

**EXECUTIVE SUMMARY FOR THE REPORT ON ALLEGED
MISMANAGEMENT AT THE MICROFINANCE SUPPORT CENTRE LTD**

INVESTIGATION NO. IG. 06/03/11

The Inspectorate of Government received allegations of mismanagement at the Microfinance Support Centre (MSC) Ltd wherein it was alleged that:

1. Mr. Iggy Rwabukuku Musaali lacked the requisite academic qualifications for the job of Deputy Executive Director (DED) and that he specifically lacked qualifications equivalent to a first degree, Diploma, Uganda Advanced Certificate of Education.
2. The Board of Directors irregularly created a position of a second Deputy Executive Director to accommodate Mr. Iggy Rwabukuku Musaali, a former member of the Board of Directors who had been beaten in the interviews for the position of Deputy Executive Director.
3. It was further alleged that the Board of Directors of the Microfinance Support Centre (MSC) appointed Mr. Iggy Rwabukuku Musaali a Deputy Executive Director (DED) irregularly without following the relevant guidelines. It was also alleged that the Board, without justifiable cause, sent the Executive Director, Mr. Charles Byanyima on forced leave for four months and then appointed the irregularly recruited Deputy Executive Director, Mr. Iggy Rwabukuku Musaali, as Acting Executive Director despite his lack of qualifications.
4. When Mr. Iggy Rwabukuku Musaali was appointed a Deputy Executive Director (DED) he was supposed to serve a probation period of six months but only served for three months and he was confirmed. The Board then hurriedly amended the Human Resource manual as a means of covering up the irregularity. Mr. Iggy Rwabukuku Musaali, the acting Executive Director was formerly a member of the Board of Directors and the Board irregularly recruited him to serve their personal interests.
5. The procurement of Consultancy Services for Risk Assessment at the Microfinance Support Centre Ltd did not follow procurement procedures because the chairperson had personal interest in the matter. It was further alleged that she had fronted her Company M/s Concave International Ltd to do the work which management rejected. When management rejected the idea, she threatened to resign and thereafter as a compromise, the consultancy was awarded to her business associate Ms. Elizabeth Kalembe and Mr. John Baptist Lwanga. It was also alleged that her son Mr. Julian Kiiza was among the consultants.

6. The Board of Directors held unnecessary meetings at the company every month for purposes of drawing allowances. It was further alleged that the Board had a full-time office at the MSC offices in Kololo with the chairperson sitting there at least once every week. And that the chairperson was drawing allowances of 500,000/= (Five hundred thousand shillings) every day she would step in the office as a Board member even when she would simply come to office to check for her personal mails or do private work. In addition to that the chairperson was allocated a company vehicle with a driver and fuel which she was using for her personal work.
7. The Board of Directors of MSC Ltd was conducting itself in an improper manner and transacting Board business yet it was improperly constituted.

Investigations were initiated on account of the aforementioned allegations and the following findings were made:

1. Mr. Iggy Rwabukuku Musaali indeed lacked the requisite academic qualifications for the position of Deputy Executive Director and Executive Director and his Masters Degree from Kampala International University was irregularly awarded. The Board of Directors did not carry out due diligence to ascertain the validity of the academic qualifications of Mr. Iggy Rwabukuku Musaali before appointing him despite the red flag highlighted by the Consultants from Uganda Management Institute (UMI) in their report.
2. The Board of Directors of MSC mismanaged the recruitment process of the Deputy Executive Director in the following ways:
 - a) The recruitment method of “**Head hunt**” adopted by the Board was not provided for in the Human Resource Manual at the time of the recruitment although later it was provided for by the same Board. It also contradicted the general policy of transparency inherent in open competition.
 - b) Mr. Iggy Rwabukuku Musaali, a former member of the Board, was recruited as the Deputy Executive Director before he resigned his position as a Board member creating conflict of interest. This conflict of interest was apparent in the fact that Rwabukuku continued to attend key Board meetings where decisions about the recruitment process were ~~be~~ made even after he had made a written application for the position of Deputy Executive Director.
 - c) The Board created the second position of Deputy Executive Director deliberately to accommodate one of their own Mr. Iggy Rwabukuku Musaali who had been beaten in the interviews by Mr. Wilson W. Wamatsembe. It is our considered view that the creation of the position of second Deputy Executive Director was not done in good faith. It is likely, given the Board’s obvious interference in what should have been management matters, that the Board wanted Rwabukuku on the management team simply as a means of exerting more control over MSC after their proposal to be made into an Executive Board was rejected. Independent decision making at managerial level was already suffering due to the Board’s over-bearing approach.
 - d) The Board ignored key evidence of Mr. Iggy Rwabukuku Musaali’s ineligibility even after the UMI consultants had pointed out that he did not have a Bachelors Degree and ended up engaging someone without requisite

qualifications. This was most likely an intentional oversight meant to serve the Board's own interests.

- e) In what appeared to be a premeditated scheme by the Board to exert more control over day to day management at MSC, they immediately appointed Mr. Iggy Rwabukuku Musaali who was their colleague on the Board as Acting Executive Director notwithstanding the fact that he lacked managerial experience, he was the second best in the interviews, and had no requisite academic qualifications for the job.
 - f) Mr. Iggy Rwabukuku Musaali was appointed to the position of Acting Executive Director when he was still on probation contrary to Section 5.8(b) of the Human Resource manual which provides that *"Only confirmed staff are eligible for acting appointments."*
 - g) When the position of Executive Director fell vacant, it should have been advertised, internally or externally to allow for competition in view of the fact that both of the Deputy Directors were newly appointed.
3. Mr. Iggy Rwabukuku Musaali's interest in the position of Deputy Executive Director was not declared and never resigned as a member of the Board. He participated in Board meetings that made vital decisions regarding the position for which he was applying. His failure to excuse himself strongly suggested that he took advantage of his position on the Board and as such benefited from this position of trust and was therefore in conflict of interest. This contravened Section 9(1) & (2) of the Anti-Corruption Act, 2009 which provides that;
- (1) *An employee, or a member of a public Body, public company or public undertaking who, in course of his or her official duties, deals with a matter in which he or she or his or her immediate family has a direct or indirect interest or is in a position to influence the matter directly or indirectly and he or she knowingly, fails to disclose the nature of that interest and votes or participates in the proceedings of that body, company or undertaking, commits an offence and is liable on conviction to a term of imprisonment not exceeding ten years or a fine not exceeding two hundred and forty currency points or both.*
 - (2) *Conflict of interest shall arise where the person referred to in subsection (1)-*

- (a) *deals with a matter in which he or she has personal interest and where he or she is in a position to influence the matter directly or indirectly, in the course of his or her official duties;*
- (c) *participates in the deliberations of a public body, board, council, commission or committee, of which he or she is a member at any meeting at which any matter in which he or she has personal interest is to be discussed.*

4. The procurement of Consultancy Services for the Risk Assessment at the Microfinance Support Centre Ltd did not comply with the Public Procurement and Disposal of Public Assets Act and Regulations, 2003. Under the PPDA Act and Regulations, a procurement of this magnitude (UGX 78,920,000/=) should have been advertised under Open Domestic bidding procedures. However, this was not the case; instead Direct Procurement/sole sourcing was used. In the event that MSC had reasons to deviate from the normal procurement procedures they should have applied for approval of the deviation from the PPDA Authority as provided under Section 339 of PPDA Regulations, 2003. Section 339 of PPDA Regulations provides that, *"a deviation from the use of procurement or disposal method or documents under these regulations may be permitted by the Authority-*

- (a) Where exceptional requirements make it impossible, impractical or uneconomical to comply with these Regulations;*
- (b) Where market conditions or behavior do not allow effective application of these Regulations; or*
- (c) For specified or particular requirements that are regulated or governed by harmonized international standards or practices."*

Section 340(1) of PPDA Regulations, 2003 further provides that, *"an application for deviation from the use of a procurement or disposal method or document shall be submitted to the Authority in writing"*.

Our investigations confirmed that no application for the waiver was sought from the Authority.

5. Failure to comply with the provisions of the PPDA Act and Regulations means that the procurement of Consultancy Services for the Risk Assessment by the

Microfinance Support Centre Ltd was devoid of transparency and fair competition contrary to the PPDA Act section 45 and 46. Section 45 of the PPDA Act provides that *"All procurement and disposal shall be conducted in a manner which promotes transparency, accountability and fairness"*. While Section 46 provides; *"Subject to this Act, all procurement and disposal shall be conducted in a manner to maximize competition and value for money"*. It therefore goes without saying that value for money might not have been achieved.

6. The Contracts Committee erred in awarding the contract to Ms. Kalembe without either subjecting the process to open competitive bidding or a waiver from the PPDA Authority in the case of direct procurement. The contract was therefore not only illegal but could not be assessed to determine value for money. The Contracts Committee and in particular the Committee Chairperson and Secretary therefore abdicated their functions when they caused an irregular award of contract to Ms. Elizabeth Kalembe.
7. It was also established that the consultant who carried out the Risk Assessment Ms. Elizabeth Kalembe had previously worked with one Mr. John Baptist Lwanga who turned out to be a business associate to Dr. Speciosa N.K Wandira in M/s Concave International. Dr. Speciosa N.K Wandira's son Mr. Julian Kiiza was also found to have worked as a Research Assistant for Ms. Kalembe's consulting team. When queried about these links Dr. Speciosa N.K Wandira stated that Mr. John Baptist Lwanga worked with Ms. Elizabeth Kalembe as an individual Consultant and no revenue accrued to M/s Concave International Ltd from the Consultants. She also emphasized that her son was an adult and she could not influence his actions. Despite the fact that there was no evidence that Dr. Speciosa N.K Wandira exerted pressure on the Contracts Committee to flout procurement procedures, it was too much of a coincidence that the consulting company which was brought on board outside procurement procedures just happened to have her business partner and son among its staff. It is also pertinent to note that all of this occurred after Dr. Wandira had expressed interest in undertaking the consultancy herself at an earlier point until she was advised against it. It is therefore very likely that the choice of consultant was a result of undue influence by the Board. Ms. Kalembe's consultancy contract was also found to have been awarded in contravention of Article 9(g) of the MSC Articles of Association due to the fact that it was executed with the assistance of a business associate of the Board Chairperson along with a son of the Board Chairperson.

8. The Memorandum and Articles of Association of MSC specify a minimum of at least one meeting per quarter implying that the frequency of meetings to be held are decided upon by the Board depending on the volume of work/ business before the Board thus there is no maximum limit of the number of Board meetings that can be held in a quarter. There was therefore no manifest irregularity in the frequency of Board meetings.
9. The Board involvement in routine management activities like the preparation of the Strategic Plan, Critical Path Analysis and Human Resource Manual, among others, caused the managers at MSC to form the perception that the Board was interfering with their work. Indeed the Board was working as if they were fulltime employees of the company. The Board was no longer steering policy but was essentially managing MSC and taking executive decisions. A clear example of this is when the Board initiated the process of recruitment of a consultant for the Risk Assessment study. While management was amenable to Board guidance which included a review of the Company Strategic Plan and Manuals, Critical Path Analysis, it is clear that the Board overstepped its roles and responsibilities and actually re-invented itself as an Executive Board. This state of affairs is probably what led to a standoff between senior managers and the Board at the time that this investigation was launched.
10. The frequency with which the Board Chairperson made claims for allowances on account of work allegedly done for MSC was unusually high to say the least. For example between the months of August 2009 to November 2009 the Board Chairperson collected allowances between 7.5 to ~~9.4~~^{over 10} Million shillings per month. In the said period she claimed allowances for 53 activities she allegedly carried out on behalf of MSC and out of those the Inspectorate of Government found funds in respect of only 12 of the said activities to have been properly accounted for. The payments made to her in any given month by way of allowances rivaled that of some of the highest paid managers at MSC which begs the question as to whether the Chairperson's role had not essentially become managerial or whether the Chairperson was deliberately interfering in what would ordinarily be MSC managerial duties for financial gain. This suspicion is further strengthened by the fact that the Chairperson could not provide adequate accountabilities in the form of reports or minutes of meetings to prove that the allowances paid to her were actually for MSC work. When queried, Dr. Wandira submitted some reports, concept papers, and minutes to corroborate her claims. Dr. Wandira's accountabilities were analyzed and found to cater for only Twenty

Million, Three Hundred Seventy-Five Thousand and Eighteen Uganda Shillings (UGX 20,375,018/=) out of a total of Seventy-Eight Million, Six Hundred Seventy-Five Thousand and Eighteen Shillings (UGX 78,675,018/=) leaving a total of Fifty-Eight Million, Three Hundred Thousand Shillings Only (UGX 58,300,000/=) as monies claimed but not properly accounted for.

11. The Board acted irregularly to allocate an MSC operations vehicle and an office to the Chairperson of the Board - Dr. Speciosa N.K Wandira, because this is not provided for in the Memorandum and Articles of Association neither was this among the terms and conditions of her appointment. As a Chairperson of the Board she did not require a vehicle and an office because her role was not expected to be of a full-time nature. MSC resources were therefore irregularly allocated to the detriment of routine MSC operations.
12. The Board Members and Chairperson were never approved by the Annual General Meeting of shareholders after the expiry of their first term of office. Their re-appointment process was not yet legally complete. The letter by the Hon. Minister declaring the intention to re- appoint them for another term of three (3) years remained merely an intention to be effected through the shareholders at their Annual General Meeting.

RECOMMENDATIONS:

In light of the findings above, it is hereby recommended that:

1. Mr. Iggy Rwabukuku Musaali should show cause to the Inspectorate of Government why he should not be prosecuted for acting in conflict of interest contrary to Section 9 of the Anti-Corruption Act of 2009 when he failed to excuse himself from Board proceedings concerning a job for which he had already expressed interest.
2. The appointment of Mr. Iggy Rwabukuku as Executive Director should be terminated since he does not have the requisite academic qualifications for the position.
3. The position of Executive Director should be advertised and subjected to open competition to attract qualified persons to the position.
4. The second position of Deputy Executive Director should be reviewed by management of MSC and a new Board of Directors given the fact that it appeared to have been created to accommodate Rwabukuku as opposed to practical necessity.
5. Given the improprieties perpetrated by the former Board of MSC, a new Board be appointed to replace the previous Board. The new Board should also be advised to adhere to their stipulated functions and leave the day to day administration of MSC to the managers.
6. The members of the Contracts Committee that awarded the illegal contract for the Risk Assessment study without following PPDA guidelines should be cautioned for their conduct and advised to desist from such malpractices in the future.
7. The Memorandum and Articles of Association of MSC should be reviewed by the shareholders in order to clearly delineate the functions of the Board against those of the executive managers of MSC so as to avoid undue recurrence of Board involvement in management functions.
8. The Minister of Finance Planning and Economic Development should require Dr. Speciosa N.K Wandira to either fully account for the monies remaining unaccounted for amounting to the sum of UGX 58,300,000/= within one month from the date of

receipt of this report or to make immediate arrangements to refund the same to MSC.

9. The Human Resource Manual of MSC should be reviewed to remove those provisions that limit transparency and open competition without proper justification such as the provision for “**head hunt**” method of recruitment.

10. Kampala International University should recall and revoke the Master’s Degree erroneously awarded to Mr. Rwabukuku to stop him from wrongfully benefiting from its entitlements.

11. NCHE should establish a programme of periodic inspection of admissions to Universities to ensure that minimum standards set for admissions are complied with.

INSPECTORATE OF GOVERNMENT

JANUARY 2012