EBIRUNGI BIRUG'OMUTUUTU DUE DILIGENCE

FINAL REPORT

June 2006

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It was prepared by FRIENDS Consult, a Subcontractor for Chemonics International Inc

Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

EBIRUNGI BIRUG'OMUTUUTU DUE DILIGENCE

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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TABLE OF CONTENTS

Executive Summary ..... ERROR! BOOKMARK NOT DEFINED.

Background **1**

Introduction 1
Governance Effectiveness and Strategy 2
Management Effectiveness 3
Product Development and Delivery 3
Asset-and-Liability Management 3
Accounting and Financial Management 4
Financial Sustainability 4
Rural Outreach 4
Prudence and Transparency in Product Pricing 4
Financial Transparency 5

Summary of Scores by Assessment Area **6**

Conclusion **7**

Appendix 1 Persons Interviewed **8**

EXECUTIVE SUMMARY

Ebirungi birug'omutuutu SACCO started five years ago and its operations and performance are still lacking in many areas. It still lacks the necessary ingredients to make it a strong and financially viable. Much as it has shown some strength in outreach (due to its geographical location); it still has to improve on many other areas to make it a safe, sound and sustainable financial institution.

It has to address critical operational issues like governance, management effectiveness, product development, asset/liability management and financial transparency. These have undermined its progress/ performance and provision of capacity building would greatly improve performance.

Ebirungi birug'omutuutu has not had quite sufficient trainings to make it strong in those areas so once it is given the necessary technical support, it will make tremendous improvement. This explains its average health and performance.

BACKGROUND

Introduction

Rural SPEED contracted FRIENDS Consult Ltd to conduct a due diligence of Ebirungi Birug'Omutuutu SACCO Ltd. in Bwizibwera Trading Center, Mbarara. The objective of the due diligence is to assess the overall health and performance of the SACCO in order to provide Rural SPEED with fair information on whether to take on the SACCO and what areas assistance, if any, to focus on.

Due diligence was conducted on June 23rd, 2006, in which the consultants interviewed the Board Chairman, the chair of the education committee, the manager, staff, and members transacting business on the day of assessment. Documents were also reviewed.

Below is the report covering all areas assessed. The assessors held free and uninterrupted discussions, had access to the SACCO documents and records in the course of the assessment. The report is divided into sections – the Qualifiers and Raters. Qualifiers address the conditions the organization must meet to be a SACCO. An organization must meet all conditions to qualify. Raters represent the various areas of a SACCO that measure institutional health, profitability, and sustainability.

QUALIFIERS

Does the SACCO have:

	Yes	No
1.A Valid registration certificate from the Department for Cooperatives?[1] 6637 dated December 12, 2002	√	
2. Identifiable place of business where they carry out their activities?	√	
3. At least one full time staff? 4 – Manager, 2 cashiers, 1 loans officer	√	
4. Financial services as its core business?	√	
5. Active loans and savings operations? S–122m; L – 225m by May 06	√	
6. An active Board/ Committee Directors? 8 members	√	

Based on the above, Ebirungi Birug'Omutuutu is properly operating as a SACCO.

[1] An institution that is, at the time of the assessment, changing its form from NGO or any other into a cooperative has for this purpose be deemed to be registered as a cooperative society

RATERS

GOVERNANCE EFFECTIVENESS AND STRATEGY

ASSESSMENT QUESTIONS ***Does the SACCO have…***	**MAX SCORE**	**SCORE**	**REMARKS**
1.1 Full control of its affairs resting on the membership, board and management, with no external superior authority?	**2**	**2**	Ownership and control of the SACCO rests with the members who elect and supervise the Board. The board in turn appoints and supervises management.
1.2 An able board, with the right skills and dedication to move it forward?	**2**	**0.5**	2 members are J2 leavers (below O level), treasurer is O level. Members need training to fully grasp MFI/SACCO operations and undertake role.
1.3 A clear governance structure?	**2**	**2**	The AGM is the supreme organ and appoints the board, which in turn appoints and supervises management. There is a loans committee, supervision committee, education committee, and human resources committee
1.4 Well laid out and followed responsibility and accountability practices for all organs & persons?	**2**	**0.5**	UCA model in place. However, there is lack of segregation of duties at both board and management levels.
1.5 A clear ownership structure?	**2**	**1.0**	Members know they own and control the SACCO, and vote at the AGM. Shares are issued but no certificates.
1.6 A focus on the savings and credit business?	**2**	**2**	SACCO is exclusively involved in financial services
1.7 A strategic/ business plan, supporting the mission that is followed?	**2**	**1**	A business plan exists. Recruitment of a qualified accountant is underway, per plan. Plan needs refinement and refocus in line with current circumstances
1.8 Beneficial linkages with external Partners	**2**	**2**	AMFIA, UCA, APROSEL, SUFFICE, Rural SPEED
1.9 Its by-laws, constitution, or such other internal governance guidance documents?	**2**	**1**	SACCO has adopted the UCA model of by laws and does not have own by-laws. often, generic By-laws aren't strictly followed

MANAGEMENT EFFECTIVENESS

2.1 Management staff with suitable qualifications and experience to manage the SACCO?	**2**	**1.0**	Manager has UDBS with 4 years experience; Accounts Assistant has UDBS with 3 years; LO has dip. In accountancy & 2 years; cashier has dip. in marketing.
2.2 A balance of focus between profit & development in the SACCO operations?	**2**	**1.5**	SACCO offers training in HIV/AIDS awareness, literacy, and business
2.3 Observable business growth?	**2**	**0.5**	Membership 26%, savings – 15% and loans – 12%. Declining trend in all indicators above since inception

PRODUCT DEVELOPMENT AND DELIVERY

3.1 Variable and adaptable products?	**2**	**1.0**	Savings – ordinary, FDR, minor accounts, collection accounts. Credit – commercial loans, emergency loans, Development, solar loans, *Comment:* Solar products not viable due to low returns and high risks to the SACCO
3.2 Documented operational policies and procedures	**2**	**1.0**	Accounting and operation manual in place, finance and accounting manual present, Credit manual in place, cash insurance cover in place, Comment: Policy on cash in transit with a limit of 5 million premium cover, violated five times.
3.3 Efficiency in service delivery mechanisms?	**2**	**1.0**	Loans disbursed between 5 – 14 days. SACCO charges moderately low.

ASSET-AND-LIABILITY MANAGEMENT

4.1 Effective delinquency management?	**2**	1.0	Portfolio aged properly with PAR at 11.3%
4.2 Safety of clients' deposits?	**2**	1.0	Strong room in place with a safe, reserve book in place, passbook properly updated, CIT insurance cover of UGX. 5 millions, till sheet promptly posted. There were five cases of violation of CIT insurance limits.
4.3 Moderate gearing?	**2**	1.5	Moderate gearing ratio – 1:1.3 as at close of May 2006, and 1:1.22 as at April, 2006.
4.4 Prudence in intermediation?	**2**	0	Cash/ savings cover of 17.7% as at April and 18% - May, 2006, SACCO has inadequate working capital.
4.5 Proper assessment of borrowers & anti-concentration	**2**	0.5	Appraisal templates lack details; there is no mini client cash flow, no site visit reports.
4.6 Clear documentation of loans, savings, other	**2**	1.5	Borrower files kept, loan ledger cards up to date, GL up to date, savings and loan ledgers in place, share

assets and liabilities			holders register in place, fixed assets register in place, loan payable account in place. Fixed asset register does not recognize acquisition dates, depreciation losses are inaccurate, and no client cash flows in place.

ACCOUNTING AND FINANCIAL MANAGEMENT

5.1 A proper bookkeeping system?	**2**	**1.0**	Accounting on cash basis, double entry book keeping system, Cash book in place and promptly posted. Assets not classified, Pass book posting done by cashiers – weak segregation of duties.
5.2 A suitable accounting system?	**2**	**1.0**	Manual accounting system, with little computer spreadsheet database.
5.3 Proper financial management principles?	**2**	**1.0**	Monthly operational reports prepared, Annual budgets done. No monthly budget control and variance analysis.
5.4 Documented accounting & financial management manual	2	2.0	Accounting and financial management manual in place

FINANCIAL SUSTAINABILITY

6.1 Measures of sustainability consistently monitored?	2	2.0	OSS and FSS monitored and tracked using the PMT
6.2 Good levels of operational and financial sustainability?	2	1.5	Operational sustainability of 134.7% for April and 156.5% - May, 2006
6.3 Profitability and sustainability embedded in business plans	2	2.0	OSS and profitability embedded in the business plan.

RURAL OUTREACH

7.1 Rural operations	2	2.0	The SACCO is rural based.

PRUDENCE AND TRANSPARENCY IN PRODUCT PRICING

8.1 All direct and indirect overhead costs taken into account in determining interest rates and fees	**2**	**0**	All direct and indirect costs not taken into account
8.2 Market rates charged by competitors taken into account in determining interest rates and fees	**2**	**2.0**	Charges by CERUDEB, Ankole farmers, Rwanyamahembe Trust considered
8.3 All interest rates and charges displayed and fully disclosed to the client before they decide to borrow	2	2.0	Interest rates clearly displayed but need translation into local language

FINANCIAL TRANSPARENCY

9.1 General Ledger	**6**	**4**	• The GL is up to date • Cash register is up to date • Fixed asset register is up to date but needs improvement • We noted a lack of segregation of duties, as the manager was also doubling as accountant
9.2 Customer savings	**6**	**5**	• Traced 2 clients' savings passbooks to the ledger – OK • Traced and agreed 2 member savings deposits to their ledger and cash tills • Traced and agreed 1 member withdrawal to their ledger and cash tills • SACCO does not pay members interest on savings
9.3 Loan/ Credit Ledger	**6**	**5**	• Checked 3 member passbooks against savings ledgers • Checked 3 member passbooks against loan ledgers • General ledger was posted and up to date
9.4 Income	**6**	**3**	• Income is recognized per policy and accurately posted • Income was not properly matched to expenditure • Loan loss provisions are only at year end • SACCO has not written off any loans
9.5 Expenditure	**6**	**5**	• Traced salary expenses to GL and income statements • Traced fuel and vehicle running costs to GL and income statements
9.6 Loan loss provisions	**6**	**5**	• Loan aging is done monthly • Loan loss provisions are accurately handled in the income statement and balance sheet • No loans have been written off against the provisions

SUMMARY OF SCORES BY ASSESSMENT AREA

ASSESSMENT AREA	**MAX SCORE**	*SCORE*
Governance Effectiveness and Strategy	**18**	*12*
Management Effectiveness	**6**	*3*
Product Development and Delivery	**4**	*3*
Asset-and-Liability Management	**14**	*5.5*
Accounting and Financial Management	**8**	*5*
Financial Sustainability	**6**	*5.5*
Outreach	**2**	*2*
Prudence and transparency in product pricing	**6**	*4*
Financial Transparency	**36**	*27*
TOTAL	**100**	*67*

SCORE INTERPRETATION GUIDELINES

SCORE	**INTERPRETATION**
Over 80%	A promising institution with a nearly all the requisite structures and systems in place thus there is potential for high performance in most areas
70-79	A fairly promising institution with most of the requisite structures and systems in place, though in need of improvement. Performance and impact could be greatly enhanced through focused and well targeted technical and/ or financial assistance
60-69%	***Average institutional health and performance. Careful discretion needs to be exercised in determining whether or not the institution is suitable***
50-59	Poor health and performance. Deep rooted weaknesses are likely to hinder any potential impact of BDS, technical or financial assistance.
Below 50%	Just a non-starter; do not enter the relationship.

CONCLUSION

On the basis of the assessment, Ebirungi Birug'Omutuutu is performing averagely moderate strengths in product development/ delivery, loan portfolio management and as sustainability. The SACCO is weak in and needs capacity building in:

- *Governance (typical areas to be addressed are skill improvement at board level, documentation and use of clear responsibility and accountability principles among the governance organs, development of the SACCO's own bylaws, and preparation of a new business/ strategic plan)*
- *General management aptitude – especially their ability to mobilize more members and do all in their mandate to grow the business.*
- *Financial management – especially in the areas of budgetary control and improving the book keeping/ accounting system.*
- *Asset and liability management – loan delinquency management, adherence to the insured cash-in till limit and deepening loan appraisal to include cash flow analysis of the borrower.*

Technical assistance targeting these areas could help strengthen the SACCO.

APPENDIX 1 PERSONS INTERVIEWED

Steven Muwonge	– Board Chairman
Busheija Edward	– Chair, Supervisory Committee
Mugume Joseph	– Manager
Muhwezi John Bosco	– Loans Officer
Kakwire Julian	– Cashier