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MAMIDECOT DUE DILIGENCE

FINAL REPORT



July 2006

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Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

MAMIDECOT DUE DILIGENCE FINAL REPORT

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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EXECUTIVE SUMMARY

The Light Due diligence tool (LDD) has been useful in assessing SACCOs in multi-dimensional areas like governance, financial controls, assets and liability management, rural outreach etc. At the time it was developed last year, its execution was not as rigorous and stringent as now. Before this year's exercise began, the tool was re-adjusted and the grading criteria improved further.

MAMIDECOT has been a Rural SPEED partner since 2005 when the first LDD exercise was done. The SACCO's partnership with Rural SPEED was based on the evaluation that was done at the time which found MAMIDECOT a promising institution worth supporting. Basing on the recommendations of last year's LDD exercise, Rural SPEED has supported the SACCO with capacity building in areas where it had some weaknesses.

A lot of improvement has since been registered in areas of governance, business planning, financial management and delinquency management. This is attributed to the intensive trainings that were conducted by Rural SPEED in those areas, acting on the report's recommendations. It is these trainings indeed that have greatly streamlined the SACCO's operations and had a doubled-edged effect. On the one hand, governance, management effectiveness, accounting/ financial management have improved over the past one year. On the other, with increased efficiency and effectiveness, there has come a need for the SACCO to address product development in order to improve service delivery. The SACCO has not addressed some of the critical areas that are significant and central to efficient service delivery like client/demand -driven products. This explains the drop in evaluation this year. Increased efficiency in other areas without a corresponding improvement in product development and delivery has led to a low score in prudence and transparency in product pricing and a static score in product development and delivery. It is our recommendation that Rural SPEED supports MAMIDECOT to undertake product review, refinement and development so as to realign the SACCO's remarkable growth trends.

BACKGROUND

Introduction

In June/ July 2006, The USAID- Rural SPEED Project contracted FRIENDS Consult Ltd to conduct a due diligence of Masaka Micro-finance Cooperative Trust (MEMIDECOT) in Nyendo, Masaka,

- i) To assess the governance/ operational position and performance of the SACCO in order to provide Rural SPEED with a fair view of the SACCO's progress since it became a partner, and point out areas of further training/ TA needs;
- ii) To train two MDI staff on the job, equipping them with the knowledge of the structure and usage of the tool.

The assessors held free and uninterrupted discussions, and had access to the SACCO documents and records in the course of the assessment. Below is a report covering all areas assessed.

This report is based on a one-day, limited due diligence and is in no way a substitute for external audit, internal audit or extended/in-depth due diligence in circumstances where any of these would be required.

QUALIFIERS

Does the SACCO have:

	Yes	No
A Valid registration certificate from the Department for Cooperatives? 6317 dated September 14 th , 1999	√	
Identifiable place of business where they carry out their activities?	√	
At least one full time staff? 13(1Manager, 2 Sub Managers, 1 Acct, Supervisors, 5 Banking Assts, 1 Head of Loans)	√	
Financial services as its core business? No other business	√	
Active loans and savings operations? Savings – 484.5m; Loans 853.6m; Membership – 4546 as at May 2006.	√	
An active Board/ Committee Directors? 7 members with 6 committees (co-opt other members to committees)	√	

RATERS**GOVERNANCE EFFECTIVENESS AND STRATEGY**

ASSESSMENT QUESTIONS <i>Does the SACCO have...</i>	MAX SCORE	SCORE	REMARKS
Full control of its affairs resting on the membership, board and management, with no external superior authority?	2	2	MAMIDECOT members (AGM), Board & Mg fully control the SACCO; no external control.
An able board, with the right skills and dedication to move it forward?	2	2	1 degree holder, 3 diploma holders, 2 Grade III teachers, 1 A level. Most members attend board meetings regularly.
A clear governance structure?	2	2	AGM is the supreme organ which elects the board, which in turn appoints and supervises management. There are loans, supervision, education, HR, and Finance & Admin. Committees.
Well laid out and followed responsibility and accountability practices for all organs & persons?	2	0.5	There is no well articulated scope of work for each organ. Reports from Mgmt to board and from board to AGM were seen. Need clear roles & responsibilities.
A clear ownership structure?	2	2	High sense of ownership among members interviewed. Share certificates issued to paid up members; members vote at AGM
A focus on the savings and credit business?	2	2	Provision of savings and credit services is the SACCO's core business.
A strategic/ business plan, supporting the mission that is followed?	2	2	MAMIDECOT has business plan. Targets for loans, membership, and loans are embedded, followed
Beneficial linkages with external Partners	2	2	Rural SPEED, AMFIU, PSDP, FSDU, Planet Rating
Its by-laws, constitution, or such other internal governance guidance documents?	2	2	MAMIDECOT has Bylaws in place, and is in the process of amending them to suit current conditions.

MANAGEMENT EFFECTIVENESS

Management staff with suitable qualifications and experience to manage the SACCO?	2	2	Manager has UDDBS with vast MFI experience; 3 degree graduates, other loan officers hold diplomas. Most staffs have MFI experience.
A balance of focus between profit & development in the SACCO operations?	2	1	SACCO services to members are mainly linked to credit/savings. Need more member services
Observable business growth?	2	0.5	MAMIDECOT experienced decline in loans and savings after the contract of UTODA Put Safe, a major client, was cancelled. Efforts underway to recruit and recover.

PRODUCT DEVELOPMENT AND DELIVERY

Variable and adaptable products?	2	1.5	Savings – voluntary, FDR, Collection accounts. Loans–commercial, salaried, development, agricultural loans with varied rates and terms. Also offer emergency loans.
Documented operational policies and procedures	2	1.5	Accounting/financial mgmt, HR manual, credit/loans manual being revised.
Efficiency in service delivery mechanisms?	2	2	Loans Committee sits 2 times a month. Applicants served within 2 weeks

ASSET-AND-LIABILITY MANAGEMENT

Effective delinquency management?	2	1	Portfolio aged properly with PAR > 30 at 16.2%
Safety of clients' deposits?	2	2	MAMIDECOT has strong room & safe, with insurance cover for cash on premises and in transit.
Moderate gearing?	2	1	Debt:Equity ratio of 3:1 per the March 2006 PMT.
Prudence in intermediation?	2	0.5	Savings/Cash cover of 15% per the March 06 PMT. SACCO relies too heavily on savings of members for its lending.
Proper assessment of borrowers & anti-concentration	2	2	Loan appraisal templates cover adequate details, including cashflow. No concentration seen
Clear documentation of loans, savings, other assets and liabilities	2	2	Loan files are properly kept, savings ledger up to date, shareholder register maintained.

ACCOUNTING AND FINANCIAL MANAGEMENT

A proper bookkeeping system?	2	1.5	Active & up to date cashbook, general ledger, as well as assets and loans ledgers.
A suitable accounting system?	2	2	Monthly financial reports, annual audit by independent auditors.
Proper financial management principles?	2	1.5	Annual budget divided into quarters. Quarterly financials compared to budget. Need more detailed variance analysis.
Documented accounting & financial management manual	2	2	Accounting and financial management manual in place

FINANCIAL SUSTAINABILITY

Measures of sustainability consistently monitored?	2	2	OSS and FSS monitored and tracked within PMT
Good levels of operational and financial sustainability?	2	2	ASS of 210.6% and FSS of 215.7% for May 2006. However, loan loss provision is < PAR >30days
Profitability and sustainability embedded in business plans	2	2	OSS and profitability embedded in the business plan.

RURAL OUTREACH

Rural operations	2	2	The SACCO is rural based.
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PRUDENCE AND TRANSPARENCY IN PRODUCT PRICING

All direct and indirect overhead costs taken into account in determining interest rates and fees	2	1	SACCO has not fully considered all costs. Need proper costing exercise
Market rates charged by competitors taken into account in determining interest rates and fees	2	2	Charges by FINCA, PRIDE, CERUDEB, TAB, Stanbic are considered.
All interest rates and charges displayed and fully disclosed to the client before they decide to borrow	2	0.5	Interest rates, charges, and fees are not properly displayed, although discussed with members. Need to translate into local language.

FINANCIAL TRANSPARENCY

General Ledger	6	4	<ul style="list-style-type: none"> Loans payable is properly documented and recorded Bank transactions properly recorded, reconciled though not promptly Fixed asset register is up to date but needs improvement to incorporate cost, depreciation, etc
Customer savings	6	5	<ul style="list-style-type: none"> Traced 4 clients' savings passbooks to the ledger – OK Traced and 3 member deposits to their ledger and cash tills;= OK Traced and agreed 2 member withdrawals to their ledger and cash tills
Loan/ Credit Ledger	6	5	<ul style="list-style-type: none"> Checked 2 member passbooks vs savings ledgers =OK Checked 2 member passbooks vs loan ledgers = OK Loan ledger maintained but not up to date
Income	6	4	<ul style="list-style-type: none"> Ledger Fees properly recognized, recorded LLR is below the PAR >180 days; income overstated Interest income recognized on cash basis
Expenditure	6	4	<ul style="list-style-type: none"> Traced rent expense to GL and income statements Traced fuel and motorcycle costs to GL and income statements Posting to GL is not prompt, up to date.
Loan loss provisions	6	3	<ul style="list-style-type: none"> Loan aging and provisioning is done monthly Loan loss provisions are not accurately handled, as the PAR > 180 is greater than the total LLR. This means significant overstatement of income

SUMMARY OF SCORES BY ASSESSMENT AREA

ASSESSMENT AREA	MAX SCORE	<i>SCORE</i>
Governance Effectiveness and Strategy	18	16.5
Management Effectiveness	6	3.5
Product Development and Delivery	6	5
Asset-and-Liability Management	12	8.5
Accounting and Financial Management	8	7
Financial Sustainability	6	6
Outreach	2	2
Prudence and transparency in product pricing	6	3.5
Financial Transparency	36	25
TOTAL	100	77

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	<i>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</i>
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

Comparatively, there has been a slight drop in the score this year for MAMIDECOT. This has mainly been due to poor/ lack of proper product pricing/costing and a manual system that can no longer absorb the growth of the SACCO. Nevertheless, MAMIDECOT is a good performing SACCO by Ugandan standards. The SACCO has major strengths in management, governance and financial management. Targeted assistance in the following identified weak areas will strengthen MAMIDECOT further:

- Full computerization of banking and accounting operations
- Magnitude of savings/ deposit intermediation
- Documentation of roles and responsibilities of the governance organs

Below is a review of the weak areas identified in the last due diligence:

MIS – *Still needs to be addressed*

Finance, accounting – *Significantly improved, and the largely manual book keeping suffers little apart from speed of postings*

PMT reporting. – *Greatly improved, and is now done regularly*

APPENDIX 1 PERSONS INTERVIEWED

Mayanja Deltons - Board Secretary
Nsamba George William – Board Treasurer
Joseph Nkonwa Zabasajja – SACCO Manager
Staff and members transacting business on the day of assessment.

TRAINEES (both from FINCA Uganda)

Ronnie Kyazze
John Kimera

The trainees appreciated the tool and expressed readiness to use it if and when they needed to appraise SACCOs.