HEF) Sector

The sustainability of microenterprises once program funding ends is a challenge, particularly working in rural Pakistan with marginalized groups such as female entrepreneurs. The audit statement "… *women may not be able to sustain themselves and makes progress when the project ends. They may not be able to increase their incomes without the project sponsoring trade shows and exhibitions.*" (Page 7) is a legitimate concern. However, the audit report does not take into account MEDA's efforts in the sustainability planning for the activity. A key part of the activity's sustainability planning in the final year of the project was the development of 14 Common Facility Centers (CFCs) for HEFs and the training of over 700 Female Sales Agents (FSA) and Lead Entrepreneurs. These agents will act as sector leaders and intermediaries to provide access to markets and materials. By the end of the project, MEDA met its target for establishing CFCs as separate incorporated entities. In addition, MOUs were negotiated and signed by 3 industry buyers and one micro finance institution to provide formal linkages with the 14 CFCs, which will enable nearly 24,000 female embellishers' access to markets and credit. In addition, the CFCs will help ensure quality control of products being marketed, while also providing options for access to finance to enable them to grow their businesses.

Beneficiaries Had Difficulty Getting Loans

Access to loans is a challenging issue in rural Pakistan. As the auditors pointed out, due to cultural and/or religious reasons, many beneficiaries were unwilling to take out loans (page 8). During project development, MEDA determined that many traditional lending methods and institutions were not willing or able to lend to individual beneficiaries. The goal of this project was not to directly secure loans for beneficiaries. Instead, the project focused on familiarizing beneficiaries with lending procedures. This was accomplished through both direct training and training of trainer methods. MEDA then worked with producer groups, female sales agents and lead entrepreneurs to connect them to small-scale lenders and microfinance institutions, which could then provide financial services to their members.

Mission Did Not Address Prior Audit Recommendations Effectively

In response to recommendation No. 1 from the prior audit (dated April 2012), the Mission developed a process for the collection of information about changes in beneficiaries' sales and income. The project designed and built a new database, which was fully functional by January 1, 2013. Data entered by sub-contractor M&E personnel was double-checked and ground-truthed by MEDA M&E staff to ensure reliability. Any irregularities were investigated, verified and corrected as soon as identified. All data entered was checked bi-weekly for reliability.

Recommendation No. 2 from the prior audit advised developing an action plan to increase the pace of the work in the honey sector. The development of the honey sector in Swat encompassed a unique set of cultural, geographical, and physical challenges and constraints. While the project increased the pace of implementation, it had to do so with careful planning to ensure success. The creation of the Honey Collection Centers and the training of lead entrepreneurs in the honey industry were done to guarantee the beneficiaries access to needed equipment and training. Higher emphasis was placed on sustainability than on distribution of commodities or equipment. A well- established industry will

continue to support producers long after the project ends. In addition, an MOU was signed between the Honey Collection Center and a major honey buyer to buy local honey that will provide the beneficiaries a market for their production beyond the life of the project.

USAID/Pakistan appreciates OIG's efforts and is committed to continually improving its projects. As mentioned, the outcomes of the audit have already been factored into the design of the Missions' new EGA portfolio.

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