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Report

on

Uganda Cooperative Bank, Ltd.
A.I.D. No. 617-0102-A-00-2005-00

By

M. J. Carter
Cooperative Bank Adviser

for

Agricultural Cooperative Development International
Suite 600
1012 Fourteenth Street, N. W.
Washington, D.C. 20005

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acdi Agricultural Cooperative Development International

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SCOPE OF WORK

Prescribed in letter April 6, 1983 from Mr. Bartlett Harvey, Executive Vice President, Agricultural Development International.

1. To assist the Uganda Cooperative Bank in consolidation of operations and planning for growth in order to meet demands of increased support for small farmer production.

2. To assist the cooperative bank to estimate the total amount of capital currently available to the cooperative sector for agricultural finance and how the capital is currently deployed.

3. To prepare a draft report of your activities, findings and recommendations for discussion with the managing director, the Commissioner of Cooperative Development and USAID prior to departure from Uganda.

PROCEDURE

Work was commenced in Kampala, Uganda, April 18, 1983. Discussions were held with resident staff members of Agricultural Cooperative Development International and the United States Agency for International Development.

The first visit at the Uganda Cooperative Bank was April 20. A conference with the general manager was held, and a weekly management advisory committee meeting was attended.

During the next several weeks numerous interviews were held with the general manager, members of the staff of the cooperative bank, the Ministry of Cooperatives, and staff members of the U.S. Agency for International Development and Agricultural Development International. Three branch banks were briefly visited at Kampala, Jinja and Masaka. A listing of parties visited is appended as Exhibit I, page 34.

In addition, recent board of directors minutes and loan committee minutes were reviewed. Also reviewed were the proposed operations manual, proposed bylaw revisions, and files of correspondence with the Ministry. Three meetings of the management advisory committee were attended.

Presence in Uganda was concluded May 25, 1983. Agricultural Cooperative Development International offices in Washington, D.C. were visited and a summary presented May 27, 1983.

Throughout this process the reception was most cordial and all parties cooperated and participated in a manner most helpful to accumulating information and arriving at conclusions in this report.

About two weeks after this review was started, a report by Mr. Peter Ginnings of Deloitte, Haskins and Sells was concluded and published. The report is a comprehensive review of the financial and operations situation in the cooperative bank and was very useful in making available financial information for the organization which did not need to be additionally researched and substantially reduced the time necessary to complete this review.

BACKGROUND INFORMATION

In 1964 the Uganda Cooperative Bank was chartered under provisions of the Cooperative Societies Act. Before organization was completed the Minister suspended operations because of irregularities and appointed a supervisory manager "to ensure control of the bank's funds and to draw up plans for its development". In "1970 the Minister of Cooperatives and Credit in concert with the Cabinet decreed that the bank should be recognized and activated". Financial activities were limited to accepting deposits from and extending loans only to member cooperative unions and societies.

Broad objectives were also prescribed as follows:

1. To mobilize the financial resources of the cooperative movement by encouraging thrift and savings; and

2. To promote the prosperity of cooperative unions and societies through financial counseling and supervised credit.

Concurrently, it was generally agreed that capitalization and loan funds were to be derived from the following:

1. Class A ordinary shares of unlimited number to be purchased by unions and societies of sh. 100 each in accordance with bylaw provisions (later changed to sh. 10,000).

2. Class B preference shares of sh. 100 each in which the unions and societies were to invest in the statutory reserve

funds accumulated in conformance with Clause 47, Cooperative Societies Act of 1970.

3. Class C, deferred shares evidencing government subscription to capital. In lieu of capital the government assigned to the bank a portfolio of long-term loans to unions made from the Cotton Price Assistance fund, the Coffee Development fund and the Ground Nut Development fund.

On July 1, 1970 organization was again started by the supervising manager with headquarters in Kampala and five branch offices to be opened the first year. It was anticipated that as many as 10 branch offices might eventually be desirable. Included were plans for a mobile bank service with each branch to have a mobile service with fully equipped vehicles with established routes to serve rural areas. It was also anticipated that a two-way radio-phone system would be installed in all branches and for the mobile banking services.

Concurrently, under the supervision of the Ministry of Cooperatives, there was being developed a rural savings scheme and savings and credit societies. The savings and credit societies designed for wage and salary earners has prevailed and continues to operate successfuly. The rural savings scheme was designed for farmers to operate through the local societies. Although intended to be limited only to societies that "proved they could successfully operate the credit scheme were permitted to accept member deposits", there was a proliferation of participants and with the national upheaval of the 70's the program fell into disarray. (The scheme is being revived by the credit section of the Ministry and last year had sh. 15 million loaned to 3,000 farmers through 87 societies. (Further reference will be made later in the report.)

In the July 1970 general plan for the cooperative bank it was anticipated that the cooperative credit scheme loans in the area of bank branches would be transferred to the bank.

Following reorganization, the bank, for some time, received savings and also contributions to the satutory reserve fund voluntarily offered by the unions and societies. Individual loan activity was minimized but long-term development fund loans to unions were receiving attention and some short-term loans were made.

During the entire period of the 60's to early 70's, USAID and ACDI had a number of technical assistants as well as monetary and in-kind assistance to aid in the development of the bank and the credit schemes.

In January of 1979 the bank changed to a commercial banking emphasis. Capitalization requirements by users were indefinite or nonexistent resulting in an inadequate capital base. The global increase in interest rates further eroded margins and the float of the shilling in mid 1981 all contributed to a major cash flow problem by the last quarter of the year and a moratorium on lending activity was imposed.

During the later 70's the country went through a great political and economic upheaval which had a negative impact on all institutions as well as the citizenry. The cooperative bank, too, was subject to this instability. Operations were complicated by irregularities in granting loans and employee activities and noncompliance with established procedures.

The country is now in a period of emergence from this upheaval and institutions, including the cooperative bank, are reassessing their positions and roles and reorganizing for the future. Considerable assistance is being provided by donor nations and organizations, international development banks, and other financing institutions.

PRESENT SITUATION

The Uganda Cooperative Bank is insolvent:

- Liabilities exceed assets (See balance sheet, Exhibit II page 35);
- The bank has, for several years, operated at a loss (See operating statement, Exhibit III, page 36);
- The quality of the loan portfolio is questionable; and
- There is a substantial overdraft at the Bank of Uganda.

In general, this untenable situation has been caused by lack of income from assets to meet expenses and advances:

- The bank is not adequately capitalized and income from this source is inadequate;
- The loan portfolio is not generating expected income because of nonpayment of installments on many loans and a substantial amount of portfolio is dormant and the principal and interest will probably not be collected on these loans.
- Lack of income from assets has been substituted by an overdraft at the Bank of Uganda which results in an interest expense burden to further erode the difficult financial position of the company.

In addition:

The present organization of the bank is not as efficient and cost effective as would be possible with restructuring and adequate control measures.

FINANCIAL ASSISTANCE

The Cooperative Bank of Uganda cannot continue to operate without substantial financial assistance upon which earnings can be realized to substitute for lack of earnings from the conventional earning base of capital, a viable loan portfolio and to alleviate the erosion of earnings by interest payments to the Bank of Uganda on the overdraft.

To be effective the financial assistance provided would have to be on a very low or no interest charged basis.

To be most effective a grace period on payments and a term amortization will be necessary to allow sufficient time for substitution of conventional, viable assets to produce income.

The following are estimated financial assistance requirements:

	(000,000 omitted)
Restore capital to acceptable level	sh. 182.0
Restore accumulated losses	226.8
Reserve for dormant loans	500.0
Bank of Uganda overdraft	500.0
Total	sh. 1,408.8 million

A proposed repayment program would be:

A grace period of three years and five years amortization for:

sh. 182 million capital, to be refunded by capital reorganization; and

sh. 500 million Bank of Uganda overdraft.

Recent overdrafts have been:

	(Millions)
28 February 1983	sh. 324.0
25 March 1983	sh. 510.0
22 April 1983	sh. 488.0
27 April 1983	sh. 600.0

Between reporting dates overdrafts have reached higher levels. The sh. 500 million appears to be the core problem. Amounts in excess could be corrected by prompt payments from the Coffee Marketing Board and timely remittances from branches.

A grace period of five years and a ten-year amortization for:

sh. 226.8 million accumulated losses to be refunded from future earnings; and

sh. 500 million for expected dormant loan write-offs.

If this financial assistance can be obtained, positive measures must be taken to assure the bank's effective and profitable operation. It is proposed that the first use of funds would be to accommodate the Bank of Uganda overdraft and thereby eliminate the interest burden on the overdraft. The balance to be invested in short-term treasury securities and/or certificates of deposit to provide income but not be used for loan funds until the purpose of the organization is redefined, the bank is reorganized, procedures are in place to assure efficient operations and sound lending, and appropriate capital contributions are commenced by users of the bank.

REDEFINITION OF PURPOSE OF ORGANIZATION

When the bank was organized, and as earlier stated in this report, the broad objectives were as follows:

1. To mobilize the financial resources of the cooperative movement by encouraging thrift and savings; and

2. To promote the prosperity of cooperative unions and societies through financial counseling and supressed credit.

As the organization has evolved it is now generally performing two functions.

The first, a commercial banking function including the accepting of deposits and making loans under limitations prescribed by the conventional practices of the Bank of Uganda. It is estimated that 20% of present advances are to cooperatives organizations and 80% to private business, agricultural related and non-agricultural. Small farmer loans are very limited or nonexistent.

The second function is funding and supervision related to administered funds provided by lenders and donors.

A restatement of purpose would need to be agreed to by the supervising agency, the board, and management of the bank.

It would seem appropriate for the statement to include the two broad objectives originally stated when the bank was organized.

Also, a recommitment to support unions and societies in financial counseling and supervised credit, particularly in the small farmer lending programs, seems appropriate.

The two functions the bank now performs, commercial and administered funds supervision, need to be recognized as separate functions.

LENDING LIMITS

The present method of determining lending limits is too restrictive. All loans made, commercial and administered funds, are computed against the Bank of Uganda lending limit regardless of source of funding and related to commercial deposits. Presently, the loan to deposit ratio is: (Deloitte, Haskins & Sells report, page 26, schedule 4.7)

$$\frac{\text{Total Loans} \quad \text{sh. } 2{,}006.2 \text{ (mill.)}}{\text{Total Deposits} \quad \text{sh. } 2{,}837.5 \text{ (mill.)}} = 70.7\%$$

The Bank of Uganda loan to deposit ratio is 70%. As of December 31, 1982, the cooperative bank was .7% over that limit.

If the loan to deposit ratio were determined more appropriately, based on the source of funds; i.e., commercial loans based on deposits not including administered funds, the loan to deposit ratio would be:

Total loans			sh. 2,006.2 million
Minus:	Administered	sh. 606.2	
	Schemes	66.7	
		672.9	(672.9)
			Net sh. 1,333.3 million

$$\frac{\text{Net Total Loans} \quad \text{sh. } 1{,}333.3}{\text{Total Deposits} \quad \text{sh. } 2{,}837.5} = 46\%$$

Under this approach, the loan to deposit ratio at the Bank of Uganda would be 46%, well under the 70% limit. This would permit an increase in the commercial loan portfolio of over sh. 600 million and still be under the existing limit.

The administered funds and schemes are funded separately and should not be included in the Bank of Uganda commercial limit. If a lender or donor were to provide an additional one billion shillings for a specific purpose and the present lending limit approach were used, the cooperative bank would be hopelessly beyond the present commercial limit. The funds probably could not be administered without confounding the operation and doing a disservice to the cooperative movement and the agricultural community.

When properly operated and capitalized, the cooperative bank needs adequate lending limits to accommodate the needs of the users for sound loans.

For the future, the bank should identify a third source of funds to permit a cooperative lending company with funding based on pledging of capital and loan portfolio to borrow funds for relending. These funds would need to be borrowed at a rate to permit lending at a sufficient spread to users of the cooperative bank to pay borrowing costs, proportioned operating costs, and a reasonable margin to the bank. This is known as "leveraging" capital and an approach used exclusively by cooperative banks of the Farm Credit System in the United States. The program should be investigated for the future with the possibility that such funding might be available from international reconstruction or development sources, the government, or other financing institutions.

The process is that a determination is made by the supervising agency (Ministry) as to a reasonable level of leverage in relation to capital. It would appear that a most conservative level of 20% would first be considered. That is sh. 20 for each sh. 100 to be borrowed and reloaned. If the bank is capitalized at the suggested level, sh. 182 million; this amount plus liquid reserves would be sh. 240.9 million capital. The extent to which this could be "leveraged" would be:

sh. 240.9 million x 5 = sh. 1,204.5 million

The bank would then be authorized to seek additional funding in this amount for lending purposes.

If these programs were pursued, the total lending limit of the bank would then be:

Total deposits (sh. 2,837 mill x 70%)	sh. 1,986.0 million
Administered funds and schemes	
Total available, December 31, 1982	672.9
Capital "leverage"	1,204.5
Total all sectors	sh. 3,863.4 million

CAPITALIZATION

The present capital program of the bank is in disarray and should be reformulated.

When organized provision was made for three classes of stock - A, B, and C - mentioned in the background section of this report. Classes of stock, as provided, still are appropriate but compliance with capital programs have not been observed.

The class "A" stock was to be provided by solicitation of cooperatives to contribute capital and is still attempted on a voluntary basis. This approach is appropriate for beginning capital to start a cooperative organization, but when started, capital should be provided by users of the cooperative on a compulsory basis according to use.

A reasonable objective would be to have capital equal to 12% of lcans outstanding provided by borrowers.

To provide adequate capitalization, it is suggested that each borrower should be required to make a capital contribution of 6% of funds borrowed from the first advance. A 2% per year contribution should be required the next three years to bring the level of capital to 12% of funds borrowed.

To be effective the program should be started immediately with the requirement on all new loans, renewed loans and rewritten delinquent accounts, and a program commenced to renegotiate this capital arrangement with administered loan recipients.

The capital contribution should not be considered an additional interest charge but rather an ownership investment in the company which will be operated on a cooperative basis and capitalized by the users.

The "B" stock was intended to be provided by unions and societies by investing statutory reserve funds in conformance with the Cooperative Societies Act of 1970. The provision has not been enforced and contributions have been on an intermittent and voluntary basis.

"C" stock was provided to accommodate government investment. It appears that the bylaws are now written to accommodate other financial assistance of an investment nature. If the company is successful in obtaining financial assistance, the funds could be invested in "C" stock to evidence that assistance. Priority should be given to retirement of this stock before any retirement of other classes of stock.

Share Capital - December 31, 1982 (000 omitted)

Class A	sh. 38,377
Class B	16,197
Class C	18
Total	sh. 54,593

The secretary advises that the "C" capital now registered should be in the "B" category and the "C" capital figure should be zero shillings.

Reserves - December 31, 1982

Guaranteed Credit Reserve	sh. 850,000
Revenue Reserve	622,059
Satutory Reserve	2,888,304
Building Reserve	180,000
Capital Reserve	46,599,512
Total	sh. 51,139,875

The capital reserve of sh. 46,599,512 is an adjustment from asset revaluation and the building reserve is sh. 180,000. Neither of these items would be classified as liquid reserves. The liquid reserve net would be sh. 4,360,363.

Total capital shares and liquid reserve as of December 31, 1982 is sh. 58,954,018.

There are differences of opinion on what an acceptable capital and reserve ratio should be, but 12 units capital to 100 units loaned is considered reasonable and generally followed by cooperative banks in the United States. Following that formula, the following would be appropriate for the Cooperative Bank of Uganda.

12% x sh. 2,008 million = sh. 240.9 million Capital and Reserves

Presently the capital and liquid reserves of the bank total sh. 58.9 million. When deducted from the total suggested in the formula above the shortfall is sh. 182 million - the amount recommended for financial assistance to bring the capital account to desired levels to support the December 1982 loan account.

To justify the financial assistance necessary to substitute for and refund the capital shortfall, capitalization requirements should be strictly observed on all loan transactions.

LOAN PORTFOLIO

As of December 31, 1982, the total loan portfolio was sh. 2,006.2 million. Of this total, sh. 672.7 million was in administered loans and schemes.

The administered loans and schemes appear to have a reasonable prospect of recovery. The remaining sh. 1,333.5 million is partially dormant and uncollectible. A supportable estimate cannot be precisely made because of lack of dependable information.

Bank personnel estimates of collectability are in the area of 50%. The branch managers reports, picked at random, as of March 31, 1983 average 38% uncollectible with a range from 0% to 77%. Excluding the zero estimate, the other four would average 47% uncollectible.

The unsatisfactory, high rate of uncollectible accounts has occurred because of a number of factors, including the following:

- The liberation war and its devastation and resulting confusion (one estimate is that 25% of the loan account was lost from this cause).
- The inflation and resulting economic problems.
- Low farm commodity prices

- Employee conduct in noncompliance with procedures, questionable loans to employees, defalcations and improper loans to borrowers.
- Accounting procedures and controls not observed or not in place.

A detailed analysis of the loan portfolios at the branches and head office on an individual case basis should be a priority project to determine accurately the current, collectible and uncollectible accounts. This analysis would best be conducted by disinterested parties. Technical assistance by two experienced loan officers should accomplish this analysis in sixty days. Recommendations for collection procedures on delinquent but collectible accounts should be included. A professional analysis of accounts, adequate collection procedures and vigorous follow-up program should have results somewhat better than estimated by staff.

The present management is agressively addressing the delinquency problem. One seminar has been held with senior staff and branch managers, and personnel generally are aware of the problem and the importance of its solution to the company.

A 50% uncollectible result would require a write-off of sh. 666 million of the commercial loan accounts. In the financial assistance recommendation in this report, a sh. 500 million is recommended.

OPERATIONS AND ORGANIZATION RESTRUCTURING

A restructuring of the organization would result in more efficient operations and more effective controls. Fewer department heads reporting to the general manager would enable him to have more time for general supervision and communication within the organization and with external contacts.

Five divisions would presently appear to be adequate. These division heads should be responsible for review and restatement of operational procedure documentation and control procedures in the respective divisions. They would report to the general manager, function as an executive committee to be senior advisors to the general manager, and keep him currently advised of operations, controls, and compliance.

Following is a listing of the suggested divisions and comments regarding their composition, functions, control responsibilities, and recommendations for technical assistance to reevaluate and redesign procedures and controls.

Administrative Division

To include present department of finance and accounting, personnel, research, and secretary.

The finance and accounting department has responsibility for the accounting systems, current and accurate records, budgeting, and timely reporting to the organization.

During the interviews there were numerous comments regarding information from this department -- reporting not timely, information not available, not current with postings, loans approved not reconciled with advances, systems changed with each new chief accountant, etc.

The deficiencies are generally recognized within the department and there are several causes. Communications with branches have been disrupted, branch managers are not responsive to established procedures, equipment is not adequate, and personnel not trained nor competent.

Technical assistance is necessary to review the entire accounting system for adequacy and to prepare accounting manuals for the branches and bank. A budgeting process should also be outlined appropriate to the needs of the organization. It is estimated that two technicians would be required, on site, for sixty days to accomplish the review and draft the manuals.

The budgeting process needs refinement to show information on a monthly basis and particularly estimates of funds available for lending. The proposed 1983 budget estimates a margin of sh. 13.5 million. In the absence of further information, this would indicate that sh. 13.5 million would be the only presently available funds for increased lending during the year other than funds from administered or schemes funds. In spite of the moratorium on lending, advances in the commercial sector far exceed this figure at the present time.

The first area of control in lending must be based on funds available. Commitments and advances have been made without the essential control but rather based on a day-to-day liquidity position. The credit department and the loan committee must respect this funds available position, computed first in the budget and updated monthly to control lending volume.

Other departments assigned to this division are functioning in a manner reasonably acceptable at the present time.

Branch Supervision Division

Performance at the branches has been out of control. The situation could be materially improved with a branch supervision division.

This division should be responsible for all communications to the bank from the branches and from the bank to the branches. By this procedure, any misunderstanding in the bank or branches regarding departmental communications and responses could be eliminated.

Quality of performance of branches should be monitored by this division with control standards on daily postings and closings, prompt remittance of funds, and compliance with deposit and lending procedures. This monitoring is necessary to avoid the prevalent lack of adherence to procedures by the branches. When branches are not precise in attending to details, positive corrective action needs to be taken promptly.

The division should also receive and promptly follow-up on recommendations and findings of the internal auditor (judge) with appropriate and timely reporting to the general manager.

The evaluation of the loan portfolio should be coordinated by this division. The project has been discussed in the loan portfolio section of the report.

Loan Advances and Business Development Division

The present advances and operations departments should be consolidated and placed in this division.

The division to be responsible for reviewing all applications for procedure compliance and loan quality and making recommendations to the loans committee.

Lending procedures need to be redrafted and instructions consolidated for use primarily for the branches. Technical assistance is recommended for the task. An experienced loan officer should accomplish this within thirty days. A review and reorganization of existing regulations and procedures would be necessary and a loan manual drafted.

At the outset the present procedure of permitting branches to make loans up to sh. 300 M (city branch sh. 500 M) should be restricted. Those branches which have demonstrated proficiency in carefully following procedures -- credit evaluation, obtaining security, and prompt reporting -- could be permitted to continue but other branches should submit all applications to the division before loans are approved.

The present ninety day reporting of loans at branches is inadequate for quality control and bank funds control. This complete reporting should be done on a monthly basis and a daily report on loans made between monthly reporting on loans.

Another function of the department should be business development with cooperative organizations. The position should be full time and will provide the opportunity to regenerate cooperative business and improve the bank's tarnished image in the agricultural community.

A program that should have high priority is providing to organizations funds to be, in turn, loaned to farmers. There are two areas in which this could be started. The first, supporting the program of the credit section of the Ministry in making loans to agricultural credit societies which finance small farmers. The criteria for eligibility and loan administration is adequate.

This lending would be "discounting agriculture paper" held by the agricultural credit society. In practice the society would prepare and assemble the applications and they would be presented to the bank as a package. The society would charge the borrower a rate sufficiently above the bank rate to cover its expenses. A reasonable minimum amount of the package would have to be established to avoid the bank taking action on individual small loans. There are now 87 Agricultural Credit Societies acceptable to the Ministry credit section. The number is expected to increase with careful selection. The program has prospects of sound and substantial growth and is an area of service in which the cooperative bank should be actively involved.

The second area would be the same procedure made available to unions for their crop financing. One union visited had sh. 500 million in this type of lending.

The advantage to the bank in this process is that the cooperative organization performs the application and loan analysis work on the individual accounts and the bank is not required to perform the work. The general area is one in which the bank should have a keen interest and this approach would permit entry without establishment of another infrastructure.

The addition of an employee at a responsible level in the loans division who has service in providing credit to farmers and cooperatives would be a positive step in rebuilding the relationship between the bank and the cooperative movement.

Commercial Banking Division

This division, with a limited staff at present, would be primarily concerned with the efficiency of the savings and deposit functions and compliance with the Bank of Uganda requirements and conditions.

The division should monitor branch profitability and evaluate the practicality of branches including number, location, and also possible working arrangements with other cooperative financial organizations for better service to rural areas on a profitable basis.

Administered Funds

All management of administered funds and schemes should be in this division. Operations are presently very satisfactory.

Internal Audit and Legal

The internal audit and legal departments should continue to report directly to the general manager and/or the board.

STAFF

Competent staff, adequately compensated, is essential to operations. When the company is reorganized, particular attention should be given to having the most responsible persons in key positions.

The present staff provides a nucleus adequate to supervise the functions of the bank if properly organized and positioned. A number of employees have considerable service with the bank and quality of performance can be evaluated. A number also have had experience with other institutions. The organization has been in turmoil for many months and concern for its future is evident throughout the staff. The general attitude, however, is one of support and loyalty.

In several interviews it was mentioned that present compensation of employees, above union grades, was not keeping pace with comparable positions in similar institutions. The research department, at the direction of the general manager, did a comparative study in March 1982. The conclusions in that study would support the views expressed in the interviews. Another study is now underway.

Particular attention should be given by the board and management to this important subject and every effort made to have positions in the cooperative bank competitive with the better employers in the community for comparable positions.

The future of the company will depend on the commitment and integrity of the employees.

SUMMARY

The negative aspects of the Uganda Cooperative Bank expressed in this report and the recent Delloite, Haskins and Sells report raises a serious question whether or not the bank could or should be revitalized. In spite of the negative aspects the bank has some positive features. It has presence in Uganda. It has operated, although sporadically, over a number of years. There have been some good operating experiences along with the bad. There is a nucleus of staff capable, with reorganization and technical assistance, of revitalizing the organization for the necessary and vital service it can provide to Uganda agriculture.

The first priority in the process must be financial assistance. Without this, the bank cannot be a viable organization.

Other changes, if accepted, should then be prioritized.

The purpose of the bank should be redefined.

The staff reorganized.

Technical assistance should then be obtained to:

Evaluate the loan portfolio;

Review accounting procedures and prepare an accounting manual;

Redefine lending procedures and prepare a loans manual.

The technical assistance recommendations have been discussed in the body of the report. In summary:

Reevaluation of the loan portfolio and collection recommendations on an individual loan basis would require two experienced loan officers sixty days.

Accounting procedures review and preparation of accounting manuals -- two experienced accountants, sixty days.

Review and redefinition of lending procedures and preparation of lending standards manual -- one experienced loan officer, thirty days

When the above technical assistance is performed and other recommendations accomplished, the operation should have a general review by a senior administrative officer of a cooperative or similar bank. This should be accomplished by one person over a three-week period.

Reforming the capital assessment program is also a priority item and should be commenced when financial assistance is assured and the reorganization is in place.

If the recommendations herein are accepted and put in place, it would be well to have the Delloitt, Haskins and Sells report updated after a six-month period. This comparison would be very helpful in evaluating financial progress.

The difficult financial condition of the company requires that capital expenditures be kept to a minimum; however, some expenditures need to be made in those areas that would definitely reduce operating cost and improve efficiency. A consistent observation during interviews was that additional posting machines were required to help solve the delayed posting problems. Also communication with and between branches was consistently mentioned as a main cause of operating and control inefficiencies. Some limited improvements in the physical facilities at branches visited would also seem appropriate to improve working conditions, separate functions, and improve security.

INTERVIEWS

Ministry

Mr. Kanyomozi	Minister
Mr. Elogu	Commissioner
Mr. Mpundu	Credit Section

Cooperative Bank

Mr. Kireju	General Manager
Mr. Jjaqwe	Assistant General Manager
Mr. Levick	Chief Accountant & Finance
Mr. Kasika	Assistant Chief Accountant
Mr. Tukesiqa	Secretary
Mr. Kajondo	Projects
Mr. Kwirigira	Internal Audit
Mr. Maniraqhua	Operations
Ms. Sali	Advances
Mr. Kiremerwa	Personnel

Branches

Mr. Nsubuqa	City Branch
Mr. Wasula	Interim Manager Lira

USAID

Mr. Buck	Director
Mr. Cook	Assistant Director

ACDI

Mr. Newburn	Chief of Party

Deloitte, Haskins & Sells

Mr. Ginnings	Director

BALANCE SHEET

(In Millions)

	Not Audited 12-31-82	Audit Qualified 12-31-81	Audit Qualified 12-31-80
ASSETS			
Current Assets			
Cash & balances on other banks	sh. 100.7	199.5	166.0
Treasury bills	44.6	-	-
Loans:			
Administered (advanced)	606.0	337.3	263.0
Advanced bills of exchange, etc.	4,066.0	2,659.0	842.5
Total	4,817.3	3,195.8	1,271.5
Fixed Assets	114.0	92.1	83.0
Total Assets	4,931.3	3,287.9	1,354.4
LIABILITIES			
Current Liabilities			
Deposits and other	2,499.0	1,553.0	900.5
Bills payable	1,701.0	1,502.0	226.5
Total Current Liabilities	4,200.0	3,055.0	1,127.0
Other			
Administered funds	852.5	428.0	360.0
Term loans	-	-	7.5
Total Other Liabilities	852.5	428.0	367.5
Total	5,052.5	3,483.0	1,494.0
EQUITY ACCOUNT			
Share Capital	54.6	22.5	21.7
Reserves	51.0	51.0	51.0
Total Liabilities	5,157.1	3,556.5	1,566.5
NET WORTH	sh. (226.9)	(268.6)	(212.0)

(totals may not reconcile due to rounding)

1982 RESERVES

Guaranteed Credit Reserve	sh. 850,000
Revenue Reserve	622,059
Satutory Reserve	2,888,304
Building Reserve	180,000
Capital Reserve	46,599,512
	sh. 51,139,876.5

INCOME STATEMENT

(In Millions)

		1982	1981	1980*
INCOME				
Interest receivable	sh.	242.8	107.5	63.8
Other income		1.7	-	-
Commission & other income		59.9	34.6	4.9
Gross Income		304.4	142.1	68.7
COST OF FUNDS				
Interest paid		(50.0)	(47.5)	(25.9)
Net Available Income		254.4	94.6	42.8
OPERATING EXPENSE				
Salaries and allowances		44.9	34.9	11.0
Other operating expenses		169.4	60.0	23.6
Operating Expenses		214.3	94.9	34.6
OTHER EXPENSE				
Provision for bad debt		-	49.5	113.7
War loss write-off		-	-	4.5
		-	49.5	118.2
NET PROFIT (LOSS)	sh.	40.1	(49.8)	(110.0)

* 6-month statement