



World Council of Credit Unions, Inc.

Ugandan Rural Savings & Credit Co-operative Societies (SACCOs) Financial Network: SACCO-Net

Sponsored by the United States Agency for International Development (USAID)
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FINAL REPORT

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Uganda

USAID STATISTICAL REPORT					
Financial Indicators		2001		2003	
Number of Loans*		4,020	5,575	12,250	N
Loan Volume*	UGX	3,351,875,651	2,451,479,402	16,633,219,840	
	USD**	1,940,417	1,229,706	8,554,203	N
Number of Savers		9472	18,357	49,000	
Savings Volume ²	UGX	3,928,574,716	4,023,341,438	17,167,267,150	
	USD**	2,274,270	2,018,179	8,828,855	N
Loan Loss Rate		Not Tracked	Not Tracked		
Portfolio at Risk > 30 days		Not Tracked	41.68%	10%	N
Distribution by economic activity.					
Distribution by economic activity.		Not Tracked			
Volume of Micro enterprise loans ⁵	UGX	Not Tracked	709,705,263		
	USD**	Not Tracked	356,000		
Number of Micro Enterprise Loans ⁵		Not Tracked	2,490		
ROA ³		Not Tracked	-4.64%		
ROE ³		Not Tracked	-31.86%		
Members	Total	10,785	18,357	49,000	N
	Women	3,107	7,539	16,900	N
	% Women ⁴	28.8%	41.07%	34.5%	Y

** Exchange Rate: US\$ 1: UGX 1,993.55 as at 30th September 2003 and US\$ 1: UGX 1,727.4 as at 31st December 2001. (Source: BOU's web page). All amounts in US\$ are rounded off to the nearest Dollar.

* The number and volume of loans reported are outstanding figures as opposed to cumulative amounts granted to date.

1. Y/N = Yes/No.
2. Savings volume is exclusive of member share deposits.
4. The Target percentage for women is taken to be 34.5%, which is the EOP target.
5. Micro Enterprise loans include Agricultural and Commerce loans.

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 - 5. Lugazi Sugar
 - 6. Luweero Teachers'
 - 7. Medecos
 - 8. MIB
 - 9. Mukono and Kayunga Teachers**
 - 10. Naddangira
 - 11. South Buganda Teachers***
 - 12. UCB
 - 13. WASE
 - 14. Wekembe

* Amended its Bylaws (name) from Jinja Municipality to Excel

** Amended its Bylaws (name) from Mukono Teachers SACCO to Mukono & Kayunga Teachers SACCO

*** Amended its Bylaws (name) from Masaka Teachers SACCO to South Buganda Teacher SACCO

List of Acronyms

AGM	Annual General Meeting
ALM	Asset Liability Management
AMFIU	Association of Micro Finance Institutions of Uganda
BOD	Board of Directors
BOU	Bank of Uganda, the Central Bank
CERUDEB	Centenary Rural Development Bank
CFF	Central Finance Facility
CREST	Credit Scoring Tool
DFID	Department for International Development, United Kingdom
KCC	Kampala City Council
LPAT	Loan Portfolio Analysis Tool
MIB	Ministry of Information and Broad Ministry Employees SACCO
PEARLS	Financial Performance Monitoring Tool: P=Protection, E=Effective financial structure, A=Assets quality, R=Rates of return and cost, L=Liquidity, S=Sign of growth
SACCA	Savings and Credit Cooperatives Association for Africa
SACCOs	Savings and Credit Co-operative Societies
SACCO NET	Savings and Credit Co-operatives Network
SPEED	Support for Private Enterprise Expansion and Development
SUFFICE Efforts	Support for Feasible Financial Institutions and Capacity-Building
TB	Government Treasury Bills
UCB	Uganda Commercial Bank Employees SACCO
UCSCU	Uganda Co-operative Savings and Credit Union Ltd
USA	United States of America
USAID	United States Agency for International Development
WASE	National Water & Sewerage Corporation employees SACCO

I. EXECUTIVE SUMMARY

The WOCCU/SACCO-NET project is a project of the World Council of Credit Unions, Inc. (WOCCU) funded by USAID under Co-operative Agreement number PCE-A-00-00-00025-00.

The objectives of the project were (1) Growth: establishing an outreach to a total of 49,000 members of the 14 SACCOs by end of the project; (2) Soundness: reaching capital reserve, delinquency, provisions and profitability goals for each of the SACCOs; (3) Reforms: updating key pricing, capitalization, governance and internal controls within participating SACCOs; and (4) Innovative services: introducing new savings and credit services targeted to serve the micro-entrepreneur and small rural producer.

The project ended December 31st 2003. The report that follows summarizes the activities carried out by the project, highlighting the conditions in which we have left the project SACCOs in specific and the Ugandan SACCO movement as a whole and where we see the project SACCOs headed in the future. The following points must be noted at the start of this report:

- 1) The contractual period of the project was from 1st October 2000 to 30th March 2004. The project was cut short as to end on 31st December 2003. In this regard, no IGP data as at 31st December 2003 will be included.
- 2) The financials used in this report are from 31st December 2001 to 30th September 2003. Due to the poor state of accounting at the start of the project, not all SACCOs furnished the project with accurate financial statements on a regular basis. Financial Statements as at December 2000 and June 2001 are not available for many of the SACCOs.
- 3) The activities recorded in this report cover the entire lifespan of the project.

Financial Sector Outlook

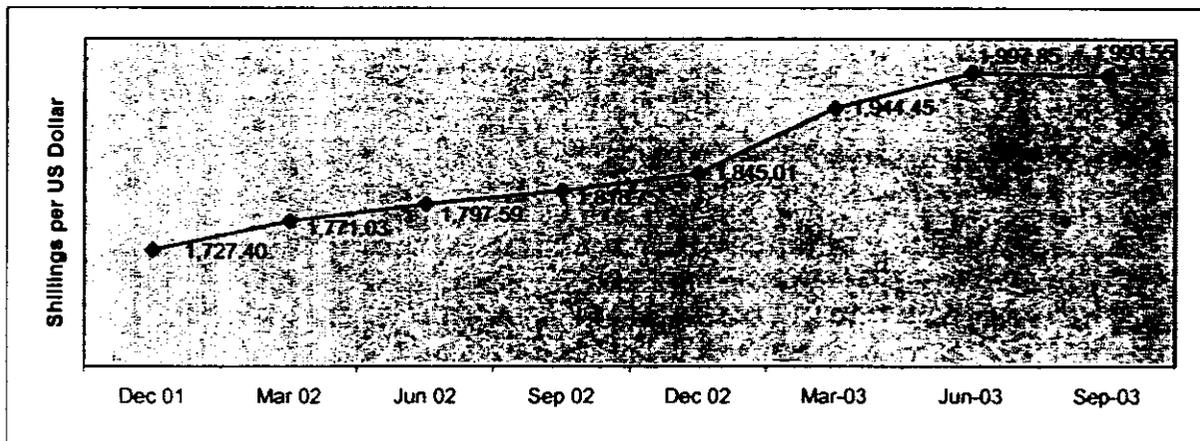


Figure 1: Quarterly Foreign Exchange Rate Trend of UGX

Foreign Exchange Rate: From December 2001 till June 2003, the Uganda Shilling continually depreciated against the dollar. The only appreciation took place in the 3rd quarter of 2003 when the exchange rate of the Uganda Shilling to the US Dollar reduced from 1997.85 by the end of quarter 2 2003 to 1993.55 in September 2003 as summarized by Figure 1 above.

Inflation: Increased food prices and higher transportation costs caused the headline inflation rate to gradually increase from -4.0% as at end-December 2001 to 10.0% by end-June 2003. The only decline in this inflation rate was seen September 2003 when the headline inflation rate dropped to 9.4% mainly on account of the declining food commodity prices. The quarterly trend in the headline inflation rate since December 2001 is shown in Figure 2 below.

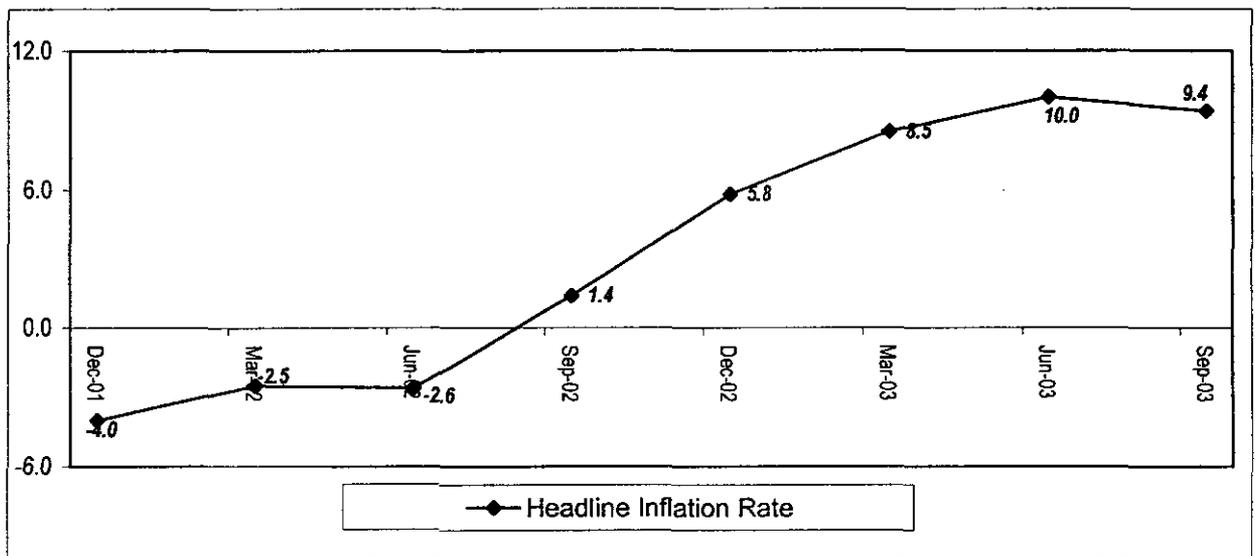


Figure 2: Quarterly Inflation Trends

Treasury Bills: The TB interest rate appreciated across all maturities from March 2001 to June 2003. During this time frame, there was an average increase in discount rate of 13.59% as 91-Day, 182-Day, 273-Day and 364-Day discount rates increased by 13.88%, 13.92%, 12.60% and 13.95% respectively. This trend was reversed in quarter 3 2003 when TB interest rates fell across all maturities to end at 14.48% (91-Day), 16.21% (182-Day), 15.34% (273-Day) and 15.00% (364-Day).

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	91-Day	182-Day	273-Day	364-Day
December 01	5.48%	7.05%	9.66%	10.88%
March 02	3.5%	5.5%	6.78%	6.00%
June 02	5.42%	6.46%	8.56%	9.71%
September 02	6.49%	10.59%	13.06%	13.49%
December 02	11.36%	15.76%	16.44%	16.43%
March 03	13.45%	13.99%	13.97%	13.79%
June 03	17.38%	19.42%	19.38%	19.95%
September 03	14.48%	16.21%	15.34%	15.00%

Table 1: Interest Rate Trend

II. BACKGROUND TO THE WOCCU/SACCO NET PROJECT

A. Description of the Program

A marked positive growth and improvement in financial performance in SACCO operations has been seen in all regions of the world except for Africa. Between 1994 and 1999, a decline in SACCO numbers, membership and assets was seen in Africa. WOCCU therefore embarked on an aggressive campaign to reverse this trend.

In Uganda, WOCCU would work with UCSCU and a core group of 14 SACCOs over a 3.5-year period, which would implement WOCCU's well-known and standard model SACCO approach. The 14 participating SACCOs would receive concentrated technical assistance. By working with a smaller number of SACCOs, the project would be able to concentrate its resources and reach a larger number of persons. The SACCOs would participate within a contracted, conditional framework in which the SACCOs had to meet financial targets and growth goals and put policy reforms into place in order to enter the project, continue participating in the project and receive any benefits (technical, training or financial) from the project.

To enforce this, WOCCU would sign a management contract with those societies participating in the project' specifying that the project would place a manager in the SACCO who would be responsible for ensuring compliance with established targets and who will be directly supervised and directed by the WOCCU Project Director. This was mainly because of the short project period and the speed with which changes were needed.

B. Purpose of the Program

The goal of the project was to build strong SACCOs, which share a vision of strong financial discipline, aggressive membership outreach, and high quality savings and credit products. WOCCU and UCSCU would also build a strong local network, SACCO – NET, to link SACCOs among themselves through shared financial disciplines, standard policies and consistent services.

C. Program Objectives

The program would implement and monitor two sets of specific objectives:

i. Outreach and financial soundness

This objective demanded the project to work with a core group of 14 SACCOs to build a total outreach in membership of 49,000 by 31st December 2003. Of these 16,900 would be women. The mobilized membership would have savings deposits of UGX 17,167,267,150 (US\$ 8,611,405) by the end of the project, which funds would be largely invested in 12,250 member loans estimated at UGX 16,633,219,840 (US\$ 8,343,590). The loan portfolio would be a quality one with overall loan delinquency of not more than 10% of the gross loan portfolio and all loans delinquent over 12 months having 100% provisions. Last but not least, 8% of the overall total assets of the project SACCOs would be maintained as capital reserves.

ii. Policy reforms

These reforms required the drafting, approval and installation of model SACCO bylaws, credit and collections policy and savings policy in all the 14 SACCOs. Key in the credit policy would be the implementation of the discipline of loan loss provisioning and the adoption of market interest rate pricing for loans. New micro credit products were also planned.

D. Agreements

WOCCU and USAID: On 21st September 2000, USAID and WOCCU signed a Cooperative Agreement Number PCE-A-00-00-00025-00. The award by USAID under this agreement provided \$2.4 million to WOCCU for the implementation of a three-and-half-year technical support program to a selected number of SACCOs in Uganda. The agreement was based on a business plan, with the strategy of working with a core number of SACCOs. These would develop into models to lead the way for the growth of a safe and sound SACCO movement in Uganda. The approved business plan provided goals and targets that had to be achieved. These are summarized on the statistical table at the start of this report. The goals and targets for policy reforms and the End of Project status (EOP) are summarized below:

Policy Reforms vs. EOP Status:

	Policy Reform Indicators	End Of Project Status
1	Model Bylaws Approved & Installed in Credit Unions	All 14 SACCOs including UCSCU adopted new Bylaws
2	Loan Loss Provisions Implemented	Apart from one SACCO, the rest are provisioning but not yet up to the standard of PEARLS
3	Model Credit Policy Adopted	Except for one SACCO, Policy has been adopted but not implemented
4	Model Collections Policy Adopted	As above
5	Market Interest Rate Pricing Implemented	Not implemented in all SACCOs
6	Model Savings Policy Adopted	Same as Loan Policy
7	New Savings Products Implemented	Not developed
8	New Micro-Credit Products Implemented	Not developed

Completion of the adoption and implementation of the above by all the SACCOs, together with the League, are the remaining challenges.

The Cooperative Agreement was to end on 31st March 2004, but due to the slowness in the attainment of all project goals and targets, the agreement was terminated on 31st December 2003, three months earlier than anticipated.

WOCCU and UCSCU: On May 17th 2001, WOCCU and UCSCU, the local League for Savings and Credit Cooperative, signed a Sub Agreement in order to engage UCSCU's skills and relationships with the SACCO's in facilitating the attainment of the goals and targets. UCSCU would provide technical support services to WOCCU in performing development-related activities under the program. WOCCU and UCSCU would build a strong local network, the SACCO – NET, to link SACCOs among themselves through shared financial disciplines, standard policies and consistent services. Under the Sub Agreement WOCCU was to financially support four core staff of UCSCU namely: the manager, the accountant, the trainer and the secretary. As the project progressed, however, WOCCU decided to exclude the secretary position from the financial support, as it was not relevant to attaining the program goals and targets.

The WOCCU/UCSCU Sub Agreement was to end on 31st March 2004, however, with the termination of the primary Agreement between WOCCU and USIAD, the Sub Agreement was

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automatically terminated as of the 31st December 2003. UCSCU was formally informed by WOCCU of this development.

WOCCU and SACCOs: Before WOCCU delivered any technical assistance to the SACCOs, an agreement had to be signed between WOCCU and the SACCO. The agreement, referred to as a Memorandum of Understanding (MOU), regulated the relationship between WOCCU and the SACCO regarding the delivery of the technical support. UCSCU was also a signatory of this MOU to ensure that UCSCU is also adequately involved in the delivery of the technical assistance. See below for a sequential summary of the contracts signed.

#	SACCO	Date of signing the 1 st Contract (Date of formal entry into program)
1	Lugazi Sugar	25 th September 2001
2	Agaliawamu Kasaala	26 th September 2001
3	UCB SACCO	1 st October 2001
4	South Buganda Teachers	3 rd October 2001
5	Luweero Teachers	10 th October 2001
6	Medeocs	10 th October 2001
7	Kiwafu	12 th October 2001
8	Mukono Teachers	18 th October 2001
9	Naddangira	6 th November 2001
10	WASE	9 th November 2001
11	MIB	26 th October 2001
12	Agaru	8 th January 2002
13	Excel	20 th November 2002
14	Wekembe	3 rd October 2002
	Contracts signed but Terminated before EOP	
1	Civil Aviation Authority (CAA) Employees	1 st October 2001
2	Kampala City Council (KCC)	2 nd October 2001
3	Nakawa Market	29 th October 2001
4	Kakira Sugar	30 th October 2001
5	KFC Mayuge	29 th October 2002

Note: one large SACCO (POSTCOS), that had been included in the baseline, survey did not sign the contract due to serious governance, financial management and accounting problems.

As annexes to the MOUs, agreements for financial support were signed between the project and the following SACCOs:

#	SACCO	Remarks
1	Kakira Sugar	SACCO was terminated before the project end. SACCO dropped the manager
2	MIB	Supported up to end of project
3	Mukono Teachers	SACCO was terminated before project end. SACCO retains the manager and at an increased salary
4	Luweero Teachers	Supported up to end of project
	Kiwafu	Manager resigned from the post. Agreement for financial support terminated.
5	South Buganda Teachers	Supported up to end of project
6	Lugazi Sugar	Supported up to end of project
7	Nakawa Market	SACCO was terminated before project end, to date retains the Manager at same salary
8	KCC	Terminated before project end, retains the manager at same salary
9	Agaru	Supported up to end of project
10	Naddangira	Manager resigned from the post. Financial support agreement terminated

At the time of project wind down, of the ten SACCOs above, the following situation prevailed:

- Only five SACCOs had their managers financially supported by the program namely: MIB, Luweero Teachers, South Buganda Teachers, Lugazi Sugar, and Agaru SACCO. All these SACCOs have the ability to retain the manager.
- Three SACCOs had had the financial support stopped as a result of being dropped from the program (Kakira, KCC and Nakawa).
- Three SACCOs had the financial support stopped but continued in the program (Mukono, Kiwafu and Naddangira).
- Only three SACCOs have let their managers go (Kakira, Kiwafu and Naddangira).

E. Resources Available and Program Budget

US\$ 2.4 million was requested from USAID and the same amount was granted for the three and one half year program to start in October 2000 and end in March 2003. Program funds were to be used

to provide technical assistance through a subcontract with UCSCU via an in-country office located in the capital city of Kampala.

The cost breakdown comprised of personnel costs (one project director, one financial marketing specialist, one financial technician, an accountant, and a trainer); travel costs (in-country costs for the project director and technicians to travel for on-site skill transfer and monitoring, and international travel for project staff to attend WOCCU technical training workshops), and WOCCU-Madison technical program support trips to Uganda (5 per year). Other direct costs included office rent, telecommunications, supplies, legal fees, equipment maintenance, and miscellaneous costs.

Training covered in-country workshops and training materials; and covers the cost of training in model credit union concepts, and promotional advertising materials and programs to SACCOs as part of an integrated marketing campaign.

Equipment included: a photocopier, 5 computers, 1 printer, and 2 vehicles. UCSCU would be subcontracted to provide 12 SACCO managers whose performance will be supervised by the WOCCU project director.

WOCCU anticipated approximately \$600,000 for mobilized savings in SACCOs, to meet the cost-sharing requirement as well as US Central Credit Union's participation in development of the UCSCU Central Finance Facility by providing the services of qualified technicians.

F. Implementation Methods and Responsibilities of the Parties

The technical support to each SACCO was predominantly provided on site, using well-tested WOCCU tools and methodologies. Some limited financial support was also provided. For example supporting managers' salaries, where WOCCU was of the view that this would contribute to the attainment of the project goals and targets. The MOU signed between the three parties provided for the following responsibilities:

WOCCU:

WOCCU's responsibilities may be summarized into three main areas:

- As the main implementer of the program, carried out the strengthening and empowerment technical activities to the SACCOs.
- As a development facilitator for the SACCOs, managed the development and completion of all SACCO trainings and on-site technical assistance.
- In its role as primary contractor for the program implementation, fully complied with the USAID guidelines and standards.

UCSCU:

UCSCU was called upon to provide services in response to SACCOs' performance contracts developed by WOCCU. UCSCU would be responsible for and implement:

- Identifying new SACCO candidates for the project.
- Participating actively in organizing trainings, seminars and workshops during the project implementation.
- Share in a timely manner all relevant information on any issue that would affect the objectives and goals of the project.
- Create an enabling environment, which contributes to having open discussions on any matter between the project and the SACCO
- Participate project implementation areas as identified by WOCCU.

SACCOs:

SACCOs were the target of the project. Each SACCO therefore had to:

- Agree to the project objectives and goals
- Subscribe to the implementation stages of the project.
- Provide access to monthly financial statements and quarterly statistical reports no later than 20 days after end of each month
- Achieve the mutually agreed upon goals and benchmarks stipulated in the work plans

G. SACCO Recruitment Criteria

WOCCU, in consultation with UCSCU developed criteria which was used to recruit SACCOs into the program. The criteria were explained to the potential participant SACCOs during the identification of SACCOs. The SACCOs selected had to fulfill the following criteria:

- Located within the central region of Uganda. The objective of this was to ensure that the program is focused in one geographical area. This would keep the financial and technical costs within controllable ranges.

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- Sound financial conditions with up to date accounting records.
- Potential to open common bond and expand membership to 5,000
- Have full-time employees
- Current with UCSCU obligations
- Board and management have a business mentality
- Have office locations
- Willing to mobilize member savings
- Willing to sign a tri-partite Management Contract. The three parties to the contract were WOCCU, UCSCU and the SACCO.

Under the Management Contract, UCSCU would be responsible for integrating SACCOs into the SACCO Network. The contract would empower WOCCU to be responsible for the proper management of the SACCO during the contract period. Accordingly, WOCCU would screen and hire managers, as well as supervise and remunerate him/her. The manager would be accountable to WOCCU but also in frequent communication to the Board of the SACCO. Any of the three parties would be free to terminate the contract if their obligations were not met. The management contract was annual, but renewable during the program life period.

III. TECHNICAL ASSISTANCE RENDERED

A. Accounting

A great deal of effort was placed on the implementation of accounting systems in the project SACCOs to improve financial soundness and profitability of the SACCOs. This enabled transparency and on time financial information to the members, board of directors and management.

Prior to the start of the project there was no standardized accounting system; each SACCO had its own outdated system of accounting. The project embarked on defining a standardized accounting nomenclature, with the full involvement of the SACCOs, the League and the District Cooperative Officers who are the auditors of the SACCOs.

WOCCU experience has shown that accounting systems are needed in all aspects of achieving the project goals. SACCOs could not implement savings mobilization without a transparent accounting system. Similarly, SACCOs can not effectively market themselves without an effective accounting system-- a SACCO with a precarious accounting system should not be looking for new members. Literally speaking, you must first clean your house before you can invite visitors.

B. Governance

The project recognizes the importance of governance in defining the future and very survival of the SACCOs they lead. Training on the Roles and Responsibilities was conducted for SACCOs' BODs, policies discussions were held with BODs and supervisory committees, and performance reports presented for action. These trainings and many more were conducted to improve on the effectiveness and efficiency of governance and its role of directing the affairs and future of SACCOs.

C. Management

During the institutional diagnostics, the program identified that some SACCOs had managers who could be trainable, while others were not be trainable. The main reason for this being the lack of minimum basic educational standards. The table below summarizes the managers per SACCO as at the time of start and end of the project.

D. Policies and Procedures

The project developed the following policies and procedures for the SACCOs, specifically: Savings, Lending and Collection and Internal Control. Each of the project participant SACCOs customized the policies and procedures to suit its detailed specifics. The challenge will be to ensure their full implementation.

E. Savings Mobilization

The project assisted SACCOs to embark on aggressive savings mobilizations programs through the membership drive activities and also deliberate efforts to increase savings within the existing membership. Trainings were also implemented to coach SACCOs on the prerequisites for successful savings mobilization.

F. Lending

The SACCOs were trained to refocus their lending practices by conducting analyses of member repayment capacity and eliminating the leverage of savings and shares basis. In this respect, the Credit Scoring Tool (CREST) was introduced to SACCOs and integrated into the lending analysis. Consequently, SACCOs have become more appreciative of risk management, thus the quality of the loan portfolio will improve.

The project did not implement lending to SACCOs as its main focus was technical support. In addition, any effort to lend to selected SACCOs kick off financial support, was fervently opposed by UCSCU. Our local partner was of the view that this would amount to the project competing in service delivery. Explanation that lending by the project was to be on limited scale and that it would not be on going was not listened to. However, the project linked SACCOs with liquidity squeeze with SACCOs with liquidity surpluses. Thus inter-lending was carried on within the SACCOs.

G. Marketing

It is WOCCU's experience that an adequate Bylaws are a strong marketing tool for SACCO development. For example it demonstrates, though not exclusively, safety of members' savings. Therefore, model Bylaws were drafted after reviewing those in use at that time. Reference was made to the WOCCU Model Law and to successful models in developing countries namely Guatemala and Nicaragua. A participatory approach was used when drafting the new Bylaws, in

order to attain “ownership” by all the stakeholders. The following were identified by the project as stakeholders: leaders of participant SACCOs, UCSCU, the Registrar of Cooperatives together with his staff at the districts (Cooperative Officers) where the project operated.

At the start of the project, most of the SACCOs did not have brochures and those that had them were poorly designed and not up dated. In order to facilitate marketing, the project embarked on assisting SACCOs to design brochures and also in printing. The consultant, Mr. Jose Linares, reviewed the brochures and made recommendations for further improvements.

H. Financial Management.

A SACCO must maintain a solid reputation that it can conduct business in an efficient and ethical manner and that money deposited by members is safe and wisely managed. In order to ensure this, the project trained SACCO staff in key financial management areas, such as: risk management liquidity management, interest rates management, the roles and responsibilities of the board and management in financial management.

In addition, the project provided model policies relevant to financial management (policies on savings, lending, budgeting and reporting) and training in internal audits by Supervisory Committees. Simple internal audit formats were developed and provided to guide Supervisory Committees in their work.

Managers were trained in their roles and responsibilities, which included but was not limited to: implementing the policies approved by the board, ensuring that the internal and administrative controls the board establishes are in implemented and controlling risk. On site technical support to managers was provided from time to time, on invitation of managers and also on the initiative of the project.

I. Tools

WOCCU, through the project, introduced a number of tools to the participant SACCOs to use in meeting standards and carrying out reforms.

Over the years, WOCCU has established International Financial Standards by which credit unions are qualified, or certified, in many developed and developing countries. Model credit union standards set minimum criteria for credit unions to meet for soundness, and standards of excellence by which credit unions are identified as institutions of excellence.

The SACCOs were introduced to the PEARLS financial management information system. WOCCU uses the world wide tested PEARLS savings and credit union monitoring and evaluation system as a financial management tool. The system was developed in 1990 by WOCCU as a tool for evaluating the operations of credit unions in Latin America. Over time, it has evolved into a unique management tool and supervisory mechanism. The PEARLS system operates by using standardized financial ratios and formulas to assess credit union performance. Each letter of the word "PEARLS" represents an analysis of different but critical aspects of credit union operations.

WOCCU establishes institutional profitability and financial disciplines through technical assistance and training, using an annual business-planning format focusing on specific balance sheet improvements and goals. The annual business planning methodology includes developing pro forma balance sheet and income statement projections. These were introduced to SACCOs on an annual basis and detailed work plans were established to indicate how the SACCO would achieve its policy, growth and financial goals. The project installed the business-planning tool within each SACCO (SACCOs that had no computers were provided with one) and staff were trained in the business planning methodology. The goal was to attain an established methodology for SACCOs to meet their capital, growth, cost and financial structure targets.

The project implemented the Loan Portfolio Analysis Tool (LPAT), which facilitates tracking and controlling delinquency on a monthly basis, improving the collection activities and the creation of loan loss provisions.

The Credit Scoring Tool (CREST) was introduced and implemented in all the project SACCOs to refocus lending analysis. The new basis was on member repayment capacity and did away with leveraging of loans approach. The impact is that SACCOs have become more analytical and skilled, improving in the quality of the loan portfolio and their understanding about management of risk.

IV. PROJECT IMPLEMENTATION

A. SACCO Diagnostic

Results of the institutional diagnostics revealed that SACCOs, in general, had no business and strategic plans, had governance challenges, human resource deficiencies, absence of policies and procedures and were quite small, closed bond institutions.

Financial diagnostics revealed in general poor liquidity conditions, relatively large investments in non earning and non financial assets, high delinquency levels which are not tracked, and accumulated losses. A Financial Gap was calculated for each SACCO in order to understand the overall financial gap for the project SACCOs. The results are summarized as below:

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Financial Gap of Project SACCOs as at 31 st December 2001											
SACCO	TOTAL ASSETS	Loan Portfolio	Loan Portfolio	P/folio at Risk	Prov Ln >12	Prov Ln	Accum Losses	Inst. Cap Required	Financial Gap	Financial Gap	%
	Ugx	Ugx	% at Risk	Ugx	100%	<12 35%	Ugx	Ugx	(E to H) Ugx	in US \$	Per SACCO
Agaliawamu	138,809,637	2,789,385	91	2,538,340	1,269,170	444,210		0	1,713,380	991.88	0.14
CAA	923,015,125	708,125,781	7	49,568,805	24,784,403	8,674,541	15,675,760	92,301,513	141,436,217	81,878.09	11.32
Kakira	188,967,989	140,474,171	14	19,666,384	9,833,192	3,441,617	-	18,896,799	32,171,608	18,624.30	2.57
KCC	193,438,635	60,939,261	21	12,797,245	6,398,623	2,239,518	4,909,265	19,343,864	32,891,270	19,040.91	2.63
Kiwafu	60,338,669	4,027,312	36	1,449,832	724,916	253,721	205,863	6,033,867	7,218,367	4,178.75	0.58
Lugazi	36,093,930	4,673,952	21	981,530	490,765	171,768	11,256,373	3,609,393	15,528,299	8,989.41	1.24
Luweero	138,778,498	88,482,532	38	33,623,362	16,811,681	5,884,088	7,336,727	13,877,850	43,910,346	25,419.91	3.51
Masaka	72,544,165	45,008,437	89	40,057,509	20,028,755	7,010,064	33,936,998	7,254,417	68,230,234	39,498.80	5.46
MEDECOS	208,954,423	168,874,000	8	13,509,920	6,754,960	2,364,236	-	20,895,442	30,014,638	17,375.62	2.40
MIB	54,921,707	45,849,987	31	14,213,496	7,106,748	2,487,362	8,734,227	584,570	18,912,907	10,948.77	1.51
Mukono Trs	849,981,206	534,966,597	10	53,496,660	26,748,330	9,361,916	-	84,998,121	121,108,367	70,110.20	9.69
Naddangira	76,490,084	42,976,250	18	7,735,725	3,867,863	1,353,752	4,552,214	7,649,008	17,422,837	10,086.16	1.39
Nakawa	111,055,648	43,258,463	69	29,848,339	14,924,170	5,223,460	18,267,800	11,105,565	49,520,995	28,667.94	3.96
POSTCOS	2,071,736,299	556,117,046	14	77,856,385	38,928,193	13,624,868	130,968,882	207,173,630	390,695,573	226,175.51	31.26
UCB	764,283,982	544,758,947	9	49,028,305	24,514,153	8,579,954	-	76,428,398	109,522,505	63,403.09	8.76
WASE	1,163,243,563	842,490,030	10	78,678,980	39,339,490	13,768,822	-	116,324,356	169,432,668	98,085.37	13.56
Totals	7,052,653,560	3,833,812,151		485,050,817	242,525,412	84,883,897	235,844,109	686,476,793	1,249,730,211	723,474.71	100.00
	A	B	C	D	E	F	G	H	I	J	K

Notes:

a) Dollar rate as at 31st December 2001: US \$ 1 = Ugx 1727.4

b) To calculate Provision for Loan losses, an assumption has been made that 1/2 of the Portfolio at risk is overdue >12 months and 1/2 >1month but <12 months

The project made a decision that some SACCOs would need financial support in order to move towards the project goals and targets, however, this could not be implemented as already discussed in this report.

B. Planned vs. Actual Progress

Incentives: in order to contribute to the attainment of the project goals and objectives the project defined the following incentives to the SACCOs:

- Financial support to meet the salary of the manager for SACCOs in weak financial condition. This incentive was only provided under the following conditions:
 - The manager had to first to be screened by the project in respect to competency and trainability;
 - SACCO approves his/her engagement and puts in place an employment contract;
 - SACCO cannot terminate the manager without mutual consent between the project and the SACCO;
 - SACCO cannot amend the employment terms without mutual consent for example regarding salary payable without mutual consent (project and SACCO);

The following SACCOs benefited from this incentive:

Summary of SACCOs and Benefits Received In Respect of Managers' Salaries in Ugx:				
SACCO	2001	2002	2003	Totals
Mukono	0	9,240,000	0	9,240,000
Kakira	650,000	2,800,000	0	3,450,000
Naddangira	0	4,800,000	0	4,800,000
WASE	0	3,080,000	4,286,334	7,366,334
Agaru	0	12,980,000	6,699,000	19,679,000
KCC	0	4,895,000	4,900,000	9,795,000
South Buganda	880,000	10,560,000	12,375,000	23,815,000
Lugazi	0	3,266,700	5,850,000	9,116,700
Luweero	650,000	9,450,000	10,150,000	20,250,000
Nakawa	800,000	1,600,000	0	2,400,000
MIB	715,000	8,580,000	9,790,000	19,085,000
Kiwafu	770,000	9,240,000	770,000	10,780,000
Totals	4,465,000	80,491,700	54,820,334	139,777,034

The above financial support imparted positively to the SACCOs in respect of the project goals and targets. For example South Buganda, MIB, and Luweero registered some of the highest membership and savings growth during the project life. Some SACCOs

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however, where results were not impressive, support was terminated, as was the case for WASE and Kiwafu. In the last situation, the financial support was stopped because the SACCO could afford to take up the salary costs, as was in Mukono Teachers.

Hire consultants to implement specific agreed upon activities in the SACCO, such as membership drive programs and accounting clean ups. The SACCOs that benefited were Agaliwamu Kasaala, Lugazi Sugar and Mukono Teachers

- Providing computers, which included:
 - a) one computer (except for SACCO that were identified as already having adequate computer hardware), b) pinter, c) stabiliser, d) Uninterrupted Power Supply equipment (UPS).

Following are the minimum requirements that a SACCO participating into the project must satisfy in order to receive the set:

- i) The SACCO must have at least 500 active members. Active members refer to those members who have financial operation with their SACCO at least once in a month.
- ii) Adoption and implementation of all the following 8 financial disciplines and growth goals indicated in the table below:

Table of Start off Standards and Goals:

Key	Standard/Goal
P2 Net Loan Loss Allowances/Allowance Required for Delinquency 1- 12 months	100%
P3 Complete Charge Off of Delinquent Loans > 12 Months	Yes
A1 Total Delinquency/ Gross Loan Portfolio	As per the SACCO's Business Plan 2002
A2 Non Earning Assets/ Total Assets	As per the SACCO's Business Plan 2002
R9 Operating Expenses/Average Assets	3 – 10%
L2 Liquidity Reserves/Total Savings Deposits	10%
S10 Membership	As per the SACCO's Business Plan 2002
S11 Total Assets	As per the SACCO's Business Plan 2002

- iii) The SACCO must adopt the Model Bylaws and have registered with the Registrar of Cooperative Societies within three months from the day of launching this phase.
- iv) The SACCO must have personnel with basic computer knowledge or train one staff person accordingly.

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The following SACCOs benefited from this initiative: Agali awamu Kasaala, Lugazi Sugar, Medecocs, South Buganda, MIB, and Luweero Teachers.

SACCO	Description	Ugx	US \$
Agaru	Furniture & equipment Computers software, and complete accessories	6,342,500	2,114
Agaliawamu Kasaala	Computer software, accessories, & furniture & equipment Other computer accessories	28,000	1,943
Lugazi Sugar	Computer, software & accessories Furniture & equipment	1,614,470	2,048
Medecos	Computer, software & accessories Furniture & equipment	28,000 2,119,200	2,048
Luweero	Computer, software & accessories	28,000	1,043
MIB	Computer, software & accessories	28,000	2,048
South Buganda	Computer, software & accessories Furniture & equipment	28,000 4,481,500	2,048
Kiwafu	Furniture & equipment	552,830	
Naddangira	Furniture & equipment		1,35.6

Note: All the above (plus other furniture and equipment) have been donated to the respective SACCOs at the end of the project.

C. Strategies

The project defined various strategies to complement the business plan for the attainment of the goals and targets for each SACCO. Some SACCOs were focused on more than others. For example, in Mukono Teachers' SACCO the project installed a full time consultant for a period of 5 months. The role and responsibilities of the consultant was to lead the preparation of the SACCO for automation of its operations. In other SACCOs consultants were hired for short periods of time to support identified activities, such as the implementation of membership drive programs (Lugazi Sugar and AgaliAwamu Kasaala). This strategy enabled the project to tap into a broader set of skills, which were crucial in meeting the goals and objectives of the project.

Another strategy used was to promote the starting of a SACCO. This would provide an opportunity to the project to implement in the new SACCO the implementation of all the tools, without inherent

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challenges. This strategy proved a success (Agaru SACCO). At the time of project close down, efforts were underway to provide technical support to the start up of another SACCO in the Western region of Uganda (Kasese SACCO). This SACCO is a product of coordination of efforts between the project and other organizations (DIFD, SPEED and Nyakatonzi Cooperative). Working closely with other identified organization is an additional strategy that the project implemented. The project also endeavored to work closely with the Government of Uganda, notably through the office of the Vice President and also the Commissioner/Registrar and his staff at the districts.

The project encouraged inter-lending with the SACCOs. One SACCO UCB implemented successfully lending to some SACCOs. This strategy linked SACCOs with excess liquidity with those in liquidity hardship and retained liquidity within the system.

Another implemented strategy was to look for potential program SACCOs, by conducting four visits to each part of the country. However, results indicated that most of the SACCOs are still small, with governance challenges. There remain some potential SACCOs, located far from the city center, and as a result the project could not take them up.

D. Challenges Encountered

During the process of delivering technical assistance the following major challenges were encountered:

- **Micro-Management.** A number of boards were actively involved in the day-to-day running of their SACCOs and in these cases were enjoying authority and some financial interest. Such cases were reluctant to embrace the changes and empower their management. To overcome this the project used the strategy of revising the Bylaws, putting in place policies and procedures, hiring competent managers and conducting trainings and meetings for the board, supervisory committees and employees.
- **Figures received during the diagnostics varied greatly from those used in the baseline survey for the project.** This is due to poor and wrong classification of accounts, For example the diagnostics of POSTCOS revealed that the savings portfolio stated at Ugx 1.8 billion did not have in full supporting subsidiaries.
- **Some SACCOs did not have staff that could cope with the growth, yet the boards were reluctant drop them because they were founder members or influential in one way or the other.** In such cases the project provided a technical person, the 'Operations Manager' who would run the technical aspects of the SACCO. Some boards, for example for Luweero Teachers, later retired the manager and took up the Operations Manager and charged him with the full management of the SACCO.
- **Turnover and the need for re-training:** Some managers left employment after undertaking the trainings from the project. Such managers were for Kakiri, Kiwafu and Naddangira SACCOs. This posed a setback for the SACCO and the project in terms of implementation of the technical activities in to the SACCO.

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- Non-implementation of financial disciplines, for example no loan loss reserves and no period write offs due to lack of adequate skills by the SACCO staff or reluctance to reflect the exact weak condition of the SACCO.
- Insufficient liquidity in most SACCOs due to delinquency and high non-earning assets.
- Some government cooperative officers were not supportive to the changes being introduced in the SACCOs. Cooperative officers are the auditors for the SACCOs and also provide accounting services.
- Restructuring of organizations where some SACCOs are based e.g UCB SACCO and WASE SACCO lost membership and registered decline in savings and loan portfolio due to the parent companies being sold off and retiring staff (who are the SACCO members).
- Insecurity due to a civil war affected one program SACCO in northern Uganda. Although this SACCO continues to register a robust growth, no doubt the civil war has limited its pace of progress.
- UCSCU was not fully cooperative through the program implementation. This culminated in quitting the shared office (project-UCSCU) during the month of August 2001.

E. Additional Activities

Additional activities conducted by the project, but not included in the business plan was an additional strategy contributing to the attainment of the project goals and objectives. These were:

The project accepted an invitation to participate in the Cooperative Reform Committee set up by the Uganda Government under the office of Her Excellency the Vice President. This was seen as an opportunity for WOCCU to work with the Uganda Government at the highest level, to gradually influence and sensitize them on the reforms that the SACCO movement in the country must embrace and the role of government for this to happen. In addition WOCCU advised that UCSCU should also be invited to sit on the Committee. This was subsequently granted.

Under this cooperation with the government, the Vice President of Uganda was invited by WOCCU, and he kindly accepted, to participate in the Best Practices for Savings Mobilization Institutions held in Washington USA in November 2002.

The project also actively participated in the Micro Finance forum, a monthly meeting platform for exchanging views and perspectives for practitioners in the industry. Other participants included AMFIU, SUFFICE, Cooperative Department, DFIF, SPEED and several MFIs. The Micro Finance Forum is organized by AMFUI and SUFFICE.

Formation of new SACCOs was another additional activity that was implemented. This experience has shown that this strategy is successful because the SACCO starts off without a negative image, or problems and implements the disciplines from the onset. In addition, the strategy works well if the right volunteers are identified and involved in the formation and running of the SACCO. One SACCO, Agarua was successfully formed in the Northern part of Uganda. The second SACCO, Kasese SACCO has not been completed, in the Western part of Uganda.

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Networking technical activities with other programs was also emphasized. For example, the formation of the new SACCO in Kasese was a shared idea between SPEED, DFID, WOCCU and a local cotton-marketing cooperative called Nyakatonzi.

The Project participated in technical sessions of the Uganda Law Reform Commission, the body charged with reviewing the existing laws (including the cooperative law) in the country. The Commission held several sessions to review the Uganda Co-operative Statute of 1991 and the Uganda Cooperative Regulations of 1992 that governs the operations of co-operative organisations to which SACCOs belong. The Project submitted a number of proposals (based on WOCCU Credit Union Model Law) for possible inclusion into the Amendment Bill.

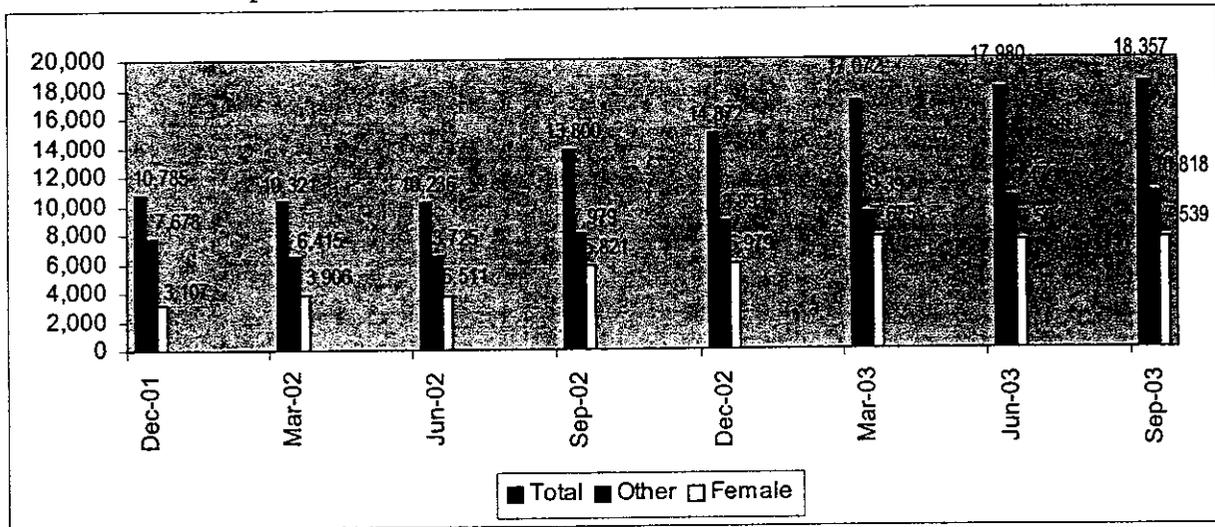
The project worked closely with the office of the Commissioner of Co-operative Development, his assistants and district officers. Several trainings were held for them in various topics such as PEARLS, ALM, and WOCCU recommended Accounting System.

V. MEMBERSHIP

As measured from 31st December 2001, the membership of the project SACCOs has grown by 7,572. While formerly the total membership was 10,785, it grew to 18,357 by the close of the project

The trends in membership are shown in the graph below.

Trend in Membership



Regardless of how high the membership growth has been, only one of the SACCOs has managed to hit the standard for membership growth stated at the start of the project. This point is stressed further in the Table on the next page.

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Membership Growth Vs Targets

SACCO	Dec 2002	Sept 2003	Dec 2003	Percentage Progress toward EOP Target
	Actual	Actual	EOP Target	
Agali Awamu Kasaala	866	1,450	4,000	36.25%
Agaru SACCO	592	1,033	3,000	34.43%
Excel	517	691	2,000	34.55%
KCC	500	Dropped	3,000	0.00%
Kiwafu	507	580	4,000	14.50%
Lugazi Sugar	661	789	1,500	52.60%
Luweero Teachers'	1,102	1,380	3,000	46.00%
MEDECOS	222	259	3,000	8.63%
MIB	590	755	1,500	50.33%
Mukono Kayunga Teachers'	4,412	4,549	4,000	113.73%
Naddangira	1,235	1,408	4,000	35.20%
South Buganda Teachers'	1,401	3,212	3,000	107.07%
UCB	838	787	3,000	26.23%
WASE	385	491	3,000	16.37%
Wekembe	917	973	2,000	48.65%
Kasese	0	0	5,000	0.00%
Overall	14,872	18,357	49,000	37.46%

One of the notable factors of membership growth has been the increase in member services as the membership has grown. SACCOs have transformed from being half-day service providers and running a five-day week to a three quarter day with many of the SACCOs operating even on Saturdays. Kiwafu SACCO, for example, used to open half day in respect of the Muslim community it serves, which had to go for prayers at 12:30 pm. Now the SACCO is open to its members until 4.00 pm.

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accurately tracked. This occurred in the second quarter of 2003 when all the project SACCOs aged their loan portfolio using LPAT. LPAT showed that loans delinquent between 1 and 12 months were UGX 845,282,154 (US\$ 432,096) and UGX 320,778,929 (US\$ 160,562) was delinquent over 12 months. Such levels of delinquency required total provisions of UGX 616,627,683 (US\$ 308,646) and yet the total provisions made by the entire project SACCOs were UGX 71,596,756 (US\$35,836).

The emphasis of the project, after the revelations of LPAT, was to relay to the SACCO managers and BODs the results of delinquency for their SACCOs and advise them on what actions to take. This was done through the quarterly reports to the SACCOs and the monthly managers' technical meetings. All delinquent loans had to be collected and the SACCOs had to increase their loan loss provisions to cater for the risk inherent in their loan portfolio as a result of delinquency.

By 31st September 2003, the gap between the required and actual loan loss provisions had experienced a quarterly decline of UGX 211,461,468 (US\$ 106,073). This was because more SACCOs were making loan loss provisions as shown by the UGX 136,292,143 (US\$ 68,367) increase in loan loss provisions.

At the end of the project, more SACCOs have learned the importance of the standards of Protection but few have actually implemented them as shown by the scoring for P2 and P3 in the Table above. A lot of work is still needed in this area to ensure conformity to the standards recommended.

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B. Effective Financial Structure

30 th September 2003							31 st December 2001						
Ratio	E1	E5	E9	E1	E5	E9		E1	E5	E9	E1	E5	E9
GOAL	≥50 to 80%	≥50% <= 80%	≥5%	Ranking			GOAL	≥50 to 80%	≥50% <= 80%	≥5%	Ranking		
Agali Awamu Kasaala	27.22	23.53	48.01	0	0	1	Agali Awamu Kasaala	2.01	7.73	78.84	0	0	1
Agaru SACCO	14.07	92.80	1.47	0	0	0	CAA EMCOS	76.7	82.86	-2.29	1	0	0
Excel	51.54	50.80	-3.57	1	1	0	Kakira Sugar	74.3	74.07	7.92	1	1	1
Kiwafu	62.44	50.86	-22.77	1	1	0	KCC	35.1	83.21	-30.7	0	0	0
Lugazi Sugar	65.92	146.09	-75.31	1	0	0	Kiwafu	66.8	34.29	-17.8	1	0	0
Luweero Teachers	78.31	85.25	-12.12	1	0	0	Lugazi Sugar	13	110.3	-47.9	0	0	0
Medecos	84.01	79.17	-6.23	0	1	0	Luweero Teachers'	63.8	80.81	-5.29	1	0	0
MIB	78.51	100.98	-46.41	1	0	0	MEDECOS	80.8	75.13	2.75	0	1	0
Mukono and Kayunga Teachers	34.84	93.05	-18.71	0	0	0	MIB	83.5	89.05	-15.9	0	0	0
Naddangira	68.95	77.69	-19.93	1	1	0	Mukono and Kayunga Teachers'	62.9	74.51	-5.14	1	1	0
South Buganda Teachers	55.20	62.49	-19.95	1	1	0	Naddangira	53.6	76.47	-5.28	1	1	0
UCB	68.47	74.77	9.08	1	1	1	Nakawa Market	39	57.79	-29.7	0	1	0
WASE	38.78	93.09	-78.65	0	0	0	South Buganda Teachers'	62	101.8	-48.1	1	0	0
Wekembe	23.46	49.67	-6.05	0	0	0	UCB	70.4	78.28	5.67	1	1	1
							WASE	72.4	88.1	-20.7	1	0	0
	Total			8	6	2		Total			9	6	3

Loan Portfolio

Total loans outstanding by 31st December 2001 stood at UGX 3,351,875,651 (US\$ 1,940,417). As compared to the UGX 2,451,479,402 (US\$ 1,229,706) by 31st September 2003, a drop in the loan portfolio of UGX 810,396,249 (US\$ 406,509) is realized. This is representative of the substantial drops in SACCOs' loan portfolio that were seen between December 2000 and December 2002. These significant drops were caused by two key factors:

First, the drop of CAA EMCOS, Kakira, Nakawa and POSTCOS SACCOs from the project. These SACCOs had a combined contribution of UGX 1,452,476,768 (US\$ 840,846) or to the total project

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loan portfolio by December 2001 and their departure caused a decline in the loan portfolio of the project SACCOs.

Secondly, there was a cleanup of loan portfolios in SACCOs prior to and after the implementation of LPAT. Such cleanup revealed a bulk of junk loans comprising of loans to deceased, retired and untraceable members. Such amounts were removed from the loan portfolios of the SACCOs and placed in problem assets pending write off since they were largely uncollectable and only served to overstate the SACCOs loan portfolio. WASE SACCO for example realized a UGX 375,594,526 (US\$ 188,404) or 50.46% drop in loan portfolio between December 2001 and December 2002 as a result of a cleanup of loan portfolio.

Since December 2002 to date, there has been a steady growth in the volume of loans outstanding. By 31st December 2002, the total loans outstanding for the project were 2,356,856,250 (US\$1,227,442) as compared to UGX 2,451,479,402 (US\$ 1,229,706) by the close of the project. This represents a UGX 94,623,152 (US\$ 44,467) or 3.58% growth in the loan portfolio of the SACCOs over the 3 quarters. This growth in loan portfolio has however not been enough to meet the target set for loans of UGX 16,633,219,840 (US\$ 8,544,203).

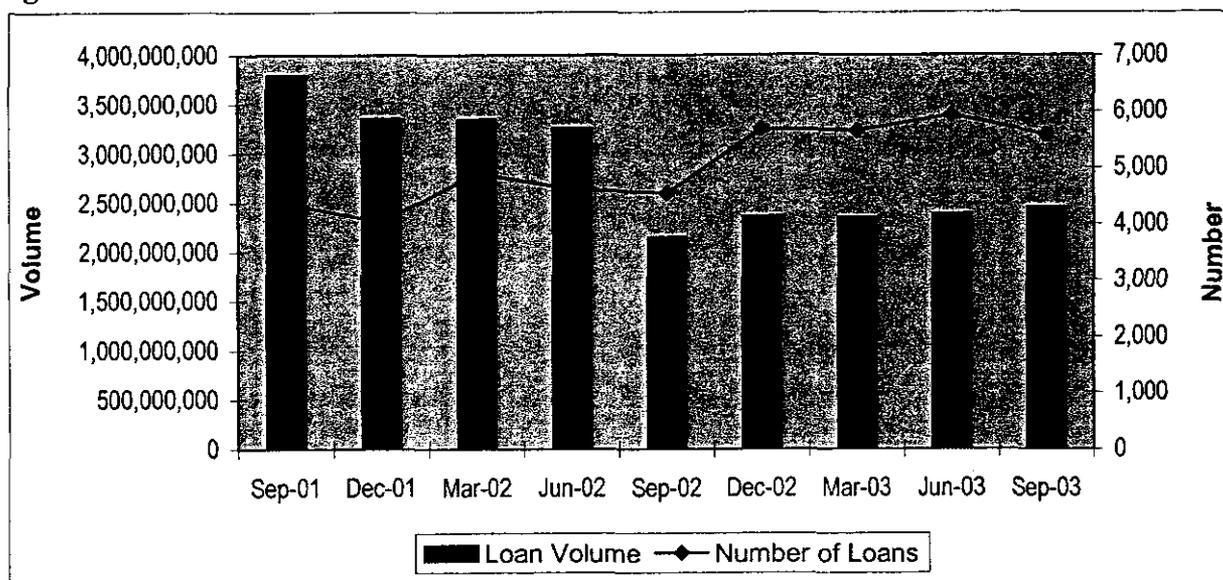
The number of loans to members has increased. On December 31, 2001, the number of outstanding loans totaled 3,700 but by 30th September 2003 there were 5,575 outstanding loans. Below the EOP target is 12,250, but it is important to note that SACCOs were serving more members with loans at the end of the project than they were at the start.

The movement in loan portfolios is highlighted in the following Table and Graph.

Table: Trend in Loan Portfolio

	Loan Volume	Number of Loans
Sep-01	3,798,858,010	4,360
Dec-01	3,351,875,651	4,020
Mar-02	3,344,569,013	4,897
Jun-02	3,254,925,882	4,610
Sep-02	2,145,472,675	4,536
Dec-02	2,356,856,250	5,681
Mar-03	2,344,030,291	5,648
Jun-03	2,382,638,191	5,917
Sep-03	2,451,479,402	5,575

Figure: Trend in Loan Portfolio



Savings Deposits

The trend in savings deposits was a downhill one from September 2001 to September 2002. This is because during this period, four SACCOs were dropped from the project's outreach. CAA EMCOS, Kakira, Nakawa and POSTCOS SACCOs, had total savings contribution to the project of UGX 1,591,703,263 (US\$ 798,427) by the time they were dropped from the project. In addition, the inefficacy of the SACCOs in savings mobilization caused weak and negative movements in savings deposits since at the start of the projects SACCOs were more reliant

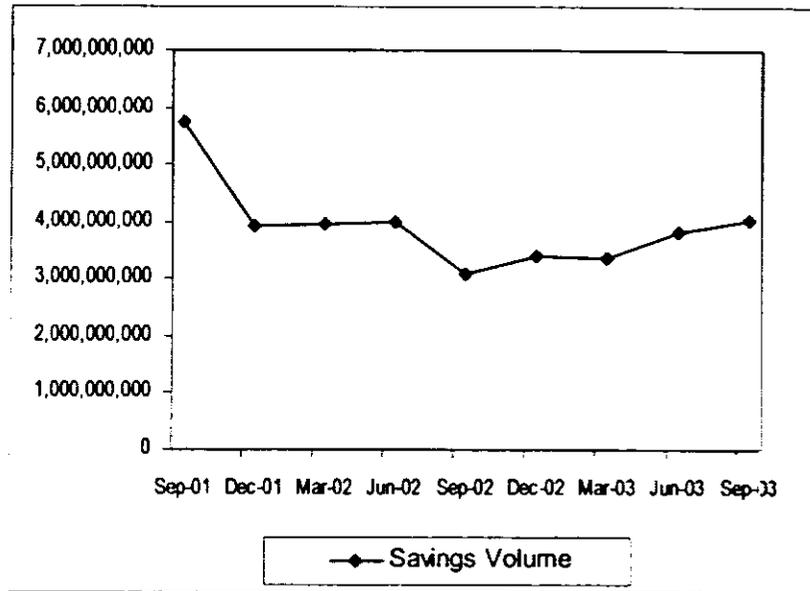
Since December 2002, there has been remarkable growth in the savings deposits of the SACCOs. By September 2003, there had been a UGX 618,855,939 (US\$ 310,429) or 18.18% increase in the December 2002 figure for savings of UGX 3,404,485,499 (US\$ 1,845,240). The biggest contributors to this growth have been Mukono and Kayunga Teachers', UCB and Agaru SACCOs, which have had a combined growth in savings of UGX 601,494,056 (US\$ 301,720). The growth in these three SACCOs' savings deposit has been mostly a result of greater savings mobilization campaigns launched after the workshop on Savings Mobilization held in October 2002 and conducted by Jose Linares.

Notwithstanding this fact, the global savings deposits of the project SACCOs have failed to hit the target set for the project of UGX 17,167,267,150 (US\$ 8,611,405). The two main reasons that can be cited for this are the continuous SACCO dropouts and the slow rate of policy and exercise implementation of the project SACCOs.

Table: Savings Trend

	Savings Volume
Sep-01	5,726,005,244
Dec-01	3,928,574,716
Mar-02	3,968,082,510
Jun-02	3,998,020,443
Sep-02	3,064,897,502
Dec-02	3,404,485,499
Mar-03	3,364,866,333
Jun-03	3,816,770,111
Sep-03	4,023,341,438

Figure: Savings Trend



Institutional Capital

By end December 2001, three SACCOs had scored a point for their institutional capital position, E9. This figure dropped to 2 by the end of the project. This result can however not be taken to mean that the institutional capital of the project SACCOs is worse at the close of the project than it was at the start. Rather, by 31st December 2001 all the project SACCOs had their net institutional capital being overstated because of two implicit factors:

1) Accrual based accounting in which the SACCOs accrued and overstated their incomes and profitability positions and the non-recognition of delinquency. Since no delinquency was considered, the inadequate provisions being made for loan losses were suitable. 2) In the use of the PEARLS, there was a maligned recognition of zero percent delinquency, which acted to overstate the net institutional capital.

With the change from accrual based accounting to the adjusted cash accounting, incomes were reduced by the overstatements caused by previous assumptions on the recognition of incomes. In addition, the commencement of tracking delinquency revealed to the SACCOs how inadequate their loan loss provisions were. The trepidation of the financial impact of making loan loss allowances deterred many SACCOs from making the adequate allowance.

The project has therefore emphasized the importance of delinquency reduction as well as the discipline of making loan loss provisions. One quarter after delinquency tracking was started, delinquency on the project level fell by 7.26% and loan loss provisions increased by UGX (US\$) UGX 136,292,143 (US\$ 68,367). This trend is one that must be continued.

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C. Assets Quality

30th September 2003					31st December 2001				
Ratio	A1	A2	A1	A2		A1	A2	A1	A2
GOAL	< 10% =	< 10% =	Ranking		GOAL	< 10% =	< 10% =	Ranking	
Agali Awamu Kasaala	58.25	72.26	0	0	Agali Awamu Kasaala	91.1	97.29	0	0
Agaru SACCO	26.92	29.29	0	0	CAA EMCOS	7.4	20.58	1	0
Excel	58.04	48.46	0	0	Kakira Sugar	13.8	13.26	0	0
Kiwafu	62.57	36.11	0	0	KCC	21.3	45.02	0	0
Lugazi Sugar	14.77	30.68	0	0	Kiwafu	36.3	23.49	0	0
Luweero Teachers	30.63	25.46	0	0	Lugazi Sugar	20.8	82.21	0	0
Medecos	25.42	13.16	0	0	Luweero Teachers	37.8	35.3	0	0
MIB	61.98	14.15	0	0	Masaka Teachers	7.6	16.07	1	0
Mukono and Kayunga Teachers	60.06	61.83	0	0	MEDECOS	31	7.71	0	1
Naddangira	57.26	26.17	0	0	MIB	80.7	34.44	0	0
South Buganda Teachers	51.42	44.56	0	0	Mukono and Kayunga Teachers	17.9	32.74	0	0
UCB	5.55	1.07	1	1	Naddangira	69.2	32.52	0	0
WASE	76.24	63.96	0	0	Nakawa Market	89.2	22.25	0	0
Wekembe	63.32	75.87	0	0	UCB	9.3	3.15	1	1
WASE					WASE	10.2	24.37	0	0
	Total		1	1		Total		3	2

One of the main challenges that remain at the end of the project is the maintenance of adequate assets quality. The specific challenges in this area have been reduction of the investment in non-earning assets and the control of delinquency.

Delinquency:

Measured by 30th September 2003, the overall portfolio at risk (loans delinquent over 30 days) for the project SACCOs was 41.68% of the gross loan portfolio or UGX 1,021,696,4 (US\$ 512,501). This rate (41.68%) compares badly when compared with the WOCCU recommendation of less than 10%. Among the main factors that have perpetuated the high levels of delinquency are micro-management, poor loan analysis and the late implementation of LPAT. Micro-management

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increased on the number and volume loans to BOD members as BOD members already holding delinquent loans were awarded more loans. Also because the board was the management, collection efforts were lower.

Additionally, due to poor loans analysis, cookie cutter loans based on the balances of savings and or share were awarded to members regardless of the member's capacity or any consideration of the 5Cs of credit. Lastly, the late implementation of LPAT meant that the project SACCOs were moving in the dark as far as delinquency is concerned. For example, the A1 score as of December 2001 was 3. However, this is an estimate arrived at by the manual aging of loan by the project SACCOs. The launch of the loan aging, using LPAT, was done in the 2nd Quarter of 2003, revealing a higher delinquency rate.

The project has done a lot to reduce on the delinquency rate. Micromanagement in all project SACCOs is no longer. LPAT has been implemented and the BOD and management now have a better understanding of delinquency, its causes, and consequences

The results in the delinquency reduction have been outstanding. In the one quarter between June and September 2003 delinquency has been reduced by 7.26% or UGX 144,364,595 (US\$ 72,416). The project therefore closes without hitting the target recommended but with the ground work for the reduction of delinquency in place.

Non-Earning Assets:

WOCCU's recommendation on the amounts of total assets to be kept as non-earning assets is at most 10% of the total assets. By end-September 2003, the rate was 41.31% for the project SACCOs. This amount of total assets invested in non-earning liquid assets has been fueled by the high participation of SACCOs in buildings and other landed property and the existence of large uncollected funds represented on the accounts of the SACCOs as problem assets. Because of the purely book value of the problem assets (with no resale value attached to them) and the unwillingness of SACCOs to divest in fixed assets, the project closes with the A2 indicator in the above table, which reveals the failing of 13 of the 14 project SACCOs.

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made at the end of the financial year. Even when a SACCO declares a dividend on its shares, it is rarely at a rate equal to or above inflation.

Operating Expenses:

End of September 2003 saw two SACCOs reporting R9 ratios of less than 10%. These were UCB and WASE SACCO whose R9 ratios were 1.08% and 4.20% respectively. The remainder of the project SACCOs (12) had high operating expenses. The reasons for these high operating expenses include but are not limited to high governance and administration costs. Generally though, there has been a decline in the overall operating costs for the project SACCOs. The R9 ratio for the project fell from 19.06% at the end of quarter 2 2003 to 9.82% at the end of the 3rd quarter of 2003. As compared to December 2001 there has been a deterioration in the number of SACCOs meeting the required standard for R9 from 7 to 2. This is representative of the poor salaries formerly paid by the SACCOs to their staff, an issue the project has strived and managed to change.

Net Income:

2 SACCOs have met the standard for R12 at the end of the project. These SACCOs are not only making a net income from their operations but are also building their institutional capital as a result. As compared to the December 2001 when 3 project SACCOs had managed a score for this ratio, it can be seen that there was an apparent decline. However as mentioned earlier, the project SACCOs at the start of the project and by December 31 2001, had practiced accrual based accounting hence overstating their incomes. In addition, they all ignored loan loss provisions therefore understating their expenses as a result. Since the two practices have to a greater degree been changed, the incomes being made at the end of the project are more 'real' than they were at the start.

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E. Liquidity

30th September 2003			31st December 2001		
Ratio	L2	L2		L2	L2
GOAL	$\geq 9\% < = 10\%$	Ranking	GOAL	$\geq 9\% < = 10\%$	Ranking
Agali Awamu Kasaala	0	0	Agali Awamu Kasaala	0	0
Agaru SACCO	0	0	CAA EMCOS	0	0
Excel	0	0	Kakira Sugar	0	0
Kiwafu	0	0	KCC	0	0
Lugazi Sugar	0	0	Kiwafu	0	0
Luweero Teachers	0	0	Lugazi Sugar	0	0
Medecos	0	0	Luweero Teachers	0	0
MIB	0	0	Masaka Teachers	0	0
Mukono and Kayunga Teachers	0	0	MEDECOS	0	0
Naddangira	0	0	MIB	0	0
South Buganda Teachers	0	0	Mukono and Kayunga Teachers	0	0
UCB	0	0	Naddangira	0	0
WASE	0	0	Nakawa Market	0	0
Wekembe	0	0	UCB	0	0
WASE	0	0	WASE	0	0
	Total	0		Total	0

The project has come to a close with none of the 14 SACCOs depositing any portion of their members' savings in commercial banks or national associations, as liquidity reserves. For this reason none of the 14 project SACCOs get a score for L2 both as at 31st December 2001 and through out the lifespan of the project. Poor liquidity positions and a weak CFF facility are partly to blame for this.

However, with the liquidity situation improving in some SACCOs, it is expected that some improvement will be realized in the compliance to this standard. Indeed, two SACCOs have liquid

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investments in safe and profitable avenues (TBs). The only reason for this is the recognition of these investments as reserves, by placing them in short term and highly liquid ventures, criteria more met by commercial banks deposits than TBs.

F. Signs of Growth

30th September 2003					31st December 2001				
Ratio	S10	S11	S10	S11		S10	S11	S10	S11
GOAL	5% ^	Inflation ^	Ranking		GOAL	5% ^	Inflation ^	Ranking	
Agali Awamu Kasaala	67.44	21.10	1	1	Agali Awamu Kasaala	6.24	0.28	1	1
Agaru SACCO	74.49	77.18	1	1	CAA EMCOS	17.41	4.46	1	1
Excel	33.66	46.08	1	1	Kakira Sugar	0	27.94	0	1
Kiwafu	6.62	-15.44	1	0	KCC	-17.4	-48.39	0	0
Lugazi Sugar	19.00	60.19	1	1	Kiwafu	19.14	111.3	1	1
Luweero Teachers	5.91	1.72	1	0	Lugazi Sugar	100	5.9	1	1
Medecos	10.21	-12.53	1	0	Luweero Teachers	53.13	31.83	1	1
MIB	8.79	-11.53	1	0	Masaka Teachers	0.58	8.89	0	1
Mukono and Kayunga Teachers	15.75	-3.36	1	0	MEDECOS	80	-0.7	1	0
Naddangira	14.01	24.21	1	1	MIB	25.75	11.13	1	1
South Buganda Teachers	129.26	-12.17	1	0	Mukono and Kayunga Teachers	5.1	124.7	1	1
UCB	-6.09	15.55	0	1	Naddangira	-2.1	10.4	0	1
WASE	27.53	-5.79	1	0	Nakawa Market	5.26	-4.5	1	0
Wekembe	6.11	-3.41	1	0	UCB	-0.01	-1.42	0	0
WASE					WASE	-16.1	-0.53	0	0
	Total		13	6		Total		9	10

Growth in membership:

The total membership of the Project SACCOs rose from 10,785 as of 31st December 2001 to 18,357 by 30th September 2003. The growth in membership came mainly from the teachers' SACCOs. For example Luweero Teachers', Mukono and Kayunga Teachers' and South Buganda Teachers'

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experienced respectively 116.64%, 133.04% and 2576.67% growth in membership over the 21 month period. By September 2003, these three Teachers' SACCOs contributed to 48.90% of the total membership of the project. Such growth rates have caused 13 of the 14 project SACCOs to score a point for S10 as of September 2003 as compared to 9 in December 2001.

Notwithstanding the positive growths in membership, the membership target for the project has remained a barrier up until the close of the project. The target for membership for the project was 49,000 meaning that the project closes 62.54% away from its targeted membership.

Among the factors that can be seen to cause such a divergence include: the negative conception of the public about SACCOs as unsafe places to save money; the laxity of many SACCOs to open their bonds; conservative BOD with no interest in expansion; and the persistent dropout of project SACCOs.

Growth in total assets:

As at 30th September 2003, Agarú SACCO, Lugazi and Excel SACCOs reported the greatest percentage growth rate in total assets of 77.18%, 60.19% and 46.08% respectively. This was mainly due to greater savings mobilization efforts from these SACCOs.

Other SACCOs whose total assets grew were Agali Awamu Kasaala (21.10%), Luweero Teachers' (1.72%), Naddangira (24.21%) and UCB (15.55%). Since inflation was 9.4% by the end of September 2003, the six SACCOs mentioned above, exclusive of Luweero Teachers', were on the mark for S11.

On the project level however, total assets have fallen by UGX 74,349,404 (US\$ 37,295) from UGX 4,919,332,495 (US\$ 2,462,313) by end-June 2003 to UGX 4,844,983,091 (US\$ 2,403,329) by end-September because seven project SACCOs experienced declines in their total assets. This is why the score for S11 fell from 10 at the start of the project to 6.

VII. UCSCU

A. Technical Assistance to the League

1. Diagnostics

The project carried out diagnostics into the operations of the CFF and the Insurance program of UCSCU and findings revealed illequidity due to large delinquency of the CFF loans and absence of adequate policies and procedures.

2. Trainings

The project involve all UCSCU core staff and including the filed officers into the trainings. In addition, UCSCU participated into the monthly technical meetings for managers conducted by the project at the project offices.

B. Funding to the League

The League received finances as institutional support for the following activities: salaries for four (later reduced to three) core staff, medical coverage for core staff, and staff terminal benefits. Other areas supported financially included providing accounting stationeries, governance costs such as the Special Annual General Meeting expenses for adoption of the new Bylaws and international travel for the board chairman to the SACCA Congress held in Accra Ghana in 2002.

The table below summarizes the financial support to the League compared to the budget during the life of the project:

Yearly Summary of Institutional Support to the League

Year	Institutional Support granted to UCSCU	
	Ugx	US \$
2001	35,347,889	3,150.14
2002	34,214,872	4,172.19
2003	64,851,170	57,790
Totals	134,413,931	65,112.33

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Summary of Institutional Support to the League by Activities

Year/ Activities Supported	2001		2002		2003	
	Ugx	US \$	Ugx	US \$	Ugx	US \$
Salaries for Core Staff	34,488,989	0	33,657,019	0	33,343,200	0
Entire Staff Terminal Benefits	0	0	0	0	26,461,050	0
Other direct Costs	858,900	0	557,853	0	5,046,920	0
International Travel Costs	0	3,150	0	4,172.19	0	0
Exit strategy:						
▪ Translation of Technical materials	0	0	0	0	0	1,000
▪ Rent for League City Office, 18 months	0	0	0	0	0	11,790
▪ Support for salaries of 2 technical staff, 18 months	0	0	0	0	0	45,000
Totals	35,347,889	3,150	34,214,872	4,172.19	64,851,170	57,790

C. Reform Process

1. Bylaw

The project assisted the League in the drafting of new Bylaws using a participatory process. The new Bylaws are based on the model for SACCOs and was adopted by the league affiliates during a special general meeting convened for the purpose. The Bylaws were introduced and discussed with the Registrar of Cooperatives, and were registered.

Some of the highlights of the new Bylaw include but not limited to:

- Standardized financial year to 31st December just as for the project SACCOs
- Financial disciplines
- Governance and Management: Reduced size of the Board from 9 to 5 members, redefined board and management to do away with micromanagement
- Doing away with the Registrar participating into the day-to-day running of the League such as direct involvement in hiring of staff.

The Annual General Meeting was held under the new Bylaws and the following changes were put in place: a new fresh Board and Supervisory Committee both comprising of six (out of the eight) members from project participant SACCOs.

2. Restructuring management

The entire management team was retired and the project supported payment of their terminal benefits amounting to Ugx 26.5 million. UCSCU hired an Acting manager from the project staff. UCSCU is in the process of hiring a fully delegated new manager from the technicians who have

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been working with the project. One technician to be hired as the manager has been sponsored under the project for an internship in Managua, Nicaragua to further improve his skills and insight on how to manage a league. Additionally, more project technicians are expected to be hired by UCSCU.

3. Strategic Plan

The project supported the League in the preparation of a business and a strategic plan 2004/05 with the guidance of a volunteer consultant from the Louisiana Credit Union League.

VIII. EXIT STRATEGY

A. Lessons Learned

WOCCU is convinced that SACCOs are viable in Uganda. However, a great deal of effort is still needed at all levels to turn them around. Such levels include the Uganda Government, (for example to provide an adequate legal framework for SACCOs development and supervision), the League (to lead the organization and development of SACCOs in the country) and the leadership of the SACCOs themselves.

B. The Way Forward

WOCCU donated to UCSCU the project equipment, which includes two vehicles, computers and office furniture, and equipment. Financial support has been provide to the League for 18 months to hire an office in the center of Kampala City and transfer the head office from Maganjo, which is ten km. away from the center. Further areas supported include: an internship in Nicaragua for one of the project technicians who will be appointed as the manager of the League. WOCCU will also continue the technical support to the League through e-mail, fax and telephone communications.

IX. NOTEWORTHY STORY

Pader district is located in the northern part of Uganda, a few miles from the border with Sudan. The district, including all those neighboring it (Kitgum, Gulu, Kotido and Lira), has been trapped in a civil war for the last 17 years. Across the boarder in southern Sudan the situation is not any better, as the area has also been in a civil war, continuing for the last 30 years. This area also has one of the lowest household incomes in Uganda. Therefore from a simplistic point of view, one would not expect a SACCO to thrive in such a war-torn low-income area. Agarú has defeated all these odds, for it is a SACCO thriving in Pader district.

Until 2002, Pader district did not have any financial institutions. The nearest and the only bank branch located 100 miles away in a town called Kitgum Town. The inadequate banking services caused hardship for both the civil servants and the general public in the area. For example head teachers, district officers, medical superintendents, traders and the general public had to transport cash in millions of Uganda shillings on bicycles, motorbikes and vehicles for distances of up to 100 miles over insecure territories. Upon arrival, they would keep the cash over night under mattresses and in office drawers. Cash transfers and remittances to and from the district were a nightmare. In most cases those sent with the money could not deliver them to the beneficiaries due to insecurity and long distances to traverse. School fees and teachers' salaries were often at risk from robbers, appropriations were unduly delayed. Government revenue, businessmen's money, institutions' fund and general public used to keep their cash/funds in unsafe places and therefore at the mercy of thieves, embezzlers- not to mention the lack of accountability. All these challenges offered business opportunities for the SACCO to thrive.

Various requests were made to the Ministry of Finance, Uganda Commercial Bank (UCB) and Centenary Rural Development Bank (CERUDEB) to open up bank branches in Pader district. With privatisation of the Uganda banking sector, the request received very low priority in the eye of the conventional bankers.

In February 2002, people with banking training and experience initiated the idea of forming a SACCO in Pader as opposed to a conventional bank branch. The strategy here was that this would be a peoples' initiative, financed and controlled financial institution. It would therefore be part and parcel of the community.

After preparing the basic paper work, they approached WOCCU/SACCO Net for further technical assistance. The Project evaluated the SACCO and concluded that it was viable, and hence agreed to work with them. The project assisted in the technical screening of the manager and the accountant and also agreed to support their salaries. Suitable premises were identified and after necessary renovations, promotion and publicity, installation of the operations systems such as computer and necessary tools, and furniture, the SACCO opened for business on 11th March 2002.

The SACCO opened its doors to all people of all walks of life in Pader: business people, farmers, salaried workers, contractors, youth groups, women groups, schools, and other institutions. By 31st

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March 2002, Agarú had registered 127 members with withdrawable savings of Ugx 15.9 million and nil loans.

Summary of Progress of Agarú SACCO (Currency is Ugx Millions):

Area	March 2002	June 2002	Sept 2002	Dec 2002	Mar 2003	June 2003	Sept 2003	Nov 2003
Membership	127	184	522	592	851	955	1,033	1,200
Savings	15.9	57.9	155.5	217.3	195.8	272.5	403.8	426.3
Loan portfolio	0	19.7	30.3	48.5	70.9	43.7	61.2	58.9
Institutional Capital	.7	-1.4	-1.0	6.0	14.2	9.6	9.9	10.0
Total Assets	36.0	72.7	174.3	245.6	237.8	300.6	435.1	465.7

Currently Agarú SACCO is making adequate provisions for loan losses, which means that the assets and profits are transparently stated. The SACCO thrives in the community and is perceived as safe, sound, and reliable. Positive perception of safety, soundness, and reliability is the cornerstone of confidence building. The physical and corporate image of the SACCO both serve as a marketing tool used to build public confidence in the SACCO. The board is composed of 5 members with diverse backgrounds and skills, ranging from professional bankers, teachers, doctors to businesspersons. In addition, the employees of the SACCO are the custodians not only of members' deposits/accounts but also of the image of the SACCO. The team of employees comprises of persons who are committed professionally to handle their work.

The Agarú SACCO, therefore, is a prime example that poor people can save, that they need full access to financial services, and that whatever situation is on the ground, there is always a way for SACCO business to thrive. For the future, the SACCO plans to open 2 branches and to fully automate its operations.

Attachment A:

Summary of Financial Indictors

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Financial Services KIP Monitoring for September 2003

LOCAL INSTITUTION	Start Date	Report Date	Financial Indicators																							
			NUMBER OF LOANS				LOAN VOLUME				NUMBER OF SAVERS + MEMBERS				SAVINGS VOLUME				PORTFOLIO AT RISK		PROVISIONS		RETURN ON ASSETS		% WOMEN	
			Dec-03 Target	Actual Sep-03	Dec-03 Target	Actual Sep-03	Dec-03 Target	Actual Sep-03	Dec-03 Target	Actual Sep-03	Dec-03 Target	Actual Sep-03	Dec-03 Target	Actual Sep-03	Dec-03 Target	Actual Sep-03	Dec-03 Target	Actual Sep-03	Dec-03 Target	Actual Sep-03	Dec-03 Target	Actual Sep-03				
WOCCU UGANDA	Credit Unions	Mar-01	Sep-03	12,896	6,678	16,832,216,448	2,481,479,481	48,000	16,387	17,167,867,188	4,832,341,458	<10%	41.88%	0	207,888,899	0	-6.84%	34.86%	41.1%							
Ashi Akwira Karama				341		55,916,919		1,350		48,347,249		18.21%				0.61%		24.4%								
Ashy SACCO				187		802,140,111		1,033		403,820,926		24.92%		6,979,143		-1.88%		24.0%								
Asel				242		18538650		401		18,272,850		38.04%				-2.28%		57.9%								
KCC*																		0.0%								
KFC Mavuzi*																		0.0%								
Kwaka				309		62,234,793		580		49,818,722		62.57%		1,347,260		-2.28%		63.1%								
Lambi Esur				144		24,230,329		789		56,949,161		14.77%		531,154		-18.12%		15.1%								
Lwanga Teachers				822		167,711,804		1,380		183,839,348		30.43%		8,535,107		-2.88%		41.6%								
MADROCO				310		208,478,167		358		190,247,888		23.42%		6,813,116		-1.68%		27.0%								
MIB				242		22,688,201		711		64,515,576		51.98%		2,300,000		-11.02%		69.4%								
Mukasa Karama Teachers				1,198		426,800,842		4,549		1,207,853,500		80.08%		174,305,730		-13.42%		42.8%								
Nakamas				457		113,129,271		1,408		126,403,873		57.20%		933,690		2.63%		33.7%								
North Butanda Teachers				252		94,914,143		2,212		106,921,477		51.52%		470,225		-15.38%		41.3%								
USB				249		619,373,477		787		670,241,452		5.55%		1,448,915		1.99%		34.3%								
WARI				263		226,543,309		491		873,928,591		76.24%				0.10%		16.9%								
Wakwaka				55		10,422,654		973		22,099,242		63.32%				-12.88%		40.7%								

* Dropped

Attachment B

Portfolio Mix

#	SACCO	Personal	Education	Agriculture	Housing	Consumption	Commerce	Undefined	Total
1	Agali Awamu Kasaala	1,340,000	4,707,002	8,675,353	1,025,300	1,658,598	32,537,215	5,983,451	55,926,919
2	Agaru	2,001,670	11,394,040	3,122,834	6,733,335	24,201,107	17,761,025	3,000,000	68,214,011
3	Excel						18,538,650		18,538,650
4	KCC*								.
5	KFC Mayuge*								.
6	Kiwafu		13,905,444	23,598,094	2,112,750		22,918,505		62,534,793
7	Lugazi Sugar	2,094,341	10,562,422	3,038,334	4,724,819	689,574	5,120,849		26,230,339
8	Luweero Teachers'	17,904,620	48,848,581	9,495,024	39,835,055	8,071,149	43,557,377		167,711,806
9	Medecos	11,017,000	45,717,920	4,481,000	85,114,080	7,517,000	54,831,767		208,678,767
10	MIB	1,195,231	200,000		2,210,548	1,504,486	47,547,936		52,658,201
11	Mukono and kayunga Teachers'	54,484,362	123,935,211	47,679,949	120,610,986	113,967,496	165,922,058		626,600,062
12	Naddangira	2,000,000	9,844,800	10,140,800	1,500,000	21,567,621	68,076,050		113,129,271
13	South Buganda Teachers'	3,255,000	37,292,300	14,956,843	20,010,000		19,400,000		94,914,143
14	UCB Employees	164,578,445			323,773,992	3,564,157	15,074,088	112,382,795	619,373,477
15	WASE	42,394,654			217,867,801		66,282,854		326,545,309
16	Wekembe	2,874,996	600,000				6,948,658		10,423,654
	TOTAL	305,140,319	307,007,720	125,188,231	825,518,666	182,741,188	584,517,032	121,366,246	2,451,479,402

Attachment C

Portfolio Trends

WOCCU/SACCO-NET UGANDA PROJECT

Loan Portfolio Growth: September 30, 2003

#	PARTICULARS	June-03	Sept-03	Quarter Movement		
				Absolute	Percentage	Contribution
1	Agali Awamu Kasaala	55,507,723	55,926,919	419,196	0.8%	0.6%
2	Agaru SACCO	48,538,871	68,214,011	19,675,140	40.5%	28.6%
3	Excel	23,560,200	18,538,650	(5,021,550)	-21.3%	-7.3%
4	KCC*	32,648,765		(32,648,765)	-100.0%	-47.4%
5	KFC Mayuge*			-		0.0%
6	Kiwafu	75,969,743	62,534,793	(13,434,950)	-17.7%	-19.5%
7	Lugazi Sugar	22,685,141	26,230,339	3,545,198	15.6%	5.1%
8	Luweero Teachers'	148,939,038	167,711,806	18,772,768	12.6%	27.3%
9	MEDECOS	193,174,171	208,678,767	15,504,596	8.0%	22.5%
10	MIB	54,125,721	52,658,201	(1,467,520)	-2.7%	-2.1%
11	Mukono Kayunga Teachers'	695,710,594	626,600,062	(69,110,532)	-9.9%	-100.4%
12	Naddangira	99,697,063	113,129,271	13,432,208	13.5%	19.5%
13	South Buganda Teachers'	90,987,461	94,914,143	3,926,682	4.3%	5.7%
14	UCB	491,853,603	619,373,477	127,519,874	25.9%	185.2%
15	WASE	340,583,815	326,545,309	(14,038,506)	-4.1%	-20.4%
16	Wekembe	8,656,282	10,423,654	1,767,372	20.4%	2.6%
TOTAL		2,382,638,191	2,451,479,402	68,841,211	2.9%	100%

*Dropped

Attachment D

Savings Trends

WOCCU/SACCO-NET UGANDA PROJECT

Savings Mobilisation Trends: 30th September 2003

#	PARTICULARS	June 03	Sept 03	Quarter Movement		
				Absolute	Percentage	Contribution
1	Agali Awamu Kasaala	43,529,149	48,342,249	4,813,100	11.1%	2%
2	Agaru SACCO	272,482,647	403,820,926	131,338,279	48.2%	64%
3	Excel	19,663,900	18,272,850	(1,391,050)	-7.1%	-1%
4*	KCC*	129,364,056	-	(129,364,056)	-100.0%	-63%
5*	KFC Mayuge*	-	-	-	-	0%
6	Kiwafu	59,720,609	49,818,722	(9,901,887)	-16.6%	-5%
7	Lugazi Sugar	52,548,889	56,949,161	4,400,272	8.4%	2%
8	Luweero Teachers'	179,074,020	183,839,348	4,765,328	2.7%	2%
9	MEDECOS	182,229,340	190,247,869	8,018,529	4.4%	4%
10	MIB	65,565,550	64,513,876	(1,051,674)	-1.6%	-1%
11	Mukono Kayunga Teachers'	1,064,844,993	1,207,853,500	143,008,507	13.4%	69%
12	Naddangira	119,529,134	126,403,875	6,874,741	5.8%	3%
13	South Buganda Teachers'	121,998,175	106,921,477	(15,076,698)	-12.4%	-7%
14	UCB	613,552,187	670,361,652	56,809,465	9.3%	28%
15	WASE	873,266,857	873,926,591	659,734	0.1%	0%
16	Wekembe	19,400,605	22,069,342	2,668,737	13.8%	1%
TOTAL		3,816,770,111	4,023,341,438	206,571,327	5.4%	100%

* Dropped

Attachment E

End of Year Dates of Latest Financial Statements

SACCO	End of Financial year	Last Financial Statement
Agali Awamu Kasaala	December 31	September 30, 2003
Agaru SACCO	December 31	September 30, 2003
Excel	December 31	September 30, 2003
KCC*		
KFC Mayuge*		
Kiwafu	June 30	September 30, 2003
Lugazi Sugar	December 31**	September 30, 2003
Luweero Teachers'	December 31**	September 30, 2003
Medecos	December 31**	September 30, 2003
MIB	December 31**	September 30, 2003
Mukono and Kayunga Teachers'	December 31**	September 30, 2003
Naddangira	December 31	September 30, 2003
South Buganda Teachers'	December 31	September 30, 2003
UCB	December 31	September 30, 2003
WASE	December 31	September 30, 2003
Wekembe	December 31	September 30, 2003

Attachment F

Gender Data

WOCCU/SACCO-NET UGANDA PROJECT

WOMEN CONTRIBUTION TO MEMBERSHIP

30-Sep-03

SACCO	Members	Women	
		Count	Percentage
Agali Awamu Kasaala	1,450	499	34.4%
Agaru SACCO	1,033	248	24.0%
Excel	691	400	57.9%
KCC*			
KFC Mayuge*			
Kiwafu	580	367	63.3%
Lugazi Sugar	789	120	15.2%
Iuweero Teachers'	1,380	574	41.6%
MEDECOS	259	70	27.0%
MIB	755	524	69.4%
Mukono and Kayunga Teachers'	4,549	1,948	42.8%
Naddangira	1,408	502	35.7%
South Buganda Teachers'	3,212	1,328	41.3%
UCB	787	285	36.2%
WASE	491	83	16.9%
Wekembe	973	591	60.7%
TOTAL	18,357	7,539	41.07%

* Dropped

Attachment G

Cost Share Summary

	31-Dec-00		31-Dec-00	31-Mar-02		31-Mar-02	30-Jun-02		30-Jun-02	30-Sep-02		30-Sep-02	31-Dec-02	
	svgs deposits	share capital	total savings	svgs deposits	share capital	total savings	svgs deposits	share capital	total savings	svgs deposits	share capital	total savings	svgs deposits	share capital
Agali Awamu	11,174,125	8,803,445	19,977,570	14,249,139	9,840,200	23,889,339	12,023,439	10,085,700	22,109,139	14,961,239	10,966,932	25,948,171	31,578,139	13,068,432
Agany	SNE	SNE	SNE	15,864,838	6,810,000	21,474,838	57,933,505	8,460,000	66,383,505	155,512,417	11,275,000	166,787,417	217,370,831	13,397,000
CAA EMCOS	removed													
Excel	SNE	SNP	SNP	SNP	4,303,000	9,837,306	14,140,306	11,007,000						
Kakira*	removed													
KCC**	180,960,656	6,161,667	167,122,323	153,865,271	6,582,667	160,447,938	143,170,005	6,622,667	149,792,672	138,446,500	7,085,667	145,532,167	136,550,125	7,410,667
KFC Mayuge	SNE	0	0											
Kwatu*	6,696,488	8,320,196	15,016,684	23,009,771	7,546,275	30,556,046	25,029,916	7,840,276	32,870,192	34,774,029	9,120,275	43,894,304	44,679,789	10,545,275
Lugazi***	36,818,520	3,066,083	39,884,603	39,115,672	3,112,083	42,227,755	39,156,935	3,112,083	42,271,018	40,803,807	4,352,083	45,155,890	44,024,426	5,667,979
Luwero*	82,793,792	8,485,414	91,279,206	126,814,036	15,215,077	141,629,113	142,739,428	15,345,077	158,084,506	159,031,864	18,904,541	175,936,405	171,292,970	18,094,541
MEDECOS*	110,484,103	15,793,517	126,277,620	165,964,560	30,741,379	196,735,969	180,745,560	30,921,379	191,666,969	169,313,298	30,650,945	199,964,243	182,226,874	34,364,625
MIB***	47,564,320	7,179,928	54,744,248	53,666,722	8,485,928	62,172,650	53,796,426	9,170,698	62,969,126	82,655,294	10,242,698	92,897,992	67,520,313	11,534,698
Mukono and Kayunga*	377,172,410	108,475,336	485,647,746	706,877,121	175,175,694	884,052,815	741,715,366	179,430,598	921,145,966	702,869,865	190,130,379	893,020,244	907,354,576	203,129,150
Neddangira****	29,427,731	5,272,721	34,700,452	59,426,045	6,043,721	65,469,766	70,135,942	ANA	70,135,942	77,432,941	6,790,821	86,223,762	69,105,633	9,734,821
Nekawa*	removed													
POSTCOS*****	removed													
South Buganda	68,033,396	18,670,797	86,704,193	71,569,332	17,540,285	89,109,617	90,511,470	23,041,257	113,552,727	92,428,738	29,346,248	121,774,984	120,568,632	37,369,629
UCB*****	533,026,770	90,657,673	623,684,443	667,810,292	73,609,000	641,419,292	691,379,167	80,869,000	672,248,167	590,391,225	78,666,000	668,957,225	555,816,815	76,841,000
WASE*	997,417,970	55,846,351	1,053,266,321	834,334,197	38,940,666	873,275,063	941,335,061	39,010,666	980,345,927	823,933,285	38,283,769	862,217,054	824,492,305	41,456,323
Wekembe	SNIP	ANA	ANA	ANA	ANA	ANA								
Total	2,461,670,281	336,735,128	2,798,305,409	2,834,416,824	388,243,175	3,232,659,999	3,069,676,264	413,899,601	3,483,575,865	3,086,697,502	455,562,662	3,542,460,164	3,404,486,499	601,462,407
USD equiv (1752 9 Ushs = US\$1)			\$1,586,388			\$1,844,178			\$1,987,322			\$2,020,908		

*figures are from 6/30/00 and 6/30/01 respectively

**figure is from 11/30/00

***beginning figure is from 3/31/01

****figure is from 9/30/00

*****figures are from 5/31/00 and 5/31/01 respectively

*****initial figure is from 7/31/00

SNE - SACCO Not Existing by the time

SNIP - SACCO Not in the Project by the time

ANA - Accounts Not Available

Attachment H

Project SACCOs PEARLS Summary

P.E.A.R.L.S RATIOS

Category	CONSO	AGALU ANKARA KASAALA	AGARU	EXCEL	KOMAFU	LUGAZI S. JAGRE	LUMBERC TEACHERS	MEDECOS	MB	MURONO & KAYUNGA TEACHERS	NADONGIRA	SOUTH BUGANDA TEACHERS	UCB EMPLOYEES	WASE	WEEMBE	
P.E.A.R.L.S RATIOS																
PROTECTION																
1 Loan Loss Allowances / Outstanding = 12 Mo	100%	37.80%	0.00%	100.00%	100.00%	15.67%	26.56%	100.00%	100.00%	37.11%	100.00%	7.27%	100.00%	32.88%	0.00%	0.00%
2 Net Loan Loss Allow / Allow Required by Rating 1-12 Mo	100% of Goal	39.05%	0.00%	100.00%	0.00%	0.00%	0.00%	30.37%	31.46%	0.00%	83.60%	0.00%	2.78%	0.00%	0.00%	0.00%
3 Complete Loan Charge Off of Delinquency > 12 Mo	No	No	No	Yes	No	No	No	No	No	No	No	Yes	No	No	No	No
4 Annual Loan Charge offs / Average Loan Portfolio	Minimized	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
5 Accum Charge Offs Recovered / Accum Charge Offs	100%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
6 Solvency	Min 100%	78.94%	243.46%	101.52%	95.93%	68.51%	54.37%	87.36%	97.30%	82.03%	83.55%	78.72%	79.19%	111.81%	19.06%	90.57%
7 Allowance for Investment Losses/ Non Regulated Investments	NA	0.00%	0.00%	0.00%	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EFFECTIVE FINANCIAL STRUCTURE																
1 Net Loans / Total Assets	Between 70 - 80%	46.31%	27.22%	14.07%	51.54%	62.44%	65.92%	73.61%	84.01%	78.51%	34.84%	68.95%	55.20%	68.47%	34.78%	23.46%
2 Liquid Investments / Total Assets	Max 20 %	4.29%	0.00%	0.00%	0.00%	0.00%	0.12%	0.53%	0.00%	0.00%	2.35%	4.02%	0.00%	18.93%	0.00%	0.00%
3 Financial Investments / Total Assets	Max 10 %	7.78%	0.52%	56.64%	0.00%	1.45%	3.28%	0.20%	2.83%	2.37%	0.98%	0.86%	0.23%	10.09%	1.25%	0.86%
4 Non-Financial Investments / Total Assets	0%	0.33%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.97%	0.00%	0.00%	1.44%	0.00%	0.00%	
5 Savings Deposits / Total Assets	Between 70 - 80%	83.04%	23.53%	92.80%	50.80%	50.86%	146.09%	85.25%	79.17%	100.98%	93.05%	77.69%	62.49%	74.77%	93.09%	49.67%
6 External Credit / Total Assets	Max 5%	1.19%	0.00%	0.00%	0.00%	33.30%	0.00%	0.28%	0.00%	0.00%	0.00%	9.39%	2.37%	0.00%	0.00%	11.25%
7 Member Share Capital / Total Assets	Max 20 %	11.31%	10.25%	4.03%	36.92%	15.54%	18.93%	10.16%	15.86%	21.25%	16.64%	7.44%	33.41%	7.82%	4.08%	14.51%
8 Institutional Capital / Total Assets	Minimum 10%	0.42%	54.98%	2.28%	6.90%	-4.39%	-59.84%	3.14%	-1.05%	-25.21%	-14.96%	4.16%	-1.53%	11.02%	2.27%	19.88%
9 Net Institutional Capital / Total Assets	Minimum 10%	-20.39%	48.01%	1.47%	-3.57%	-22.77%	-75.31%	-12.22%	-6.23%	-46.41%	-16.71%	-19.93%	-19.95%	9.08%	-78.65%	-6.05%
ASSET QUALITY																
1 Total Delinquency / Gross Loan Portfolio	Less Than or Equal To 5%	41.88%	58.25%	28.92%	58.04%	62.57%	14.77%	30.63%	25.42%	61.96%	60.06%	87.26%	51.52%	5.55%	76.24%	63.32%
2 Non-Earning Assets / Total Assets	Less Than or Equal To 5%	41.31%	72.28%	29.29%	48.46%	36.11%	30.88%	25.48%	13.16%	14.15%	61.83%	26.17%	44.56%	1.07%	63.96%	75.87%
3 Net Zero Cost Funds / Non-earning Assets	Greater Than or Equal To 100%	-39.59%	81.99%	8.05%	3.73%	-50.05%	-229.74%	-43.42%	-0.36%	-308.63%	-21.71%	-71.06%	-37.47%	1442.47%	-122.09%	-1.76%
RATES OF RETURN AND COSTS (ANNUALIZED)																
1 Net Loan Income / Average Net Loan Portfolio	Entrepreneurial Rate	19.15%	50.90%	58.76%	43.19%	34.17%	20.23%	142.06%	7.35%	38.84%	50.92%	26.75%	48.21%	11.26%	13.93%	15.36%
2 Liquid Inv. Income / Avg Liquid Investments	Market Rates	7.67%	NA	0.00%	NA	0.00%	0.00%	0.12%	0.53%	0.00%	NA	0.00%	0.00%	10.46%	NA	NA
3 Fin Investment Income / Avg Fin Investments	Market Rates	9.92%	0.00%	10.31%	NA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.35%	13.60%	0.00%	0.00%
4 Non-Fin Inv Income / Avg Non-Fin Investments	Greater Than or Equal to R1	47.32%	NA	NA	NA	NA	NA	2208.79%	160.15%	NA	NA	NA	9.33%	NA	NA	NA
5 Fin Costs: Savings Deposits / Avg Savings Deposits	Market Rates	0.92%	0.00%	0.02%	0.00%	3.80%	0.00%	0.00%	0.00%	0.00%	0.00%	1.80%	0.10%	5.00%	0.00%	0.00%
6 Fin Costs: External Credit / Avg External Credit	Less Than or Equal to R5	11.00%	0.00%	7.84%	NA	14.16%	NA	280.87%	NA	NA	NA	14.34%	43.03%	NA	21.97%	7.92%
7 Fin Costs: Member Shares / Avg Member Shares	Greater Than or Equal to R5	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
8 Gross Margin / Average Assets	Amount Needed to Cover R9, R10 Increase Capital	12.17%	15.30%	16.94%	35.00%	19.75%	41.22%	135.54%	10.23%	54.40%	22.83%	22.34%	41.06%	7.22%	4.84%	9.84%
9 Operating Expenses / Average Assets	3 - 10%	9.82%	11.03%	12.17%	23.79%	23.56%	44.92%	92.78%	27.08%	45.16%	22.96%	13.84%	41.87%	1.08%	4.20%	20.18%
10 Provisions for Risk Assets / Average Assets	Sufficient for Estimated Losses	5.72%	0.00%	2.74%	0.00%	0.00%	0.00%	15.84%	0.00%	7.33%	52.36%	0.00%	1.83%	0.64%	0.00%	0.00%
11 Other Income or Expenses / Average Assets	Amount Needed	-0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.19%	0.00%	0.00%	0.00%
12 Net Income / Average Assets	Enough to reach the goal for EB	-3.36%	4.27%	2.03%	11.22%	-3.82%	-3.69%	26.92%	-16.84%	1.90%	-52.89%	6.51%	-2.81%	5.50%	0.73%	-10.34%
LIQUIDITY																
1 Liquid Assets - ST Payables / Total Deposits	Minimum 15%	22.89%	8.33%	27.10%	11.83%	12.71%	4.58%	2.51%	2.46%	11.07%	47.59%	19.10%	4.56%	25.29%	0.49%	9.92%
2 Liquidity Reserves / Total Savings Deposits	10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
3 Non-Earning Liquid Assets / Total Assets	Less Than 1 %	14.81%	1.96%	25.47%	6.01%	6.47%	8.41%	1.61%	1.94%	11.18%	42.00%	10.82%	3.31%	0.00%	0.45%	8.60%
SIGNS OF GROWTH (YEAR-TO-DATE GROWTH RATES)																
1 Net Loans	Sufficient to Achieve Goal in E1	-1.91%	75.85%	102.88%	33.36%	-18.62%	59.37%	10.18%	7.46%	-13.15%	-30.85%	6.32%	-4.90%	93.90%	-11.44%	-20.53%
2 Liquid Investments	Sufficient to Achieve Goal in E2	-53.70%	0.00%	-100.00%	0.00%	0.00%	-23.89%	0.00%	0.00%	0.00%	13.83%	100.00%	-94.38%	-45.50%	0.00%	0.00%
3 Financial Investments	Sufficient to Achieve Goal in E3	170.20%	-25.08%	246350.50%	0.00%	2.29%	0.00%	0.00%	2.10%	0.00%	1.78%	0.00%	0.00%	-7.96%	0.00%	0.00%
4 Non-Financial Investments	Sufficient to Achieve Goal in E4	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
5 Savings Deposits	Sufficient to Achieve Goal in E5	22.50%	75.28%	85.66%	86.01%	-16.58%	19.60%	2.86%	4.40%	-2.01%	13.43%	51.32%	-11.42%	20.61%	5.28%	5.72%
6 External Credit	0%	-75.15%	-100.00%	-100.00%	0.00%	-19.57%	0.00%	-80.84%	0.00%	0.00%	0.00%	-52.99%	-57.41%	0.00%	-100.00%	-50.00%
7 Member Shares	Sufficient to Achieve Goal in E7	10.85%	54.12%	31.03%	2.92%	6.24%	22.91%	2.03%	10.30%	10.12%	0.43%	25.77%	52.98%	-8.72%	-7.88%	20.72%
8 Institutional Capital	Sufficient to Achieve Goal in E8	-89.58%	3.26%	64.54%	4241.78%	30.85%	8.05%	18.59%	-106.42%	-29.61%	-1148.60%	215.35%	-144.56%	5.34%	245.15%	-5.71%
9 Net Institutional Capital	Sufficient to Achieve Goal in E9	-155.66%	-9.83%	23.86%	-2044.66%	25.19%	9.19%	-4.45%	-173.80%	-39.44%	0.76%	-6872.04%	-229.40%	-17.19%	-28.99%	-128.69%
10 Membership	Minimum 5%	28.87%	67.44%	74.49%	33.66%	6.62%	19.00%	5.91%	10.21%	8.79%	15.75%	14.01%	129.26%	-6.09%	27.53%	6.11%
11 Total Assets	More Than Inflation	9.00%	21.10%	77.18%	46.06%	-15.44%	60.19%	1.72%	-12.53%	-11.53%	-3.36%	24.21%	-12.17%	15.55%	-5.79%	-3.41%
Inflation Rate (Annualized)		9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%

Consolidated September 2003	Income Statement			Income Statement			Income Statement			Income Statement	
Based on Local currency	CONSOLIDATED	AGALI AWAMU KASAALA	AGARU	EXCEL	KIWAFU	LUGAZI SUGAR	LUWEERO TEACHERS'	MEDECOS	MIB	MUKONO & KAYUNGA TEACHERS'	
	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	
Number of Credit Unions In this Report	14.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
Months Captured in the Income Statement	NA	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	
INCOME											
INCOME FROM LOANS											
Interest Income from Loans	251,638,889	15,095,128	14,479,193	3,838,772	4,838,090	2,121,206	53,890,336	2,512,100	6,484,190	36,118,727	
Delinquent Penalty Interest Income from Loans	4,848,066	275,000	464,516	19,300	428,000	0	0	385,850	3,143,700	0	
Commissions/Fees from Loans	67,925,841	1,330,000	5,143,689	1,382,000	527,700	0	479,300	730,600	879,800	34,878,934	
Insurance Premiums for Loans	0	0	0	0	0	0	0	0	0	0	
NET LOAN INCOME	324,412,796	16,700,128	20,087,398	5,240,072	5,793,790	2,121,206	54,369,636	3,608,550	10,507,690	70,997,661	
Income from Liquid Investments	18,855,900	0	0	0	0	0	0	0	0	0	
Income from Financial Investments	19,098,694	0	9,503,200	0	0	0	0	0	0	0	
Income from Non-Financial Investments	5,685,250	0	0	0	0	0	0	0	0	0	
Income from Grants	46,466,884	0	8,193,550	2,362,000	0	2,806,000	14,601,500	464,500	2,547,400	0	
Income from Other Sources	50,120,719	4,766,214	6,138,010	869,000	1,403,935	1,911,400	5,718,700	2,731,376	647,000	4,472,890	
Gross Income	464,640,243	21,466,342	43,922,158	8,471,072	7,197,725	6,638,606	74,998,166	6,804,426	18,652,090	75,470,551	
COSTS/EXPENSES											
FINANCIAL COSTS											
Interest Expense on Savings Deposits	25,030,084	0	47,610	0	524,722	0	0	0	0	13,700	
Insurance Premiums for Savings	0	0	0	0	0	0	0	0	0	0	
Taxes on Interest Paid For Savings	0	0	0	0	0	0	0	0	0	0	
<i>Financial Cost - Savings Deposits</i>	<i>25,030,084</i>	<i>0</i>	<i>47,610</i>	<i>0</i>	<i>524,722</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>13,700</i>	
Financial Cost on External Credit	11,883,223	0	60,000	0	1,307,407	0	1,215,625	0	0	0	
Financial Costs on Interbranch Loans	0	0	0	0	0	0	0	0	0	0	
Dividend Expense on Shares	0	0	0	0	0	0	0	0	0	0	
Insurance Premiums for Shares	0	0	0	0	0	0	0	0	0	0	
Taxes on Interest Paid for Shares	0	0	0	0	0	0	0	0	0	0	
<i>Financial Cost - Shares</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	
Other Financial Costs	4,784,708	0	682,000	540,000	45,000	95,500	728,900	163,600	90,174	138,800	
TOTAL FINANCIAL COSTS	41,698,015	0	789,610	540,000	1,877,129	95,500	1,944,525	163,600	90,174	152,500	
GROSS MARGIN	422,942,228	21,466,342	43,132,548	7,931,072	5,320,596	6,543,106	73,053,641	6,640,826	18,561,916	75,318,051	
OPERATING EXPENSES											
Personnel	144,769,282	7,876,600	16,269,000	1,924,000	3,305,500	4,198,950	21,366,500	3,351,700	7,829,000	37,420,100	
Governance	68,852,430	1,460,400	125,000	279,900	362,250	1,063,300	12,626,000	7,537,650	4,547,900	13,685,880	
Marketing	23,417,120	1,360,350	0	200,000	110,000	238,800	5,943,150	4,052,000	713,100	2,044,500	
Administration	96,794,274	4,776,350	12,219,080	2,986,050	2,571,300	1,628,250	8,135,750	2,632,750	2,455,350	23,263,487	
Depreciation	7,401,659	0	2,368,644	0	0	0	1,936,859	0	68,977	0	
TOTAL OPERATING EXPENSES	341,234,765	15,473,700	30,981,724	5,389,950	6,349,050	7,129,300	50,008,259	17,574,100	15,414,327	76,413,967	
Provision for Risk Assets	198,820,429	0	6,979,342	0	0	0	8,535,107	0	2,500,000	174,303,730	
NET INCOME FROM OPERATIONS	(117,112,966)	5,992,642	5,171,482	2,541,122	(1,028,454)	(586,194)	14,510,295	(10,933,274)	647,589	(175,399,646)	
OTHER INCOME / EXPENSE											
Previous periods adjustments (Net)	0	0	0	0	0	0	0	0	0	0	
Extraordinary income (Net)	(254,500)	0	0	0	0	0	0	0	0	0	
TOTAL OTHER INCOME/EXPENSE	(254,500)	0	0	0	0	0	0	0	0	0	
Income Tax	0	0	0	0	0	0	0	0	0	0	
Net Income/Loss	(117,367,466)	5,992,642	5,171,482	2,541,122	(1,028,454)	(586,194)	14,510,295	(10,933,274)	647,589	(175,399,646)	

Consolidated September 2003

Income Statement

Based on Local currency	NADDANGIRA SACCO	SOUTH BUGANDA TEACHERS'	UCB EMPLOYEES	WASE SACCO	WEKEMBE
	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003
Number of Credit Unions in this Report	1.00	1.00	1.00	1.00	1.00
Months Captured in the Income Statement					
INCOME					
INCOME FROM LOANS					
Interest Income from Loans	20,896,211	16,594,124	39,196,366	34,126,673	1,447,773
Delinquent Penalty Interest Income from Loans	38,900	112,500	0	0	300
Commissions/Fees from Loans	2,268,055	18,221,854	0	2,083,909	0
Insurance Premiums for Loans	0	0	0	0	0
NET LOAN INCOME	23,203,166	34,928,478	39,196,366	36,210,582	1,448,073
Income from Liquid Investments	0	0	18,855,900	0	0
Income from Financial Investments	0	1,053	9,594,441	0	0
Income from Non-Financial Investments	0	1,465,000	900,000	0	0
Income from Grants	12,500	9,455,000	0	4,286,334	0
Income from Other Sources	5,437,436	13,378,728	230,401	90,000	2,325,629
Gross Income	28,653,102	59,228,259	68,777,108	40,586,916	3,773,702
COSTS/EXPENSES					
FINANCIAL COSTS					
Interest Expense on Savings Deposits	1,410,770	86,537	22,946,745	0	0
Insurance Premiums for Savings	0	0	0	0	0
Taxes on Interest Paid For Savings	0	0	0	0	0
<i>Financial Cost - Savings Deposits</i>	<i>1,410,770</i>	<i>86,537</i>	<i>22,946,745</i>	<i>0</i>	<i>0</i>
Financial Cost on External Credit	2,562,731	2,185,071	0	4,107,945	444,444
Financial Costs on Interbranch Loans	0	0	0	0	0
Dividend Expense on Shares	0	0	0	0	0
Insurance Premiums for Shares	0	0	0	0	0
Taxes on Interest Paid for Shares	0	0	0	0	0
<i>Financial Cost - Shares</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Other Financial Costs	141,000	745,074	655,762	758,898	0
TOTAL FINANCIAL COSTS	4,114,501	3,016,682	23,602,507	4,866,843	444,444
GROSS MARGIN	24,538,601	56,211,577	45,174,601	35,720,073	3,329,258
OPERATING EXPENSES					
Personnel	6,413,900	21,707,500	237,500	10,781,032	2,288,000
Governance	3,172,100	5,829,900	6,130,250	10,417,800	1,614,100
Marketing	177,200	8,552,020	0	0	26,000
Administration	4,920,000	19,774,350	410,000	8,123,457	2,898,100
Depreciation	513,405	1,429,568	0	1,084,206	0
TOTAL OPERATING EXPENSES	15,196,605	57,293,338	6,777,750	30,406,495	6,826,200
Provision for Risk Assets	0	2,502,250	4,000,000	0	0
NET INCOME FROM OPERATIONS	9,341,996	(3,584,011)	34,396,851	5,313,578	(3,496,942)
OTHER INCOME / EXPENSE					
Previous periods adjustments (Net)	0	0	0	0	0
Extraordinary income (Net)	0	(254,500)	0	0	0
TOTAL OTHER INCOME/EXPENSE	0	(254,500)	0	0	0
Income Tax	0	0	0	0	0
Net Income/Loss	9,341,996	(3,838,511)	34,396,851	5,313,578	(3,496,942)

Consolidated September 2003 - Balance Sheet

	CONSOLIDATED	AGALI AWAMU KASAALA	AGARU	EXCEL	KIWAFU	LUGAZI SUGAR
Based on Local currency	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003
Number of Credit Unions in this Report	14.00	1.00	1.00	1.00	1.00	1.00
Assets						
Earning Assets						
Loans to Members						
Short Term (< =1 Year)	2,254,052,891	55,928,919	68,214,011	18,538,650	62,534,793	26,230,339
Medium-Term (1-3 Years)	197,426,511	0	0	0	0	0
Long-Term (> 3 Years)	0	0	0	0	0	0
Other Special Loans	0	0	0	0	0	0
Loan Loss Allowances	(207,888,899)	0	(6,979,342)	0	(1,367,280)	(535,154)
Total Net Loans	2,243,590,503.00	55,926,919.00	61,234,669.00	18,538,650.00	61,167,533.00	25,695,185.00
Liquid Investments						
Non-Regulated Liquid Investments						
Liquidity Reserves - CFF	0	0	0	0	0	0
Other Liquidity Reserves	0	0	0	0	0	0
Short-Term CFF Deposits	1,139,097	0	0	0	0	0
Short-Term Bank Deposits	0	0	0	0	0	0
Short-Term Securities and Investments	0	0	0	0	0	0
Other Liquid Investments 1	0	0	0	0	0	0
Other Liquid Investments 2	0	0	0	0	0	0
Other Liquid Investments 3	0	0	0	0	0	0
Total Non-Regulated Liquid Investments	1,139,097.00	0.00	0.00	0.00	0.00	0.00
Regulated Liquid Investments						
Liquidity Reserves	0	0	0	0	0	0
Short-Term Deposits in Regulated Fin.Institutions	37,137,483	0	0	0	0	47,784
ST Government or Regulated Securities and Investments	169,717,700	0	0	0	0	0
Total Regulated Liquid Investments	206,855,183.00	0.00	0.00	0.00	0.00	47,784.00
Liquid Investments Allowances	0	0	0	0	0	0
Total Liquid Investments	207,994,280.00	0.00	0.00	0.00	0.00	47,784.00
Financial Investments						
Non-Regulated Financial Investments						
Shares - League/Affiliation	13,501,528	1,062,250	100,000	0	582,700	901,000
Long-Term CFF Deposit	43,160,927	0	0	0	835,339	125,461
Long-Term Bank Deposits	86,099	0	0	0	0	0
Long-Term Securities & Investments	5,480	0	0	0	0	0
Other Financial Investments 1	12,655,352	0	0	0	0	250,907
Other Financial Investments 2	0	0	0	0	0	0

Consolidated September 2003 - Balance Sheet

	CONSOLIDATED	AGALI AWAMU KASAALA	AGARU	EXCEL	KIWAUFU	LUGAZI SUGAR
Based on Local currency						
Other Financial Investments 3	0	0	0	0	0	0
Total Non-Regulated Financial Investments	69,409,366.00	1,062,250.00	100,000.00	0.00	1,418,039.00	1,277,368.00
Regulated Financial Investments						
Shares in Financial Institutions	0	0	0	0	0	0
Long-Term Deposits in Regulated Fin.Institutions	60,163,580	0	0	0	0	0
LT Government or Regulated Securities and Investments	246,350,500	0	246,350,500	0	0	0
InterBranch Investments	0	0	0	0	0	0
Total Regulated Financial Investments	306,514,080.00	0.00	246,350,500.00	0.00	0.00	0.00
Financial Investments Allowances	0	0	0	0	0	0
Total Financial Investments	375,923,446.00	1,062,250.00	246,450,500.00	0.00	1,418,039.00	1,277,368.00
Non-Financial Investments						
Various	16,062,810	0	0	0	0	0
Non-Financial Investments Allowances	0	0	0	0	0	0
Total Non-Financial Investments	16,062,810.00	0.00	0.00	0.00	0.00	0.00
Total Earning Assets	2,843,571,039.00	56,989,169.00	307,685,169.00	18,538,650.00	62,585,572.00	27,020,337.00
Additional Loan Portfolio Information						
Delinquency Based on Outstanding Balance of Loan?	-14	-1	-1	-1	-1	-1
Delinquency						
1 TO 12 Months	653,242,832	29,103,584	17,517,167	10,760,050	30,367,016	1,858,084
Aging Unknown	85,585,060	834,975	0	0	40,000	0
More Than 12 Months	282,868,596	2,636,372	848,334	0	8,722,643	2,015,083
Total Balance Of Delinquent Loans	1,021,696,488.00	32,574,931.00	18,365,501.00	10,760,050.00	39,129,659.00	3,873,167.00
Loans to Members (Gross)	2,451,479,402	55,926,919	68,214,011	18,538,650	62,534,793	26,230,339
Accumulated Charge-Offs (Historical)	0	0	0	0	0	0
Recovery of Loans Charged-Off (Historical)	0	0	0	0	0	0
Consolidated September 2003						
Based on Local currency						
	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003
Non-Earning Assets						
Liquid Assets						
Cash & Equivalents	78,503,538	3,514,700	46,827,000	159,650	1,879,250	892,138
Current Accounts (Checking)	639,097,513	514,000	63,993,790	2,002,750	4,454,341	2,387,925
Foreign Currency	0	0	0	0	0	0
Liquidity Reserves - CFF	0	0	0	0	0	0
Other Liquidity Reserves	0	0	0	0	0	0
Other Liquid Assets	0	0	0	0	0	0

Consolidated September 2003 - Balance Sheet

	CONSOLIDATED	AGALI AWAMU KASAALA	AGARU	EXCEL	KIWAFU	LUGAZI SUGAR
Based on Local currency						
Total Liquid Assets	717,801,051.00	4,028,700.00	110,820,790.00	2,162,400.00	6,333,591.00	3,280,063.00
Accounts Receivable						
Debtors	18,102,202	0	0	7,558,400	0	0
Interest Receivable	2,428,523	0	0	0	0	0
Notes Receivable	0	0	0	0	0	0
Payroll Deductions Receivable	2,486,166	0	986,166	0	0	130,000
Other Accounts Receivable	41,498,078	16,495,134	208,800	0	8,018,990	8,532,049
Receivable Loss Allowances	(2,664,687)	0	0	0	0	0
Total Accounts Receivable	61,850,282.00	16,495,134.00	1,194,966.00	7,558,400.00	8,018,990.00	8,662,049.00
Fixed Assets						
Land	42,202,752	3,892,000	0	0	9,397,807	0
Buildings (Cost)	454,980,464	131,849,525	0	0	6,265,204	0
Leasehold Improvements	6,168,106	0	0	1,111,806	0	0
Furniture & Equipment	125,455,361	17,743,789	8,816,200	5,528,000	9,741,080	19,010
Accumulated Depreciation - Buildings	(29,946,033)	(13,500,000)	0	0	0	0
Accum. Depreciation - Leasehold Improv.	(1,813,502)	0	0	0	0	0
Accum. Depreciation - Furniture & Equip.	(60,912,762)	(13,262,170)	(1,721,055)	0	(4,685,903)	0
Total Net Fixed Assets	536,134,386.00	126,723,144.00	7,095,145.00	6,639,806.00	20,718,188.00	19,010.00
Other Assets						
Assets in Liquidation	0	0	0	0	0	0
Organization Expenses	4,307,900	0	4,307,900	0	0	0
Prepaid Expenses	1,221,250	0	532,550	0	300,000	0
Other Deferred Assets	2,648,800	0	0	1,067,500	0	0
Accumulated Amortization	(1,613,483)	0	(1,613,483)	0	0	0
Total Other Assets	6,564,467.00	0.00	3,226,967.00	1,067,500.00	300,000.00	0.00
Problem Assets						
Doubtful Assets	580,873,701	0	0	0	0	0
Accounting Discrepancy - Assets	64,319,819	1,211,234	5,107,861	0	0	0
Other Problem Assets	34,068,346	0	0	0	0	0
Total Problem Assets	679,261,866.00	1,211,234.00	5,107,861.00	0.00	0.00	0.00
Total Non-Earning Assets	2,001,412,052.00	148,458,212.00	127,445,729.00	17,428,106.00	35,370,769.00	11,981,122.00
Total Assets	4,844,983,091.00	205,447,381.00	435,130,898.00	35,986,756.00	97,956,341.00	38,981,459.00
Number Of CU Members						
Men	10,529.00	951.00	649.00	291.00	213.00	669.00
Women	7,539.00	499.00	248.00	400.00	367.00	120.00
Gender not Reported	289.00	0.00	136.00	0.00	0.00	0.00
Total Number Of Members	18,357.00	1,450.00	1,033.00	691.00	580.00	789.00

Consolidated September 2003 - Balance Sheet

	CONSOLIDATED	AGALI AWAMU KASAALA	AGARU	EXCEL	KIWAFU	LUGAZI SUGAR
Based on Local currency						
Number of Other Service Users						
Youth	0.00	0.00	0.00	0.00	0.00	0.00
Third Parties	0.00	0.00	0.00	0.00	0.00	0.00
Total Number of Other CU Service Users	0.00	0.00	0.00	0.00	0.00	0.00
Total Number Of Members & Other CU Service Users	18,357.00	1,450.00	1,033.00	691.00	580.00	789.00
Consolidated September 2003						
Based on Local currency						
	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003
LIABILITIES						
INTEREST BEARING LIABILITIES						
Savings Deposits						
Regular Savings	730,794,569	48,342,249	303,820,926	0	47,729,535	1,873,213
Term/Fixed Savings	144,610,629	0	100,000,000	0	856,050	0
Youth Savings	0	0	0	0	0	0
Special Savings	486,394,962	0	0	0	1,233,137	14,500
Pledged Savings	2,661,541,278	0	0	18,272,850	0	55,061,448
Total Savings Deposits	4,023,341,438.00	48,342,249.00	403,820,926.00	18,272,850.00	49,818,722.00	56,949,161.00
External Credit						
External Credit - CFF (<= 1 Year)	0	0	0	0	0	0
External Credit - CFF (> 1 Year)	5,000,000	0	0	0	0	0
External Credit - Banks	4,055,897	0	0	0	0	0
Other External Credit - External Institutions	48,449,295	0	0	0	32,619,418	0
InterBranch Loans	0	0	0	0	0	0
Total External Credit	57,505,192.00	0.00	0.00	0.00	32,619,418.00	0.00
Total Interest Bearing Liabilities	4,080,846,630.00	48,342,249.00	403,820,926.00	18,272,850.00	82,438,140.00	56,949,161.00
Non-Interest Bearing Liabilities						
Short-Term Accounts Payable (<=30 Days)	4,767,761	0	1,390,500	0	0	720,000
External Credit Payments (<=30 Days)	0	0	0	0	0	0
Provisions (e.g. Employee Benefits)	88,877,750	830,954	0	0	0	0
Accounting Discrepancy - Liabilities	1,102,000	0	453,400	316,000	0	332,500
Other Liabilities	75,543,167	21,320,136	2,012,236	1,619,385	4,082,128	824,508
Total Non-Interest Bearing Liabilities	170,290,678.00	22,151,090.00	3,856,136.00	1,935,385.00	4,082,128.00	1,877,008.00
Total Liabilities	4,251,137,308.00	70,493,339.00	407,677,062.00	20,208,235.00	86,520,268.00	58,826,169.00
CAPITAL						
Share Capital						
Mandatory Shares	541,978,800	21,062,532	17,554,500	13,277,306	15,222,170	7,381,083

Consolidated September 2003 - Balance Sheet

		AGALI AWAMU KASAALA	AGARU	EXCEL	KIWAFU	LUGAZI SUGAR
Based on Local currency	CONSOLIDATED					
Voluntary Shares	5,890,000	0	0	0	0	0
Total Member Share Capital	547,868,800.00	21,062,532.00	17,554,500.00	13,277,306.00	15,222,170.00	7,381,083.00
Transitory Capital						
Asset Appreciation Over Cost	0	0	0	0	0	0
Education & Social Reserves	866,811	174,604	0	0	0	0
Monetary Reserves	1,707,070	0	0	0	0	0
Other Reserves	19,185,923	758,496	0	0	517,366	0
Accounting Discrepancy - Capital	0	0	0	0	0	0
Undistributed Net Income	3,639,878	0	0	0	0	0
YTD Net Income (loss)	0	0	0	0	0	0
Total Transitory Capital	25,399,682.00	933,100.00	0.00	0.00	517,366.00	0.00
Institutional Capital						
Statutory & Legal Reserves	47,810,052	4,522,840	0	0	710,990	125,216
Retained Earnings	4,980,329	0	3,627,854	0	0	0
Other Reserves	55,115,990	0	0	0	270,908	45,680
Donations	138,826,862	115,667,080	1,100,000	0	1,582,782	0
Undistributed Losses	(108,788,466)	(13,224,152)	0	(59,907)	(5,839,689)	(26,810,495)
YTD Net Income (Loss)	(117,367,466)	5,992,642	5,171,482	2,541,122	(1,028,454)	(586,194)
Total Institutional Capital	20,577,301.00	112,958,410.00	9,899,336.00	2,481,215.00	(4,303,463.00)	(27,225,793.00)
Total Capital	593,845,783.00	134,954,042.00	27,453,836.00	15,758,521.00	11,436,073.00	(19,844,710.00)
Total Liabilities and Capital	4,844,983,091.00	205,447,381.00	435,130,898.00	35,966,756.00	97,956,341.00	38,981,459.00

Consolidated September 2003 - Balance Sheet

	LUWEERO TEACHERS'	MEDECOS	MIB	MUKONO & KAYUNGA TEACHERS'	NADDANGIRA SACCO	SOUTH BUGANDA TEACHERS'
Based on Local currency	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003
Number of Credit Unions in this Report	1.00	1.00	1.00	1.00	1.00	1.00
Assets						
Earning Assets						
<i>Loans to Members</i>						
Short Term (<=1 Year)	167,711,806	11,252,256	52,658,201	626,600,062	113,129,271	94,914,143
Medium-Term (1-3 Years)	0	197,426,511	0	0	0	0
Long-Term (> 3 Years)	0	0	0	0	0	0
Other Special Loans	0	0	0	0	0	0
Loan Loss Allowances	(8,535,107)	(6,813,516)	(2,500,000)	(174,303,730)	(935,650)	(470,225)
Total Net Loans	159,176,699.00	201,865,251.00	50,158,201.00	452,296,332.00	112,193,621.00	94,443,918.00
<i>Liquid Investments</i>						
<i>Non-Regulated Liquid Investments</i>						
Liquidity Reserves - CFF	0	0	0	0	0	0
Other Liquidity Reserves	0	0	0	0	0	0
Short-Term CFF Deposits	1,139,097	0	0	0	0	0
Short-Term Bank Deposits	0	0	0	0	0	0
Short-Term Securities and Investments	0	0	0	0	0	0
Other Liquid Investments 1	0	0	0	0	0	0
Other Liquid Investments 2	0	0	0	0	0	0
Other Liquid Investments 3	0	0	0	0	0	0
Total Non-Regulated Liquid Investments	1,139,097.00	0.00	0.00	0.00	0.00	0.00
<i>Regulated Liquid Investments</i>						
Liquidity Reserves	0	0	0	0	0	0
Short-Term Deposits in Regulated Fin. Institutions	0	0	0	30,540,710	6,544,989	4,000
ST Government or Regulated Securities and Investments	0	0	0	0	0	0
Total Regulated Liquid Investments	0.00	0.00	0.00	30,540,710.00	6,544,989.00	4,000.00
Liquid Investments Allowances	0	0	0	0	0	0
Total Liquid Investments	1,139,097.00	0.00	0.00	30,540,710.00	6,544,989.00	4,000.00
<i>Financial Investments</i>						
<i>Non-Regulated Financial Investments</i>						
Shares - League/Affiliation	0	1,994,327	720,943	1,383,708	301,100	310,000
Long-Term CFF Deposit	426,000	4,798,320	794,220	11,088,509	1,081,800	0
Long-Term Bank Deposits	0	0	0	0	0	86,099
Long-Term Securities & Investments	0	0	0	0	0	5,460
Other Financial Investments 1	0	0	0	200,000	10,000	0
Other Financial Investments 2	0	0	0	0	0	0

Consolidated September 2003 - Balance Sheet						
	LUWEERO TEACHERS'	MEDECOS	MIB	MUKONO & KAYUNGA TEACHERS'	NADDANGIRA SACCO	SOUTH BUGANDA TEACHERS'
Based on Local currency						
Other Financial Investments 3	0	0	0	0	0	0
Total Non-Regulated Financial Investments	426,000.00	6,792,647.00	1,515,163.00	12,672,217.00	1,392,900.00	401,559.00
Regulated Financial Investments						
Shares in Financial Institutions	0	0	0	0	0	0
Long-Term Deposits in Regulated Fin. Institutions	0	0	0	0	0	0
LT Government or Regulated Securities and Investments	0	0	0	0	0	0
InterBranch Investments	0	0	0	0	0	0
Total Regulated Financial Investments	0.00	0.00	0.00	0.00	0.00	0.00
Financial Investments Allowances	0	0	0	0	0	0
Total Financial Investments	426,000.00	6,792,647.00	1,515,163.00	12,672,217.00	1,392,900.00	401,559.00
Non-Financial Investments						
Various	0	0	3,172,510	0	0	0
Non-Financial Investments Allowances	0	0	0	0	0	0
Total Non-Financial Investments	0.00	0.00	3,172,510.00	0.00	0.00	0.00
Total Earning Assets	160,741,796.00	208,657,898.00	54,845,874.00	495,509,259.00	120,131,510.00	94,849,477.00
Additional Loan Portfolio Information						
Delinquency Based on Outstanding Balance of Loan?	-1	-1	-1	-1	-1	-1
Delinquency						
1 TO 12 Months	47,928,993	51,308,795	25,902,275	238,725,882	51,910,771	15,022,940
Aging Unknown	0	640,000	0	48,840,637	0	33,872,083
More Than 12 Months	3,440,915	1,092,572	6,736,124	90,749,743	12,872,324	0
Total Balance Of Delinquent Loans	51,369,908.00	53,041,367.00	32,638,399.00	376,316,062.00	64,783,095.00	48,895,023.00
Loans to Members (Gross)	167,711,806	208,678,767	52,658,201	626,800,062	113,129,271	94,914,143
Accumulated Charge-Offs (Historical)	0	0	0	0	0	0
Recovery of Loans Charged-Off (Historical)	0	0	0	0	0	0
Consolidated September 2003						
Based on Local currency						
	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003
Non-Earning Assets						
Liquid Assets						
Cash & Equivalents	1,374,100	1,691,350	2,530,000	9,986,800	4,120,660	1,190,000
Current Accounts (Checking)	2,100,573	2,980,374	4,609,778	535,230,043	13,481,919	4,480,852
Foreign Currency	0	0	0	0	0	0
Liquidity Reserves - CFF	0	0	0	0	0	0
Other Liquidity Reserves	0	0	0	0	0	0
Other Liquid Assets	0	0	0	0	0	0

Consolidated September 2003 - Balance Sheet

	LUWEERO TEACHERS'	MEDECOS	MIB	MUKONO & KAYUNGA TEACHERS'	NADDANGIRA SACCO	SOUTH BUGANDA TEACHERS'
Based on Local currency						
Total Liquid Assets	3,474,673.00	4,671,724.00	7,139,778.00	545,216,843.00	17,602,579.00	5,670,852.00
Accounts Receivable						
Debtors	0	600,000	0	9,274,802	0	0
Interest Receivable	0	0	0	0	0	0
Notes Receivable	0	0	0	0	0	0
Payroll Deductions Receivable	0	1,370,000	0	0	0	0
Other Accounts Receivable	0	0	1,078,624	0	0	3,149,578
Receivable Loss Allowances	0	0	0	(2,664,687)	0	0
Total Accounts Receivable	0.00	1,970,000.00	1,078,624.00	6,610,115.00	0.00	3,149,578.00
Fixed Assets						
Land	7,405,000	6,500,000	0	3,072,420	4,800,000	0
Buildings (Cost)	19,927,162	18,500,000	0	192,695,658	9,130,500	57,137,300
Leasehold Improvements	0	0	0	5,056,300	0	0
Furniture & Equipment	4,194,500	2,854,800	2,891,230	36,651,403	4,797,835	4,009,600
Accumulated Depreciation - Buildings	(1,048,797)	(2,199,869)	0	(4,783,160)	0	(8,414,207)
Accum. Depreciation - Leasehold Improv.	0	0	0	(1,813,502)	0	0
Accum. Depreciation - Furniture & Equip.	(888,062)	(715,831)	(2,309,008)	(16,010,993)	(2,832,457)	(193,135)
Total Net Fixed Assets	29,589,803.00	24,939,100.00	582,222.00	214,868,126.00	15,895,878.00	52,539,558.00
Other Assets						
Assets in Liquidation	0	0	0	0	0	0
Organization Expenses	0	0	0	0	0	0
Prepaid Expenses	0	52,700	0	0	0	0
Other Deferred Assets	404,700	0	0	1,094,600	0	0
Accumulated Amortization	0	0	0	0	0	0
Total Other Assets	404,700.00	52,700.00	0.00	1,094,600.00	0.00	0.00
Problem Assets						
Doubtful Assets	0	0	0	0	0	9,219,621
Accounting Discrepancy - Assets	21,446,121	0	242,709	22,736,479	9,076,152	3,841,483
Other Problem Assets	0	0	0	12,019,859	0	1,819,502
Total Problem Assets	21,446,121.00	0.00	242,709.00	34,756,338.00	9,076,152.00	14,880,606.00
Total Non-Earning Assets	54,915,297.00	31,633,524.00	9,043,333.00	802,546,022.00	42,574,609.00	76,240,594.00
Total Assets	215,657,093.00	240,291,422.00	63,889,207.00	1,298,055,281.00	162,706,119.00	171,090,071.00
Number Of CU Members						
Men	806.00	189.00	231.00	2,601.00	753.00	1,884.00
Women	574.00	70.00	524.00	1,948.00	502.00	1,328.00
Gender not Reported	0.00	0.00	0.00	0.00	153.00	0.00
Total Number Of Members	1,380.00	259.00	755.00	4,549.00	1,408.00	3,212.00

Consolidated September 2003 - Balance Sheet

	LUWEERO TEACHERS'	MEDECOS	MIB	MUKONO & KAYUNGA TEACHERS'	NADDANGIRA SACCO	SOUTH BUGANDA TEACHERS'
Based on Local currency						
Number of Other Service Users						
Youth	0.00	0.00	0.00	0.00	0.00	0.00
Third Parties	0.00	0.00	0.00	0.00	0.00	0.00
Total Number of Other CU Service Users	0.00	0.00	0.00	0.00	0.00	0.00
Total Number Of Members & Other CU Service Users	1,380.00	259.00	755.00	4,549.00	1,408.00	3,212.00
Consolidated September 2003						
Based on Local currency						
	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003	30/09/2003
LIABILITIES						
INTEREST BEARING LIABILITIES						
Savings Deposits						
Regular Savings	0	189,666,919	0	13,166,294	100,862,996	3,263,095
Term/Fixed Savings	0	0	0	213,700	25,540,879	0
Youth Savings	0	0	0	0	0	0
Special Savings	0	580,950	0	484,566,375	0	0
Pledged Savings	183,839,348	0	64,513,876	709,907,131	0	103,658,382
Total Savings Deposits	183,839,348.00	190,247,869.00	64,513,876.00	1,207,853,500.00	126,403,875.00	106,921,477.00
External Credit						
External Credit - CFF (<= 1 Year)	0	0	0	0	0	0
External Credit - CFF (> 1 Year)	0	0	0	0	0	0
External Credit - Banks	0	0	0	0	0	4,055,897
Other External Credit - External Institutions	552,100	0	0	0	15,277,777	0
InterBranch Loans	0	0	0	0	0	0
Total External Credit	552,100.00	0.00	0.00	0.00	15,277,777.00	4,055,897.00
Total Interest Bearing Liabilities	184,391,448.00	190,247,869.00	64,513,876.00	1,207,853,500.00	141,681,652.00	110,977,374.00
Non-Interest Bearing Liabilities						
Short-Term Accounts Payable (<=30 Days)	0	0	0	966,500	0	797,500
External Credit Payments (<=30 Days)	0	0	0	0	0	0
Provisions (e.g. Employee Benefits)	1,341,800	687,041	701,917	33,757,594	732,560	431,496
Accounting Discrepancy - Liabilities	0	100	0	0	0	0
Other Liabilities	832,039	5,355,387	1,201,200	25,336,903	1,247,120	4,338,031
Total Non-Interest Bearing Liabilities	2,173,839.00	6,042,528.00	1,903,117.00	60,060,997.00	1,979,680.00	5,567,027.00
Total Liabilities	186,565,287.00	196,290,397.00	66,416,993.00	1,267,914,497.00	143,661,332.00	116,544,401.00
CAPITAL						
Share Capital						
Mandatory Shares	21,980,441	37,704,016	13,578,069	215,936,080	12,104,121	57,159,155

Consolidated September 2003 - Balance Sheet

	LUWEERO TEACHERS'	MEDECOS	MIB	MUKONO & KAYUNGA TEACHERS'	NADDANGIRA SACCO	SOUTH BUGANDA TEACHERS'
Based on Local currency						
Voluntary Shares	0	0	0	0	0	0
Total Member Share Capital	21,980,441.00	37,704,016.00	13,578,069.00	215,936,080.00	12,104,121.00	57,159,155.00
Transitory Capital						
Asset Appreciation Over Cost	0	0	0	0	0	0
Education & Social Reserves	0	692,207	0	0	0	0
Monetary Reserves	0	1,707,070	0	0	0	0
Other Reserves	341,850	2,776,998	0	8,630,864	178,268	0
Accounting Discrepancy - Capital	0	0	0	0	0	0
Undistributed Net Income	0	3,639,878	0	0	0	0
YTD Net Income (loss)	0	0	0	0	0	0
Total Transitory Capital	341,850.00	8,816,153.00	0.00	8,630,864.00	178,268.00	0.00
Institutional Capital						
Statutory & Legal Reserves	697,590	4,789,524	1,330,918	4,962,181	614,946	0
Retained Earnings	0	0	0	0	0	1,225,026
Other Reserves	1,000,757	3,624,606	0	0	0	0
Donations	0	0	0	5,537,000	0	0
Undistributed Losses	(9,439,127)	0	(18,084,362)	(29,525,695)	(3,194,544)	0
YTD Net Income (Loss)	14,510,295	(10,933,274)	647,589	(175,399,646)	9,341,996	(3,838,511)
Total Institutional Capital	6,769,515.00	(2,519,144.00)	(16,105,855.00)	(194,426,160.00)	6,762,398.00	(2,613,485.00)
Total Capital	29,091,806.00	44,001,025.00	(2,527,786.00)	30,140,784.00	19,044,787.00	54,545,670.00
Total Liabilities and Capital	215,657,093.00	240,291,422.00	63,889,207.00	1,298,055,281.00	162,706,119.00	171,090,071.00

Consolidated September 2003 - Balance Sheet

	UCB EMPLOYEES	WASE SACCO	WEKEMBE
Based on Local currency	30/09/2003	30/09/2003	30/09/2003
Number of Credit Unions in this Report	1.00	1.00	1.00
Assets			
Earning Assets			
Loans to Members			
Short Term (< =1 Year)	619,373,477	326,545,309	10,423,654
Medium-Term (1-3 Years)	0	0	0
Long-Term (> 3 Years)	0	0	0
Other Special Loans	0	0	0
Loan Loss Allowances	(5,448,915)	0	0
Total Net Loans	613,924,562.00	326,545,309.00	10,423,654.00
Liquid Investments			
Non-Regulated Liquid Investments			
Liquidity Reserves - CFF	0	0	0
Other Liquidity Reserves	0	0	0
Short-Term CFF Deposits	0	0	0
Short-Term Bank Deposits	0	0	0
Short-Term Securities and Investments	0	0	0
Other Liquid Investments 1	0	0	0
Other Liquid Investments 2	0	0	0
Other Liquid Investments 3	0	0	0
Total Non-Regulated Liquid Investments	0.00	0.00	0.00
Regulated Liquid Investments			
Liquidity Reserves	0	0	0
Short-Term Deposits in Regulated Fin.Institutions	0	0	0
ST Government or Regulated Securities and Investments	169,717,700	0	0
Total Regulated Liquid Investments	169,717,700.00	0.00	0.00
Liquid Investments Allowances	0	0	0
Total Liquid Investments	169,717,700.00	0.00	0.00
Financial Investments			
Non-Regulated Financial Investments			
Shares - League/Affiliation	2,408,000	3,437,500	300,000
Long-Term CFF Deposit	15,670,698	8,340,580	0
Long-Term Bank Deposits	0	0	0
Long-Term Securities & Investments	0	0	0
Other Financial Investments 1	12,194,445	0	0
Other Financial Investments 2	0	0	0

Consolidated September 2003 - Balance Sheet

	UCB EMPLOYEES	WASE SACCO	WEKEMBE
Based on Local currency			
Other Financial Investments 3	0	0	0
Total Non-Regulated Financial Investments	30,273,143.00	11,778,080.00	300,000.00
Regulated Financial Investments			
Shares in Financial Institutions	0	0	0
Long-Term Deposits in Regulated Fin.Institutions	60,163,580	0	0
LT Government or Regulated Securities and Investments	0	0	0
InterBranch Investments	0	0	0
Total Regulated Financial Investments	60,163,580.00	0.00	0.00
Financial Investments Allowances	0	0	0
Total Financial Investments	90,436,723.00	11,778,080.00	300,000.00
Non-Financial Investments			
Various	12,890,300	0	0
Non-Financial Investments Allowances	0	0	0
Total Non-Financial Investments	12,890,300.00	0.00	0.00
Total Earning Assets	886,969,285.00	338,323,389.00	10,723,654.00
Additional Loan Portfolio Information			
Delinquency Based on Outstanding Balance of Loan?	-1	-1	-1
Delinquency			
1 TO 12 Months	17,874,189	113,229,945	1,733,341
Aging Unknown	0	0	3,357,365
More Than 12 Months	16,523,731	135,721,255	1,509,500
Total Balance Of Delinquent Loans	34,397,920.00	248,951,200.00	6,600,206.00
Loans to Members (Gross)	619,373,477	326,545,309	10,423,654
Accumulated Charge-Offs (Historical)	0	0	0
Recovery of Loans Charged-Off (Historical)	0	0	0
Consolidated September 2003			
Based on Local currency			
	30/09/2003	30/09/2003	30/09/2003
Non-Earning Assets			
Liquid Assets			
Cash & Equivalents	0	3,884,640	453,250
Current Accounts (Checking)	0	381,975	2,479,193
Foreign Currency	0	0	0
Liquidity Reserves - CFF	0	0	0
Other Liquidity Reserves	0	0	0
Other Liquid Assets	0	0	0

Consolidated September 2003 - Balance Sheet

	UCB EMPLOYEES	WASE SACCO	WEKEMBE
Based on Local currency			
Total Liquid Assets	0.00	4,266,615.00	2,932,443.00
Accounts Receivable			
Debtors	55,000	0	614,000
Interest Receivable	2,428,523	0	0
Notes Receivable	0	0	0
Payroll Deductions Receivable	0	0	0
Other Accounts Receivable	0	4,014,903	0
Receivable Loss Allowances	0	0	0
Total Accounts Receivable	2,483,523.00	4,014,903.00	614,000.00
Fixed Assets			
Land	7,135,525	0	0
Buildings (Cost)	0	0	19,475,115
Leasehold Improvements	0	0	0
Furniture & Equipment	0	25,387,914	2,820,000
Accumulated Depreciation - Buildings	0	0	0
Accum. Depreciation - Leasehold Improv.	0	0	0
Accum. Depreciation - Furniture & Equip.	0	(17,853,205)	(440,943)
Total Net Fixed Assets	7,135,525.00	7,534,709.00	21,854,172.00
Other Assets			
Assets In Liquidation	0	0	0
Organization Expenses	0	0	0
Prepaid Expenses	0	336,000	0
Other Deferred Assets	0	0	82,000
Accumulated Amortization	0	0	0
Total Other Assets	0.00	336,000.00	82,000.00
Problem Assets			
Doubtful Assets	0	571,654,080	0
Accounting Discrepancy - Assets	0	657,780	0
Other Problem Assets	0	12,000,000	8,228,985
Total Problem Assets	0.00	584,311,860.00	8,228,985.00
Total Non-Earning Assets	9,619,048.00	600,464,087.00	33,711,600.00
Total Assets	896,588,333.00	938,787,476.00	44,435,254.00
Number Of CU Members			
Men	502.00	408.00	382.00
Women	285.00	83.00	591.00
Gender not Reported	0.00	0.00	0.00
Total Number Of Members	787.00	491.00	973.00

Consolidated September 2003 - Balance Sheet

	UCB EMPLOYEES	WASE SACCO	WEKEMBE
Based on Local currency			
Number of Other Service Users			
Youth	0.00	0.00	0.00
Third Parties	0.00	0.00	0.00
Total Number of Other CU Service Users	0.00	0.00	0.00
Total Number Of Members & Other CU Service Users	787.00	491.00	973.00
Consolidated September 2003			
Based on Local currency			
	30/09/2003	30/09/2003	30/09/2003
LIABILITIES			
INTEREST BEARING LIABILITIES			
Savings Deposits			
Regular Savings	0	0	22,069,342
Term/Fixed Savings	18,000,000	0	0
Youth Savings	0	0	0
Special Savings	0	0	0
Pledged Savings	652,361,652	873,926,591	0
Total Savings Deposits	670,361,652.00	873,926,591.00	22,069,342.00
External Credit			
External Credit - CFF (<= 1 Year)	0	0	0
External Credit - CFF (> 1 Year)	0	0	5,000,000
External Credit - Banks	0	0	0
Other External Credit - External Institutions	0	0	0
InterBranch Loans	0	0	0
Total External Credit	0.00	0.00	5,000,000.00
Total Interest Bearing Liabilities	670,361,652.00	873,926,591.00	27,069,342.00
Non-Interest Bearing Liabilities			
Short-Term Accounts Payable (<=30 Days)	151,027	0	742,234
External Credit Payments (<=30 Days)	0	0	0
Provisions (e.g. Employee Benefits)	46,800,389	3,593,999	0
Accounting Discrepancy - Liabilities	0	0	0
Other Liabilities	4,366,092	1,663,450	1,344,552
Total Non-Interest Bearing Liabilities	51,317,508.00	5,257,449.00	2,086,786.00
Total Liabilities	721,679,160.00	879,184,040.00	29,156,128.00
CAPITAL			
Share Capital			
Mandatory Shares	64,254,000	38,318,764	6,446,563

Consolidated September 2003 - Balance Sheet

	UCB EMPLOYEES	WASE SACCO	WEKEMBE
Based on Local currency			
Voluntary Shares	5,890,000	0	0
Total Member Share Capital	70,144,000.00	38,318,764.00	6,446,563.00
Transitory Capital			
Asset Appreciation Over Cost	0	0	0
Education & Social Reserves	0	0	0
Monetary Reserves	0	0	0
Other Reserves	5,982,081	0	0
Accounting Discrepancy - Capital	0	0	0
Undistributed Net Income	0	0	0
YTD Net Income (loss)	0	0	0
Total Transitory Capital	5,982,081.00	0.00	0.00
Institutional Capital			
Statutory & Legal Reserves	26,846,472	3,209,375	0
Retained Earnings	0	127,449	0
Other Reserves	37,539,769	12,634,270	0
Donations	0	0	14,940,000
Undistributed Losses	0	0	(2,610,495)
YTD Net Income (Loss)	34,396,851	5,313,578	(3,496,942)
Total Institutional Capital	98,783,092.00	21,284,672.00	8,832,563.00
Total Capital	174,909,173.00	59,603,436.00	15,279,126.00
Total Liabilities and Capital	896,588,333.00	938,787,476.00	44,435,254.00

Attachment I

Project SACCOs Report and Ananalysis



World Council of Credit Unions, Inc.

WOCCU/SACCO NET PROJECT UGANDA

Final Report

To The Chairman and Board

Of

**Agali Awamu Kasaala
Co-Operative Savings and Credit Society Ltd (SACCO)**

December 2003

WOCCU SACCO NET Project
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“Quality SACCOs for Everyone”

**World Council of Credit Unions, Inc
WOCCU/SACCO-NET Project, Uganda
Kasaala SACCO, Final Report**

Executive Summary

Kasaala is located along Gulu-Kampala high way in Luweero district. It started operations on February 8, 1995. The SACCO operates from 8:00 am to 1:00 pm and from 2:00 pm to 5:00 pm from Monday to Friday. Kasaala is open bond, basically providing core business (financial services) to general population residing within their radius of operations. The SACCO competes with: UCB, Centenary Bank, DFCU, VEDCO, FINCA, and UMU. Before joining WOCCU it used to engage in both financial and non-financial activities. Non-financial activities included management of real estate, and carpentry-workshop.

WOCCU SACCO Net Uganda introduced the WOCCU Credit Union Model so as to assist Kasaala to improve its accounting, management, credit, and marketing operations. The Model was to further improve the financial soundness and profitability of the SACCOs through the building of capital reserves, strict lending and delinquency control, controlling expenses, and introducing new products. The Project has implemented this model and acknowledges the SACCO to have successfully participated. WOCCU hopes the SACCO will progress with the utilization of skills attained and tool available to maintain WOCCU Credit Union Model.

The project will address the progress of the SACCO from when it joined the project to up to September 30, 2003. Attention will be basically given to:

- A. Technical Assistance delivered to the SACCO since it joined WOCCU SACCO Net Uganda Project
- B. Incentives provided to the SACCO
- C. Detailed analysis of the 13 PEARLS financial indicators and the way forward for the SACCO

The PEARLS: indicators, Balance Sheet, and Income Statement have been attached for reference.

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A. Technical Assistance delivered since the SACCO joined WOCCU

1. Accounting and Finance

1.1 Technical Assistance Kasaala originally maintaining books of accounts using the traditional method. The Project had to alter the SACCO to have a fair, timely and reliable statement of affairs and income and loss statement at any particular period, by introducing and implementing standard chart of accounts (modern accounting system). This system was implemented through WOCCU's empowering the SACCO personnel with accounting and finance skills, and supervising the process thereafter. The empowerment and monitoring involved both on site and out of site trainings and physical technical visits.

To insure the implementation process was affordable to the SACCO, the Project provided necessary accounting stationery like Cash and Dairy Journal, General ledger, Subsidiary ledger, Bank Reconciliation forms, and Loan, Shares, and Savings Cards at zero cost.

Through such technical support, the SACCO successfully adopted and implemented the standard accounting system. Kasaala is now able to produce and present to management, BOD and members: regular monthly reports, which do not only include balance sheets, income statement, but encompasses other informative reports like financial ratio, delinquency and quarterly survey statements using the modern accounting system. Those Reports have helped the SACCO make more informed financial decisions.

1.2 Challenges encountered

1.21 Backlog Persistent maintenance of two accounting system resulted in a backlog. The backlog was rectified by the SACCO fully adopting new accounting systems and abandoning the old one. Change of accountings staff from time to time also affected the smooth bookkeeping process. However with continuous technical assistance, the project has been able to equip successors and set them on the move.

1.22 External Auditor The SACCO is still engaging the Registrar of Co-operatives as its external auditor. Adequate scrutiny into the operations of Kasaala is not being enhanced, because the external auditor is not versed with most of the principals of modern accounting. The challenge can be resolved through hiring an external auditor who is well versed with SACCO operations and modern accounting system.

2. Governance

2.1 Micromanagement Prior to SACCO's joining the Project, the board carried out most major operations of the SACCO, but when WOCCU enlightened the board about the roles and responsibilities of the Board and Supervisory Committee through workshops and site training, they are now fully independent of Management. The

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board makes decisions, Management implements and Supervisory committee ensures the decisions are implemented and policies and procedures are followed.

2.2 Bylaws Originally the bylaws invested a lot of powers in Members than the board. Some crucial decision like pricing of SACCO product could wait for members' approval moreover economic changes in market rates did not bend towards that. Also members could pass product prices, which favor them. With the guidance of the Project, members have passed bylaws, which gives the board powers to pass decisions necessary for the smooth running of the SACCO.

2.3 Social Mentality The Board was socially oriented than business. This was manifested when the interest of the Catholic community were basically considered when deciding on SACCO business. There was fervor when disbursing and recovering loans from the community, in turn it ended up defaulting. Most delinquent loans above 12 months were granted to such community.

Currently the Board bases on the Business Plan and monthly financial statements to decide on affairs of the SACCO. All members who meet the five Cs have access to loans. Interest rate is based on the market and entrepreneur rate. Delinquent borrowers are charged delinquency penalty and transport refund.

2.3 Polices and Procedures Lending and Collection, policy and procedure was in place but it lacked modern financial techniques. WOCCU has presented, discussed with management and Board, the modern lending and collection policy and procedure, and is pending to be adopted and implemented. The Project has also provided the SACCO with standard polices and procedures to guide it while making other polices and procedures.

3 Financial Management

3.1 Financial Margin The SACCO used to determine its financial margins based on its expenses. The Project has trained the SACCO on business planning and it is now uses business planning to determine financial margin. When determining the price of financial products, Business plan puts in considerations:

- i. Operation costs
- ii. Financial costs
- iii. Provision for risk assets
- iv. Inflation.

3.2 Internal Controls When Kasaala came in partnership with WOCCU cash control measures were not in place. Currently Kasaala is proud of:

- i. Daily cash Count and Authorisation of transactions
- ii. Product re-pricing (the recent increase of interest rate charged on loans from 40% to 44% per year is an example)
- iii. Clear segregation of cash management duties
- iv. And availability of a strong room.

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4. **Savings** Kasaala offered non-withdrawable and sight savings (withdrawable). Shares were categorized as saving product but it was purely a capital item. Savings are fully withdrawable though without interests paid on them. Reward has been has been impossible due to financial constrains Kasaala encounters. The SACCO is to re-price its products, introducing more products, and double its effort in controlling expenses and delinquency. This will enable the SACCO to generate enough net income to reward savers and build institutional capital.

5. **Lending**

5.1 **Disbursement** Loans were disbursed to members against members' savings in the ratio of 3:1. The maximum loan the society gave was Ugx 1million and the minimum Ugx 5,000. Savings deposits and personal guarantor were used as security for loans taken. Repayment periods were 6 months 12 months.

After equipping the SACCO with lending sills, Kasaala is now based on five Cs (Capital, Capacity to pay, Character, Collateral, and Conditions) to ascertain credit worth borrowers. Maximum and minimum currently granted are Ugx 200,000 and 1,200,000.

The SACCO did not have repayment schedules; borrowers could make repayments basing on verbal communication. WOCCU rectified this through availing the SACCO with repayment schedule template, which is used to extract repayment schedules. This has inspired the borrower to meet their deadline or face delinquency penalty.

5.2 **Collection and Delinquency control** Before the SACCO joined the Project; it could hardly establish the position of delinquency. With Implementation of LPAT (Loan Portfolio Analysis Tool) Kasaala is able to track due loans and follow them up for collection.

WOCCU has further advised the SACCO to clean up its portfolio by identifying unrecoverable loans (like loans owed by deceased and unknown borrowers) and transfer them to problem assets. Those have been identified and are pending approval of the Board.

Outreach The major challenge faced by the SACCO is: some borrowers are far from the SACCO, so it costs them dearly when traveling to and fro to make monthly repayments. Also it costs for lodging, feeding and transport to the SACCO when following up delinquent loans. Kasaala is to set up operational centers to effetely reach the customers and reduce on costs incurred.

6. **Marketing**

6.1 **Image** Kasaala used to operate in a small congested room, now it has a big Banking Hall with a well portioned into Manager's office, counter, and accounting,

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lending and marketing departments. The Hall is renovated and well furnished. The SACCO label has been written on wall for easy identification.

6.2 Advertisement WOCCU has equipped management with marketing skills. The Savings mobilization and Marketing training held at Nile Conference Center is one of the avenues the project used to achieve this. Using those skills, Kasaala uses brochures, Diocesan Magazine and Person-to-Person contacts to win its prospective members.

7. Tools The Project has equipped the SACCO Personnel with knowledge of the three WOCCU tool: PEARLS, LPAT, and CREST. PEARLS and LPAT tools have been installed and are being used. CREST has been acquired but is pending implementation.

PEARLS: Protection, Effective Financial Structure, Asset Quality, Rate of Return and Cost, Liquidity, and Sings of Growth

LPAT: Loan Portfolio Analysis tool

CREST: Credit Scoring Tool

7.1 PEALRS The SACCO is in position to: make Business Plan, analyze, and report using this tool. For instance business plan for the Period October 1, 2003 to December 31, 2004 has been built basing on PEALS reports.

7.2 LPAT The SACCO is able to age, analyze delinquency and base on the LPAT report to enforce effective recovery actions on delinquent loans. The tool has helped the SACCO to expose the danger of delinquent loans. Kasaala is to continue using this tool for easy delinquency control and reporting.

7.3 CREST The Board of Directors and Management are very familiar with the tool and have approved it for implementation. By the end of this fiscal year, this tool is to be in full use. This will permit the SACCO to further reduce on its delinquency since it will be disbursing to credit-worthy borrowers.

B. Incentives provided to the SACCO The Project contributed to the smooth operations of the SACCO through contributing towards their Annual General Meeting and furnishing it with Computer, Software and accessories. This has improved record keeping and quickens service delivery to customers.

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C. Detailed Analysis of the 13 PEARLS Financial Indicators

Table 1 Analysis of PEARLS Financial Indicators

Ratio	P2	P3	E1	E5	E9	A1	A2	R7	R9	R12	L2	S10	S11	SCORE
Goal	100% of allowances for > 1 < 12 months	Complete charge off YES	>=50% <=80%	>=50% <=80%	>=5%	<=10%	<=10%	>Inflation	<=10%	>=1% (Only if E9>=5%)	>=9% <=10%	>=5%	>=Inflation	
31 December 2000														
Ratio	0.00	No	2.00	8.07	82.73	0.00	97.29	0.00	4.06	2.05	0.00	0.00	-1.62	
Score	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	1.00	1.00	0.00	0.00	0.00	3/13
30 September 2003														
Ratio	0.00	No	27.22	23.53	48.01	58.25	72.26	0.00	11.03	4.27	0.00	67.44	21.10	
Score	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	1.00	0.00	1.00	1.00	4/13

Kasaala has improved its financial discipline from a score of 3 as of March 31, 2000, to 4 by end September 2003. This leaves the SACCO with gap of 9 points to achieve. The SACCO is to progress utilizing attained skills and WOCCU tool to fully achieve and maintain the financial discipline.

1. Protection

WOCCU SACCO Net Uganda Project entered into Partnership with Kasaala SACCO with net loan Portfolio amounting to Ugx 2,768,445. The loans were affected by delinquency but were not aged to ascertain the delinquency range and protections necessary. With guidance of the Project, the SACCO now has fully aged its loan portfolio. As of September 30, 2003, loans delinquent between 1 to 12 months amounts to Ugx 29,103,584 and those above 12 months to 2,636,372. Total balance of delinquent loans came to Ugx: 31,739,956.

Kasaala has not yet achieved the discipline of Provisioning for delinquent loans. Of Ugx: 10,154,754 and 2,636,372 required to provision for loans delinquent above 1 to 12 months and above 12 months no provision has been made. This has over stated SACCO assets and profit.

The SACCO plans to rectify this challenge by projects provision of Ugx: 26,000,000 and 5,000,000, to cater for delinquent loans from 1 to 12 months and those above 12 months. Non-delinquent loans will change from Ugx: 24,189,963 to 95,487,935. After considering this, project's total outstanding loans will be Ugx 126,487,935 by December 31, 2004.

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2. Effective Financial Structure

2.1 Net loans outstanding (E1) Kasaala current outstanding loan portfolio sums to Ugx 55,926,919 compared to that of Ugx 2,768,445 that it had when it joined the project. The change explains the change in E1 (Net loans/Total Assets) from 2% to 27.22% as indicated by table 1. It is commendable shift but E1 is still below the goal 50% to 80%.

By December 31, 2004, Kasaala plans to improve E1 through increasing loans from Ugx: 55,926,919 to 126,487,935 by Ugx 70,561,016. The adjustment will alter E1 from 27.22% to 42.08%. It will be a worthy move, but still the SACCO faces the challenge of turning E1 to the goal 50% to 80%. The SACCO is to continue growing its loans through investing mobilised Savings into loan portfolio till it maintains the standard 50% to 80%.

2.2 The Savings Ratio (E5) Since Kasaala connected to the project, Savings have shift from Ugx: 11,174,125 of to 48,342,249. The shift gives an increase of Ugx 37,168,124. E5 (Savings Deposits/Total Assets) shown in table 1 also changed from 80.7% to 23.53% in the same period. The SACCO has a challenge of mobilizing more Savings in order to improving E5 to the of goal 50% to 80%.

The SACCO is working towards overcoming this by mobilising savings to a tune of Ugx 53,148,757. This will bring total savings to Ugx 101,491,006 by December 31, 2004. Alternatively E5 will adjust from 23.53% to 38%. However E5 is below the goal 50% to 80%. Kasaala is yet to continue mobilising more savings till it achieves and maintains this goal 50% to 80%.

2.3 Net institutional Capital Ratio (E9) E9 in the table 1, elaborates an alteration from 82.95 to 48.01 from when Kasaala joined the WOCCU to September 30, 2003. E9 has been boosted by the capital donation in the form of a building. However as the SACCO continued to experience losses this ratio kept on reducing to the current level.

The SACCO is continuing to build institutional capital. For instance Kasaala has planned to increase institutional capital by Ugx 8,563,716 from 112,958,410 to 153,171,295 by December 31, 2004. The increase will be boosted by an increase of Ugx 4,000,000 coming in as capital donation. Kasaala is doing well in this discipline and is to continue with this trend.

3. Asset Quality:

3.1 Delinquency (A1): Kasaala got attached to the Project at a time when it was not tracking delinquency. With technical assistance by the Project, the SACCO now has fully aged the loan portfolio. As at September 30, 2003, loans delinquent between 1 to 12 months amounted to Ugx: 29,103,584 and those above 12 months are Ugx

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Kasaala SACCO, Final Report**

2,636,372. Delinquency occurrence affected A1 (Total Delinquency/Gross loan Portfolio) by 58.25% as indicated in table 1. A1 (58%) is too high compared to WOCCU recommended goal $\leq 10\%$.

The SACCO is planning to control and reduce the delinquency from 58.25% to 24.51% by the end of December 30, 2004. This is a worthy trend but Kasaala is urged to continue reducing delinquency until it is within the goal $\leq 10\%$. Kasaala is to achieve this through implementation of CREST (Credit Scoring Tool), collective recovery and complete write off of unrecoverable loans.

3.2 Non-Earning Assets (A2) Table 1 indicates non-earning assets to total assets ratio improving from 97.29% when Kasaala joined the Project to 72.26% by September 30, 2003. The big component of those assets is the donated building. The SACCO is to invest more in earning assets to alter reduce accounts payable, liquid assets, Problem assets and depreciated fixed assets are required to reduce non-earning assets from Ugx: 148,458,212 to 128,733,329 by December 31, 2004. This will change A2 from 72.26% to 48.20. The movement will be fine, but Kasaala will have a gap of 38.2% to clear. To achieve the standard of $\leq 10\%$, the SACCO is to continue investing into earning assets (loans, treasury bills etc).

4. Rates of Return and Costs (Annualised)

4.1 Member Share Dividend (R7)

Since the SACCO joined WOCCU, it has been facing liquidity constrains, thus it has not been in position to award members' on their Share capital. Kasaala plans to awarding 3% of members' share capital to members. The rate is below the current inflation rate by 6.4% but this makes a humble beginning. The SACCO is to continue with this trend until it maintains a reward greater than inflation rate.

4.2 The Operating Expenses/Average Assets (R9) The SACCO met this standard when it joined WOCCU but later declined as the level of operations increased. Annual operating expenses of Kasaala were Ugx 5,666,863 when it came in partnership with WOCCU compared to Ugx 15,473,700 for period ended September 30, 2003. Increase in expenses altered R9 (table 1) from 4.06% to 11.03%. This is almost to WOCCU recommended goal $\leq 10\%$. The SACCO committed to control those expenses till it maintains the discipline: $\leq 10\%$.

4.3 The profitability (R12) the above table specifies movement in R12 from 2.05% from when Kasaala was attached to the Project, to 4.27% by September 30, 2003. Change in R12 is attributed to a profit earned of Ugx: 2,857,137 and 5,992,642 in the same period. The SACCO is to precede addressing profitability to ensure it maintains this discipline. The Standard is to be maintained through charging service fees, repricing products, and providing more products. For instance Kasaala is to earn a net income of Ugx 8,563,716 through such target by December 31, 2004.

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5. Liquidity:

5.1 Liquidity Reserve/Total Savings Deposits (L2) Due to liquidity constraints faced by the SACCO, it is not currently maintaining a liquidity reserve. However with effect from next October 1, 2003, the SACCO has planned to maintain a Liquidity Reserve amounting to Ugx 11,217,427, which will push L2 to 11.05%. The SACCO will be able to meet its obligation as they fall by but there will be some idle reserve (L2) 1.05%. Kasaala is challenged to plan for a reserve within the goal $\leq 10\%$.

6. Growth

6.1 The membership (S10) Based on the first tracked membership as of December 31, 2003, membership has improved from 715 to 1,450 members as of September 30, 2003. The increase has been triggered by membership mobilisation drives sponsored by the project. The shift has altered S10 from 0.28% to 21.1% in the same period. Membership growth discipline has been achieved but the SACCO is challenged to keep growing its membership for it to sustain the standard. Predicted growth of 1,050 members between October 1, 2003 to December 31, 2004 is a recommendable trend towards this.

6.2 The Total Assets (S11): Kasaala had total assets amounting to Ugx 138,423,748 when it joined the Project compared to Ugx 205,447,381 as at end of September 2003. This registered a change of Ugx 67,023,633. The increase changed S11 from -1.62% to 21.10% in the very period. There has been a tremendous increase in earning assets specifically in loans. Business Plan further makes a projection of total assets to increase by Ugx 61,634,214 of which, Ugx 70,561,016 is increase in loans. This will shift S11 from 21.1% to 30%. It is a marvellous deal; the SACCO is to persist with this movement for it to be able to boost its earning assets.



World Council of Credit Unions, Inc.

WOCCU / SACCO NET PROJECT UGANDA

FINAL REPORT

**To The Chairman and Board of
Agaru
Co-operative Savings and Credit Society Ltd (SACCO)**

Kampala, UGANDA.

December 2003

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"Quality SACCOs for Everyone"

Executive Summary

The WOCCU/SACCO-NET project is a project of the World Council of Credit Unions, Inc. (WOCCU) funded by USAID under Co-operative Agreement number PCE-A-00-00-00025-00.

The objectives of the project were (1) Growth: establishing an outreach to a total of 49,000 members of the 14 SACCOs by end of the project; (2) Soundness: reaching capital reserve, delinquency, provisions and profitability goals for each of the SACCOs; (3) Reforms: updating key pricing, capitalization, governance and internal controls within participating SACCOs; and (4) Innovative services: introducing new savings and credit services targeted to serve the micro-entrepreneur and small rural producer.

The WOCCU SACCO NET Project has been working in partnership with your SACCO, Agaru SACCO since 31st December 2001 to date with the general objective of transforming your SACCO into a model SACCO using WOCCU's tools and methodologies.

The main purpose of WOCCU working with Agaru SACCO was to: 1) Introduce WOCCU's Savings and Credit Co-operative Society Model and improve the financial soundness and profitability of the SACCO. 2) Improve financial management through proper accounting systems and sound financial administration. 3) Establish proper credit policies and procedures. 4) Develop effective saving policies and marketing tools to promote savings and membership growth of the SACCO. 5) Increase saving mobilization through institutional strengthening and image building.

The project will come to an end on the 31st December 2003 after a three-and-a-quarter-year tenure in Uganda. The report that follows recapitulates the activities carried out by the project with your SACCO, stressing the situation in which we have left the SACCO and where we see it headed in times to come.

An analysis of PEARLS financial indicators at the time when the SACCO joined the project and as at 30th September 2003 will also be included along side a narration of the technical assistance that was delivered to your SACCO up to 30th September 2003. Areas of emphasis include but not limited to; 1) Accounting (2) Governance (3) Management (4) Saving Mobilisation (5) Policies (6) Lending (7) Financial Management (8) Marketing (9) Tools.

The project would like to express their appreciation to the Board of Directors, Supervisory Committee and Management of the SACCO for participating in the project and it is hoped that Agaru SACCO will continue to work towards the goal of becoming a model SACCO. It has been our pleasure working with Agaru SACCO

TECHNICAL ASSISTANCE DELIVERED:

Since the SACCO joined the project on 31st December 2001, WOCCU SACCO Net has rendered technical assistance in fields of accounting, management, tools, policies and procedures, governance, saving mobilisation, financial management, lending activities and marketing. The discussion here below narrates the technical assistance in detail delivered during the project period and the impact it had to the SACCO.

Accounting:

When the SACCO joined the project, Agaru a starting SACCO had no accounting system in place. With the technical assistance rendered by the project the SACCO is now able to prepare final accounts on a monthly basis, that is 10 days after the close of the previous month. The Project carried out the following activities in order to streamline accounting of the SACCO.

Training:

The SACCO management was trained in accounting basics especially double entry system, bank reconciliation and extraction of final accounts. It is worthy noting that the SACCO management can update the relevant accounts and produce monthly financial statements in time.

Installing and implementation of WOCCU Accounting Nomenclature:

The SACCO was able to start off using the WOCCU accounting system. The project installed the WOCCU accounting system, which was pre-designed to suit the accounting needs of a model SACCO. Training of SACCO staff and supply of relevant stationeries for implementing the WOCCU accounting system was done. The SACCO implemented the system and all the financial reports are being reported in WOCCU accounting format and on WOCCU stationeries.

Routine follow up:

The project staff has been following up the progress of accounting in the SACCO from time to time. This has been in a bid to identify the potential problems in the field of accounting. In addition to careful scrutiny of the accounts presented to the project on a monthly basis, the project made a trip to the SACCO to review the accounting operation of the SACCO among others. The project urges the SACCO not to deviate from the accounting system that was implemented and the spirit of preparing monthly financial statements should be maintained.

Governance:

When the project joined the project the BOD and supervisory committee were not strong as far as credit administration and general SACCO operations were concerned. The first step taken by the project was to draft model bylaws that were adopted by the BOD and AGM.

The SACCO BOD and supervisory committee attended many workshops/trainings that equipped them with knowledge to govern a SACCO. Workshops/trainings attended included: credit administration, roles and responsibilities of BOD, CREST training, financial management and risk management.

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Management:

When the SACCO joined the project, it had no qualified manager with business acumen. The project placed a manager and facilitated the monthly salaries of the manager. From time to time SACCO management has been attending trainings/workshops and monthly technical meetings from where they have gained skills and knowledge of managing the SACCO in a professional manner.

Saving Mobilization:

The project facilitated the saving mobilization campaigns in the SACCO. A consultant was hired by the project to spearhead the saving mobilisation campaign in Ugandan SACCOs. The SACCO was able to mobilize savings from nil as at 31st December 2001 to UGX 403,820,926 as at 30th September 2003.

Policies and Procedures:

When the SACCO joined the project it had the saving and lending policies that were updated and major areas were not considered. This inspired the project staff to draft new saving and lending policies for the SACCO.

WOCCU SACCO Net staff provided advice and submitted model draft policies on lending and saving. The above policies were presented to committees and management of the SACCO. WOCCU recommends the SACCO BOD to adopt and implement such policies; this will guide the SACCO along the model SACCO building process.

Lending

The SACCO was not aging its loan portfolio hence delinquency rates were not known; the potential loss that would arise from lending was not known. The project rendered technical assistance in streamlining the SACCO's lending process by advising both management and committees to analyze loans based on the 5Cs of credit. LPAT was installed in the SACCO and it is currently used in tracking loan portfolios. In the 2nd and 3rd quarters of 2003, the SACCO reported its delinquency using LPAT.

Financial Management

A SACCO must be safe and sound to stay in business, and to be safe and sound SACCO's financial management must be in place. When the SACCO joined the project the SACCO's financial management was not all the best, the project endeavored to strengthen the SACCO's financial management by organizing workshops/trainings/ seminars to discuss financial management related issues. Since financial management involves the balance between business and philosophy and application of a SACCO's sources and uses of funds. There was a great need to render technical assistance in this area.

Technical assistance in the areas of pricing of products, cash management and finance was rendered to the SACCO. For instance the project helped out the in showing the SACCO to set the interest rate based on operating costs, opportunity cost, loan loss provisions and market rates. The project streamlined cash management procedures and accounting in the SACCO.

Tools:

WOCCU designed a number of tools and templates that were installed and implemented in Agaru SACCO, management and the BOD were trained how to use the tools and to interpret the reports delivered there from. The following are the tools that were installed and implemented in your SACCO;

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Loan Portfolio management Tool (LPAT):

When the SACCO joined the project, it had no tool to monitor the loan portfolio and to track delinquency in the SACCO. Even the SACCO did not know the delinquency rate. LPAT was designed by WOCCU and its main purpose is to manage the loan portfolio and to track delinquency on a daily/monthly/quarterly or yearly basis. LPAT was installed in the one computer the project donated to the SACCO and management was trained in the use of the tool. The SACCO implemented LPAT and currently the SACCO extracts monthly delinquency reports using this tool. WOCCU evidenced that LPAT is a good tool to monitor delinquency hence it is recommendable for the SACCO to uphold the use of the tool.

PEARLS Monitoring System:

The World Council of Credit Unions, Inc. (WOCCU) developed the PEARLS MS as a tool to help monitor and supervise SACCOs. PEARLS is the tool that monitors and analyses the financial performance of SACCOs. The tool was installed and management was trained in the use of the tool. WOCCU recommends the SACCO BOD and management to implement the tool since it highlights the financial strengths and weaknesses of a SACCO at a particular period of time.

Credit Scoring Tool (CREST):

The Credit Scoring Tool (CREST) was developed for the World Council of Credit Unions, to assist SACCOs in improving their credit approval process. The main objective of CREST is to have a proper analysis of loan applications based on 5C's of credit. The project installed the tool, trained management and the BOD in its use. The tool was customized to suit the lending needs of Agaru SACCO. WOCCU recommends the SACCO to implement this tool, as it's the main means of analyzing loan applications technically using five 5C's of credit. Once this tool is implemented and properly used delinquency will reduce tremendously.

Incentives

WOCCU SACCO Net project has been giving the SACCO some incentives both the monetary and material terms. The project facilitated the salaries of the Manager and also met the salary of the accountant for the time he was placed at the SACCO. Stationeries for accounting and membership recruitment purposes were supplied to the SACCO at no cost. Some funding to cater for costs incurred in membership recruitment has been given to the SACCO from time to time. Furniture and equipment were donated to the SACCO; this was done in order to improve the image of the SACCO. A computer set was donated to the SACCO during the period.

ANALYSIS OF FINANCIAL PERFORMANCE:

Table 1: Comparison of PEARLS Ratios

	Goal	31-Mar-02*		30-Sep-03	
		Ratio	Score	Ratio	Score
P2	100% of allowances for >1<12 mo.	100.00%	1	100.00%	1
P3	Complete Charge-off YES/NO	Yes	1	No	0
E1	>=50 to 80%	0.00%	0	14.07%	0
E5	>=50 to 80%	44.02%	0	92.80%	0
E9	>=5%	1.83%	0	1.47%	0
A1	=< 10%	NA	0	26.92%	0
A2	=<10%	99.72%	0	29.29%	0
R7	>Inflation	0.00%	0	0.00%	0
R9	<=10%	41.63%	0	12.17%	0
R12	>=1% (Only if E9 >=5%)	-4.97%	0	2.03%	0
L2	>=9%<=10%	0.00%	0	0.00%	0
S10	>= 5%	NA	0	74.49%	1
S11	>=Inflation	NA	0	77.18%	1
		Total Score	2	Total Score	3
		Gap	11	Gap	10

*The project started working with the SACCO in December 2001. This is the closest data for the SACCO to this date

a. Protection

By September 2003, Agaru SACCO with the use of LPAT continues to age its loan portfolio and made provision for loans. It is commendable that the SACCO made net loan allowance that compares well with the recommended standards.

Note that WOCCU recommends provision for loan losses of 35% for loans delinquent 1-12 months and a complete (100%) loan loss allowance for loans 1-12 months.

As at 30th September 2003 loans delinquent 1-12 months in the SACCO were UGX 17,517,167 and UGX 848,334 was delinquent over 12 months. This necessitated the SACCO to make loan loss provisions of UGX 6,979,342 meaning that the SACCO made adequate provisions. WOCCU recommends the SACCO to maintain the good practice providing for loan losses adequately.

b. Effective Financial Structure

Loan Portfolio:

The SACCO's net loans outstanding increased to UGX 61,234,669 from nil by March 2001. This represents an increase of the loan portfolio by 100% during the stay of the project. Nevertheless the ratio of net loans to total assets is still undesirable, it was 14.07% as at 30th September 2003. This is caused by the civil war that has prevailed in the area for a long time; the conditions for investments are not favorable. Indicator E1 (net loans to total assets) declined to 14.07% from 14.52% as at 30th June 2003 because Agaru SACCO continued to invest in treasury bills, which totaled UGX 246,350,500 (56.62% of total assets). This continues to be a wise option, as the SACCO cannot place adequate funds into loans to members due to the civil war going on in the area.

Savings Volume:

Agaru SACCO registered an increase in savings of UGX 403,820,926; total savings grew from zero at the start of the project. However the ratio of savings to total assets (E5) has been out side the WOCCU recommended standard of 50-80% in the last 4 quarters. As of 30th September 2003 E5 for your SACCO was 92.80% worsening from 90.63% the previous quarter. The raging civil war in the area could not allow the SACCO to place members' savings into loans

Institutional Capital:

Agaru SACCO registered a positive net institutional capital indicator E9 of 1.47% as at 30th September 2003 compared to 1.83% as at 31st March 2003. Though positive it is still below the recommended standard of 10%. In the second quarter 2003, the net institutional capital was reduced tremendously due to the delinquency in the SACCO.

c. Asset Quality

Delinquency

Delinquency in your SACCO increased from 26.71% as a 30th June 2003 to 26.92 as at the end the quarter under review. The SACCO moved a way from the target of at least 10%. Note that delinquency in a SACCO limits the earning capacity; funds are tied up in non-performing delinquent loans. The SACCO should therefore step up collection efforts in order to reduce delinquency.

Non-Earning Assets

Non-earning assets to total assets ratio (A2) reduced from 99.72% as of the 31st March 2002 to 29.29% at the end of the quarter under review. This positive movement shows the business approach Agaru has adopted to doing business. This has been above the required standard of <10%, the most components of non-earning assets are cash and current accounts that amounted to UGX 110,820,790 (86.96%). WOCCU recommends the SACCO to place some liquid assets into treasury bills since they are idle.

d. Rates of Returns and Costs

Return on Members' Shares:

Shares are not readily accessible in the SACCO, therefore are risk capital. One way to reward for this risk is by paying shares a return, and WOCCU's standard of excellence recommends that the interest rate of at least equal to inflation be paid on members' shares deposits to maintain their value. This should be paid on a regular basis, say monthly, and not only when the SACCO makes profit to recognize the fact that the members actually invested money into the SACCO. As of September 2003, the SACCO was not paying any return on members' shares.

Operating Expenses:

At 12.17% of the average assets, operating expenses of the SACCO are way above the required standards for model SACCOs of 3-10%. However the decline in operating expenses from 41.83% at the start of the project shows how efficient the SACCO has become.

Net Income

Over the lifespan of the project, Agaru has turned itself into a solid profit making SACCO. Profitability for Agaru increased from UGX -441,450 as at 31st March 2002 to UGX 5,171,482 as at 30th September 2003. Nevertheless the ratio of net income/average assets reduced from 2.68% as at 30th June 2003 to 2.03% as at the end of the project.

e. Liquidity

The SACCO still enjoyed high levels of liquidity during the quarter under review. L1 was 27.10% as at 30th September 2003 declining from 29.85% the previous quarter. Though it is well comparable with the standard of minimum 15%, it creates idle and non-earning liquid assets. This situation limits the SACCO from getting more revenue. Since the SACCO cannot place excess liquidity due the rampant civil war, we recommend the SACCO to place the liquidity in financial investments-treasury bills. L2 remained nil for the last 3 quarters. It is prudent for the SACCO to place some funds in the liquidity reserves such that members savings are protected. The table below shows the liquidity position for the last 3 quarters.

f. Signs of Growth

Membership:

In absolute terms membership increased from 127 as at 31st March 2002 to 1,033 as at the end of the project. This compares well with WOCCU's standard of excellence of minimum 5% membership growth. It is recommendable the SACCO to maintain this trend in order to mobilise more savings. The table and the graph below illustrate membership growth trends over the last three quarters.

Total Assets

The SACCO experienced a remarkable increase in total assets. The total assets increased from UGX 36,042,786 as at 31st March 2002 to UGX 435,130,898 as at the project. The total assets growth rate was 77.18% as of 30th September 2003. This compares well with inflation that was 9.40% as at that date. Note that WOCCU recommends that a SACCO should grow its total assets more than inflation, which your SACCO attained. We once again recommend the SACCO to maintain this asset growth rate since total assets is the denominator of most PEARLS ratios.

THE WAY FORWARD:

The project has come up with a business plan to guide the growth and operations of the SACCO. Below is a detailed narration of the key components of the SACCO's business plans for the period of the 30th September 2003 to 31st December 2004.

Over the 15-month period, a growth rate in total assets of 100% is planned. This will see the SACCO's total assets grow from UGX 435,130,898 by September 2003 to UGX 870,261,796 by December 2004. This increase in total assets of UGX 435,130,898 will be mainly funded by the increase in savings deposits of members of UGX 396,819,926 and in shares of UGX 17,255,972.

The funds mobilised from savings will be invested hugely in loans to members, which will increase from UGX 68,214,011 by UGX 188,034,946 to UGX 256,248,957 by the end of 2004. It is expected that the SACCO will also increase on its Treasury bill investment by UGX 188,680,398. Please note that the SACCO may choose to juggle funds between TBs and members' loans depending on the risk perceived in either investment.

Decreased loan delinquency from 26.92% to 10.15% is expected and the SACCO will increase on the loan loss provisions from UGX 6,979,342 to UGX 10,400,000. Liquidity reserves will increase to 5% of the total savings deposits from zero by September 2003.

The operating costs formerly UGX 30,981,724 will increase to UGX 67,328,424 to accommodate increased personnel, administration, marketing, governance, administration and depreciation costs. In

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addition the SACCO will also pay 4% on its savings deposits and 6% on its shares. These amounts are to be paid on a monthly basis to increase member satisfaction and reduce the tax liability.

All this means that the SACCO has to charge at least 31.78% on its loans and these changes will also see the SACCO scoring 6 in the analysis of the key financial ratios of PEARLS, an improvement from 3 in September 2003.



World Council of Credit Unions, Inc.

**WOCUU SACCO NET PROJECT UGANDA
FINAL REPORT
To The Chairman and Board of
Excel
Co-operative Savings and Credit Society Ltd (SACCO)**

December 2003

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“Quality SACCOs for Everyone”

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Executive Summary

The WOCCU/SACCO-NET project is a project of the World Council of Credit Unions, Inc. (WOCCU) funded by USAID under Co-operative Agreement number PCE-A-00-00-00025-00.

The objectives of the project were (1) Growth: establishing an outreach to a total of 49,000 members of the 14 SACCOs by end of the project; (2) Soundness: reaching capital reserve, delinquency, provisions and profitability goals for each of the SACCOs; (3) Reforms: updating key pricing, capitalization, governance and internal controls within participating SACCOs; and (4) Innovative services: introducing new savings and credit services targeted to serve the micro-entrepreneur and small rural producer.

The WOCCU SACCO NET Project has been working in partnership with your SACCO, Excel SACCO since 20th November 2002 to date with the general objective of transforming your SACCO into a model SACCO using WOCCU's tools and methodologies.

The main purpose of WOCCU working with Excel SACCO was to: 1) Introduce WOCCU's Savings and Credit Co-operative Society Model and improve the financial soundness and profitability of the SACCO. 2) Improve financial management through proper accounting systems and sound financial administration. 3) Establish proper credit policies and procedures. 4) Develop effective saving policies and marketing tools to promote savings and membership growth of the SACCO. 5) Increase saving mobilization through institutional strengthening and image building.

The project will come to an end on the 31st December 2003 after a three-and-a-quarter-year tenure in Uganda. The report that follows recapitulates the activities carried out by the project with your SACCO, stressing the situation in which we have left the SACCO and where we see it headed in times to come.

An analysis of PEARLS financial indicators at the time when the SACCO joined the project and as at 30th September 2003 will also be included along side a narration of the technical assistance that was delivered to your SACCO up to 30th September 2003. Areas of emphasis include but not limited to; 1) Accounting (2) Governance (3) Management

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(4) Saving Mobilisation (5) Policies (6) Lending (7) Financial Management (8) Marketing (9) Tools.

The project would like to express their appreciation to the Board of Directors, Supervisory Committee and Management of the SACCO for participating in the project and it is hoped that Excel SACCO will continue to work towards the goal of becoming a model SACCO. It has been our pleasure working with Excel SACCO.

TECHNICAL ASSISTANCE DELIVERED SINCE 30th November 2002 to 30th September 2003.

Since the SACCO joined the project on 30th November 2002, WOCCU SACCO Net has rendered technical assistance in fields of accounting, management, tools, policies and procedures, governance, saving mobilisation, financial management, lending activities and marketing. The discussion here below narrates the technical assistance in detail delivered during the project period and the impact it had to the SACCO.

ACCOUNTING.

When the SACCO joined the project, there was no accounting in the SACCO receipts and payments were recorded in a book on a single entry fashion indeed there was no double entry. The project set the accounting system of the SACCO from scratch.

The Project carried out the following activities in order to streamline accounting of the SACCO.

i) Training:

The SACCO management was trained in accounting basics especially double entry system, bank reconciliation and extraction of final accounts. It is worthy noting that the SACCO management can update the relevant accounts and produce monthly financial statements in time.

ii) Installing and implementation of WOCCU accounting nomenclature.

The SACCO did not have any accounting system the time it joined the project. The SACCO neither had subsidiary nor general ledgers; so to speak the system was only to record transactions basing on the single entry, this was practice was not proficient.

The project installed the WOCCU accounting system, which was pre-designed to suit the accounting needs of a model SACCO. Training of SACCO staff and supply of relevant

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stationeries for implementing the WOCCU accounting system was done. The SACCO implemented the system and all the financial reports are being reported in WOCCU accounting format and on WOCCU stationeries.

iii) *Routine follow up*

The project staff have been following up the progress of accounting in the SACCO from time to time. This has been in a bid to identify the potential problems in the field of accounting. Activities carried out during routine follow up are but not limited to; updating subsidiary and general ledgers, bank reconciliation statements, extraction of monthly financial statements and balancing the cash and daily journal book.

The project urges the SACCO not to deviate from the accounting system that was implemented and the spirit of preparing monthly financial statements and monthly bank reconciliation statements should be maintained.

Governance

The SACCO joined the project when it had not held a single AGM; the SACCO had just started operations. The project guided and funded for a special AGM that was success full. The AGM adopted the bylaws and changed the SACCO name from Jinja municipality SACCO to Excel SACCO.

The SACCO BOD and supervisory committee attended many workshops/trainings that equipped them with knowledge to govern a SACCO. Workshops/trainings attended include; Credit administration, roles and responsibilities of BOD, CREST training, financial management and risk management.

Policies and procedures

When the SACCO joined the project it did not have policies related to specific areas, this inspired the project staff to draft such policies for Excel SACCO. WOCCU SACCO Net staff provided advice and submitted model draft policies on lending, saving, internal control and cash management. The above policies were presented to committees and management of the SACCO. WOCCU recommends the SACCO BOD to adopt and implement such policies; this will guide the SACCO along the model SACCO building process.

Lending

When the SACCO joined the project the following weaknesses prevailed in the lending process of the SACCO;

- a) Lending was based on the share and saving balances.
- b) No technical analysis of loans was carried out.

The project rendered technical assistance in setting interest rate on loans, instructed SACCO management on how to analyze loans on a technical basis. Different loan products were designed for the Excel SACCO to be introduced.

The project rendered technical assistance in aging and analyzing the loan portfolio of the SACCO on a quarterly basis; necessary provisions for loan losses were recommended for the SACCO's consideration.

Financial Management

A SACCO must be safe and sound to stay in business, and to be safe and sound SACCO's financial management must be in place. When the SACCO joined the project the SACCO's financial management was not all the best, the project endeavored to strengthen the SACCO's financial management by organizing workshops/trainings/ seminars to discuss financial management related issues. Since financial management involves the balance between business and philosophy and application of a SACCO's sources and uses of funds, there was a great need to render technical assistance in this area.

Technical assistance in areas of pricing of products, cash management and finance was rendered to Excel SACCO. The project helped out the SACCO to set the interest rate basing on operating costs, opportunity cost, loan loss provisions and market rates. The project stream lined cash management procedures and accounting in the SACCO.

Marketing

The project developed new strategies to market more efficiently the SACCO. This was done during the strategic planning session that was carried out by the SACCO, the Project together with the SACCO BOD identified key result areas of the SACCO.

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Tools

WOCCU designed a number of tools and templates that were conveyed to the attention of Excel SACCO, management and the BOD were trained in how to use the tools and to interpret the reports delivered there from. The following are the tools that were designed and discussed with management and board of the SACCO. The limitation for installation and implementation is lack of a computer in the SACCO.

i. *Loan Portfolio management Tool (LPAT):*

When the SACCO joined the project, it had no tool to monitor the loan portfolio and to track delinquency in the SACCO. Even the SACCO did not know the delinquency rate. LPAT was designed by WOCCU and its main purpose is to manage the loan portfolio and to track delinquency on a daily/monthly/quarterly or yearly basis. The project uses LPAT to age and analyze the loan portfolio for Excel SACCO. Once the SACCO gets a computer set it should install and implement the tool.

ii. *PEARLS Monitoring tool:*

The World Council of Credit Unions, Inc. (WOCCU) developed the PEARLS MS as a tool to help monitor and supervise SACCOs. PEARLS is the tool that monitors and analyses the financial performance of SACCOs. Management was trained in the use of the tool. WOCCU recommends the SACCO BOD and management to implement the tool once the SACCO secures a computer set.

Credit Scoring Tool (CREST):

The Credit Scoring Tool (CREST) was developed for the World Council of Credit, to assist SACCOs in improving their credit approval process. The main objective of CREST is to have a proper analysis of loan applications based on 5C's of credit. The project trained management and the BOD in its use. WOCCU recommends the SACCO to implement this tool once a computer set is secured, as it's the main means of analyzing loan applications technically using five 5C's of credit. Once this tool is implemented and properly used delinquency will reduce tremendously.

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Incentives

The project provided incentives in terms of donations to Excel SACCO. The project funded the SACCO's first AGM. The project provided stationeries that were used in updating accounting, reporting, membership recruitment and marketing at no cost.

The Analysis of PEARLS Financial Indicators

Table 1: Score and GAP Analysis for Excel SACCO comparing when the SACCO joined the project and end of project

RATIO S	GOAL	PEARL S RATIO S	31 st December 2002		End of project (30-09-2003)
			SCORE	PEARLS	SCORE
P2	100%	Not tracked	0	0.00%	0
P3	Yes	Yes	1	Yes	1
E1	Between 70-80%	56.46%	1	51.54%	1
E5	Between 70-80%	44.71%	0	50.80%	1
E9	Minimum 10%	-0.24%	0	-3.57%	0
A1	<=5%	Not tracked	0	58.04%	0
A2	<=5%	43.54%	0	48.46%	0
R7	>=R5	0.00%	0	0.00%	0
R9	3-10%	12.94%	0	23.79%	0
R12	>1 % only if E9>=10%	-0.24%	0	11.22%	0
L2	10%	0.00%	0	0.00%	0
S10	Minimum 5%	N/A	0	33.66%	1
S11	More than inflation	N/A	0	46.08%	1
TOTAL SCORE			2		5
GAP			11		8

From the table above it can be analysed that the SACCO improved 2 PEARLS as at 31st December 2002 to 5 scores as at 30th September 2003. The SACCO improved in 3 areas.

The Analysis of PEARLS Financial Indicators

1. Protection

When SACCO joined the project on 20th September 2002, there were no delinquent loans. The reason was that the SACCO had started operations in April 2002 and all loans disbursed during that period were still current. The project rendered technical assistance in aging the loan portfolio; WOCCU observed that delinquency was as high as 58.04% as at 30th September 2003. The total loan portfolio as at 30th September 2003 was UGX 18,538,650 and of this balance UGX 10,760,050 was delinquent between 1-12 month. With this high delinquency the SACCO did not make any provisions for loan losses, WOCCU recommends the SACCO to make necessary provisions for loan losses in order to real worth of total assets and profitability.

2. Effective financial structure.

a) Net loans outstanding

Ever since the SACCO joined the project, net loans outstanding had been increasing. Net loans increased from UGX 13,900,928 as at 31st December 2002 to UGX 18,538,650, the net loans by 33.36%. WOCCU observed that this is a good trend since the whole portfolio is financed by members' savings. The SACCO should step up saving mobilisation campaigns in order to mobilise more savings to be placed in loans. The ratio of net loans/total assets increased from 56.46% as at 31st December 2002 to 51.54% as at 30th September 2003.

b) The saving ratio

The savings volume has been increasing steadily since the SACCO joined the project, saving volume increased from UGX 11,007,000 as at 31st December 2002 to UGX 18,272,850 as at 30th September 2003. However it was noted that savings of Excel SACCO are pledged the

SACCO is encouraged to mobilize regular and with draw able savings such that savings volume is increased more. The ratio of saving deposits/total assets increased from 44.71% as at 31st December 2002 to 50.80% as at 30th September 2003.

c) The net institutional capital

The SACCO's total institutional capital was negative as at 31st December 2002 but later improved to positive as at 30th September 2003. Total institutional capital increased from -59,907 as at 31st December 2002 to 2,481,215 as at 30th September 2003. However the ratio of net institutional capital/total assets worsened from -0.24% as at 31st December 2002 to -3.57% as at 30th September 2003, this was due to high delinquency that prevailed in the SACCO as at 30th September 2003. The SACCO should reduce delinquency and advise means of making profits for building institutional capital.

3. Asset quality

The SACCO joined the project when it had operated for only 6 months therefore there were no loans delinquent at that time. Currently the SACCO has operated for only 15 months but delinquency is very high as at 30th September 2003, it was 58.04% compared to standard of excellence of <=10%. Total loans as at 30th September 2003 were UGX 18,538,650 and a total of UGX 10,760,050 was delinquent between 1 and 12 months. The causes of high delinquency in the SACCO are no technical analysis of loans and low collection efforts due low staff morale. The SACCO should install stringent collection efforts in order to reduce delinquency in the SACCO.

4. Rates of return and costs

Fin costs: Member shares/Avg. Member Shares (R7)

Your SACCO has never rewarded members for the shares purchased in the SACCO. WOCCU recommends that a rate greater than or equal to that paid on savings should be paid to members.

Operating expenses (R9)

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The ratio of operating expenses/average assets (R9) increased from 12.94% as at 31st December 2002 to 23.79% as at 30th September 2002. WOCCU recommends R9 between 3-10%, the SACCO should endeavor to control the operating expenses to the acceptable level.

Profitability (R12)

The SACCO's profitability has been increasing since it joined the project. The SACCO made a loss of UGX 59,907 as at the end of 2002 compared to a profit of UGX 2,481,215 that was registered as at 30th September 2003. However the profit was overstated due to un-provisioning for loan losses. The SACCO should lay strategies for making more profits. R12 improved from -0.24% as at 31st December 2002 to 11.22% as at 30th September 2003.

5. Liquidity

Since the SACCO joined the project it has never placed any funds into liquidity reserves, a SACCO is required to place 10% of member savings into liquidity reserves. The SACCO is therefore recommendable to place 10% of member savings into liquidity reserves.

6. Signs of growth

The Membership (S10)

Membership growth is the most important factor in the over all growth of the SACCO because it affects saving growth directly. Membership for Excel SACCO increased from 517 as at 31st December 2002 to 691 as at 30th September 2003. This membership is desirable but a recruitment membership drive campaign is still recommended. Ever since the SACCO joined the project S10 has been above the minimum standard of 5%, as at 30th September 2003, S10 was 33.66%.

Total assets (S11)

Total assets have been increasing more than inflation since the SACCO joined the project, which is a good financial indicator. Total assets increased from UGX 24,621,028 as at 31st December 2002 to UGX 35,966,756 as at 30th September 2003. S11 as at 30th September 2003 was 46.08%, which compares well with the inflation rate of 9.40% at the same period.

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WOCCU recommends the SACCO to increase total assets more than this level, this can be done by mobilizing more savings and place them into loans.

Excel SACCO Financial Statistics			
Date Joined the Project:		20th November 2002	
Report Date:		30th September 2003	Target for December 2003
Members	Total	691	2,000
	Women	400	-
	Women (%)	57.89%	-
Loan Volume (Gross)	Total Ushs.	18,538,650	91,268,333
Average Loan Size:	Ushs.	76,606	-
Number of Micro enterprise Loans	Total (Actual)	242	-
	Women (Actual)	Not tracked	-
	Women % (Actual)	Not tracked	-
Savings Volume	Total (Actual)	18,272,850	88,635,701
Share Capital	Total (Actual)	13,277,306	30,776,285
Number of savers	Total (Actual)	684	-
Average Savings per member	Total (Actual)	26,715	-
Total Portfolio At Risk > 30 days overdue	Total (Actual)	10,760,050	-
Delinquency Rate %	Total (Actual)	58.04%	8.22%



World Council of Credit Unions, Inc.

WOCCU/SACCO NET PROJECT UGANDA

Final Report

**To The Chairman and Board
Of**

**Kiwafu
Co-Operative Savings and Credit Society Ltd (SACCO)**

December 2003

WOCCU SACCO NET Project
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“Quality SACCOs for Everyone”

World Council of Credit Unions, Inc
WOCCU/SACCO-NET Project, Uganda
Kiwafu SACCO, Final Report

Executive Summary

Kiwafu SACCO is a common bond institution located in Kitooro-Entebbe. Before the SACCO came into partnership with WOCCU, it was open bond but biased towards serving the Moslem community. In addition to core business, it used to manage non-financial activities (transport, market management, and real estate).

The SACCO is still open bonded, offering only core business services to the local community. It operates from 8:00 am to 1:00 pm and 2:00 to 5:00 pm from Monday through Friday and from 8:00 am to 12:00 pm on Saturday. Rural Micro-Finance Support Programme (RMSP) supplements its lending liquidity needs through granting external loans to the SACCO.

WOCCU SACCO Net Uganda introduced the WOCCU Credit Union Model so as to assist Kiwafu to improve its accounting, management, credit, and marketing operations. The Model was to further improve the financial soundness and profitability of the SACCOS through the building of capital reserves, strict lending and delinquency control, controlling expenses, and introducing new products. The Project has implemented this model and acknowledges the SACCO to have successfully participated. WOCCU hopes the SACCO will progress with the utilization of the attained skills and tool available to maintain WOCCU Credit Union Model.

The project will address the progress of the SACCO from when it joined the project to up to September 30, 2003. Attention will be basically given to:

- A. Technical Assistance delivered to the SACCO since it joined WOCCU SACCO Net Uganda Project
- B. Incentives provided to the SACCO
- C. Detailed analysis of the 13 PEARLS financial indicators and the way forward of the SACCO

The PEARLS: indicators, Balance Sheet, and Income Statement have been attached for reference.

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A. Technical Assistance delivered since the SACCO joined WOCCU

1. Accounting and Finance

1.1 Technical Assistance Originally books of accounts and financial statements (balance sheet, and fixed assets summary) were prepared using traditional method and on annual basis. Income statement was produced after three months. No financial ratios were used to determine SACCO current financial discipline.

The Project improved the SACCO by introducing and implementing standard chart of accounts (modern accounting system). A modern accounting system was implemented through WOCCU's empowering the SACCO personnel with accounting and finance skills, and supervising the process thereafter. The empowerment and monitoring involved both on site and out of site trainings and physical technical visits.

To insure the implementation process was affordable to the SACCO, the Project provided necessary accounting stationary like Cash and Dairy Journal, General ledger, Subsidiary ledger, Bank Reconciliation forms, and Loan, Shares, and Savings Cards at zero cost.

Through such technical support, the SACCO successfully adopted and implemented the modern accounting system. Kiwafu is able to produce and present to management, Board and members: regular monthly reports, which do not only include a balance sheet, an income statement, but encompasses other informative reports like financial ratio, delinquency and quarterly survey statements. Those Reports have helped the SACCO make more informed financial decisions.

However when the Operations Manager left, the SACCO abandoned the modern accounting system and reverted to the traditional accounting. Since December 31, 2003, an update of modern accounting systems has never been done. The SACCO should re-implement this system because it is more transparent, easy to maintain, reflects true SACCO position and simplifies reporting. This will help both the BOD and management to make informed and timely decisions about the business of the SACCO.

1.2 Challenges encountered

1.2.1 External Auditor The SACCO is still engaging the Registrar of Co-operatives as its external auditor. Adequate scrutiny into the operations of Kiwafu is not being enhanced, because the external auditor is not versed with most principals of modern accounting. The challenge can be resolved through hiring an external auditor who is well versed with SACCO operations and modern accounting system.

1.2.2 Automation The SACCO prepared to invest into computer system, because of accounting challenges being encountered. The automation will be possible when Kiwafu has online modern accounts system.

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2. Governance

Formally the Board was socially minded. Social impact is evidenced when the Board members, all the employees, and most members were Moslems. The Board used to address SACCO business towards meeting the interests of Moslem community. With WOCCU enlightenment, the Board has influenced the SACCO to serve the community around and to drop non-financial (transport, market management, and real estate) to transacting real core business of Share Capital, Savings, and Credit administering.

2.2 Bylaws Originally the bylaws invested a lot of powers in Members than management. Some crucial decision like pricing of SACCO product could wait for members' approval moreover economic trends (market rate changes) cannot bend towards that. There was a tendency of bending the bylaws to favor members' interests, For example members could pass product prices (Interest rates), in their favor. With the guidance of the Project, the members have passed bylaws, which give more powers to the Board to make decisions on behalf of the Members and which authorizes management to implement those decisions.

2.3 Polices and Procedures Lending and Collection, policy and procedure was in place but it lacked current financial techniques. WOCCU has presented, discussed with management and Board the modern Lending and Collection policy and procedure and is pending adoption and implementation. The Project has also provided the SACCO with standard polices and procedures to guide it while making other polices and procedures.

2.1 Micromanagement There is still tendency of the Board to get involved in SACCO management. For instance the Chairman has his desk in the SACCO where he monitors the operations of the SACCO. WOCCU has empowered the Board with roles and responsibilities of the Board through workshops and site training, but management is not fully independent of Board. WOCCU recommends that the Board should make SACCO decision, Management implements and Supervisory committee ensures that decisions are implemented and policies and procedures are followed.

3 Financial Management

3.1 Financial Margin The SACCO used to determine its financial margins based on its expenses. The Project has trained the SACCO on business planning and it now uses that as a basis to determine financial margins. When determining the price of financial products, Business plan puts in consideration:

- i. Operation costs
- ii. Financial costs
- iii. Provision for risk assets
- iv. Inflation.

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3.2 Internal Controls Before joining WOCCU, Kiwafu had no: Safe, Cash control measures, Cash register, and Policy stating maximum amount of cash to be maintained. Currently there is single access to the safe. The maximum cash retained in the safe is Ugx 2,000,000. The in-charge also maintains cash register, which tracks the trend of cash from the safe to the counter and back. The chairman does supervise Checks and balances to ensure safety of cash. An enclosed counter, which is only accessible to the cashier, exists to safeguard cash at hand. Daily cash transactions are trapped in daily teller settlement sheets, which are verified on the daily basis.

3.3 Challenges Staff who handle money are still not bonded, thus in case of theft the loss of the society funds would not be covered. The society does not have a silent alarm against robbery or a fire detector. Those are the stages the SACCO is moving to. When ready the Staff will be taught some silent alarm techniques in case of robberies. Also a fire detector, fire fighting equipment and an alarm will be put in place to safeguard the SACCO assets.

4. Savings Kiwafu SACCO used to offer withdrawable savings services attracting 4% interest, and no interest on sight deposits. The SACCO grouped its savings accounts into segments as sex, occupation, residential areas, etc.

The SACCO still groups its savings and offers withdrawable savings but without interests paid. The offer has been impossible due to financial constrains Kiwafu faces due persistent loss being incurred. The SACCO is to re-price its products, introducing new products, and double its efforts in controlling personal expenses and delinquency. This will enable the SACCO to generate enough net income to reward savers and build institutional capital.

5. Lending

5.1 Disbursement Kiwafu used to grant loans using a leverage of 3:1 with savings forming the basis. This ratio could be increased if the loan was for business and perceived to have a high rate of return. The maximum and minimum loan to a member was Ugx 2,000,000 and 30,000. The Interest charged on all loans was 24% per annum. The loans were overlapping (loans were issued to members who still have outstanding loans). The following measures were considered when evaluating a loan:

- i. Repayment-capacity of the applicant
- ii. Credit history
- iii. Type of guarantee
- iv. And member shares capital.

After empowering the SACCO with lending skills, Kiwafu now:

- i. Bases on the 5Cs (character, capacity, collateral, credit history, and conditions of the loan) to grant Ugx 50,000 as minimum and Ugx 2,000,000 as maximum
- ii. Charges monthly rate of 3% on all loans
- iii. Has a repayment schedule template, which it uses to extract repayment schedule for borrowers

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5.2 Delinquency control Before the SACCO joined the Project; it could hardly establish the position of delinquency. After implementing loans aging by aid of LPAT, (Loan Portfolio Analysis Tool), Kiwafu tracks delinquent loans and follows them up for collection.

The SACCO is further controlling delinquency by approaching rebellious borrowers through judicial process and Collecting from guarantors.

6. Marketing At the start the community had mixed feelings about the SACCO. Some community members felt Kiwafu was a good SACCO, while others felt it only serves the Moslem community. The image of the SACCO (reception area; security, furniture & equipment, and presentation of personnel) needed improvement.

Currently Kiwafu is equipped with marketing skills which has enabled it to:

- i. Market itself through brochures and person-to-person contacts
- ii. Attract Savers through offering withdrawable savings products
- iii. And to improve its image. Now the SACCO is strategically located, and generally arranged like a financial institution.

7. Tools The Project has equipped the SACCO Personnel with knowledge of the three WOCCU tool: PEARLS, LPAT, and CREST.

PEARLS: Protection, Effective Financial Structure, and Asset Quality, Rate of Return and Cost, Liquidity, and Sings of Growth

LPAT: Loan Portfolio Analysis tool

CREST: Credit Scoring Tool

7.1 PEALRS The SACCO is in position to: Interpret, analyze make Business Plan, and report using this tool. For instance a business plan for the Period October 1, 2003 to December 31, 2004 has been built PEALS reports as a basis.

7.2 LPAT The SACCO is able to age, analyze delinquency and base on LPAT report to enforce effective recovery actions on delinquent loans. The tool has helped the SACCO to expose the danger of delinquent loans. Kiwafu is to proceed using this tool for easy delinquency control and reporting.

7.3 CREST The Board and Management have been trained on how to use this tool and it is just pending implementation. The tool will reduce delinquency since disbursements will go to only credit-worthy borrowers.

B. Incentives provided to the SACCO The Project contributed to the smooth running of the SACCO through hiring an Operations Manager for the SACCO. While there, he contributed a lot towards lending, accounting, and savings activities. WOCUU further supplemented the SACCO annual general meetings costs and funded membership mobilization drive.

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C. Detailed Analysis of the 13 PEARLS Financial Indicators

Table 1 Analysis of PEARLS Financial Indicators

Ratio	P2	P3	E1	E5	E9	A1	A2	R7	R9	R12	L2	S10	S11	SCORE
Goal	100% of allowances for >1<12 months	Complete charge off YES	>=50% <=80%	>=50% <=80%	>=5%	<=10%	<=10%	>Inflation	<=10%	>=1% (Only if E9>=5%)	>=9% <=10%	>=5%	>=Inflation	
30 September 2000														
Ratio	0.00	No	35.13	32.43	-10.57	0.00	49.11	0.00	22.32	-8.07	0.00	53.13	-46.04	
Score	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	1/13
30 September 2003														
Ratio	0.00	No	62.44	50.86	-22.77	62.57	36.11	0.00	23.56	-3.82	0.00	6.62	-15.44	
Score	0.00	0.00	1.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	3/13

Kiwafu has improved its financial discipline from 1 score to 3 by end September 2003. This leaves the SACCO with the gap of 10. The SACCO is to progress utilizing attained skills and WOCCU tool to fully achieve and maintain the financial discipline.

1. Protection

When Kiwafu joined WOCCU, it had un-aged loan portfolio amounting to Ugx 7,252,812, hence it was difficult to establish actual necessary provision needed by then. After instillation and implementation of LPAT, the SACCO now has aged loan portfolio.

By end of September 2003, delinquent loans between 1 to 12 months and those above 12 months were Ugx: 30,567,016 and 8,722,643. Those needed protection of Ugx 19,351,099 (10,628,456 + 8,722,643) but only Ugx 1,367,260 was provisioned. This inflated assets and income by Ugx 17,983,839. The implication is that if all provisions were made the SACCO would have made a loss of Ugx 19,012,331. The SACCO should control and recover delinquent loans if it is to avoid losses originating from delinquency.

In the period October 1, 2003 to December 31, 2004, the SACCO is to make provision of Ugx 25,000,000 and 4,000,000 for loans delinquent between 1 to 12 months and above 12 months. The provision will effectively cover projected portfolio of Ugx 138,049,901. At this level, protection of 35% and 100% needed on delinquent loans between: 1 to 12 months and above 12 months will be fully made.

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2. Effective Financial Structure

2.1 Net loans outstanding (E1) Outstanding loan portfolio has increased by Ugx 55,281,931 from when Kiwafu came part of the Project to end of September 2003. The increase is as a result of the outstanding portfolio increasing from Ugx: 32,831,415 as at June 30, 2000 to 62,534,793 by September 30, 2003. The increase altered E1 from 35.13% to 62.44%.

E1 is within WOCCU commendable financial standard: 50% to 80%. Kiwafu is yet to target E1 at range: 70% to 80%. The target will be achieved through investing more assets into loans. By December 30, 2004, the SACCO is to increase its loan portfolio from Ugx: 62,534,793 to 121,555,006 by Ugx 59,020,213. The Change will improve E1 from 62.44% to 74.05%. This will be within the standard goal 70% to 80%; hence Kiwafu is encouraged to proceed with this trend.

2.2 The Savings Ratio (E5) Kiwafu joined WOCCU when its Savings deposits amounted to Ugx 6,696,488 compared to Ugx 49,818,722 outstanding as of September 30, 2003. The change registered an increase of Ugx 43, 122,234. The increase in deposits altered E5 from 32.43% to 50.86%.

The SACCO has achieved the discipline of investing Savings deposits into assets and now is to target standard goal: 70%% to 80%. The goal will be met through mobilizing more savings and investing them in loan portfolio. Kiwafu has initiated this by projecting increases in Savings deposits amounting to Ugx 45,688,710 by December 30, 2004. The saving will be invested into loans to boost planned increase in loans.

2.3 Net institutional Capital Ratio (E9) Table 1 indicates shift in E9 (Net Institutional Capital/Total Assets) from -10.57% to -22.77% from: when Kiwafu joined the Project to September 30, 2003. This decline is due to persistent losses incurred and potential losses due to occurrence of delinquency.

The SACCO is to control expenses and delinquency, and collect delinquent loans in order to build E9 to standard of >5%. This will be further improved by increase in profitability. Kiwafu projects to increase its institutional capital by Ugx 2,834,118 for he period ended December 31, 2004. The changes will alter E9 from -22.77% to -1.00. Though E9 will still be below WOCCU standard >5%, it will be a commendable move towards attaining this financial discipline.

3. Asset Quality:

3.1 Delinquency (A1): Before Kiwafu joined the Project, its delinquency was not tracked. After the SACCO was trained and equipped with LPAT software, Kiwafu now possesses an aged loan portfolio as shown by protection section above. Table 1 specifies A1 (Total Delinquency/Gross loan Portfolio) being 62.57% as at September 30, 2003, compared to WOCCU recommendable standard $\leq 10\%$.

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Portfolio at risk (Ugx 39,089,659) is a big challenge to the SACCO, which it is to be battled through implementation of CREST and S.T.O.P (Stop Tolerating Overdue accounts by Preventing them) campaign. This will reduce delinquency to Ugx 29,000,000 by December 31, 2004. In turn AI will shift from 62.57% to 23.86%. AI will still be outrageous but will be a fair improvement.

3.2 Non-Earning Assets (A2) The ratio of Non-Earning assets to total improved from 49.11% as at June 30, 2003, to 36.11% by end of September 2003. The composition of those assets is mainly liquid, account receivable, and fixed assets amounting to Ugx 35,370,769. Those assets are high compared to actual assets (Ugx 9,795,634), which were to be maintained by then.

The SACCO plans to improve A2 to WOCCU commendable goal: $\geq 9\%$ $\leq 10\%$ by reducing Non-Earning assets and increasing Earning assets. Case in point is: Kiwafu plans to reduce the above assets from Ugx 35,370,769 to 27,182,885. The reduction will change the A2 from 36.11% to 18.50%. This will leave Kiwafu with a gap of 8% to cover.

4. Rates of Return and Costs (Annualised)

4.1 Member Share Dividend (R7)

Kiwafu has not been rewarding its members on their Share capital. The SACCO plans to award 3% of members' share capital to members within the period October 1, 2003, to December 31, 2004. The rate is below the current inflation rate by 6.4% but this makes a humble beginning. The SACCO is to continue with this trend until it maintains a reward greater than inflation rate.

4.2 The Operating Expenses/Average Assets [R9] Average monthly operating expenses were Ugx: 547,925 when Kiwafu joined WOCCU compared to Average monthly operating expenses Ugx 2,116,350 by September 30, 2003. In the same period, R9 altered from 22.32% to 23.56%. R9 is still above financial discipline by 13.56%. High ratio is due to high personnel expenses incurred by the SACCO. Kiwafu is yet to close the above gap (13.56%) by controlling Personnel expenses. For example, the SACCO is to reduce average monthly Personnel expenses to from Ugx: 1,101,833 to 746,667 for the period ending December 31, 2004.

4.3 The profitability (R12) Kiwafu has been incurring persistent loss since the SACCO joined the Project. This is illustrated in the table above by the trend of R12 from -8.07% to -3.82% since the SACCO was connected to the Project to September 30, 2003. Those losses are due to low margins against high operating costs. The SACCO is to improve its profitability through product repricing, control of expenses, and offering new products.

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5. Liquidity:

5.1 Liquidity Reserve/Total Savings Deposits (L2) The SACCO is not currently maintaining liquidity reserves. However, it plans to have reserves amounting to Ugx 9,183,407 by December 31, 2004. The reserves will shift L2 from 0% to 9.62%. L2 will be below the goal: $\geq 9\% \leq 10\%$ by 0.38% but this makes good beginning. The SACCO is to proceed with this trend till WOCCU recommendation $\geq 9\% \leq 10\%$ is achieved.

6. Growth

6.1 The membership (S10) By September 30, 2003, Kiwafu had grown its membership to 580 members, compared to 245 members when the SACCO joined WOCCU. This change registered an increase of 335 members. The growth rate is within the WOCCU recommended growth rate of $>5\%$, Kiwafu is encourage to continue at this rate. The SACCO is to proceed mobilizing more members to match membership with the SACCO growth. For instance the SACCO is to grow its membership to 1,200 members by December 31, 2004.

6.2 The Total Assets (S11): Prior to Kiwafu's joining the Project; its total assets were 20,645,977 compared to Ugx 97,956,341. The growth has been boosted by loan portfolio of Ugx 62,534,793. However of that Ugx 32,619,418 are financed by external credit. This has affected the position of total assets since they are being ever reduced to service external loans. The SACCO must restrain from over dependence on external loans through mobilisation of more Savings to cater to the high demand for loans.

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WOCCU/SACCO-NET Project, Uganda
Naddangira SACCO, Final Report**

2. Effective Financial Structure

2.1 Net loans outstanding (E1) loan portfolio outstanding by the time the SACCO joined WOCCU was Ugx 14,133,560 compared to outstanding loans amounting to Ugx 112,193,621 by September 30, 2003. This gives an increase in loans of Ugx 98,060,061. The corresponding E1 as elaborated by table 1 (Net loans/Total Assets) was 40.87% but improved to 68.95%. Naddangira has attained the discipline of investing total assets into loans to commendable goal 50% to 80%.

Naddangira plans to increase its loans portfolio from 113,129,271 to 180,648,242 by Ugx 67,518,971 within period: October 1, 2003 to December 31, 2004. This will shift E1 from 68.95 to 72.02%. The SACCO is encouraged to maintain this trend.

2.2 The Savings Ratio (E5) Naddangira has mobilized Savings from Ugx 29,427,731 by the time it joined the project to Ugx 126,403,875 by end of September 2003. The adjustment gives an increase of Ugx 96,976,144. The increase changed E5 (Savings Deposits/Total Assets) from 85.10 to 77.69%. The SACCO has maintained Savings deposits invested into loan portfolio to a degree within commendable goal 50% to 80%. Naddangira is to consolidate this standard by mobilizing more Savings amounting to Ugx 60,382,750 by December 31, 2004. This will alter total Savings from Ugx 126,403,875 to 186,786,625 and E5 to 82%.

2.3 Net institutional Capital Ratio (E9) From when Naddangira joined the Project to September 30, 2003, E9 (Net Institutional Capital/Total Assets) worsened from -6.12% to -19.93% as indicated by table 1. The decline is due to the fact that, at first delinquency was not trapped but later it was and automatically reduced E9 further. The SACCO is to control delinquency and collect delinquent loans in order to build E9 to standard of >5%. This will be improved by planned increase in institutional capital of Ugx 2,349,145 by December 2004. The increase will be boosted by an increase of Ugx 360,000 coming in as capital donation (furniture).

3. Asset Quality:

3.1 Delinquency (A1): Prior to Naddangira's joining the Project, its delinquency was not tracked, but with WOCCU's guidance and LPAT implementation, the SACCO is in position to age its loan portfolio. Delinquency from one day and above is now tracked. As of September 30, 2003, A1 (Total Delinquency/Gross loan Portfolio) was 57.26%. This is too high compared to the recommendable standard $\leq 10\%$. The SACCO is to address delinquency problem through S.T.O.P campaign and implementation of CREST. It plans to reduce delinquency rate from 57.26% to 22.14% by December 31, 2004. Though 22.14% will still be outrageous, it will be a tremendous improvement.

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3.2 Non-Earning Assets (A2) Table 1 indicates non-earning assets to total assets ratio improving from 40.99% when Naddangira joined the Project to 26.17% by September 30, 2003. Non-Earning assets are mainly liquid, fixed, and problem assets amounting to Ugx 14,175,042 at the beginning and Ugx 42,574,609 as at September 30, 2003. A2 is still high compared to commendable rate $\leq 10\%$. The SACCO plans to shift A2 to 13.99% by December 31, 2004. The shift will be implemented by reducing Non-earning assets from Ugx: 42,574,609 to 31,872,704 by end of December 2004. This movement will continue till Naddangira maintains non-earning assets at $\leq 10\%$.

4. Rates of Return and Costs (Annualised)

4.1 Member Share Dividend (R7)

Naddangira has not been rewarding its members on their Share capital. The SACCO plans to awarding 4% of members' share capital to members within the period October 1, 2003, to December 31, 2004. The rate is below the current inflation rate by 5.4% but this makes a humble beginning. The SACCO is to continue with this trend until it maintains a reward greater than inflation rate.

4.2 The Operating Expenses/Average Assets [R9] The SACCO joined WOCCU when R9 was 21.71% compared to 13.84% by the end of September 2003. Annual operating expenses were Ugx: 5,635,674 at the start on September 30, 2003 they were Ugx 15,196,605. At the beginning R9 is high moreover expenses were low, this is basically because of value of expenses against average assets (denominator) at the beginning were lower compared to current ones.

Naddangira is to control its expenses from 13.84% to 11.34% by end of December 2004. This will be achieved through controlling personnel, governance, marketing, and administration expenses to Ugx 22,141,441 by end of December 2004. The SACCO is to proceed with the progress until it maintains R9 within $\leq 10\%$.

4.3 The profitability (R12) This ratio changed from 0.24% from when Naddangira was attached to the Project, to 8.51% by September 30, 2003. The change is attributed to improvement in annual profitability from Ugx 63,595 when Naddangira joined WOCCU to Ugx 9,341,996 by end on September 2003. R12 is greater than 1% but E9 is not yet $\Rightarrow 5\%$; the SACCO is to generate more proceeds till this discipline is attained and maintained. For instance Naddangira plans a net income of Ugx 2,349,145, which will keep R12 within commendable goal $\geq 1\%$ but it has to build E9 further for it to attain a score.

5. Liquidity:

5.1 Liquidity Reserve/Total Savings Deposits (L2) The SACCO is not currently maintaining liquidity reserves. However, it plans to have reserves amounting to Ugx 24,601,165 by December 31, 2004. The reserves will shift L2 from 0% to 13.17%. L2 will be on upper side of goal: $\geq 9\% \leq 10\%$ by 3.17% the SACCO can invest its idle reserves into loans.

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6. Growth

6.1 The membership (S10) Before Naddangira joined WOCCU; it had 862 members compared to current 1,408 members by end of September 2003. Through this period the SACCO has mobilized an increase of 546 members. Table 1 above indicates that S10 was not tracked at the beginning, but later it was and by end of September 2003, S10 was 14.01%.

Naddangira is to mobilize more members in order to match the projected grow in total assets of 40% by end of December 2004. The growth will be attained through mobilizing 2,200 members by December 31, 2004.

6.2 The Total Assets (S11): Total assets have increased tremendously since the SACCO joined WOCCU. Naddangira had total assets amounting to Ugx 34,580,152 but by September 30, 2003, it had Ugx 162,706,119. This shows a growth of Ugx 34,580,152. The growth altered S11 to from 0% to 24.21% as illustrated by table 1. The alternation is above inflation rate (9.4); hence Naddangira is encouraged to maintain this growth.



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WOCCU/SACCO NET PROJECT UGANDA

Final Report

To The Chairman and Board

Of

**Lugazi Sugar
Co-Operative Savings and Credit Society Ltd (SACCO)**

December 2003

**World Council of Credit Unions, Inc
WOCCU/SACCO-NET Project, Uganda
Lugazi Sugar SACCO, Final Report**

Executive Summary

Lugazi Sugar is an open bond institution located at the heart of Sugar Cooperative of Uganda, Ltd (SCOUL). The SACCO faces competition from other societies, Micro-finance institutions and banks (FINCA, MEDNET, and Women Trust Bank) located in the same vicinity. Before joining WOCCU, it used to serve only workers and families of (SCOUL). Lugazi provided Savings, Credit, check cashing services, and death & disability coverage services. It also offered non-financial services like real estate management (managing small stores, commercial buildings and residential houses).

The SACCO is currently offering core business to SCOUL and the surrounding community. It operates from 8:00 am to 1:00 pm and from 2:00 to 5:00 pm Monday through Friday. Sometimes it operates on Saturdays to meet emergence demands of members.

WOCCU SACCO Net Uganda introduced the WOCCU Credit Union Model so as to assist Lugazi Sugar to improve its accounting, management, credit, and marketing operations. The Model was to further improve the financial soundness and profitability of the SACCOs through the building of capital reserves, strict lending and delinquency control, controlling expenses, and introducing new products. The Project has implemented this model and acknowledges the SACCO to have successfully participated. WOCCU hopes the SACCO will progress with the utilization of skills attained and tool available to maintain WOCCU Credit Union Model.

The project will address the progress of the SACCO from when it joined the project to up to September 30, 2003. Attention will be basically given to:

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The PEARLS: indicators, Balance Sheet, and Income Statement have been attached for your reference.

A. Technical Assistance delivered since the SACCO joined WOCCU

1. Accounting and Finance

1.1 Technical Assistance Originally books of accounts and financial statements apart from income statement were prepared using traditional methods and on an annual basis. Financial ratios were not used to determine SACCO current financial discipline.

The Project improved the SACCO by introducing and implementing standard chart of accounts (modern accounting system). This system was implemented through WOCCU's empowering the SACCO personnel with accounting and finance skills, and supervising the process thereafter. The empowerment and monitoring involved both on site and out of site trainings and physical technical visits.

To insure the implementation process was affordable to the SACCO, the Project provided necessary accounting stationary like Cash and Dairy Journal, General ledger, Subsidiary ledger, Bank Reconciliation forms, and Loan, Shares, and Savings Cards at zero cost.

Through such technical support, the SACCO successfully adopted and implemented the standard accounting system. Lugazi is now able to produce and present to management, Board and members: regular monthly reports, which do not only include balance sheet, income statement, but encompasses other informative reports like financial ratio, delinquency and quarterly survey statements using the modern accounting system. Those Reports have helped the SACCO make more informed financial decisions.

1.2 Challenges encountered

1.2.1 External Auditor The SACCO is still engaging registrar of co-operatives as its external auditor. Adequate scrutiny into the operations of Lugazi is not being enhanced, because the external auditor is not versed with most principal of modern accounting. The

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challenge can be resolved through hiring an external auditor who is well versed with SACCO operations and the modern accounting system.

Challenges encountered The SACCO inherited Accounts problems whereby some: Investments, Accounts Receivable and liabilities were not correctly accounted for and others could not be traced. WOCCU exposed this and immediately balance sheet cleanup was recommended. By the September 30, 2003, most of this challenged had been dissolved.

2. Governance

2.1 Micromanagement Prior to SACCO's joining the Project, the board carried out most major operations of the SACCO, but when WOCCU enlightened the board about the roles and responsibilities of the Board and Supervisory Committee through workshops and site training, they are now fully independent of Management. The board makes decisions, Management implements and Supervisory committee ensures the decisions are implemented and policies and procedures are followed.

2.2 Bylaws Originally the bylaws invested a lot of powers in Members than the board. Some crucial decision like pricing of SACCO product could wait for members' approval moreover economic changes in market rates did not bend towards that. Also members could pass product prices, which favor them. With the guidance of the Project, members have passed bylaws, which gives the board powers to pass decisions necessary for the smooth running of the SACCO.

2.3 Social Mentality The Board and Supervisory Committee were socially oriented. This was manifested when there was fervor when pricing, disbursing, and recovering loans. The Board has changed from such tendencies to real business oriented world. This is evidenced when the Board base on the Business Plan to run the affairs of the SACCO. Also the SACCO bases on the market interest rate to price its products. Disbursements are now on merit than social ties. In case of defaulting, the concerned borrower is charged delinquency penalty.

2.3 Policies and Procedures Savings, Lending and Collection, policies and procedures were in place but they lacked modern financial techniques. WOCCU has

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presented, discussed with management and Board, Lending and Collection policy and procedure. The Project also equipped the Manager who discussed and customized Cash management policy with the Board. Those policies and procedures are now pending adoption and implementations. The Project has also provided the SACCO with standard policies and procedures to guide it while making other policies and procedures.

3 Financial Management

3.1 Financial Margin The SACCO used to determine its financial margins based on its expenses. The Project has trained the SACCO on business planning and it is now based on its ability to determine financial margins. When determining the price of financial products, the business plan puts in considerations:

- i. Operation costs
- ii. Financial costs
- iii. Provision for risk assets
- iv. Inflation.

3.2 Internal Controls Before joining WOCCU, Lugazi had no strong room where cash and vital instruments are kept, and Cash control measures were not in place. Currently:

- i. There is dual access to the strong room; (Manager keeps keys of one lock and bookkeeper is in charge of keys of the other lock.
- ii. The maximum cash retained in the strong room is defined
- iii. The Manager maintains cash register, which tracks the trend of cash from the safe to the counter and back.
- iv. The treasurer does surprise Checks and balances to ensure safety of cash
- v. And there are enclosed counter, which are only accessible to respective Cashiers.
- vi. Daily cash transactions are tracked in daily teller settlement sheets, which are verified by the Manager on the daily basis.

3.4 Challenges Staff who handle money are still not bonded, thus in case of theft the loss of the society funds would not be covered. The society does not have a silent alarm against robbery or a fire detector. Those are the stages the SACCO is moving to, when

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ready the Staff will be taught some silent alarm techniques in case of robberies. Also a fire detector, fire fighting equipment and an alarm will be put in place to safeguard the SACCO assets.

4. **Savings** Lugazi offered non-withdrawable and withdrawable savings products. The SACCO proved withdrawable savings services, which attracted 2% interest, and no interest on sight deposits.

Savings are fully withdrawable though without interests paid on them. Reward has been has been impossible due to financial constrains Lugazi faces due to persistent losses being incurred. The SACCO is to re-price its products, introducing new products, and double its effort in controlling expenses and delinquency. This will enable the SACCO to generate enough net income to reward savers and build institutional capital.

5. **Lending**

5.1 **Disbursement** Members were allowed to access 200% of their savings as loans. Interest rates were determined annually at the annual general meeting. Duration of the loans was one year. The credit subcommittee met monthly to analyse and approve loan applications. When approving loans they considered amount of savings ability to repay, which based on salary, and collateral or guarantees.

With WOCCU technical assistance Lugazi Sugar now uses the five Cs (Capital, Capacity to pay, Character, Collateral, and Conditions) to ascertain credit worthy borrowers.

The SACCO did not issue repayment schedules; borrowers could make repayments verbal communication. WOCCU rectified this through availing the SACCO with repayment schedule template, which is used to extract repayment schedules. This has inspired the borrower to meet their deadline or face delinquency penalty.

5.2 **Collection and Delinquency control** Before the SACCO joined the Project; it could hardly establish the position of delinquency. With implementation of LPAT (Loan Portfolio Analysis Tool) Lugazi Sugar now tracks due loans and follows them up for collection. This has enabled the SACCO to recover most of delinquent loans.

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WOCCU has further advised the SACCO to clean up its portfolio by identifying unrecoverable loans (like loans owed by deceased and unknown borrowers). With the approval of the board, those loans have been identified and transferred to problem assets. This exercise has left the SACCO with loans, which are purely recoverable.

6. **Marketing** WOCCU found the SACCO when was operating in a small room, which was hidden and congested. The Project influenced the acquisition of a big room from SCOUL, which has been upgraded to a modern Banking Hall. This has attracted prospective members and built confidence in members.

WOCCU has further equipped management with marketing skills. The Savings mobilization and Marketing training held at Nile Conference Center was one of the avenues the project used to achieve this. Using those skills, Lugazi has come up with brochures and has been capable of mobilizing members to a level of 789. The SACCO has made signposts to be planted from Lugazi town to SACCO for easy SACCO identification.

7. **Tools** The Project has equipped the SACCO Personnel with knowledge of the three WOCCU tool: PEARLS, LPAT, and CREST.

PEARLS: Protection, Effective Financial Structure, and Asset Quality, Rate of Return and Cost, Liquidity, and Sings of Growth

LPAT: Loan Portfolio Analysis tool

CREST: Credit Scoring Tool

7.1 **PEARLS** The SACCO is in position to: Interpret, analyze make Business Plan, and report using this tool. For instance business plan for the Period October 1, 2003 to December 31, 2004 has been built basing on PEALS reports.

7.2 **LPAT** The SACCO is able to age, analyze delinquency and base on LPAT report to enforce effective recovery actions on delinquent loans. The tool has helped the SACCO to expose the danger of delinquent loans. Lugazi is to proceed using this tool for easy delinquency control and reporting.

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7.3 CREST The Board and Management have been trained on how to use this tool and it is just pending implementation. The tool will reduce delinquency since disbursements will go to only credit-worthy borrowers.

B. Incentives provided to the SACCO The Project improved the image of the SACCO through upgrading and furnishing the operational premises to a modern Banking Hall. Equipment in form of computer, software, and accessories were extended. Furniture offered included:

- i. Steel Cupboard Zenith
- ii. Secretarial Chairs with Armrests
- iii. Computer Table
- iv. Filing Cabinet 4 drawers
- v. Stacking Visitors Chairs
- vi. Counter Teller Chair
- vii. Office Desk AT 1200

This has greatly improved the image of the SACCO, which in turn has built members' confidence and attracted potential customers.

Management WOCCU identified, screened, and recruited a manager for the SACCO. The Project also shouldered the responsibility of maintaining the Manager till December 31, 2003. This has blessed the SACCO with proper personal and financial management.

B. Detailed Analysis of the 13 PEARLS Financial Indicators

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Table 1 Analysis of PEARLS Financial Indicators

Ratio	P2	P3	E1	E5	E9	A1	A2	R7	R9	R12	L2	S10	S11	SCORE
	100% of allowances for >1<12 months	Complete charge off YES	>=50% <=80%	>=50% <=80%	>=5%	<=10%	<=10%	>Inflation	<=10%	>=1% (Only if E9>=5%)	>=9% <=10%	>=5%	>=Inflation	
Goal														
31 March 2001														
Ratio	0.00	No	15.42	108.03	-25.25	0.00	81.89	0.00	5.37	-1.25	0.00	0.00	17.62	
Score	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	1/13
30 September 2003														
Ratio	0.00	No	65.92	146.09	-75.31	14.77	30.68	0.00	44.92	-3.69	0.00	19	60.19	
Score	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	1.00	3/13

Lugazi has improved its financial discipline from 1 score from as at March 31, 2000, to 3 by end September 2003. This leaves the SACCO with gap of 10 score to achieve. The SACCO is to progress utilizing attained skills and WOCCU tool to fully achieve and maintain the financial discipline.

1. Protection

Lugazi SACCO joined WOCCU with un-aged loan portfolio of Ugx 5,256,189, which was affected by delinquency. At the end of September 2003, the SACCO had aged loans amounting to Ugx 26,230,339. Loans delinquent between 1 to 12 months amounted to Ugx: 1,858,084 but only Ugx 535,154 was provisioned for compared to Ugx 650,329, which was required for provisioning by end of September 2003. Delinquent loans above 12 months were Ugx 2,015,083 but no completely written off was made.

The SACCO with guidance of the Project has come up with a business plan for the period 1 October 03 to 31 December 04. The plan address the protection challenge where by Provision of Ugx 3,000,000 has been projected to cater for loans delinquent between 1 to 12 months and Ugx 2,000,000 for those loans delinquent above 12 months. This

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provision will guide the SACCO to adequately protect the projected loan Portfolio of Ugx 69,161,829 by December 31, 2004. The plan also considers complete write offs of Ugx 1,744,399 for loans projected to be delinquent above 12 months in the same period. This will further consolidate loan quality. This is just a benchmark; the SACCO is to continue with this protection tendency as long as it continues to face delinquent challenges.

2. Effective Financial Structure

2.1 Net loans outstanding (E1) The SACCO joined the Project, when its outstanding loan portfolio was Ugx 5,256,189 but shifted to 26,230,339 by September 30, 2003. The change amounting to Ugx 23,110,387 altered net loans to total asset ratio (E1) from 15.42% as at March 31, 2001 to 65.92% by end of September 2003. Lugazi has achieved the Project recommendation of investing total assets into loans to a range: 50% to 80%. The SACCO has projected loans to increase by Ugx 42,931,490 from Ugx: 26,230,339 to Ugx 69,161,828, by December 2004. This will alter E1 from 65.92% to 67.84%. Lugazi Sugar is to maintain this discipline to ensure that E1 is sustained to a standard of 50% to 80%.

2.2 The Savings Ratio (E5) Total savings to total assets ratio (E5) changed from 108.03% to 149.09% from when the SACCO joined WOCCU to September 30, 2003 as portrayed by table 1 above. The alteration is further explained by change in Savings from Ugx: 36,818,520 to 56,949,161 in the same period.

The SACCO is working towards overcoming the above challenge by reducing E5 to 99%. This will be realized by increasing Savings from Ugx: 56,949,161 to 96,479,111 by end of December 2004. At this pace, Lugazi will be able to maintain E5 with in a range of 50% to 80% by December 31, 2005.

2.3 Net institutional Capital Ratio (E9) Table 1 above indicates Net Institutional Capital to Total Assets (E9) declining from -25.25% as at March 2001, to -75.31% as at September 30, 2003. The deviation in E9 is attributed to loss incurred as a result of the SACCO disposing its Non- Financial Investment (House). The sale was based on the market value, but the proceeds were far below the book value, which had been

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overstated. The ratio is supported by negative current institutional capital of Ugx 27,225,793.

The SACCO is focused towards building its institutional capital from -75.31% to -15% by end of December 31, 2004. This will be done through generating a net income of Ugx 12,607,746 of which Ugx 5,000,000 will be capital from grant (Computer and Furniture). The building of the capital is to continue till the SACCO maintains a standard of E9 being $\geq 5\%$.

3. Asset Quality:

3.1 Delinquency (A1): At the time the SACCO joined the Project, it was not tracking its delinquency. However with WOCCU empowerment, Lugazi reported its portfolio at risk (Delinquent loans above 1 month / Loan portfolio outstanding) as 14.77% which is still above $\leq 10\%$.

Efforts are being done to reduce delinquency from 14.77% to standard to 7.23% by the end of December 2004. This will be achieved through implementation of CREST (Credit Scoring Tool), collective recovery and complete write off of unrecoverable loans.

3.2 Non-Earning Assets (A2) Table 1 above specifies non-earning assets to total assets ratio improving from 81.89% by the time the SACCO joined the Project to 30.68% by September 30, 2003. The disposal of building greatly affected this ratio. Trend in the ratios shows an improvement but Lugazi SACCO has a big task of bringing this ratio to standard of $\leq 10\%$.

Lugazi has planned to reduce A2 from 30.68% to 17.00% by December 31, 2004. This will be done through increasing Earning Assets from Ugx: 27,020,337 to 80,886,527 (83%) and increasing Non-Earning Assets from Ugx: 11,961,122 to 16,567,120 (17%). After, the SACCO will be challenged to continue minimizing Non-Earning Assets till A2 is maintains within the standard: $\leq 10\%$.

4. Rates of Return and Costs (Annualised)

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4.1 Member Share Dividend (R7)

Since the SACCO joined WOCCU, it has been incurring and accumulating losses, hence has not been in position to award members' on their Share capital. Lugazi plans to awarding 4% of members' share capital to members. The rate is below the current inflation rate by 5.4% but this makes a humble beginning. The SACCO is to continue with this trend until it maintains a reward greater than inflation rate.

4.2 The Operating Expenses/Average Assets (R9) The SACCO earned a score when it joined the WOCCU but later declined as the level of operations increased. Table 1 portrays R9 increasing from 5.37% as at March 2001, to 44.92% by September 30, 2003. The change is due to increase in annual operating expenses from Ugx: 2,025,385 to 7,129,300 by September 30, 2003. The SACCO has planed to control those expenses in order to reduce R9 from 44.92% to 23.04% by December 2004.

4.3 The profitability (R12) R12 altering from -1.25% to -3.69% as shown by above table. This is generally due to loss being incurred by the SACCO. For instance, when Lugazi joined the Project it had incurred a loss of Ugx 471,067 still by September 2003, it incurred a loss of Ugx 586,194. The SACCO is to aggressively address profitability challenge. The projection of net income amounting to Ugx 12,607,746 by December 31, 2004, is a move towards this. This will shift R12 from -3.96% to 11.15%.

5. Liquidity:

5.1 Liquidity Reserve/Total Savings Deposits (L2) Due liquidity constraints faced by the SACCO; it is not currently maintaining a liquidity reserve. However, from October 1, 2003, the SACCO is to start maintaining Liquidity Reserve amounting to Ugx 13,497,330, which will push L2 to 13.99%. This will enable the SACCO to meet its obligation as they fall by.

6. Growth:

6.1 The membership (S10) Lugazi Sugar membership was not tracked but by September 30, 2003, the membership was 789. The change has been triggered by membership mobilisation, which was sponsored by the project. There is still more avenues to be explored, for instance the SACCO is to mobilize additional 611 members which will bring total membership to 1,400 by December 31, 2004. This will shift S10

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from 19% to 77.44%. Lugazi Sugar is to continue growing still membership in order to maintain standard: $\geq 5\%$.

6.2 The Total Assets (S11): S11 in table 1 indicates an improvement from -17.62% when the SACCO joined the project to 60.19% as at September 30, 2003. This is supported by an increase in total assets from Ugx 34,082,785 to 38,981,459. This has been a recommendable growth since Non-Earning-Asset valued at Ugx 24,267,446 were disposed but the SACCO had to rebuild its assets to above current value.

Lugazi Sugar has projected to grow its total assets from 38,981,459 to 97,453,648 by December 31, 2004. S11 will alter from 60.19% to 150%. It will still keep the SACCO with recommendable goal of building assets to above inflation rate.



World Council of Credit Unions, Inc.

**WOCCU SACCO NET PROJECT UGANDA
FINAL REPORT
To The Chairman and Board of
Luwero Teachers'
Co-operative Savings and Credit Society Ltd (SACCO)**

December 2003

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"Quality SACCOs for Everyone"

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Executive Summary

The WOCCU/SACCO-NET project is a project of the World Council of Credit Unions, Inc. (WOCCU) funded by USAID under Co-operative Agreement number PCE-A-00-00-00025-00.

The objectives of the project were (1) Growth: establishing an outreach to a total of 49,000 members of the 14 SACCOs by end of the project; (2) Soundness: reaching capital reserve, delinquency, provisions and profitability goals for each of the SACCOs; (3) Reforms: updating key pricing, capitalization, governance and internal controls within participating SACCOs; and (4) Innovative services: introducing new savings and credit services targeted to serve the micro-entrepreneur and small rural producer.

The WOCCU SACCO NET Project has been working in partnership with your SACCO, Luweero Teachers' SACCO since 1st October 2000 to date with the general objective of transforming your SACCO into a model SACCO using WOCCU's tools and methodologies.

The main purpose of WOCCU working with Luweero Teachers' SACCO was to: 1) Introduce WOCCU's Savings and Credit Co-operative Society Model and improve the financial soundness and profitability of the SACCO. 2) Improve financial management through proper accounting systems and sound financial administration. 3) Establish proper credit policies and procedures. 4) Develop effective saving policies and marketing tools to promote savings and membership growth of the SACCO. 5) Increase saving mobilization through institutional strengthening and image building.

The project will come to an end on the 31st December 2003 after a three-and-a-quarter-year tenure in Uganda. The report that follows recapitulates the activities carried out by the project with your SACCO, stressing the situation in which we have left the SACCO and where we see it headed in times to come.

An analysis of PEARLS financial indicators at the time when the SACCO joined the project and as of 30th September 2003 will also be included along side a narration of the technical assistance that was delivered to your SACCO up to 30th September 2003. Areas of emphasis include but are not limited to; 1) Accounting (2) Governance (3) Management (4) Saving Mobilisation (5) Policies (6) Lending (7) Financial Management (8) Marketing (9) Tools.

The project would like to express their appreciation to the Board of Directors, Supervisory Committee and Management of the SACCO for participating in the project and it is hoped

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that Luweero Teachers' SACCO will continue to work towards the goal of becoming a model SACCO. It has been our pleasure working with Luweero Teachers' SACCO

TECHNICAL ASSISTANCE DELIVERED SINCE 1st October 2000 to 30th September 2003.

Since the SACCO joined the project on 1st October 2000, WOCCU SACCO Net has rendered technical assistance in fields of accounting, management, tools, policies and procedures, governance, saving mobilisation, financial management, lending activities and marketing. The discussion here below narrates the technical assistance in detail delivered during the project period and the impact it had to the SACCO.

ACCOUNTING.

When the SACCO joined the project Accounting was in bad shape, the SACCO used to prepare the final accounts; income statement and balance sheet once a year. This was done in preparation for the AGM, above all not accurate. With the technical assistance rendered by the project the SACCO is now able to prepare final accounts on a monthly basis, that is 15 days after the close of the previous month.

The Project carried out the following activities in order to streamline the accounting of the SACCO.

i) Training:

The SACCO management was trained in accounting basics especially double entry system, bank reconciliation and extraction of final accounts. It is worthy noting that the SACCO management can update the relevant accounts and produce monthly financial statements in time.

ii) Installing and implementation of WOCCU accounting nomenclature.

The project installed the WOCCU accounting system, which was pre-designed to suit the accounting needs of a model SACCO. Training of SACCO staff and supply of relevant stationeries for implementing the WOCCU accounting system was done. The SACCO

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implemented the system and all the financial reports are being reported in WOCCU accounting format and on WOCCU stationeries.

iii) *Routine follow up*

Project staff has been following up on the progress of accounting in the SACCO from time to time. This has been in a bid to identify the potential problems in the field of accounting. Activities carried out during routine follow up are, but not limited to; updating subsidiary and general ledgers, bank reconciliation statements, extraction of monthly financial statements and balancing the cash and daily journal book.

The project urges the SACCO not to deviate from the accounting system that was implemented and the spirit of preparing monthly financial statements should be maintained.

Governance

When the project joined the project the BOD and supervisory committee were not strong as far as credit administration is concerned. The first step done by the project was to draft of model by laws that was adopted by the BOD and AGM.

The SACCO BOD and supervisory committee attended many workshops/trainings that equipped them with knowledge to govern a SACCO. Workshops/trainings attended include; credit administration, roles and responsibilities of BOD, CREST training, financial management and risk management.

Management:

When the SACCO joined the project, it had no qualified manager with business acumen. The project placed a manager and facilitated the monthly salaries of the manager. From time to time SACCO management has been attending trainings/workshops and monthly technical meetings from where they have gained skills and knowledge of managing the SACCO in a professional manner.

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Policies and procedures:

When the SACCO joined the project it did not have policies related to specific areas, this inspired the project staff to draft such policies for Luweero Teachers' SACCO. WOCCU SACCO Net staff provided advice and submitted model draft policies on lending, saving, internal control and cash management. The above policies were presented to committees and management of the SACCO. WOCCU recommends the SACCO BOD to adopt and implement such policies; this will guide the SACCO along the model SACCO building process.

Lending

When the SACCO joined the project the following weaknesses prevailed in the lending process of the SACCO;

- a) Lending was based on the share and saving balances.
- b) The board decided on the interest rate on loans.
- c) No technical analysis of loans was carried out.

The SACCO was not aging its loan portfolio hence delinquency rates were not known; the potential loss that would arise from lending was not known.

The SACCO rendered technical assistance in stream lining the SACCO's lending process by advising both management and committees to analyze loans basing on 5Cs of credit.

LPAT was installed in the SACCO and it is currently used in tracking loan portfolio. In quarter 2 and 3 of 2003, the SACCO reported its delinquency using LPAT.

Financial Management

A SACCO must be safe and sound to stay in business, and to be safe and sound SACCO's financial management must be in place. When the SACCO joined the project the SACCO's

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financial management was not all the best, the project endeavored to strengthen the SACCO's financial management by organizing workshops/trainings/ seminars to discuss financial management related issues. Since financial management involves the balance between business and philosophy and application of a SACCO's sources and uses of funds, there was a great need to render technical assistance in this area.

Technical assistance in areas of pricing of products, cash management and finance was rendered to your SACCO. For instance the interest rate was set during the AGM, the project helped out the SACCO to set the interest rate based on operating costs, opportunity cost, loan loss provisions and market rates. The project stream lined cash management procedures and accounting in the SACCO.

Marketing

The project developed new strategies to market more efficiently the SACCO. This was done during the strategic planning session that was carried out by the SACCO, the Project together with the SACCO BOD identified the key result areas of the SACCO.

Tools

WOCCU designed a number of tools and templates that were installed and implemented in Luweero Teachers' SACCO, management and the BOD were trained how to use the tools and to interpret the reports delivered there from. The following are the tools that were installed and implemented in your SACCO;

i. *Loan Portfolio management Tool (LPAT):*

When the SACCO joined the project, it had no tool to monitor the loan portfolio and to track delinquency in the SACCO. Even the SACCO did not know the delinquency rate. LPAT was designed by WOCCU and its main purpose is to manage the loan portfolio and to track delinquency on a daily/monthly/quarterly or yearly basis. LPAT was installed in one computer the SACCO had and management was trained in the use of the tool. The SACCO implemented LPAT and currently the SACCO extracts monthly delinquency reports from this tool. WOCCU evidenced that LPAT is a good tool to monitor delinquency hence it recommendable for the SACCO to uphold the use of the tool.

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ii. PEARLS Monitoring tool:

The World Council of Credit Unions, Inc. (WOCCU) developed the PEARLS MS as a tool to help monitor and supervise SACCOs. PEARLS is the tool that monitors and analyses the financial performance of SACCOs. The tool was installed and management was trained in the use of the tool. WOCCU recommends the SACCO BOD and management to implement the tool since it highlights the financial strengths and weaknesses of a SACCO at a particular period of time.

iii. Credit Scoring Tool (CREST):

The Credit Scoring Tool (CREST) was developed for the World Council of Credit, to assist SACCOs in improving their credit approval process. The main objective of CREST is to have a proper analysis of loan applications based on 5C's of credit.

The project installed the tool, trained management and the BOD in its use. The tool was customized to suit the lending needs of Luweero Teachers' SACCO. WOCCU recommends the SACCO to implement this tool, as it's the main means of analyzing loan applications technically using five 5C's of credit. *Once this tool is implemented and properly used delinquency will reduce tremendously.*

Incentives

WOCCU SACCO Net project has been giving the SACCO some incentives both the monetary and material terms. The project facilitated the salaries of the Manager, since he was recruited to date. Stationeries for accounting and membership recruitment purposes were supplied to the SACCO at no cost. Some funding to cater for costs incurred in membership recruitment has been given to the SACCO from time to time. A computer set was donated to the SACCO during the period.

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ii. PEARLS Monitoring tool:

The World Council of Credit Unions, Inc. (WOCCU) developed the PEARLS MS as a tool to help monitor and supervise SACCOs. PEARLS is the tool that monitors and analyses the financial performance of SACCOs. The tool was installed and management was trained in the use of the tool. WOCCU recommends the SACCO BOD and management to implement the tool since it highlights the financial strengths and weaknesses of a SACCO at a particular period of time.

iii. Credit Scoring Tool (CREST):

The Credit Scoring Tool (CREST) was developed for the World Council of Credit, to assist SACCOs in improving their credit approval process. The main objective of CREST is to have a proper analysis of loan applications based on 5C's of credit.

The project installed the tool, trained management and the BOD in its use. The tool was customized to suit the lending needs of Luweero Teachers' SACCO. WOCCU recommends the SACCO to implement this tool, as it's the main means of analyzing loan applications technically using five 5C's of credit. Once this tool is implemented and properly used delinquency will reduce tremendously.

Incentives

WOCCU SACCO Net project has been giving the SACCO some incentives both the monetary and material terms. The project facilitated the salaries of the Manager, since he was recruited to date. Stationeries for accounting and membership recruitment purposes were supplied to the SACCO at no cost. Some funding to cater for costs incurred in membership recruitment has been given to the SACCO from time to time. A computer set was donated to the SACCO during the period.

The Analysis of PEARLS Financial Indicators

Table 1: Score and GAP Analysis for Luweero Teachers' SACCO comparing when the

SACCO joined the project and end of project

RATIOS	GOAL	Most recent financials when the SACCO joined the project (30 th June 2001)		End of project (30 th September 2003)	
		PEARLS	SCORES	PEARLS	SCORES
P2	100%	Not tracked	0	30.37%	0
P3	Yes	Not tracked	0	No	0
E1	Between 70-80%	57.72%	1	73.81%	1
E5	Between 70-80%	87.65%	0	85.25%	0
E9	Minimum 10%	-5.44%	0	-12.22%	0
A1	<=5%	Not tracked	0	30.63%	0
A2	<=5%	40.87%	0	25.46%	0
R7	>=R5	11.90%	1	0.00%	0
R9	3-10%	13.14%	0	92.78%	0
R12	>1 % only if E9>=10%	1.28%	0	26.92%	0
L2	10%	0.00%	0	0.00%	0
S10	Minimum 5%	100%	1	5.91%	1
S11	More than inflation	17.65%	1	1.72%	0
TOTAL SCORES			4		2
GAP			9		11

1. Protection

When the SACCO joined the project the discipline of provision for loan losses was not attended to. It was well known that high delinquency prevailed in the SACCO, but the real aging of loan portfolio was not known. The discipline of provisioning for loan losses was initiated by the project and in quarter 2, 2003 the SACCO started making provisions for loan losses. Though the made provisions for loan losses, it is still not adequate to protect member

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savings. Another setback is that inadequacy loan loss provisions inflate SACCO's assets and profitability. As at 30th September 2003, the SACCO provisioned for only UGX 8,535,107 whereas the actual adequate provisions for loan losses were supposed to be UGX 20,216,063. This implies that the SACCO was under provisioned by UGX 11,680,956, it is prudent for the SACCO to increase the provisions such that members' savings are protected sufficiently.

2. Effective financial structure.

a) Net loans outstanding

Net loans outstanding increased greatly since the SACCO joined the project to date. Net loans increased from UGX 60,763,086 as at 30th June 2001 to UGX 159,176,699 as at 30th September 2003. The SACCO registered an increase in loan portfolio by UGX 98,413,613 (161.96%). This was greatly contributed to growth in member savings in the same period. The ratio of net loans/total assets improved from 57.72% as at 30th June 2001 to 73.81% as at 30th September 2003, Luweero Teachers is commendable for this progress and is urged to sustain this trend.

b) The saving ratio

Luweero Teachers' succeeded in its members' savings mobilization programs as evidenced from the turn around in total savings. Total savings increased from UGX 92,267,579 as at 30th June 2001 to UGX 183,839,348 as at 30th September 2003. The SACCO registered an increase of UGX 91,571,769 (99.27%), this is a commendable trend which the SACCO should maintain. The ratio of savings deposits/total assets (E5) improved from 87.65% as at 30th June 2001 to 85.25% as at 30th September 2003, the SACCO is urged to place more saving deposits into loans in order to improve this ratio more to the acceptable standards.

c) The net institutional capital

The time the SACCO joined the project, its total institutional capital was negative due to accumulated losses that were registered by the SACCO. By 30th June 2002, total institutional capital was still negative but improved in the year 2003 due to high profits that were registered. Never the less net institutional capital has been negative since the SACCO joined the project to date, this was due to accumulated losses that were made in 2001 and 2003, and high delinquency that was recorded in quarter 2 and 3 of 2003. The ratio of net institutional

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capital/total assets worsened from -5.44% as at 30th June 2003 to -12.22% as at 30th September 2003. It is recommendable for the SACCO to tighten collection procedures in order to reduce delinquency and continues to make profits in a bid to build institutional capital.

3. Asset quality

By 10th October 2001, when the SACCO joined the project delinquency was not being tracked. Moreover it was well known that high delinquency prevailed in the SACCO, but due to unavailability of the tool to monitor and track loan portfolio the real delinquency level was unknown.

WOCCU SACCO Net installed Loan portfolio Monitoring Tool (LPAT) in the SACCO, the SACCO started tracking loan portfolio in quarter 2, 2003 as at 30th June 2003, delinquency rate was 34.16% and improved to 30.63% by 30th September 2003. This is a high rate compared to standards of <5%, the SACCO should endeavour to employ stringent collection efforts in order to reduce delinquency in the SACCO.

4. Rates of return and costs

Fin. Costs: Member shares/Avg. Member shares (R7)

The SACCO last paid interest on shares on 30th June 2001, since then the SACCO has never paid any return on member shares. It is prudent to reward members for investing in shares that is regarded as a risky investment. A rate greater or equal to that paid on savings should be paid on members' shares, it was projected in 2003 business plan that at least 3% should be paid on member shares. Luweero Teachers' should therefore pay a return on member shares.

The SACCO's non-earning assets as at 30th June 2002 were 31.75% of total assets, however the SACCO endeavored to reduce this ratio to 25.46% as at 30th September 2003. The big proportion of non-earning assets is the accounting discrepancy that was as a result of accounting problems in the SACCO. WOCCU hopes that once this discrepancy is resolved the ratio of non-earning assets to total assets will reduce. The maximum level of non-earning assets should be 10% of total assets.

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Operating expenses (R9)

Ever since the project started the operating expenses have increased. This was due to increased operations of the SACCO. The ratio of operating expenses/Average assets (R9) increased from 13.14% as at 30th June 2001 to 92.785 as at 30th September 2003, this due to change of the end of financial period for the SACCO. The SACCOs' figures as at 30th September 2003 represent 15 months of operation. However the SACCO should control operating expenses to the acceptable level 3-10% of average assets.

Profitability (R12)

Originally when the SACCO joined the project, it was making excessive losses even when no loan loss provisions were made. The SACCO started making profits in the 4th quarter of 2002 up date. It is worthy noting that the profits registered by the SACCO are overstated since adequate provisions for loan losses were not adequately made. The ratio of net income/average assets improved from 1.28% as at 30th June 2001 to 26.92% as at 30th September 2003. The SACCO should devise strategies of making more profits for building institutional capital.

5. Liquidity

The SACCO has never placed any funds into liquidity reserves as a defense in protecting members' savings. It requires that a SACCO should place at least 10% of members' savings into liquidity reserves. In prior reports the SACCO has been urged to protect members' savings by placing some funds into liquidity reserves, still WOCCU recommends the SACCO to do the same.

Members build confidence in a SACCO after knowing that their savings are safe and that they will be available when ever they are needed. In this respect therefore, a SACCO should have liquid assets-ST Payables/Total deposits (L1) of at least 15%. Luweero Teachers' L1 has been below the standard it was -0.18% as at 30th June 2001 when the SACCO joined the project compared to 2.51% as at 30th September 2003. This implies the liquidity problems currently faced by the SACCO.

6. Signs of growth

The Membership (S10)

The SACCO registered a success in its membership recruitment campaigns, membership was only 416 when the SACCO joined the project. Since then the SACCO, with technical assistance rendered by the project, launched membership recruitment drives that yielded positive results. By 30th September 2003, the SACCO had registered a total of 1,380 active members the SACCO is commendable for this healthy growth and is urged to sustain it.

Total assets (S11)

The growth of total saving deposits affected the overall growth of total assets. Total assets increased from UGX 105,271,368 as at 30th June 2001 to UGX 215,657,093 as at 30th September 2003. This growth should be maintained by mobilizing more saving deposits and placed into loan portfolio.

The way forward

Management should adopt the business plan that was designed by the project; the business plan is for 15 months that is from 30th September 2003 to 31st December 2004. The projections can be highlighted in the following discussion.

The growth in total assets was projected to be 110%, this will increase total assets from UGX 215,657,093 to UGX 452,879,895 as at the end of 2004.

Loan portfolio will increase from UGX 167,711,806 to UGX 339,364,073.

The source of funds is mainly savings mobilized during the business plan period, total savings deposits are expected to increase from UGX 183,839,348 to UGX 350,981,919. Share capital will increase from UGX 21,980,441 to UGX 36,230,392 as at the end of the year 2004. Delinquency is expected to reduce from 30.63% to 10.31% as at the end of 2004. The assumptions underlying the business plan are as follows.

The assumptions underlying the business plan are as follows.

- i. That membership will increase from 1,380 to 2,500
- ii. The SACCO will undertake aggressive membership recruitment drive.

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- iii. Stringent collection efforts will be employed to reduce delinquency.
- iv. Technical analysis of loans will be embarked upon by using CREST
- v. Marketing and sensitization will be carried out.
- vi. That saving deposits mobilized will be invested into loans and not non- earning assets.

Table 2: Luweero Teachers' SACCO Financial Statistics

Date Joined the Project:		10 th October 2001	
Report Date:		30 th September 2003	Target for December 2003
Members	Total	1,380	2,500
	Women	574	-
	Women (%)	41.59%	-
Loan Volume (Gross)	Total Ushs.	167,711,806	313,994,640
Average Loan Size:	Ushs.	201,577	-
Number of Micro enterprise Loans	Total (Actual)	129	-
	Women (Actual)	Not tracked	-
	Women % (Actual)	Not tracked	-
Savings Volume	Total (Actual)	183,839,348	341,208,942
Share Capital	Total (Actual)	21,980,441	33,308,492
Number of savers	Total (Actual)	1,217	-
Average Savings per member	Total (Actual)	151,059	-
Total Portfolio At Risk > 30 days overdue	Total (Actual)	51,369,908	13,000,000
Delinquency Rate %	Total (Actual)	30.63%	4.14%



World Council of Credit Unions, Inc.

**WOCCU SACCO NET PROJECT UGANDA
FINAL REPORT
To The Chairman and Board of
MEDECOS
Co-operative Savings and Credit Society Ltd (SACCO)**

December 2003

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“Quality SACCOs for Everyone”

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Executive Summary

The WOCCU/SACCO-NET project is a project of the World Council of Credit Unions, Inc. (WOCCU) funded by USAID under Co-operative Agreement number PCE-A-00-00-00025-00.

The objectives of the project were (1) Growth: establishing an outreach to a total of 49,000 members of the 14 SACCOs by end of the project; (2) Soundness: reaching capital reserve, delinquency, provisions and profitability goals for each of the SACCOs; (3) Reforms: updating key pricing, capitalization, governance and internal controls within participating SACCOs; and (4) Innovative services: introducing new savings and credit services targeted to serve the micro-entrepreneur and small rural producer.

The WOCCU SACCO NET Project has been working in partnership with your SACCO, MEDECOS SACCO since 1st October 2000 to date with the general objective of transforming your SACCO into a model SACCO using WOCCU's tools and methodologies.

The main purpose of WOCCU working with MEDECOS SACCO was to: 1) Introduce WOCCU's Savings and Credit Co-operative Society Model and improve the financial soundness and profitability of the SACCO. 2) Improve financial management through proper accounting systems and sound financial administration. 3) Establish proper credit policies and procedures. 4) Develop effective saving policies and marketing tools to promote savings and membership growth of the SACCO. 5) Increase saving mobilization through institutional strengthening and image building.

The project will come to an end on the 31st December 2003 after a three-and-a-quarter-year tenure in Uganda. The report that follows recapitulates the activities carried out by the project with your SACCO, stressing the situation in which we have left the SACCO and where we see it headed in times to come.

An analysis of PEARLS financial indicators at the time when the SACCO joined the project and as at 30th September 2003 will also be included along side a narration of the technical assistance that was delivered to your SACCO up to 30th September 2003. Areas of emphasis include but not limited to; 1) Accounting (2) Governance (3) Management (4) Saving Mobilisation (5) Policies (6) Lending (7) Financial Management (8) Marketing (9) Tools.

The project would like to express their appreciation to the Board of Directors, Supervisory Committee and Management of the SACCO for participating in the project and it is hoped that MEDECOS SACCO will continue to work towards the goal of becoming a model SACCO.

It has been our pleasure working with MEDECOS SACCO

TECHNICAL ASSISTANCE DELIVERED SINCE 1st October 2000 to 30th September 2003.

Since the SACCO joined the project on 1st October 2000, WOCCU SACCO Net has rendered technical assistance in fields of accounting, management, tools, policies and procedures, governance, saving mobilisation, financial management, lending activities and marketing. The discussion here below narrates the technical assistance in detail delivered during the project period and the impact it had to the SACCO.

ACCOUNTING.

When the SACCO joined the project Accounting was in a bad shape, the SACCO used to prepare the final accounts; income statement and balance sheet on a quarterly basis. The books were not up date the time the SACCO joined the project. With the technical assistance rendered by the project the SACCO is now able to prepare final accounts on a monthly basis, that is 15 days after the close of the previous month.

The Project carried out the following activities in order to streamline accounting of the SACCO.

i) Training:

The SACCO management was trained in accounting basics especially double entry system, bank reconciliation and extraction of final accounts. It is worthy noting that the SACCO management can update the relevant accounts and produce monthly financial statements in time.

ii) Installing and implementation of WOCCU accounting nomenclature.

The project installed the WOCCU accounting system, which was pre-designed to suit the accounting needs of a model SACCO. Training of SACCO staff and supply of relevant stationeries for implementing the WOCCU accounting system was done. The SACCO implemented the system and all the financial reports are being reported in WOCCU accounting format and on WOCCU stationeries.

iii) Routine follow up

The project staff has been following up the progress of accounting in the SACCO from time to time. This has been in a bid to identify the potential problems in the field of accounting. Activities carried out during routine follow up are but not limited to; updating subsidiary and general ledgers, bank reconciliation statements, extraction of monthly financial statements and balancing the cash and daily journal book.

The project urges the SACCO not to deviate from the accounting system that was implemented and the spirit of preparing monthly financial statements should be maintained.

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Governance

When the project joined the project the BOD and supervisory committee were not strong as far as credit administration is concerned. The first step done by the project was to draft of model by laws that were adopted by the BOD and AGM.

The SACCO BOD and supervisory committee attended many workshops/trainings that equipped them with knowledge to govern a SACCO. Workshops/trainings attended include but not limited to; Credit administration, roles and responsibilities of BOD, CREST training, financial management and risk management.

Management

The SACCO had a manager at the time it joined the project. From time to time SACCO management has been attending trainings/workshops and monthly technical meetings from where they have gained skills and knowledge of managing the SACCO in a professional manner. The SACCO management was trained in basic accounting, computer applications and credit administration, to mention but a few.

Policies and procedures:

When the SACCO joined the project it did not have strong policies related to specific areas, this inspired the project staff to draft such policies for MEDECOS SACCO.

WOCCU SACCO Net staff provided advice and submitted model draft policies on lending, saving, internal control and cash management. The above policies were presented to committees and management of the SACCO. WOCCU recommends the SACCO BOD to adopt and implement such policies; this will guide the SACCO along the model SACCO building process.

Lending

When the SACCO joined the project the following weaknesses prevailed in the lending process of the SACCO;

- a) Lending was based on the share and saving balances.
- b) The board decided on the interest rate on loans.
- c) No technical analysis of loans was carried out.

The SACCO was not aging its loan portfolio hence delinquency rates were not known; the potential loss that would arise from lending was not known.

The SACCO rendered technical assistance in stream lining the SACCO's lending process by advising both management and committees to analyze loans basing on 5Cs of credit.

LPAT was installed in the SACCO and it is currently used in tracking loan portfolio. In quarter 2 and 3 of 2003, the SACCO reported its delinquency using LPAT.

Financial Management

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A SACCO must be safe and sound to stay in business, and to be safe and sound SACCO's financial management must be in place. When the SACCO joined the project the SACCO's financial management was not all the best, the project endeavored to strengthen the SACCO's financial management by organizing workshops/trainings/ seminars to discuss financial management related issues. Since financial management involves the balance between business and philosophy and application of a SACCO's sources and uses of funds, there was a great need to render technical assistance in this area.

Technical assistance in areas of pricing of products, cash management and finance was rendered to your SACCO. For instance interest rate was set by the board, the project helped out the SACCO to set the interest rate basing on operating costs, opportunity cost, loan loss provisions and market rates. The project steam lined cash management procedures and accounting in the SACCO.

Tools

WOCCU designed a number of tools and templates that were installed and implemented in MEDECOS SACCO, management and the BOD were trained how to use the tools and to interpret the reports delivered there from. The following are the tools that were installed and implemented in your SACCO;

i. Loan Portfolio management Tool (LPAT):

When the SACCO joined the project, it had no tool to monitor the loan portfolio and to track delinquency in the SACCO. Even the SACCO did not know the delinquency rate. LPAT was designed by WOCCU and its main purpose is to manage the loan portfolio and to track delinquency on a daily/monthly/quarterly or yearly basis. LPAT was installed in one computer the SACCO had and management was trained in the use of the tool. The BOD should implement LPAT as a tool to track loan portfolio and to analyze loan delinquency of the SACCO.

ii. PEARLS Monitoring tool:

The World Council of Credit Unions, Inc. (WOCCU) developed the PEARLS MS as a tool to help monitor and supervise SACCOs. PEARLS is the tool that monitors and analyses the financial performance of SACCOs. The tool was installed and management was trained in the use of the tool. WOCCU recommends the SACCO BOD and management to implement the tool since it highlights the financial strengths and weaknesses of a SACCO at a particular period of time.

iii. Scoring Tool Credit (CREST):

The Credit Scoring Tool (CREST) was developed for the World Council of Credit, to assist SACCOs in improving their credit approval process. The main objective of CREST is to have a proper analysis of loan applications based on 5C's of credit. Management, BOD and supervisory committee were trained n the use and practicability of the tool. Management of the SACCO is urged to adopt the tool in order to strengthen the process of loan approval.

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Incentives

The project provided incentives to the SACCO both material and financial. Stationeries that were used in accounting updates and membership recruitment were supplied by the project at no cost. The project donated furniture and a computer set to the SACCO during the period.

The Analysis of PEARLS Financial Indicators

Table 1: Score and GAP Analysis for MEDECOS SACCO comparing when the SACCO joined the project and end of project

RATIOS	GOAL	Most recent financials when the SACCO joined the project (30 th June 2000)		End of project (30 th September 2003)	
		PEARLS	SCORES	PEARLS	SCORES
P2	100%	Not tracked	0	31.46%	0
P3	Yes	Not tracked	0	No	0
E1	Between 70-80%	75.16%	1	84.01%	0
E5	Between 70-80%	76.43%	1	79.17%	1
E9	Minimum 10%	4.14%	0	-6.23%	0
A1	<=5%	Not tracked	0	25.42%	0
A2	<=5%	23.31%	0	13.16%	0
R7	>=R5	0.00%	0	0.00%	0
R9	3-10%	10.35%	0	27.08%	0
R12	>1 % only if E9>=10%	1.86%	0	-16.84%	0
L2	10%	0.00%	0	0.00%	0
S10	Minimum 5%	15.79%	1	10.21%	1
S11	More than inflation	35.52%	1	-12.53%	0
TOTAL SCORES			3		2
GAP			10		11

1. Protection

When the SACCO joined the project, it was not making any provisions for loan losses even when delinquency prevailed in the SACCO. The SACCO started making provisions for loan losses in quarter 1, 2003 as at 30th September 2003, the SACCO had provisioned a total of UGX 6,813,516. WOCCU noted that even though MEDECOS makes provisions for loan losses they are still inadequate. According to LPAT data the SACCO would have provisioned for loan losses amount totaling to UGX 19,050,650. The SACCO should therefore make adequate provisions not to overstate the profitability and assets.

2. Effective financial structure.

a) Net loans outstanding

The SACCO's loan portfolio has been increasing since the SACCO joined the project to date. Net loans increased from UGX 108,643,702 as of 30th June 2000 to UGX 201,865,251 as of 30th September 2003. This has been due the steady increase of members' savings. The ratio of net loans/total assets increased from 75.16% as of 30th June 2000 to 84.01% as of 30th September 2003. The ratio of 84.01% however does not compare well with the standard of 70-80%. WOCCU argues the SACCO to bring down this ratio to the acceptable standards; this can be done by investing some funds in liquidity reserves.

b) The saving ratio

Savings of MEDECOS have been increasing since the SACCO joined the project to date. Savings increased from UGX 110,484,103 as of 30th June 2000 to UGX 190,247,869 as of 30th September 2003. The ratio of saving deposits/total assets increased from 76.43% as of 30th June 2000 to 79.17% as of 30th September 2003, this ratio compares well with the standard. The SACCO is urged to maintain this ratio.

c) The net institutional capital

The ratio of Net institutional capital/total assets worsened from 4.14% as of 30th June 2000 to -6.23% as of 30th September 2003. This was due to high delinquency that was recorded in quarter 2, 2003. Note that the SACCO started to track delinquency in the second quarter of 2003. The excessive losses made in quarter 3 of 2003, worsened the net institutional capital. Note that the ratio of net institutional capital/total assets should be at least 10% and above. The SACCO should employ aggressive collection techniques to reduce delinquency; means of earning of more income should be devised.

3. Asset quality

By the time the SACCO joined the project, delinquency was not tracked there was no system and tool to track delinquency. The project installed LPAT in one computer that was donated by the project. The SACCO started to age and analyse the loan portfolio in the second quarter of 2003. As of 30th September 2003, delinquency was 25.142% this is high compared to the standard of <=5%. The SACCO should endeavour to reduce delinquency to the acceptable levels.

The SACCO managed to reduce the level of non-earning assets to some extent. However the proportion of non-earning assets/total assets is still high when compared to standards of excellence. A2 improved from 23.31% as of 30th June 2000 to 13.16% as of 30th September 2003. Note that WOCCU recommends that a SACCO should not maintain non-earning assets of more than 5% of total assets.

4. Rates of return and costs

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Fin. Costs: Member shares/Avg. Member shares (R7)

Since the SACCO joined the project, members were rewarded once for shares purchased in the SACCO. A rate of 6.25% was paid only in quarter 2 of 2001; WOCCU recommends that a rate more than that paid on saving deposits should be paid on members' shares. The SACCO pay a rate equal or greater than market rates to encourage members to buy more shares, potential members can also be encouraged to join the SACCO.

Operating expenses (R9)

The SACCO's operating costs have been in control since the SACCO joined the project up to the last quarter when operating costs tremendously increased, that contributed to loss the SACCO registered in the last quarter. R9 was 27.08% as of 30th September 2003 compared to the standard of 3-10%. The SACCO should control the level of operating expenses.

Profitability (R12)

The SACCO has been making profits since it joined the project until the 3rd quarter of 2003, when the SACCO registered excessive losses. R12 as of 30th September 2003 was -16.84% compared to the standard of greater than 1%. Still the loss registered by the SACCO was understated due to an inadequacy in provisions that were made as of 30th September 2003. The SACCO should advise means of earning more revenue in order to increase profitability in the SACCO. Delinquency control should be a priority; delinquent loans should be collected and be re-invested.

5. Liquidity

The SACCO has never placed any funds into liquidity reserves. It is a requirement for the SACCO to place 10% of members' saving deposits into liquidity reserves. The SACCO should adhere to this discipline in order to protect members' savings.

6. Signs of growth

The Membership (S10)

Membership growth for MEDECOS has been sluggish over the period between 30th June 2000 and 30th September 2003. The SACCO should launch aggressive membership recruitment campaigns. Marketing strategies should be employed to achieve membership targets. The target for 31st December 2003 is 3,000 members but by 30th September 2003, the SACCO had only 259 members.

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Total assets (S11)

Total assets increased progressively from 30th June 2000 to 30th June 2003 until in 3rd quarter of 2003 when total assets decreased by 12.53%. WOCCU recommends that total assets for a SACCO should grow more than inflation, S11 as of 30th September 2003 of -12.53% compares badly with the inflation rate of 9.40% as at the same period.

The way forward

The source of funds is mainly savings mobilized during the business plan period, total savings deposits are expected to increase from UGX 190,247,869 to UGX 358,995,384 Share capital will increase from UGX 37,704,016 to UGX 47,577,702 as of the end of the year 2004. Delinquency is expected to reduce from 25.42% to 6.39% as at the end of 2004. The assumptions underlying the business plan are as follows.

- i. That member ship will increase from 259 to 700
- ii. The SACCO will undertake aggressive membership recruitment drive.
- iii. Stringent collection efforts will be employed to reduce delinquency.
- iv. Marketing and sensitization will be carried out.
- v. That saving deposits mobilized will be invested into loans not non- earning assets

Table 2: MEDECOS SACCO Financial Statistics

Date Joined the Project:		30 th September 2003	1 st October 2000
Report Date:		30 th September 2003	Target for December 2003
Members	Total	259	3,000
	Women	70	-
	Women (%)	27.03%	-
Loan Volume (Gross)	Total Ushs.	208,678,767	1,119,627,143
Average Loan Size:	Ushs.	993,708	-
Number of Micro enterprise Loans	Total (Actual)	41	-
	Women (Actual)	Not tracked	-
	Women % (Actual)	Not tracked	-
Savings Volume	Total (Actual)	190,247,869	1,139,012,042
Share Capital	Total (Actual)	37,704,016	12,424,623
Number of savers	Total (Actual)	259	-
Average Savings per member	Total (Actual)	734,549	-
Total Portfolio At Risk > 30 days overdue	Total (Actual)	52,401,367	-
Delinquency Rate %	Total (Actual)	25.42%	-

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World Council of Credit Unions, Inc.

WOCUU/SACCO NET PROJECT UGANDA

Final Report

**To The Chairman and Board
Of**

**MIB
Co-Operative Savings and Credit Society Ltd (SACCO)**

December 2003

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“Quality SACCOs for Everyone”

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MIB SACCO, Final Report

Executive Summary

MIB is an urban SACCO located in Kampala city and started operations on 22 November 1979. Prior to joining WOCCU partnership, it was closed bond and served Radio Uganda employees. The SACCO carried out core business and managed non-financial activities (two Canteens). The SACCO faces competition from a number of institutions like PRIDE, FINCA, VEDCO, PAP, Private moneylenders, and Banks. MIB is currently open bonded, offering core business services to Radio Uganda employees and the surrounding community. It still manages the Canteens. It operates from 8:00 am to 5:00 pm from Monday through Friday.

WOCCU SACCO Net Uganda introduced the WOCCU Credit Union Model so as to assist MIB to improve its accounting, management, credit, and marketing operations. The Model was to further improve the financial soundness and profitability of the SACCOs through the building of capital reserves, strict lending and delinquency control, controlling expenses, and introducing new products. The Project has implemented this model and acknowledges the SACCO to have successfully participated. WOCCU hopes MIB will progress with the utilization of the attained skills and tools available to maintain WOCCU Credit Union Model.

The project will address the progress of the SACCO from when it joined the project to up to September 30, 2003. Attention will be basically given to:

- A. *Technical Assistance* delivered to the SACCO since it joined WOCCU SACCO Net Uganda Project
- B. Incentives provided to the SACCO
- C. Detailed analysis of the 13 PEARLS financial indicators and the way forward of the SACCO

The PEARLS: indicators, Balance Sheet, and Income Statement have been attached for reference.

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A. Technical Assistance delivered since the SACCO joined WOCCU

1. Accounting and Finance

1.1 Technical Assistance Books of accounts and financial statements were prepared using the traditional method and on annual basis. The general and personal ledgers were not balancing. There was no standard chart of accounts the SACCO could follow when preparing books of accounts.

The Project improved the SACCO by introducing and implementing modern accounting system (standard chart of accounts). A modern accounting system was implemented through WOCCU's empowering the SACCO personnel with accounting and finance skills, and supervising the process thereafter. The empowerment and monitoring involved both on site and out of site trainings and physical technical visits.

To insure the implementation process was affordable to the SACCO, the Project provided necessary accounting stationary like Cash and Dairy Journal, General ledger, Subsidiary ledger, Bank Reconciliation forms, and Loan, Shares, and Savings Cards at zero cost.

Through such technical support, the SACCO successfully adopted and implemented the modern accounting system. MIB is able to produce and present to management, Board, members, and external consumers: regular monthly reports, which do not only include balance sheet and income statements, but encompasses other informative reports like financial ratio, delinquency and quarterly survey statements. Those Reports have helped the SACCO make more informed financial decisions.

1.2 Challenges encountered

1.2.1 External Auditor The SACCO is still engaging the Registrar of Co-operatives as its external auditor. Adequate scrutiny into the operations of MIB is not being enhanced, because the external auditor is not versed with some principals of modern accounting. The challenge can be resolved through hiring an external auditor who is well versed with SACCO operations and modern accounting systems.

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1.2.2 Automation The SACCO is almost at this stage. Currently it transacts most of its business using computers but has not yet acquired software. MIB is to put resources together for this purpose.

2. Governance

Formally the Board was non-financial business oriented. The impact is evidenced when the major revenue activities were the two canteens. With WOCCU's enlightenment, the Board has influenced the SACCO to deliver the real core business of Share Capital, Savings, Credit and other financial services though the Canteen business supplements it.

2.2 Bylaws Originally the bylaws invested a lot of powers in Members rather than Board. Some crucial decisions like pricing of SACCO product could wait for members' approval moreover economic trends (market rate changes) could not bend towards that. Members could pass bylaws, which favored them. For example members could pass low product prices (Interest rates. With the guidance of the Project, the members have passed bylaws, which give more powers to the Board to make decisions on behalf of the Members and which authorizes management to implement those decisions.

2.3 Polices and Procedures Lending and Collection policy and procedure was in place but it lacked modern financial techniques. WOCCU has presented, discussed with management and Board, this modern policy and procedure but it is pending to be adopted and implemented. The Project has also provided the SACCO with standard polices and procedures to guide it while making other polices and procedures.

2.1 Micromanagement There was tendency of the Board getting involved in SACCO management. For instance continuous monitoring of the SACCO operations by some board members was felt. WOCCU has empowered the Board with roles and responsibilities of the Board through workshops and site training. Now the Board makes SACCO decision, Management implements and Supervisory committee ensures that decisions are implemented and policies and procedures are followed.

3 Financial Management

3.1 Financial Margin The SACCO used to determine its financial margins basing on operating expenses. The Project has trained the SACCO on business planning and it is

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now used as a basis to determine financial margins. When determining the price of financial products, Business plan puts in considerations:

- i. Operation costs
- ii. Financial costs
- iii. Provision for risk assets
- iv. Inflation.

3.3 Internal Controls Before joining WOCCU, MIB had a safe, but there were no checks and balances to ensure safety of cash. Cash control measures were also not established.

Currently the Manager is in charge of the safe who is checked by the Board. The following measures are in place to ensure proper cash control.

- i. Treasury register that tracks the balance in the safe and movement of cash between the safe and counter exists.
- ii. Enclosed counters, which are only accessible to Cashier exists to safeguard cash at hand.
- iii. Daily cash transactions are tracked in daily teller settlement sheets, which are verified by the Manager on the daily basis

3.3 Challenges Staff who handle money are still not bonded, thus in case of theft the loss of the society funds would not be covered. The society does not have a silent alarm against robbery or a fire detector. Those are the stages the SACCO is moving to. When ready the Staff will be taught some silent alarm techniques in case of robberies. Also a fire detector, fire fighting equipment and an alarm will be put in place to safeguard the SACCO assets.

4. Savings MIB SACCO used to offer non-withdrawable savings attracting 10% interest, and sight deposits, which attracted no interest. The SACCO currently offers withdrawable savings but without interests paid. The reward has been impossible due to financial constrains MIB faces due to persistent less profit being generated. The SACCO should re-price its products, by introducing new products, and doubling its effort in controlling personal expenses and delinquency. This will enable the SACCO to generate enough income to reward savers and build institutional capital.

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5. Lending

5.1 Disbursement MIB used to grant loans using a leverage of 2:1 with savings forming the basis. The maximum loan granted was Ugx 2,000,000. The SACCO considered payroll shares and savings when evaluating loans. The loan repayment period was 12 months.

With acquired lending skills, MIB now:

- i. Charges competitive interest rate of 3% per month
- i. Bases on the 5Cs (character, capacity, collateral, credit history, and conditions of the loan) to grant loans
- ii. Has repayment schedule template, which it uses to extract repayment schedules for borrowers
- iii. Grants minimum loan of Ugx 50,000 and maximum Ugx 1,500,000
- iv. And there is diversified repayment period ranging from 3 months to 12 months.

5.2 Delinquency control Before the SACCO joined the Project; Repayments were done through payroll deductions; hence the SACCO was relaxed to impose recovery measures. Members could refinance and/or restructure their loans without a delinquent penalty charged provided they paid interest and also reinsure the loan. MIB could hardly establish the position of delinquency.

The SACCO now ages its loans with aid of LPAT, (Loan Portfolio Analysis Tool). MIB is able to track delinquent loans and follow them for collection. Repayments are both by check-off and hard cash. Members first complete servicing outstanding loans before another is granted. There is no restructuring of loans instead delinquent penult is charged on overdue loans.

6. Tools The Project has equipped the SACCO Personnel with knowledge of the three WOCCU tool: PEARLS, LPAT, and CREST.

PEARLS: Protection, Effective Financial Structure, and Asset Quality, Rate of Return and Cost, Liquidity, and Sings of Growth

LPAT: Loan Portfolio Analysis tool

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CREST: Credit Scoring Tool

6.1 PEALRS The SACCO is in position to: Interpret, analyze make Business Plan, and report using this tool. For instance business plan for the Period October 1, 2003 to December 31, 2004 has been built based on PEALS reports.

6.2 LPAT The SACCO is able to age, analyze delinquency baser on the LPAT report to enforce effective recovery actions on delinquent loans. The tool has helped the SACCO to expose the danger of delinquent loans. MIB is to proceed using this tool for easy delinquency control and reporting.

6.3 CREST The Board and Management have been trained on how to use this tool and it is just pending implementation. The tool will reduce delinquency since disbursements will go to only credit-worthy borrowers.

B. Incentives provided to the SACCO The Project contributed to the smooth running of the SACCO through equipping it with a set of computer and its accessories. WOCCU further supplemented governance costs by contributing towards the annual general meeting costs.

Management WOCCU identified, screened, and recruited a manager for the SACCO. The Project also shouldered the responsibility of maintaining the Manager until December 31, 2003. This has blessed the SACCO with proper personal, financial management and proper management of general activities.

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C. Detailed Analysis of the 13 PEARLS Financial Indicators

Table 1 Analysis of PEARLS Financial Indicators

Ratio	P2	P3	E1	E5	E9	A1	A2	R7	R9	R12	L2	S10	S11	SCORE
Goal	100% of allowances for >1<12 months	Complete charge off YES	>=50% <=80%	>=50% <=80%	>=5%	<=10%	<=10%	>Inflation	<=10%	>=1% (Only if E9>=5%)	>=9% <=10%	>=5%	>=Inflation	
30 September 2000														
Ratio	0.00	No	86.23	86.00	-7.23	0.00	4.36	0.00	10.91	4.07	0.00	0.00	0.00	
Score	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	1/13
30 September 2003														
Ratio	0.00	No	78.51	100.98	-46.41	61.98	14.15	0.00	45.18	1.90	0.00	8.79	-11.53	
Score	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	2/13

MIB has improved its financial discipline from 1 score to 2 by end September 2003. This leaves the SACCO with the gap of 11. The SACCO is to progress utilizing attained skills and WOCCU tools to fully achieve and maintain the financial discipline.

1. Protection

MIB SACCO joined the Project with un-aged outstanding loan portfolio amounting to Ugx 47,690,322; therefore, it was hard to ascertain protection needed by then. However with implementation of Loan Portfolio analysis tool (LPAT), the SACCO now ages its loans.

As at September 2003, delinquent loans between 1 to 12 months and above 12 months were Ugx: 25,902,275 and 6,736,124. Those needed protection of Ugx 15,801,920

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(9,065,796 + 6,736,124) but only Ugx 2,500,000 was provisioned. This inflated assets and income by Ugx 13,301,920. The implication is that if all provisions were made the SACCO would have made a loss of Ugx 12,654,331. The SACCO should control and recover delinquent loans if it is to avoid losses originating from delinquency.

The SACCO was to make a complete write-off of Ugx 6,736,124 but it did not. This would have reduced loan portfolio by Ugx 6,736,124 thereby by leaving Ugx 45,922,077 as outstanding loans. MIB should implement S.T.O.P (stop tolerating over due accounts by stopping them.) campaign if it is to avoid such reduction of loan portfolio.

For the period ended December 31, 2004, the SACCO is to provision Ugx 20,000,000 and 5,000,000 for loans delinquent between 1 to 12 months and above 12 months. The provision will effectively cover projected portfolio of Ugx 111,898,959. This implies that protection of 35% and 100% needed on delinquent loans between: 1 to 12 months and above 12 months will be fully made.

2. Effective Financial Structure

2.1 Net loans outstanding (E1) Outstanding loan portfolio has increased by Ugx 4,967,879 from when MIB came part of the Project to end of September 2003. The increase is as a result of outstanding portfolio increasing from Ugx: 47,690,322 as of March 31, 2001 to 52,658,201 by September 30, 2003. The increase altered E1 from 86.23% to 78.51% as illustrated by table 1 above.

E1 is within WOCCU commendable financial standard: 50% to 80%, the SACCO is to maintain this discipline. The SACCO further projects to increase its loan portfolio from Ugx: 52,658,201 to 111,898,959 by December 31, 2004. The change will slightly alter E1 from 78.51% to 78.18%. This will be within the standard goal 70% to 80%; hence MIB is to proceed with this trend.

2.2 The Savings Ratio (E5) MIB joined WOCCU when its Savings deposits amounted to Ugx 47,564,320 compared to Ugx 64,513,876 outstanding as of September 30, 2003. The change registered an increase of Ugx 16,949,556. The increase in deposits changed E5 from 86.00% to 100.98% as shown in table 1.

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The SACCO is above the WOCCU commendable standard by 20.98%. This is due to existence of some savings, which are not physically traceable. The situation will be improved through mobilizing more savings and investing them in earning assets like loan portfolio. MIB has initiated this through projecting to increase Savings deposits from Ugx: 64,513,876 to 116,278,357 by December 30, 2004. The shift in savings will improve E5 from 100.98 to 91.00 in the same period. Though 91% will be still above the goal 50 to 90%, it is commendable to move toward the attainment of the standard.

2.3 Net institutional Capital Ratio (E9) Table 1 indicates shift in E9 (Net Institutional Capital/Total Assets) from -7.23% to -46.41% from: when MIB joined the Project to September 30, 2003. A sharp decline occurred because: the beginning of the impact of delinquency on E9 was not tracked. Now potential losses due to occurrence of delinquency are also considered.

The SACCO is to control and reduce expenses and delinquency, and collect delinquent loans if it is to build E9 to standard of >5%. MIB projects to increase its institutional capital by Ugx 5,883,582 for the period ended December 31, 2004. The changes will alter E9 from -46.41% to -8. Though E9 will still be below WOCCU standard >5%, it will be a worthy move towards attaining this financial discipline. The SACCO should proceed with this movement.

3. Asset Quality:

3.1 Delinquency (A1): Before MIB joining the Project, its delinquency was not tracked. After the SACCO was trained and equipped with LPAT software, MIB now poses of aged loan portfolio amounting to Ugx 52,658,201. Of these loans, Ugx: 25,902,275 and 6,736,124 are delinquent loans between 1 to 12 months and above 12 months. Table 1 specifies A1 (total delinquency/gross loan portfolio) as being 61.98% as at September 30, 2003, compared to WOCCU recommendable standard $\leq 10\%$.

Portfolio at risk (Ugx 32,638,399) is a big challenge to the SACCO. This should be battled through implementation of CREST and S.T.O.P (Stop Tolerating Over due accounts by Preventing them) campaign. The SACCO plans to reduce its delinquent

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loans to Ugx 25,000,000 by December 31, 2004. In turn A1 will shift from 61.98% to 22.34%. A1 will still be outrageous but will be a fair improvement towards the goal.

3.2 Non-Earning Assets (A2) The ratio of Non-Earning assets to total assets worsened from 4.36% from when MIB SACCO joined WOCCU, to 14.15% by end of September 2003. The composition of those assets is mainly liquid, account receivable, and fixed assets amounting to Ugx 9,043,333 by September 30, 2003. Those assets are high compared to actual assets (Ugx 6,388,921), which were to be maintained by the end of September.

The SACCO plans to improve A2 to WOCCU commendable goal: $\geq 9\%$ $\leq 10\%$ by reducing Non-Earning assets and increasing Earning assets. Case in point is: MIB plans to reduce the non-earning assets from Ugx 9,043,333 to 8,305,597. The reduction will change the A2 from 14.15% to 6.5%. This will leave MIB with a challenge of clearing the gap of 1.5%.

4. Rates of Return and Costs (Annualised)

4.1 Member Share Dividend (R7) MIB has not been rewarding its members on their Share capital. The SACCO plans to award 4% of members' share capital to members for the period ending December 31, 2004. The rate is below the current inflation rate by 5.4% but this makes a humble beginning. The SACCO is to continue with this trend until it maintains a reward greater than inflation rate.

4.2 The Operating Expenses/Average Assets [R9] Average monthly operating expenses were Ugx: 503,005 when MIB joined WOCCU compared to Ugx 2,569,055 (Average monthly operating expenses) by September 30, 2003. In the same period, R9 altered from 10.91% to 45.18%. R9 is outrageous compared to the WOCCU recommended goal $\leq 10\%$. MIB has yet to reduce and control delinquency and operating expenses to achieve WOCCU discipline. For example, the SACCO is to reduce monthly average operating expenses from Ugx: 1,911,305 to 1,372,857 for the period ending December 31, 2004.

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4.3 The profitability (R12) MIB has incurred annual-average loss of Ugx 283,058 since it joined the Project. The trend in R12 from 4.07%, -6.16%, 0.42%, and to 1.09% since the SACCO joined the Project to September 30, 2003 elaborates this. Those losses are due to low margin against high operating costs. The SACCO is to improve its profitability through product re-price, control of expenses, and offering new products for it to improve on the situation.

5. Liquidity:

5.1 Liquidity Reserve/Total Savings Deposits (L2) The SACCO is not currently maintaining liquidity reserves. However, it plans to have reserves amounting to Ugx 14,886,185 by December 31, 2004. The reserves will shift L2 from 0% to 12.80%. L2 will be above the goal: $\geq 9\% \leq 10\%$ by 2.8%. The SACCO can invest the excess in loan portfolio so that MIB can achieve this discipline.

6. Growth

6.1 The membership (S10) By September 30, 2003, MIB had grown its membership to 755 members, compared to 50 members the SACCO had when it joined WOCCU. This change registered an increase of 705 members. The general grow rate is within the WOCCU recommended growth rate of $>5\%$, MIB is to continue mobilising more members. For instance the SACCO is to increase by 745 members by December 31, 2004.

6.2 The Total Assets (S11): Prior to MIB's joining the Project; its total assets were 55,306,484 compared to Ugx 63,889,207. The increase in assets was mainly boosted by increase in loan portfolio. MIB SACCO should continue growing its assets above inflation rate.



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WOCCU/SACCO NET PROJECT UGANDA

Final Report

**To The Chairman and Board
Of**

**Naddangira
Co-Operative Savings and Credit Society Ltd (SACCO)**

December 2003

WOCCU SACCO NET Project
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Executive Summary

Naddangira opened its operations on October 6, 1994 to administer Savings and Credits. The SACCO is open bond and is located in the Kakiri trading center 19 miles on Kampala-Hoima road. It operates from 8:00 am to 5:00 pm Monday to Friday and from 10:00 am to 4:00 pm on Saturdays. It was an intermediary agency for two government credit programmes namely Entandikwa Credit Scheme (ECS) and Poverty Alleviation Programme (PAP). Now it has narrowed to Savings and Credit activities. Credit is financed by Savings and supplemented by external loans from Rural Micro-finance Support Programme (RMSP).

WOCCU SACCO Net Uganda came into partnership with Naddangira SACCO to introduce the WOCCU Credit Union Model so as to assist it to improve its accounting, management, credit, and marketing operations. This in turn was to improve the financial soundness and profitability of the SACCO through the building of capital reserves, strict lending and delinquency control, controlling expenses, and introducing new products. The Project has implemented the model and acknowledges the SACCO to have successfully participated. WOCCU hopes the SACCO will progress with the utilization of attained skills and tools available to maintain the WOCCU Credit Union Model.

The project will address the progress of the SACCO from when it joined the project up to September 30, 2003. Attention will be basically given to:

- A. Technical Assistance delivered to the SACCO since it joined WOCCU SACCO Net Uganda Project
- B. Incentives provided to the SACCO
- C. Detailed analysis of the 13 PEARLS financial indicators and the way forward of the SACCO

The PEARLS: indicators, Balance Sheet, and Income Statement have been attached for the SACCO reference.

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A. Technical Assistance delivered since the SACCO joined WOCCU

1. Accounting and Finance

1.1 Technical Assistance Originally books of accounts and financial statements (balance sheet, income statement, and fixed assets summary) were prepared using traditional methods and on an annual basis. Financial ratios were not used to determine the SACCO's current financial discipline nor did Naddangira provide financial reports to members.

The Project improved the SACCO by introducing and implementing a standard chart of accounts (modern accounting system). An accounting chart was implemented through WOCCU's empowering the SACCO personnel with accounting and finance skills, and supervising the process thereafter. The empowerment and monitoring involved both on site and out of site trainings and physical technical visits.

To insure the implementation process was affordable to the SACCO, the Project provided necessary accounting stationary like Cash and Dairy Journal, General ledger, Subsidiary ledger, Bank Reconciliation forms, Loan, Shares, and Savings Cards, at zero cost.

Through such technical support, the SACCO successfully adopted and implemented the standard chart of accounts. Currently, Naddangira is able to produce and present to management, BOD and members: regular monthly reports, which do not only include: balance sheet, income statement and fixed asset summary, but also encompasses other informative reports like financial ratio, delinquency and quarterly survey statements. Those Reports have helped the SACCO make more informed financial decisions.

Members have access to financial reports and they make decisions based on them. A case in point is when every member was provided with the financial statements for their analysis during the annual general meeting. The reports are in both English and local languages (Luganda), to enhance full understanding of reports.

1.2 Challenges encountered

1.2.1 External Auditor The SACCO is still engaging the Registrar of Co-operatives as its external auditor. Adequate scrutiny into the operations of Naddangira is not being enhanced, because the external auditor is not versed with most principals related to new charts of accounts. The challenge can be resolved through hiring an external auditor who is well versed with SACCO operations and modern accounting system.

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1.2.2 Backlog Resignation of the Operations Manager affected the accounting progress. The SACCO is unable to prepare timely financial reports due to accounting backlog. A specialist from UCSCU was hired to rectify this but no sooner had he left than the situation worsened. WOCCU has continued to provide technical assistance in this respect but all in vein. The backlog is due to sluggishness of accounting staff to adjust to the demands of the growing SACCO. The remedy is to hire a qualified and effective accountant.

1.2.3 Automation The SACCO is not prepared to invest into computer system, because of accounting challenges being encountered. The automation will be possible when Naddangira has online accounts.

2. Governance

Formally the Board was socially minded. Social mentality is evidenced when the Board used to address poverty alleviation activities than providing financial services with a view of making profit. With WOCCU enlightenment, the Board is now business focused. The oriented mentality is witnessed when the Board turned the SACCO from being intermediary agency for ECS and PAP to real financial business of mobilizing Savings and disbursing Loans.

2.1 Micromanagement Prior to SACCO's joining the Project, there was tendency of the Board getting involved in SACCO management. For instance the board could authorize charges on both Savings withdraws and Loans. After WOCCU empowered the Board with roles and responsibilities of the Board through workshops and site training, they are now fully independent of Management. The board makes the decision, Management implements and Supervisory committee ensures decisions are implemented and policies and procedures are followed.

2.2 Bylaws Originally the bylaws invested a lot of powers in Members than the Board. Some crucial decision like pricing of SACCO product could wait for members' approval moreover market rates changes cannot bend towards that. There was tendency of bending the bylaws to favor members' interest. For instance members could price products (Interest rates), in their favor. With the guidance of the Project, the members have passed bylaws, which give powers to the Board to make decisions on behalf of the Members and which authorizes management to implement those decisions.

2.3 Polices and Procedures Those were in place but they lacked current financial techniques. They included: Savings, Lending and Collection, policies and procedures. WOCCU has presented, discussed with management and Board the modern Lending and Collection policy and procedure and is pending to be adopted and implemented. The Project has also provided the SACCO with standard polices and procedures to guide it while making other polices and procedures.

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3 Financial Management

3.1 Net income This income was distributed as below:

- i. Patronage Bonus: 60%
- ii. Incentive to Staff: 20%
- iii. Dividends: 10%
- iv. Development fund: 10%

Those allocations were computed as follows:

- i. Patronage bonus was based on members' savings,
- ii. Dividends on shares
- iii. And staff incentives on staff position on the organization chart.

WOCCU advocated for Net income to be used to build institutional capital. The SACCO welcomed the advice and implemented it. Since then, Naddangira has adjusted its institutional capital from negative Ugx 2,115,809 to Ugx 6,762,398 by end of September 2003.

3.2 Financial Margin The SACCO used to determine its financial margins basing on its operating expenses. The Project has trained the SACCO on business planning and it now bases on it to determine financial margin. Business plan puts in consideration:

- i. Operation costs
- ii. Financial costs
- iii. Provision for risk assets
- iv. And Inflation when determining the price of financial products.

3.3 Internal Controls Before Joining WOCCU, Naddangira had a safe, but access to cash was not dually controlled. No policy was in place stating maximum amount of cash to be maintained in the SACCO. Cash control measures were also not established. This was confirmed by absence of:

- i. Treasury register to record movement of cash between the strong safe and counter.
- ii. Procedures which control and maintain a balanced cashier's drawer
- iii. Surprise checks to ensure safe handling of by Cash Cashier
- iv. And absence of Segregation of cash management

Currently there is dual access to the safe. The safe has two keys the inner one and outer. The manager keeps one and accountant keeps the other. They are also in charge of the strong room; no one can access it without the other. The maximum cash retained in the safe is Ugx 3,000,000. The treasurer does surprise Checks and balances. The Manager, Treasurer, and chairman ensure safety of cash at banks.

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The following measures are in place to ensure proper control of cash.

- i. Treasury register which tracks the balance in the safe and movement of cash between the safe and counter. In case of any deficit/surplus the Cashier has to investigate and rectify it.
- ii. An enclosed counter, which is only accessible to Cashier, exists to safeguard cash at hand. Daily cash transactions are trapped in daily teller settlement sheet, which is verified by the Manager on the daily basis
- v. There is clear segregation of cash management. The Cashier does disbursement and receiving of cash, Manager registers it, and Accountant and Manager ensure its custody.

3.4 Challenges Staff who handle money are still not bonded, thus in case of theft the loss of the society funds would not be covered. The society does not have a silent alarm against robbery or a fire detector. Those are the stages the SACCO is moving towards. When Naddangira is ready the Staff will be taught some silent alarm techniques in case of robberies. Fire fighting equipment and an alarm will be put in place to safeguard the SACCO assets.

4. Savings The SACCO was intermediary agency for two government credit programmes namely Entandikwa Credit Scheme (ECS) and Poverty Alleviation Programme (PAP). It could generate some Savings, which were granted as 4-months short-term loans to both members and non-members. Savings provided were Regular, Sight and Pledged savings products. The pledged savings (un-withdrawable Savings) formed the bigger part of the savings portfolio. By September 30, 2000, pledged savings were Ugx. 16,269,981 compared to regular Savings of Ugx 9,544,750. This indicates that clients were being forced to save in order to access credit.

Naddangira has changed its operations from being mainly credit provider to Savings and Credit provider. Currently all SACCO savings (Regular, Sight, and Fixed) are withdrawable. The SACCO offers annual interest rate of 4% on Regular savings and no interest on sight deposits. It further offers the following on fixed deposits.

- i. 2% on 3 months Deposits
- ii. 4% on 6 months Deposits
- iii. 6% on 9 months Deposits
- iv. 8% on 12 months Deposits

The Flexibility in Savings has enabled Naddangira to mobilize Savings from Ugx: 29,427,731 as at September 30, 2003, to 126,403,875 by September 2003. This is a clear indication that voluntary savings yields more deposits compared to forced ones.

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5. Lending

5.1 Disbursement Naddangira joined WOCCU when loans were granted using leveraging of savings of 2:1. The SACCO considered amount in savings, repayment capacity, credit history and type of guarantee when analyzing a loan application. The SACCO had no minimum or maximum loan to be disbursed to a borrower. And it did not have repayment schedules.

After empowering the SACCO with lending skills, Naddangira:

- i. Bases on the 5Cs (character, capacity, collateral, credit history, and conditions of the loan) to grant loans.
- ii. Grants minimum loan of Ugx 200,000 and maximum Ugx 2,000,000
- iii. Charges monthly rate of 3% on RMSP (6 months) and Short Term (4 months) loans, and annual rate of 22% on long-term loans (12 months).
- iv. Has repayment schedule template, which it uses to extract repayment schedule for borrowers.
- v. Has credit committee consisting of some: Management and Board members who approves loans.
- vi.

5.2 Delinquency control Before the SACCO joined the Project; it could hardly establish the position of delinquency. After implementing monthly loans aging by aid of LPAT, (Loan Portfolio Analysis Tool), Naddangira is able to track delinquent loans and follow them up for collection.

The SACCO is further controlling delinquency by approaching rebellious borrowers through:

- i. Judicial process
- ii. Collecting from guarantors
- iii. And seizing collateral pledged for a loan.

5.3 Outreach Naddangira faces a challenge of some borrowers being far from the SACCO. Distance costs a lot to the SACCO when following up delinquent loans. Naddangira is to set up operational centers to effectively reach the customers and reduce on costs incurred.

6. Marketing The SACCO used to have 12 months loans to meet demands of agriculture and limited four-months-loans for business borrowers. Besides that, it could market its products and services through person-to-person contacts. The business community was given less attention when conducting those activities.

Currently Naddangira is equipped with marketing skills which has enabled it to:

- i. Increase four-months loans and introduced six-month loans (short term and RMSP loans) to accommodate business community
- ii. Market its self through brochures and person-to-person contacts
- iii. And to attract Savings through offering withdrawable savings (like Sight deposits and Fixed deposits), which has turned round, the SACCO from being Credit focused to both savings and credit oriented.

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7. Tools The Project has equipped the SACCO Personnel with knowledge of the three WOCCU tool: PEARLS, LPAT, and CREST.

PEARLS: Protection, Effective Financial Structure, and Asset Quality, Rate of Return and Cost, Liquidity, and Sings of Growth

LPAT: Loan Portfolio Analysis tool

CREST: Credit Scoring Tool

7.1 PEALRS The SACCO is in position to: Interpret, analyze, prepare business plans, and report using this tool. For instance business plan for the Period October 1, 2003 to December 31, 2004 has been built basing on PEALS reports.

7.2 LPAT The SACCO is able to age, analyze delinquency and base on LPAT report to enforce effective recovery actions on delinquent loans. The tool has helped the SACCO to expose the danger of delinquent loans. Naddangira is to proceed using this tool for easy delinquency control and reporting.

7.3 CREST The Board and Management have been trained on how to use this tool and it is just pending implementation. The tool will reduce delinquency since disbursements will go to only credit-worth borrowers.

B. Incentives provided to the SACCO The Project contributed to the image and smooth operations of the SACCO through Provision of:

- i. Furniture
- ii. Operations Manager (left after some time)
- iii. And accounting serves (Hired a specialist from UCSCU to clear the backlog).

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C. Detailed Analysis of the 13 PEARLS Financial Indicators

Table 1 Analysis of PEARLS Financial Indicators

Ratio	P2	P3	E1	E5	E9	A1	A2	R7	R9	R12	L2	S10	S11	SCORE
Goal	100% of allowances for >1<12 months	Complete charge off YES	>=50% <=80%	>=50% <=80%	>=5%	<=10%	<=10%	>Inflation	<=10%	>=10% (Only if E9>=5%)	>=9% <=10%	>=5%	<=Inflation	
30 September 2000														
Ratio	0.00	No	40.87	85.10	-6.12	0.00	40.99	0.00	21.71	0.24	0.00	0.00	0.00	
Score	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1/13
30 September 2003														
Ratio	0.00	No	68.95	77.69	-19.93	57.26	26.17	0.00	13.84	8.51	0.00	14.01	24.21	
Score	0.00	0.00	1.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	1.00	4/13

Naddangira has improved its financial discipline from 1 score to 4 by as at September 2003. This leaves the SACCO with the gap 9. The SACCO is to progress with utilization of the skill and WOCCU tool to fully achieves and maintains the above financial discipline.

1. Protection

Naddangira entered into partnership with WOCCU with un-aged loan portfolio amounting to Ugx 14,133,560. This made it hard to establish provisions needed by then. With the introduction of LPAT (loan Portfolio Analysis Tool), the SACCO has ascertained its delinquent loans from 1 to 12 months and above 12 months as amounting to Ugx: 51,910,771 and 12,872,324 respectively. Those required provisions of Ugx: 18,168,770 and 12,872,324 but only provision of Ugx 935,650 was made. This over stated assets and income by Ugx 30,105,444.

This challenge is to be rectified by making a provision of Ugx: 36,000,000 and 4,000,000 for loans delinquent between 1 to 12 months and above 12 months. This will effectively protect projected loan portfolio of Ugx 180,648,242 by December 31, 2003. The SACCO is to carry on protecting it loan portfolio as long as it continues to experience delinquency challenges.

The SACCO was to make a complete write-off of Ugx 12,872,324. This SACCO needs to write off Ugx 8,000,000 by December 31 2004.



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**WOCCU SACCO NET PROJECT UGANDA
FINAL REPORT
To The Chairman and Board of
South Buganda Teachers'
Co-operative Savings and Credit Society Ltd (SACCO)**

December 2003

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“Quality SACCOs for Everyone”

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Executive Summary

The WOCCU SACCO NET Project has been working in partnership with your SACCO, South Buganda Teachers' SACCO since 31st October 2001 to date with the general objective of transforming your SACCO into a model SACCO using WOCCU's tools and methodologies. The main purpose of WOCCU working with South Buganda Teachers' SACCO was to; 1) Introduce "WOCCU's Savings and Credit Co-operative Society Model" and improve the financial soundness and profitability of the SACCO. 2) Improve financial management through proper accounting systems and sound financial administration. 3) Establish proper credit policies and procedures. 4) Develop effective saving policies and marketing tools to promote savings and membership growth of the SACCO. 5) Increase saving mobilisation through institutional strengthening and image building.

What follows in this report is the analysis of PEARLS financial indicators at the time when the SACCO joined the project and as at 30th September 2003. Included in this report is the brief discussion of technical assistance that was delivered to your SACCO up to 30th September 2003. Areas of emphasis include but not limited to; 1) Accounting (2) Governance (3) Management (4) Saving Mobilisation (5) Policies (6) Lending (7) Financial Management (8) Marketing (10) Tools.

The report highlights the challenges encountered during the period while delivering the technical assistance and the way forward for model SACCO building process.

TECHNICAL ASSISTANCE DELIVERED SINCE 31st October 2001 to 30th September 2003.

Since the SACCO joined the project on 31st October 2001, WOCCU SACCO Net has rendered technical assistance in fields of accounting, management, tools, policies and procedures, governance, saving mobilisation, financial management, lending activities and marketing. The discussion here below narrates the technical assistance in detail delivered during the project period and the impact it had to the SACCO.

ACCOUNTING.

When the SACCO joined the project Accounting was in a bad shape, the SACCO used to prepare the final accounts; income statement and balance sheet once in a year. This was done in preparation for the AGM, above all not accurate. With the technical assistance rendered by the project the SACCO is now able to prepare final accounts on a monthly basis, that is 15 days after the close of the previous month.

The Project carried out the following activities in order to streamline accounting of the SACCO.

i) Training:

The SACCO management was trained in accounting basics especially double entry system, bank reconciliation and extraction of final accounts. It is worthy noting that the SACCO management can update the relevant accounts and produce monthly financial statements in time.

ii) Installing and implementation of WOCCU accounting nomenclature.

Originally the SACCO was using a traditional accounting system. The SACCO neither had subsidiary nor general ledgers; The SACCO was not preparing monthly financial reports.

The project installed the WOCCU accounting system, which was pre-designed to suit the accounting needs of a model SACCO. Training of SACCO staff and supply of relevant stationeries for implementing the WOCCU accounting system was done. The SACCO implemented the system and all the financial reports are being reported in WOCCU accounting format and on WOCCU stationeries.

iii) Routine follow up

The project staff has been following up the progress of accounting in the SACCO from time to time. This has been in a bid to identify the potential problems in the field of accounting. Activities carried out during routine follow up are but not limited to; updating subsidiary and general ledgers, bank reconciliation statements, extraction of monthly financial statements and balancing the cash and daily journal book.

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The project urges the SACCO not to deviate from the accounting system that was implemented and the spirit of preparing monthly financial statements should be maintained.

Governance

When the project joined the project the BOD and supervisory committee were not strong as far as credit administration is concerned. The first step done by the project was to draft of model by laws that was adopted by the BOD and AGM.

The SACCO BOD and supervisory committee attended many workshops/trainings that equipped them with knowledge to govern a SACCO. Workshops/trainings attended include; Credit administration, roles and responsibilities of BOD, CREST training, financial management and risk management.

Management:

When the SACCO joined the project, it had no qualified manager with business acumen. The project placed a manager and facilitated the monthly salaries of the manager. From time to time SACCO management has been attending trainings/workshops and monthly technical meetings from where they have gained skills and knowledge of managing the SACCO in a professional manner. The project helped the SACCO in identifying and recruiting 3 employees, the SACCO pays their salaries.

Saving Mobilisation:

The SACCO facilitated the saving mobilisation campaigns in the SACCO; a consultant was hired by the project to spearhead the saving mobilisation. The SACCO was able to mobilise savings from UGX 73,827,472 as at 31st December 2001 to UGX 106,658,382 as at 30th September 2003.

Policies and procedures:

When the SACCO joined the project it had the saving and lending policies that were updated and major areas were not considered. This inspired the project staff to draft new saving and lending policies for the SACCO.

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WOCCU SACCO Net staff provided advice and submitted model draft policies on lending and saving. The above policies were presented to committees and management of the SACCO. WOCCU recommends the SACCO BOD to adopt and implement such policies; this will guide the SACCO along the model SACCO building process.

Lending

When the SACCO joined the project the following weaknesses prevailed in the lending process of the SACCO;

- a) Lending was based on the share and saving balances.
- b) The board decided on the interest rate on loans.
- c) No technical analysis of loans was carried out.

The SACCO was not aging its loan portfolio hence delinquency rates were not known; the potential loss that would arise from lending was not known.

The project rendered technical assistance in stream lining the SACCO's lending process by advising both management and committees to analyze loans basing on 5Cs of credit.

LPAT was installed in the SACCO and it is currently used in tracking loan portfolio. In quarter 2 and 3 of 2003, the SACCO reported its delinquency using LPAT.

Financial Management

A SACCO must be safe and sound to stay in business, and to be safe and sound SACCO's financial management must be in place. When the SACCO joined the project the SACCO's financial management was not all the best, the project endeavored to strengthen the SACCO's financial management by organizing workshops/trainings/ seminars to discuss financial management related issues. Since financial management involves the balance between business and philosophy and application of a SACCO's sources and uses of funds, there was a great need to render technical assistance in this area.

Technical assistance in areas of pricing of products, cash management and finance was rendered to your SACCO. For instance interest rate was set during the AGM, the project

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helped out the SACCO to set the interest rate basing on operating costs, opportunity cost, loan loss provisions and market rates. The project stream lined cash management procedures and accounting in the SACCO.

Marketing

When the SACCO joined the project it did not have a marketing function, though marketing is marketing is a very important aspect to any business activity.

The project developed new strategies to market more efficiently the SACCO. This was done during the strategic planning session that was carried out by the SACCO, the Project together with the SACCO BOD identified the key result areas of the SACCO.

Tools

WOCCU designed a number of tools and templates that were installed and implemented in South Buganda Teachers' SACCO, management and the BOD were trained how to use the tools and to interpret the reports delivered there from. The following are the tools that were installed and implemented in your SACCO;

i. ***Loan Portfolio management Tool (LPAT):***

When the SACCO joined the project, it had no tool to monitor the loan portfolio and to track delinquency in the SACCO. Even the SACCO did not know the delinquency rate.

LPAT was designed by WOCCU and its main purpose is to manage the loan portfolio and to track delinquency on a daily/monthly/quarterly or yearly basis. LPAT was installed in one computer the project donated to the SACCO and management was trained in the use of the tool. The SACCO implemented LPAT and currently the SACCO extracts monthly delinquency reports using this tool. WOCCU evidenced that LPAT is a good tool to monitor delinquency hence it recommendable for the SACCO to uphold the use of the tool.

ii. ***PEARLS Monitoring tool:***

The World Council of Credit Unions, Inc. (WOCCU) developed the PEARLS MS as a tool to help monitor and supervise SACCOs. PEARLS is the tool that monitors and analyses the financial performance of SACCOs. The tool was installed and management was trained in the use of the tool. WOCCU recommends the SACCO BOD and management to

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implement the tool since it highlights the financial strengths and weaknesses of a SACCO at a particular period of time.

iii. Credit Scoring Tool (CREST):

The Credit Scoring Tool (CREST) was developed for the World Council of Credit Unions, to assist SACCOs in improving their credit approval process. The main objective of CREST is to have a proper analysis of loan applications based on 5C's of credit.

The project installed the tool, trained management and the BOD in its use. The tool was customized to suit the lending needs of South Buganda SACCO. WOCCU recommends the SACCO to implement this tool, as it's the main means of analyzing loan applications technically using five 5C's of credit. Once this tool is implemented and properly used delinquency will reduce tremendously.

Incentives

WOCCU SACCO Net project has been giving the SACCO some incentives both the monetary and material terms. The project facilitated the salaries of the Manager, since he was recruited to date. Stationeries for accounting and membership recruitment purposes were supplied to the SACCO at no cost. Some funding to cater for costs incurred in membership recruitment has been given to the SACCO from time to time.

Furniture and equipment were donated to the SACCO; this was done in order to improve the image of the SACCO. The project funded for the construction of the banking hall. A computer set was donated to the SACCO during the period.

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The Analysis of PEARLS Financial Indicators

Table 1: Score and GAP Analysis for South Buganda Teachers' SACCO comparing when the SACCO joined the project and end of project

	Most recent financials when the SACCO joined the project (31 st December 2000)		End of project (30 th September 2003)	
RATIOS	PEARLS	SCORES	PEARLS	SCORES
P2	Not tracked	0	2.75%	0
P3	Not tracked	0	Yes	1
E1	67.40%	1	55.20%	1
E5	89.55%	0	62.49%	1
E9	-30.88%	0	-19.95%	0
A1	Not tracked	0	51.52%	0
A2	31.59%	0	44.56%	0
R7	0.00%	0	0.00%	0
R9	16.77%	0	41.87%	0
R12	-8.16%	0	-2.81%	0
L2	0.00%	0	0.00%	0
S10	0.79%	0	129.26%	0
S11	-3.14%	0	-12.17%	0
TOTAL SCORES		1		3
GAP		12		12

1. Protection

When the SACCO joined the project, the discipline of provision for loan losses was unadhered to. The loan portfolio was not aged and therefore the potential loss from loans to members could not be ascertained. The project could not establish the real level of

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delinquency due to the accumulation of many loans on one member's loan card. However it was well known that delinquency in the SACCO was very high.

The project installed LPAT and trained staff in the usage of the tool; this was in a bid to help out the SACCO in tracking the loan portfolio and its analysis. With technical assistance rendered by the project, the SACCO reports delinquency using LPAT. Never the less the SACCO has not yet adopted the discipline of making adequate provisions. WOCCU recommends that the SACCO should adequately provision for loan losses to avoid overstating SACCO assets and profitability.

2. Effective financial structure.

a) Net loans outstanding

Net loans increased from UGX 51,206,744 as at 30th December 2000 to UGX 94,914,143 as at 30th September 2003. WOCCU noted that a total of UGX 33,872,083 is not aged and traceable, it was therefore reclassified as problem asset in the business plan for 2004. The ratio of net loans/total assets decreased from 67.40% as at 31st December 2000 to 55.20% as at 30th September 2003. The SACCO should place more saving deposits into loan portfolio in order to improve this ratio. Note that the standard of excellence is 70-80%.

b) The saving ratio

The savings volume of the SACCO increased from UGX 68,033,396 as at 31st December 2000 to UGX 106,658,382 as at 30th September 2003. The ratio of saving deposits to total assets decreased from 89.55% as at 31st December 2000 to 62.49% as at 30th September 2003. WOCCU noted that most of the SACCO's savings are pledged savings. It is recommendable the SACCO should mobilize regular and fully withdraw able savings and pay a competitive rate on the savings. The SACCO should endeavor to launch aggressive saving mobilization campaigns in a bid to increase savings portfolio in the SACCO.

c) The net institutional capital

Ever since the SACCO joined the project, net institutional capital has been negative. The ratio of net institutional capital/total assets (E9) was -30.88% as at 31st December 2000 compared to -19.95%, though net institutional capital improved it remained negative and

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undesirable when compared to standards of minimum of 10%. The reasons following the negativity of net institutional capital are accumulated losses registered by the SACCO and high delinquency. The SACCO should build its institutional capital by controlling its operational costs to make profits and delinquency should be controlled to the acceptable levels of <5%

3. Asset quality

By the time the SACCO joined the project, delinquency was not tracked even though it was known that delinquency was high. Many loans with one running balance were accumulated on one member's loan card making it difficult to track delinquency in the SACCO. When LPAT was installed in the SACCO, delinquency is tracked on a monthly basis. Delinquency in the SACCO is high and should be controlled to the acceptable levels. As at 30th September 2003, delinquency rate was 51.52%, which improved from 54.49% as at 30th June 2003. High delinquency limits the SACCO to earn more income, it is recommendable for the SACCO to reduce delinquency to the acceptable levels of <5%.

As at 31st December 2000, the ratio of non-earning assets/total assets (A2) was 31.59% compared to 44.56% as at 30th September 2003. This ratio is likely to increase when the junk loans are transferred to problem assets. WOCCU recommends A2 for the SACCO to be less than 5%.

4. Rates of return and costs

Fin. Costs: Member shares/Avg. Member shares (R7)

The SACCO paid once a return on member shares, the SACCO paid 0.30% in quarter 3 2002. This return was very low considered to market rates and inflation; it is prudent to pay a return on shares at least greater than R5, though it was greater it was still below the standard. The SACCO paid a return of 0.27% on member savings, this was very low the standard –market rates. The SACCO should pay considerable rates on member shares and saving deposits.

Operating expenses (R9)

The ratio of operating expenses/average assets (R9) was 16.77% as at 31st December 2000 compared to 41.87% as at 30th September 2003. The failure of the SACCO to control operating expenses is the major cause of excessive losses registered by the SACCO. Once these operating costs are controlled the SACCO will be in position to register profits to build institutional capital. The SACCO is urged to control the operating costs to the standard of 3-10%.

Profitability (R12)

The profitability of the SACCO has not been consistent since the SACCO joined the project. Some times the SACCO has been registering profits and sometimes losses. The SACCO made a loss of UGX 6,298,671 as at 31st December 2000, a profit of UGX 5,503,567 as at 31st December 2002 then a loss of UGX 3,838,511 as at 30th September 2003. The ratio of net income/average assets (R12) improved from -8.16% as at 31st December 2000 to -2.81% as at 30th September 2003. The SACCO should devise strategies of making profits especially in controlling operating expenses and delinquency.

5. Liquidity

The SACCO has never taken an initiative of placing a proportion of member savings into liquidity reserves. While WOCCU recommends that a SACCO should place 10% of saving deposits into liquidity reserves (L2), South Buganda Teachers' L2 has been nil ever since the SACCO started operations. The SACCO should adhere to this discipline as recommended by WOCCU.

6. Signs of growth

The Membership (S10)

South Buganda Teachers' SACCO succeeded in membership mobilization programs where by the total membership increased from only 127 members as of 31st December 2000 to 3,212 as of 30th September 2003. However this gigantic membership growth does not go with savings growth during the same period. S10 increased from 0.79% as of 31st December 2000 to 129.26% as of 30th September 2003. The SACCO should encourage members to save with the SACCO such that liquidity constraints can be lessened.

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Total assets (\$11)

Total assets increased from UGX 75,968,963 as of 31st December 2000 to UGX 171,090,071 as of 30th September 2003. However the growth of total assets has not been consistent since the SACCO joined the project to date. Note that WOCCU recommends that total assets should grow more than inflation. South Buganda Teachers' SACCO should therefore mobilize more savings and be placed into loans to increase total assets.

The way forward

Management should adopt the business plan that was designed by the project; the business plan is for 15 months that is from 30th September 2003 to 31st December 2004. The projections can be highlighted in the following discussion.

The growth in total assets was projected to be 50%, this will increase total assets from UGX 171,090,071 to UGX 256,635,107 as at the end of 2004.

Loan portfolio will increase from UGX 61,042,060 to UGX 143,395,142.

Note: Only UGX 61,042,060 was used as the loan balance; a total of UGX 33,872,083 was transferred to problems assets account because these loans are not traceable.

The source of funds is mainly savings mobilized during the business plan period, total savings deposits are expected to increase from UGX 106,921,477 to UGX 179,644,575.

Share capital will increase from UGX 57,159,155 to UGX 67,187,071 as at the end of the year 2004. Delinquency is expected to reduce from 51.52% to 11.86% as at the end of 2004.

The assumptions underlying the business plan are as follows.

The assumptions underlying the business plan are as follows.

- i. That member ship will increase from 3,212 to 4,000
- ii. The SACCO will undertake membership recruitment drive.
- iii. Stringent collection efforts will be employed to reduce delinquency.
- iv. Technical analysis of loans will be embarked up on by using CREST
- v. Marketing and sensitization will be carried out.
- vi. That saving deposits mobilized will be invested into loans not non- earning assets.

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Table 2: South Buganda Teachers' SACCO Financial Statistics

Date Joined the Project:		31 st October 2000	
Report Date:		30 th September 2003	Target for December 2003
Members	Total	3,212	3,000
	Women	1,328	-
	Women (%)	41.34%	-
Loan Volume (Gross)	Total Ushs.	94,443,918	668,096,595
Average Loan Size:	Ushs.	268,307	-
Number of Micro enterprise Loans	Total (Actual)	94	-
	Women (Actual)	Not tracked	-
	Women % (Actual)	Not tracked	-
Savings Volume	Total (Actual)	106,921,477	658,299,335
Share Capital	Total (Actual)	57,159,155	16,752,089
Number of savers	Total (Actual)	2,767	-
Average Savings per member	Total (Actual)	38,642	219,433
Total Portfolio At Risk > 30 days overdue	Total (Actual)	15,022,940	-
	Total (Actual)		
Delinquency Rate %	Total (Actual)	51.52%	-
ROE or ROA %	Total (Actual)		



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WOCCU / SACCO NET PROJECT UGANDA

FINAL REPORT

**To The Chairman and Board of
UCB Employees'
Co-operative Savings and Credit Society Ltd (SACCO)**

Kampala, UGANDA.

December 2003

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"Quality SACCOs for Everyone"

Executive Summary

The WOCCU/SACCO-NET project is a project of the World Council of Credit Unions, Inc. (WOCCU) funded by USAID under Co-operative Agreement number PCE-A-00-00-00025-00.

The objectives of the project were (1) Growth: establishing an outreach to a total of 49,000 members of the 14 SACCOs by end of the project; (2) Soundness: reaching capital reserve, delinquency, provisions and profitability goals for each of the SACCOs; (3) Reforms: updating key pricing, capitalization, governance and internal controls within participating SACCOs; and (4) Innovative services: introducing new savings and credit services targeted to serve the micro-entrepreneur and small rural producer.

The WOCCU SACCO NET Project has been working in partnership with your SACCO, UCB Employees' SACCO since 1st October 2000 to date with the general objective of transforming your SACCO into a model SACCO using WOCCU's tools and methodologies.

The main purpose of WOCCU working with UCB Employees' SACCO was to: 1) Introduce WOCCU's Savings and Credit Co-operative Society Model and improve the financial soundness and profitability of the SACCO. 2) Improve financial management through proper accounting systems and sound financial administration. 3) Establish proper credit policies and procedures. 4) Develop effective saving policies and marketing tools to promote savings and membership growth of the SACCO. 5) Increase saving mobilization through institutional strengthening and image building.

The project ended on the 31st December 2003 after a three-and-a-quarter-year tenure in Uganda. The report that follows recapitulates the activities carried out by the project with your SACCO, stressing the situation in which we have left the SACCO and where we see it headed in times to come.

An analysis of PEARLS financial indicators at the time when the SACCO joined the project and as of 30th September 2003 will also be included along side a narration of the technical assistance that was delivered to your SACCO up to 30th September 2003. Areas of emphasis include but not limited to; 1) Accounting (2) Governance (3) Management (4) Saving Mobilisation (5) Policies (6) Lending (7) Financial Management (8) Marketing (9) Tools.

The project would like to express their appreciation to the Board of Directors, Supervisory Committee and Management of the SACCO for participating in the project and it is hoped that UCB Employees' SACCO will continue to work towards the goal of becoming a model SACCO. It has been our pleasure working with UCB Employees' SACCO

TECHNICAL ASSISTANCE RENDERED:

Since the SACCO joined the project on 1st October 2000, WOCCU SACCO Net has rendered technical assistance in the fields of accounting, management, tools, policies and procedures, governance, saving mobilisation, financial management, lending activities and marketing. Below, is the detailed technical assistance delivered during the project lifespan and the impact it had to the SACCO.

Governance

The project has concentrated its efforts in empowering the BOD and supervisory committee, knowing that governance plays a pivotal role in the development of a model SACCO. The first step done by the project was to draft of model by laws that was adopted by the BOD and AGM.

The SACCO BOD and supervisory committee attended many workshops/trainings that equipped them with knowledge to govern a SACCO. Workshops/trainings attended include; Credit administration, roles and responsibilities of BOD, financial management and risk management.

Management:

From time to time SACCO management has been attending trainings/workshops and monthly technical meetings from where they have gained skills and knowledge of managing the SACCO in a professional manner. The project has helped in the recruitment of a manager.

Saving Mobilisation:

The project hired an expert in savings mobilisation to deliver training on this topic. During the tenure of the project, the SACCO has increased its savings deposits by UGX 137,334,882 from UGX 533,026,770 to UGX 670,361,652.

Policies and procedures:

WOCCU SACCO Net staff provided advice and submitted model draft policies on lending and saving. The above policies were presented to committees and management of the SACCO. WOCCU recommends the SACCO BOD to adopt and implement such policies; this will guide the SACCO along the model SACCO building process.

Lending

The SACCO was not aging its loan portfolio properly and hence accurate delinquency rates were not known; the potential loss that would arise from lending was not known.

Using LPAT at the project offices, the project is currently tracking loan portfolio. In quarter 2 and 3 of 2003, the SACCO reported its delinquency using LPAT.

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Financial Management

A SACCO must be safe and sound to stay in business, and to be safe and sound SACCO's financial management must be in place. The project endeavored to strengthen the SACCO's financial management by organizing workshops/trainings/ seminars to discuss financial management related issues. Since financial management involves the balance between business and philosophy and application of a SACCO's sources and uses of funds, there was a great need to render technical assistance in this area.

Technical assistance in areas of pricing of products, cash management and finance was rendered to your SACCO. For instance interest rate was set during the AGM, the project helped out the SACCO to set the interest rate based on operating costs, opportunity cost, loan loss provisions and market rates. The project streamlined cash management procedures and accounting in the SACCO.

Tools

The BOD and management of the SACCO have been trained on the use of Loan Portfolio management Tool (LPAT) and PEARLS Monitoring System.

ANALYSIS OF FINANCIAL PERFORMANCE:

Table 1: Comparison of PEARLS Ratios

	Goal	31-Jul-00		30-Sep-03	
		Ratio	Score	Ratio	Score
P2	100% of allowances for >1<12 mo.	100.00%	1	0.00%	0
P3	Complete Charge-off YES	Yes	1	No	0
E1	>=50 to 80%	81.96%	0	68.47%	1
E5	>=50 to 80%	76.75%	1	74.77%	1
E9	>=5%	3.27%	0	9.08%	1
A1	=< 10%	NA	0	5.55%	1
A2	=<10%	14.46%	0	1.07%	1
R7	>Inflation	0.00%	0	0.00%	0
R9	<=10%	2.04%	1	1.08%	1
R12	>=1% (Only if E9 >=5%)	3.08%	0	5.50%	1
L2	>=9%<=10%	0.00%	0	0.00%	0
S10	>= 5%	100.00%	1	-6.09%	0
S11	>=Inflation	17.79%	1	15.55%	1
		Total Score	6	Total Score	8
		Gap	7	Gap	5

*The project commenced operations on October 1 2000. This data is the closest data to this date for the SACCO

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a. Protection

As at 30th September 2003, Loan Loss allowances for UCB SACCO stood at UGX 5,448,915. It is commendable that your SACCO provides for loan losses because this not only portrays a more realistic figure for the loan portfolio but also provides a financial cushion in case the loan becomes completely irrecoverable. The SACCO has also improved on its level of loan loss provisions from UGX 4,930,396 as of the start of the project.

The project to better analyze the portfolio of your SACCO has been aging the loan portfolio of UCB SACCO using the Loan Portfolio Analysis Tool (LPAT) since 30th June 2003. As at 30th September 2003 LPAT revealed that UGX 17,874,189 (2.89%) of the SACCO's Loan Portfolio was delinquent between 1 and 12 months, and UGX 16,523,731(2.67%) was delinquent over 12 months.

WOCCU's prudential standards advise that a SACCO should provision for loan losses at a rate of 35% for loans delinquent 1-12 months and 100% for loans delinquent over 12 months.

If this is to be applied to the SACCO it means that the SACCO needs to make loan loss allowances of UGX 22,779,697(35%*17,874,189+100%*16,523,731). As compared to the current level of loan loss provisions, it is revealed an inadequacy in the SACCO's Loan Loss Allowances

UCB SACCO therefore needs to either increase their Loan Loss Provisions to UGX 22,779,697 if it is to sufficiently cater for the risk inherent in their Loan portfolio, or make a greater effort to collect all their delinquent loans. In addition, the SACCO should start writing off all loans delinquent over 12 months because these loans taken to be highly irrecoverable and serve only to overstate the SACCO's loan portfolio.

b. Effective Financial Structure

Loan Portfolio:

At the start of the project, the overall loan portfolio of the SACCO was UGX 596,224,828. By the end of the project the SACCO had grown its loan portfolio to UGX 619,373,477. This UGX 44,699,734 growth in the SACCO's loan portfolio has been caused by increased savings mobilisation and a good profitability position, which provided the adequate sources of funds to lend to its members.

The composition of total loans too has improved from 81.96% at the start of the project to 68.47% by the end of the project. Such is an improvement because the latter ratio is within the recommended levels for loans. As the SACCO increases its lending activities, it is reminded to also keep loan collection activities high so as to maintain a quality portfolio of loans.

Savings Volume:

Much like the loan volume, UCB has grown its savings during the stay of the project. Formerly UGX 533,026,770 by July 2000, the SACCO's total savings deposits have grown by 25.77% or UGX

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137,334,882 to UGX 670,361,652 as at September 2003. Greater savings mobilisation campaigns from the BOD and management are to be commended for this. The composition of savings to total assets has remained fairly unchanged and good in the project's tenure. It is the belief of the project that the SACCO can grow its savings to even greater proportions and the SACCO management is encouraged to market the SACCO even further to every potential member of Stanbic bank.

Institutional Capital:

Institutional capital is generated through profits and therefore belongs to the SACCO. It is a zero cost fund (since it belongs to the SACCO) and may therefore be used for acquisition of fixed assets and absorption of future losses. It therefore reflects the level of safety of the SACCO.

UCB SACCO's net institutional capital grew from 3.27% at 30th July 2000 to 9.02% by the end of the project thus reflecting the enormous efforts accorded by the leadership of the SACCO.

This increase in the net institutional capital has been caused by a decline in the delinquency level of the SACCO from 13.54% to 5.55%. Delinquency affects institutional capital in two ways.

First, by reducing on income (interest from loans) and secondly, when delinquency is high, few SACCOs can effectively provision for the risk in their loan portfolios. The meagerness in the provisions for loan losses goes to deplete a SACCO's Net Institutional Capital. However, since the SACCO is not adequately provisioning for its delinquent loans, the increase in E9 can only be marginal.

c. Asset Quality

Delinquency:

UCB SACCO was not reporting a clear delinquency figure at the start of the project. This was because of the lack of a specialised loan-tracking tool. The project in collaboration with the BOD and the SACCO management has been able to age the loan portfolio of the SACCO on a quarterly basis since June 2003. As a result, UCB SACCO posted loan delinquency (A1) as at 30th June 2003 of 13.54%, yet WOCCU recommends that delinquency/portfolio at risk should be controlled to less than 10%. The Quarter ended 30th September 2003 has seen a dramatic change in this statistic. Delinquency for the SACCO by end-Q3 2003 was 5.55%. This has inevitably and positively affected E9, which increased by 2.16%. The leadership of the SACCO is commended and even urged to make more collection efforts so as to completely obliterate delinquency.

Non-Earning Assets:

UCB SACCO's registered non-earning assets ratio of 1.07%. This is within the standards of excellence, which the leadership and management of UCB SACCO must endeavor to maintain.

d. Rates of Returns and Costs

Return on Members' Shares:

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Shares are not readily accessible in the SACCO, therefore are risk capital. One way to reward for this risk is by paying shares a return, and WOCCU's standard of excellence recommend that interest rate of at least equal to inflation be paid on members' shares deposits to maintain their value. This should be paid on a regular basis, say monthly, and not only when the SACCO makes profit to recognize the fact that the members actually invested money into the SACCO.

The SACCO's R7 indicator as at 30th September 2003 was nil meaning that UCB SACCO continued not to pay any return to the members on their shares, making shares unattractive to invest into. This may be the reason why the SACCO has not realized a positive change in members' shares for 9 months. The leadership and management should consider changing this trend.

Operating Expenses:

This ratio is aimed at measuring the cost associated with the management of all the SACCO's assets. These are the personnel, governance, marketing, administration and depreciation costs. It shows the operational efficiency or inefficiency of the SACCO. That is to say if the SACCO's operating expenses are between 3-10%, then it is perceived more efficient than one whose rate is outside this boundary.

The ratio for the SACCO was 1.07% as at September 2003. However with the SACCO taking on its own personnel, it is expected that the ratio will increase to indicate the efficiency of the SACCO in handling its total assets.

Net Income:

By July 2000, UCB was declaring a net income from its operations equal to UGX 19,775,221 from 12 months of operations. By September 2003, the SACCO has netted UGX 34,396,851 from 9 months of operations. This improvement must be taken with caution because of some inherent reasons. The SACCO must revise its expenses to see if its over subsidizing some costs. More importantly, the tax implication of making such a profit will automatically mean a generation of taxable income. The SACCO may have to choose between paying either the URA or the members in terms of increased interest on savings, for example.

e. Liquidity

A closer evaluation of the funds kept by the SACCO as deposits in Stanbic bank makes them fit the definition of the liquidity reserves. This is because they are kept in a regulated financial institution, give the SACCO a return and are accessible on demand. Therefore, the SACCO has inadvertently kept a liquidity reserve, a norm in many financial institutions and the model SACCOs' strives to develop.

However this level of reserving is below the level recommended for a model SACCO of keeping at least 10% of the total savings deposits as liquidity reserves to meet any unusual demand for savings.

f. Signs of Growth

Membership:

UCB SACCO has had declines in its membership since July 2000. By September 2003, the SACCO had membership of 787 as compared to 927 by July 2000. This 140-membership drop is reminiscent of the changes that have taken place in the SACCO's parent company. The SACCO therefore should develop and implement strategies for sustaining a positive membership growth rate such as attracting every employee of Stanbic Bank in Uganda.

Total Assets:

The UGX 202,081,271 growth in the SACCO's total assets has made UCB SACCO's earn a point for total assets growth. Since the start of the project, the SACCO has positively grown its total assets and now they end at UGX 896,583,333. Keep it up.

THE WAY FORWARD:

The project has come up with a business plan to guide the growth and operations of the SACCO. Below is a detailed narration of the key components of the SACCO's business plans for the period 30th September 2003 to 31st December 2004.

Over the 15-month period, a growth rate in total assets of 30% is planned. This will see the SACCO's total assets grow from UGX 896,588,333 by September 2003 to UGX 1,165,564,963 by December 2004. This increase in total assets of UGX 268,976,630 will be mainly funded by the increase in savings deposits of members of UGX 250,434,669 and in shares of UGX 5,617,723.

The funds mobilised from savings will be invested hugely in loans to members, which will increase from UGX 619,373,477 by UGX 244,168,208 to UGX 863,541,685 by the end of 2004. Decreased loan delinquency from 5.55% to 2.78% is expected and the SACCO will increase on the loan loss provisions from UGX 5,488,915 to UGX 11,000,000. Liquidity reserves will increase to 16.01% of the total savings deposits or UGX 147,443,968 as to comply with WOCCU's prudential standards of at least 10% of total savings deposits.

The operating costs, formerly UGX 8,286,150 will increase to UGX 46,523,300 to accommodate increased personnel, administration, marketing, governance, administration and depreciation costs. In addition the SACCO will also pay 7% on its savings deposits and 4% on its shares. These amounts are to be paid on a monthly basis to increase member satisfaction and reduce the tax liability.

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All this means is that the SACCO has to charge at least 14.89% on its loans and these changes will also see the SACCO scoring 11 in the analysis of the key financial ratios of PEARLS, an improvement from 8 since September 2003.

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**WOCCU SACCO NET PROJECT UGANDA
FINAL REPORT**

**To The Chairman and Board of
WASE
Co-operative Savings and Credit Society Ltd (SACCO)**

December 2003

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Executive Summary

The WOCCU/SACCO-NET project is a project of the World Council of Credit Unions, Inc. (WOCCU) funded by USAID under Co-operative Agreement number PCE-A-00-00-00025-00.

The objectives of the project were (1) Growth: establishing an outreach to a total of 49,000 members of the 14 SACCOs by end of the project; (2) Soundness: reaching capital reserve, delinquency, provisions and profitability goals for each of the SACCOs; (3) Reforms: updating key pricing, capitalization, governance and internal controls within participating SACCOs; and (4) Innovative services: introducing new savings and credit services targeted to serve the micro-entrepreneur and small rural producer.

The WOCCU SACCO NET Project has been working in partnership with your SACCO, WASE SACCO since 1st October 2000 to date with the general objective of transforming your SACCO into a model SACCO using WOCCU's tools and methodologies.

The main purpose of WOCCU working with WASE SACCO was to: 1) Introduce WOCCU's Savings and Credit Co-operative Society Model and improve the financial soundness and profitability of the SACCO. 2) Improve financial management through proper accounting systems and sound financial administration. 3) Establish proper credit policies and procedures. 4) Develop effective saving policies and marketing tools to promote savings and membership growth of the SACCO. 5) Increase saving mobilization through institutional strengthening and image building.

The project will come to an end on the 31st December 2003 after a three-and-a-quarter-year tenure in Uganda. The report that follows recapitulates the activities carried out by the project with your SACCO, stressing the situation in which we have left the SACCO and where we see it headed in times to come.

An analysis of PEARLS financial indicators at the time when the SACCO joined the project and as at 30th September 2003 will also be included along side a narration of the technical assistance that was delivered to your SACCO up to 30th September 2003. Areas of emphasis include but not limited to; 1) Accounting (2) Governance (3) Management (4) Saving Mobilisation (5) Policies (6) Lending (7) Financial Management (8) Marketing (9) Tools.

The project would like to express their appreciation to the Board of Directors, Supervisory Committee and Management of the SACCO for participating in the project and it is hoped that WASE SACCO will continue to work towards the goal of becoming a model SACCO. It has been our pleasure working with WASE SACCO

TECHNICAL ASSISTANCE DELIVERED SINCE 9th November 2001 to 30th September 2003.

Since the SACCO joined the project on 1st October 2000, WOCCU SACCO Net has rendered technical assistance in fields of accounting, management, tools, policies and procedures, governance, saving mobilisation, financial management, lending activities and marketing. The discussion here below narrates the technical assistance in detail delivered during the project period and the impact it had to the SACCO.

ACCOUNTING.

When the SACCO joined the project Accounting was in a bad shape, the SACCO used to prepare the final accounts; income statement and balance sheet on a quarterly basis. The books were not up date the time the SACCO joined the project. With the technical assistance rendered by the project the SACCO is now able to prepare final accounts on a monthly basis, that is 15 days after the close of the previous month.

The Project carried out the following activities in order to streamline accounting of the SACCO.

i) Training:

The SACCO management was trained in accounting basics especially double entry system, bank reconciliation and extraction of final accounts. It is worthy noting that the SACCO management can update the relevant accounts and produce monthly financial statements in time.

ii) Installing and implementation of WOCCU accounting nomenclature.

The project installed the WOCCU accounting system, which was pre-designed to suit the accounting needs of a model SACCO. Training of SACCO staff and supply of relevant stationeries for implementing the WOCCU accounting system was done. The SACCO implemented the system and all the financial reports are being reported in WOCCU accounting format and on WOCCU stationeries.

iii) Routine follow up

The project staff has been following up the progress of accounting in the SACCO from time to time. This has been in a bid to identify the potential problems in the field of accounting. Activities carried out during routine follow up are but not limited to; updating subsidiary and general ledgers, bank reconciliation statements, extraction of monthly financial statements and balancing the cash and daily journal book.

The project urges the SACCO not to deviate from the accounting system that was implemented and the spirit of preparing monthly financial statements should be maintained.

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Governance

When the project joined the project the BOD and supervisory committee were not strong as far as credit administration is concerned. The first step done by the project was to draft of model by laws that were adopted by the BOD and AGM.

The SACCO BOD and supervisory committee attended many workshops/trainings that equipped them with knowledge to govern a SACCO. Workshops/trainings attended include but not limited to; Credit administration, roles and responsibilities of BOD, CREST training, financial management and risk management.

Management

When the SACCO joined the project, it had no qualified manager with business acumen. The project placed a manager and facilitated the monthly salaries of the manager. From time to time SACCO management has been attending trainings/workshops and monthly technical meetings from where they have gained skills and knowledge of managing the SACCO in a professional manner.

Policies and procedures:

When the SACCO joined the project it did not have policies related to specific areas, this inspired the project staff to draft such policies for WASE SACCO. WOCCU SACCO Net staff provided advice and submitted model draft policies on lending, saving, internal control and cash management. The above policies were presented to committees and management of the SACCO. WOCCU recommends the SACCO BOD to adopt and implement such policies; this will guide the SACCO along the model SACCO building process.

Lending

When the SACCO joined the project the following weaknesses prevailed in the lending process of the SACCO;

- a) Lending was based on the share and saving balances.
- b) The board decided on the interest rate on loans.
- c) No technical analysis of loans was carried out.

The SACCO was not aging its loan portfolio hence delinquency rates were not known; the potential loss that would arise from lending was not known.

The SACCO rendered technical assistance in steam lining the SACCO's lending process by advising both management and committees to analyze loans basing on 5Cs of credit.

LPAT was installed in the SACCO and it is currently used in tracking loan portfolio. In quarter 2 and 3 of 2003, the SACCO reported its delinquency using LPAT.

Financial Management

A SACCO must be safe and sound to stay in business, and to be safe and sound SACCO's financial management must be in place. When the SACCO joined the project the SACCO's financial management was not all the best, the project endeavored to strengthen the SACCO's financial management by organizing workshops/trainings/ seminars to discuss financial management related issues. Since financial management involves the balance between business and philosophy and application of a SACCO's sources and uses of funds, there was a great need to render technical assistance in this area.

Technical assistance in areas of pricing of products, cash management and finance was rendered to your SACCO. For instance interest rate was set during the AGM, the project helped out the SACCO to set the interest rate basing on operating costs, opportunity cost, loan loss provisions and market rates. The project steam lined cash management procedures and accounting in the SACCO.

Tools

WOCCU designed a number of tools and templates that were installed and implemented in WASE SACCO, management and the BOD were trained how to use the tools and to interpret the reports delivered there from. The following are the tools that were installed and implemented in your SACCO;

i. ***Loan Portfolio management Tool (LPAT):***

When the SACCO joined the project, it had no tool to monitor the loan portfolio and to track delinquency in the SACCO. Even the SACCO did not know the delinquency rate. LPAT was designed by WOCCU and its main purpose is to manage the loan portfolio and to track delinquency on a daily/monthly/quarterly or yearly basis. LPAT was installed in one computer the SACCO had and management was trained in the use of the tool. The BOD should implement LPAT as a tool to track loan portfolio and to analyse loan delinquency of the SACCO.

ii. ***PEARLS Monitoring tool:***

The World Council of Credit Unions, Inc. (WOCCU) developed the PEARLS MS as a tool to help monitor and supervise SACCOs. PEARLS is the tool that monitors and analyses the financial performance of SACCOs. The tool was installed and management was trained in the use of the tool. WOCCU recommends the SACCO BOD and management to implement the tool since it highlights the financial strengths and weaknesses of a SACCO at a particular period of time.

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iii. Credit Scoring Tool Credit (CREST):

The Credit Scoring Tool (CREST) was developed for the World Council of Credit, to assist SACCOs in improving their credit approval process. The main objective of CREST is to have a proper analysis of loan applications based on 5C's of credit. Management, BOD and supervisory committee were trained in the use and practicability of the tool. Management of the SACCO is urged to adopt the tool in order to strengthen the process of loan approval.

Incentives

The project provided incentives to the SACCO both material and financial. The Project recruited and SACCO Manager and met his monthly salaries. Stationeries that were used in accounting updates and membership recruitment were supplied by the project at no cost.

The Analysis of PEARLS Financial Indicators

Table 1: Score and GAP Analysis for WASE SACCO comparing when the SACCO joined the project and end of project

RATIOS	Most recent financials when the SACCO joined the project (30 th June 2001)		End of project (30 th September 2003)	
	PEARLS	SCORES	PEARLS	SCORES
P2	Not tracked	0	0.00%	0
P3	Not tracked	0	No	0
E1	72.43%	1	34.78%	0
E5	88.10%	0	93.09%	0
E9	-22.67%	0	-78.65%	0
A1	Not tracked	0	76.24%	0
A2	24.37%	0	63.96%	0
R7	9.57%	1	0.00%	0
R9	2.64%	1	4.2%	1
R12	1.97%	0	0.73%	0
L2	0.00%	0	0.00%	0
S10	-9.79%	0	27.53%	1
S11	-0.53%	0	-5.79%	0
TOTAL SCORES		3		2
GAP		10		11

1. Protection

When the SACCO joined the project, the discipline of making adequate provisions was not adhered to. Moreover the SACCO did not know the potential loss that could arise from loans disbursed to members. The SACCO did not have any tool or system to track delinquency in the SACCO; therefore the SACCO did not know the delinquency rate.

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The project rendered technical assistance in aging and analysis of loan portfolio using LPAT. In quarter 2 and 3 of 2003, the SACCO was able to tell the level of delinquency; nevertheless the SACCO has not started making any provisions for loan losses. With a high delinquency of 76.24% the SACCO should make adequate provisions in order not to overstate the assets and profitability.

2. Effective financial structure.

a) Net loans outstanding

Net loans reduced from UGX 842,490,030 as of 30th June 2001 to UGX 326,545,309 as of 2003. The reason behind this tremendous decline was the reclassification of some loans as doubtful that were transferred to problem assets. As of 30th June 2002, a total of UGX 566,607,415, which is 67.25% of loan balance as at 30th June 2001, had been transferred to problem assets.

b) The saving ratio

Savings volume reduced from UGX 1,024,812,098 as of 30th June 2001 to UGX 873,926,591 this was due to restructuring that took place in National Water Corporation, this led to most employees leaving the company. Employees who had no loans withdrew all of their savings. WOCCU noted that most of the savings were invested in loans that later became junk and doubtful. It is noted that all the members' savings deposits are pledged, the SACCO should mobilize regular and fully withdraw able savings from members.

c) The net institutional capital

Net institutional capital has been negative since the SACCO joined the project to date. The ratio of net institutional capital/total assets worsened from -22.67% as of 30th June 2001 to -78.65% as of 30th September 2003. This was as a result of accumulated losses and high delinquency that prevail in the SACCO. The SACCO should employ stringent collection efforts in order to reduce delinquency in the SACCO.

3. Asset quality

The SACCO's delinquency was 76.24% as of 30th September 2003 worsening from 74.93% the previous quarter. High delinquency on a SACCO has an effect on profitability of the SACCO. If a lot of funds are tied up in delinquent loans a SACCO cannot realise more revenue. It is advisable for the SACCO to collect delinquent loans to be put in quality loans. High delinquency also affects the net institutional capital since the computation for net institutional capital considers the potential loss arising from loan portfolio.

4. Rates of return and costs

Fin. Costs: Member shares/Avg. Member shares (R7)

The SACCO last paid a return on member shares in quarter 2 of 2001. Indeed the rate was higher than inflation and the rate paid on savings. Nevertheless for the last two years the

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SACCO has not been paying a return on member shares. WOCCU recommends the SACCO to always pay a good return on members' shares as they are regarded as risky investments.

Operating expenses (R9)

The SACCO has maintained the WOCCU recommended level of operating expenses to total assets. It has been below 10% as recommended by WOCCU. However in absolute terms, the expenses are high compared to the level of operations of the SACCO. The SACCO should control the operating costs especially the governance and administration costs. The ratio of operating expenses to total assets (R9) was 4.20% as of 30th September 2003 compared to 2.64% as of 30th June 2001.

Profitability (R12)

The SACCO's profitability has not been consistent since the SACCO joined the project to date. The SACCO made excessive profits as at 30th June 2001 compared to excessive losses that were made as at 31st December 2002 and 30th June 2003 then a profit as of 30th September 2003. Still the SACCO overstates the profits because of un provisioning for loan losses. The SACCO should employ stringent collection efforts to reduce high delinquency in the SACCO. Note that high delinquency in the SACCO affects negatively the earning capacity, as most funds will be tied in non-earning assets-delinquent loans.

5. Liquidity

Ever since the SACCO joined the project it has never placed funds in liquidity reserves as a line of defense for members' savings. WOCCU recommends that a SACCO should place 10% of members' savings that WASE has not adhered to. WOCCU once again urges the SACCO to place some funds into liquidity reserves.

6. Signs of growth

The Membership (S10)

Membership for your SACCO reduced from 562, as of 30th June 2001 to 491 as of 30th September 2003, in the year 2003, membership has been static. This was due to restructuring that took place in National Water Corporation. If the SACCO is to achieve membership it should open the bond to allow other members even if not employees of WASE.

Total assets (S11)

Total assets have reduced tremendously since the SACCO joined the project to date. Total assets have been reduced from UGX 1,163,243,363 as of 30th June 2001 to UGX 938,787,476. The SACCO should double the efforts of mobilizing more savings to be placed into loans to increase total assets.

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The way forward

Management should adopt the business plan that was designed by the project; the business plan is for 15 months that is from 30th September 2003 to 31st December 2004. The projections can be highlighted in the following discussion.

The growth in total assets was projected to be 10%, this will increase total assets from UGX 938,787,467 to UGX 1,032,666,224 as at the end of 2004.

Loan portfolio will increase from UGX 219,060,532 to UGX 286,675,368.

The source of funds is mainly savings mobilized during the business plan period, total savings deposits are expected to increase from UGX 873,926,591 to UGX 965,542,919. Share capital will increase from UGX 38,318,764 to UGX 39,241,316 as at the end of the year 2004. Delinquency is expected to reduce from 76.24% to 27.91% as at the end of 2004. The assumptions underlying the business plan are as follows.

- i. That membership will increase from 491 to 550
- ii. The SACCO will undertake aggressive membership recruitment drive.
- iii. Stringent collection efforts will be employed to reduce delinquency.
- iv. Technical analysis of loans will be embarked upon by using CREST
- v. Marketing and sensitization will be carried out.
- vi. That saving deposits mobilized will be invested into loans not non- earning assets.

Table 2: WASE SACCO Financial Statistics

Date Joined the Project:		30 th September 2003	1 st October 2000
Report Date:		30 th September 2003	Target for December 2003
Members	Total	491	3,000
	Women	83	-
	Women (%)	16.90%	-
Loan Volume (Gross)	Total Ushs.	326,545,309	1,945,006,308
Average Loan Size:	Ushs.	643,953	
Number of Micro enterprise Loans	Total (Actual)		
	Women (Actual)	Not tracked	
	Women % (Actual)	Not tracked	
Savings Volume	Total (Actual)	873,926,591	1,888,048,687
Share Capital	Total (Actual)	38,318,764	113,915,713
Number of savers	Total (Actual)	491	-
Average Savings per member	Total (Actual)	1,779,891	-
Total Portfolio At Risk > 30 days overdue	Total (Actual)	248,951,200	-
Delinquency Rate %	Total (Actual)	76.24%	-

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WOCCU SACCO NET PROJECT UGANDA

FINAL REPORT

**To The Chairman and Board of
WEKEMBE
Co-operative Savings and Credit Society Ltd (SACCO)**

December 2003

WOCCU SACCO NET Project
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“Quality SACCOs for Everyone”

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Executive Summary

The WOCCU/SACCO-NET project is a project of the World Council of Credit Unions, Inc. (WOCCU) funded by USAID under Co-operative Agreement number PCE-A-00-00-00025-00.

The objectives of the project were (1) Growth: establishing an outreach to a total of 49,000 members of the 14 SACCOs by end of the project; (2) Soundness: reaching capital reserve, delinquency, provisions and profitability goals for each of the SACCOs; (3) Reforms: updating key pricing, capitalization, governance and internal controls within participating SACCOs; and (4) Innovative services: introducing new savings and credit services targeted to serve the micro-entrepreneur and small rural producer.

The WOCCU SACCO NET Project has been working in partnership with your SACCO, Wekembe SACCO since 1st October 2000 to date with the general objective of transforming your SACCO into a model SACCO using WOCCU's tools and methodologies.

The main purpose of WOCCU working with Wekembe SACCO was to: 1) Introduce WOCCU's Savings and Credit Co-operative Society Model and improve the financial soundness and profitability of the SACCO. 2) Improve financial management through proper accounting systems and sound financial administration. 3) Establish proper credit policies and procedures. 4) Develop effective saving policies and marketing tools to promote savings and membership growth of the SACCO. 5) Increase saving mobilization through institutional strengthening and image building.

The project will come to an end on the 31st December 2003 after a three-and-a-quarter-year tenure in Uganda. The report that follows recapitulates the activities carried out by the project with your SACCO, stressing the situation in which we have left the SACCO and where we see it headed in times to come.

An analysis of PEARLS financial indicators at the time when the SACCO joined the project and as of 30th September 2003 will also be included along side a narration of the technical assistance that was delivered to your SACCO up to 30th September 2003. Areas of emphasis include but are not limited to; 1) Accounting (2) Governance (3) Management (4) Saving Mobilisation (5) Policies (6) Lending (7) Financial Management (8) Marketing (9) Tools.

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The project would like to express their appreciation to the Board of Directors, Supervisory Committee and Management of the SACCO for participating in the project and it is hoped that Wekembe SACCO will continue to work towards the goal of becoming a model SACCO. It has been our pleasure working with Wekembe SACCO

TECHNICAL ASSISTANCE DELIVERED SINCE 30th October 2002 to 30th September 2003.

Since the SACCO joined the project on 30th October 2002, WOCCU SACCO Net has rendered technical assistance in fields of accounting, management, tools, policies and procedures, governance, saving mobilisation, financial management, lending activities and marketing. The discussion here below narrates the technical assistance in detail delivered during the project period and the impact it had to the SACCO.

ACCOUNTING.

When the SACCO joined the project Accounting was in bad shape, the SACCO used to prepare the final accounts; income statement and balance sheet once in a year. This was done in preparation for the AGM, and was not accurate. With the technical assistance rendered by the project the SACCO is now able to prepare final accounts on a monthly basis, that is 15 days after the close of the previous month.

The Project carried out the following activities in order to streamline accounting of the SACCO.

i) Training:

The SACCO management was trained in accounting basics especially double entry system, bank reconciliation and extraction of final accounts. It is worthy noting that the SACCO management can update the relevant accounts and produce monthly financial statements in time.

ii) Installing and implementation of WOCCU accounting nomenclature.

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Originally the SACCO was using a traditional accounting system where double entry was unheard of. The SACCO neither had subsidiary nor general ledgers; so to speak the system was only to record transactions based on the single entry, this was unprofessional.

The project installed the WOCCU accounting system, which was pre-designed to suit the accounting needs of a model SACCO. Training of SACCO staff and supply of relevant stationeries for implementing the WOCCU accounting system was done. The SACCO implemented the system and all the financial reports are being reported in WOCCU accounting format and on WOCCU stationeries.

iii) *Routine follow up*

Project staff have been following up on the progress of accounting in the SACCO from time to time. This has been in a bid to identify the potential problems in the field of accounting. Activities carried out during routine follow up are but not limited to; updating subsidiary and general ledgers, bank reconciliation statements, extraction of monthly financial statements and balancing the cash and daily journal book.

The project urges the SACCO not to deviate from the accounting system that was implemented and the spirit of preparing monthly financial statements should be maintained.

Governance

When the project joined the project the BOD and supervisory committee were not strong as far as credit administration is concerned. The first step done by the project was to draft a model bylaw, that was adopted by the BOD and AGM.

The SACCO BOD and supervisory committee attended many workshops/trainings that equipped them with knowledge to govern a SACCO. Workshops/trainings attended include; Credit administration, roles and responsibilities of BOD, CREST training, financial management and risk management.

Policies and procedures

When the SACCO joined the project it did not have policies related to specific areas, this inspired the project staff to draft such policies for Wekembe SACCO.

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WOCCU SACCO Net staff provided advice and submitted model draft policies on lending, saving, internal control and cash management. The above policies were presented to committees and management of the SACCO. WOCCU recommends the SACCO BOD to adopt and implement such policies; this will guide the SACCO along the model SACCO building process.

Lending

When the SACCO joined the project the following weaknesses prevailed in the lending process of the SACCO;

- a) Members setting lending rates at the AGM.
- b) Lending was based on the share and saving balances.
- c) No technical analysis of loans was carried out.

The SACCO was not aging its loan portfolio hence delinquency rates were not known; the potential loss that would arise from lending was not known.

Financial Management

A SACCO must be safe and sound to stay in business, and to be safe and sound, financial management must be in place. When the SACCO joined the project the SACCO's financial management was not the best, the project endeavored to strengthen the SACCO's financial management by organizing workshops/trainings/ seminars to discuss financial management related issues. Since financial management involves the balance between business and philosophy and application of a SACCO's sources and uses of funds, there was a great need to render technical assistance in this area.

Technical assistance in areas of pricing of products, cash management and finance was rendered to your SACCO. For instance the interest rate was set during the AGM, the project helped out the SACCO to set the interest rate based on operating costs, opportunity cost, loan loss provisions and market rates. The project streamlined cash management procedures and accounting in the SACCO.

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Marketing

The project developed new strategies to market more efficiently the SACCO. This was done during the strategic planning session that was carried by the SACCO, the Project together the SACCO BOD identified the key result areas of the SACCO.

Tools

WOCCU designed a number of tools and templates that were installed and implemented in the Wekembe SACCO, management and the BOD were trained how to use the tools and to interpret the reports delivered there from. The following are the tools that were installed and implemented in your SACCO;

i. *Loan Portfolio management Tool (LPAT):*

When the SACCO joined the project, it had no tool to monitor the loan portfolio and to track delinquency in the SACCO. Even the SACCO did not know the delinquency rate. LPAT was designed by WOCCU and its main purpose is to manage the loan portfolio and to track delinquency on a daily/monthly/quarterly or yearly basis. LPAT was installed in one computer the SACCO had and management was trained in the use of the tool. The SACCO implemented LPAT and currently the SACCO extracts monthly delinquency reports from this tool. WOCCU evidenced that LPAT is a good tool to monitor delinquency hence it recommendable for the SACCO to uphold the use of the tool.

ii. *PEARLS Monitoring tool:*

The World Council of Credit Unions, Inc. (WOCCU) developed the PEARLS MS as a tool to help monitor and supervise SACCOs. PEARLS is the tool that monitors and analyses the financial performance of SACCOs. The tool was installed and management was trained in the use of the tool. WOCCU recommends the SACCO BOD and management to implement the tool since it highlights the financial strengths and weaknesses of a SACCO at a particular period of time.

iii. Credit Scoring Tool (CREST):

The Credit Scoring Tool (CREST) was developed for the World Council of Credit, to assist SACCOs in improving their credit approval process. The main objective of CREST is to have a proper analysis of loan applications based on 5C's of credit.

The project installed the tool, trained management and the BOD in its use. The tool was customized to suit the lending needs of Wekembe SACCO. WOCCU recommends the SACCO to implement this tool, as it's the main means of analyzing loan applications technically using five 5C's of credit. Once this tool is implemented and properly used delinquency will reduce tremendously.

Incentives

The project provided incentives in terms of donations to Wekembe SACCO. The SACCO had an old fashioned computer with windows 3.1.1; the project upgraded and installed windows 98. The project provided stationery to the SACCO to be used in updating accounting, membership recruitment and marketing.

The Analysis of PEARLS Financial Indicators

Table 1: Score and GAP Analysis for Wekembe SACCO comparing when the SACCO joined the project and end of project

RATIOS	GOAL	Most recent financials when the SACCO joined the project (31 st December 2001)		End of project (30-09-2003)	
		PEARLS	SCORES	PEARLS	SCORES
P2	100%	100%	0	0.00%	0
P3	Yes	Yes	1	No	0
E1	Between 70-80%	21.69%	0	23.46%	0
E5	Between 70-80%	47.76%	0	49.67%	0
E9	Minimum 10%	38.71%	1	-6.05%	0
A1	<=5%	Not tracked	0	63.32%	0
A2	<=5%	77.52%	0	75.87%	0
R7	>=R5	0.00%	0	0.00%	0
R9	3-10%	18.73%	0	20.18%	0
R12	>1 % only if E9>=10%	-0.94%	0	-10.34%	0
L2	10%	0.00%	0	0.00%	0
S10	Minimum 5%	100%	1	6.11	1
S11	More than inflation	35.06%	1	-3.41%	0
TOTAL SCORES			4		1
GAP			9		12

1. Protection

When the SACCO joined the project on 30th October 2002, the potential risk arising from loan portfolio was unknown. The loan portfolio was not aged and thus no provisions for loan losses were made. As at 31st December 2001, the loan portfolio was UGX 8,196,300 and it was well known that delinquency was high but the exact rate was not known.

The project installed Loan portfolio Monitoring Tool (LPAT) and staff was trained on how to use the tool. Currently the SACCO knows the potential loss arising from delinquency but the SACCO has not yet made any provisions for loan losses as earlier recommended by WOCCU. As at 30th September 2003, delinquency rate was 63.32% this is high compared to

the standard of $\leq 5\%$. WOCCU has observed that the SACCO has not adopted the discipline of making adequate provisions for loan losses.

It is highly recommendable that the SACCO makes adequate provisions for loan losses in order not to overstate the SACCO's profitability and total assets.

2. Effective financial structure.

a) Net loans outstanding

The SACCO's lending operations were very low at the time when the project started. Only UGX 399,500 were loans to members as at 31st December 2000, increased to UGX 8,196,300 as at 31st December 2001 and to UGX 14,790,650 as at 31st December 2002 slightly after the SACCO joined the project.

Note: The SACCO joined the project on 30th October 2002.

As at 30th September 2003, the loan portfolio was UGX 10,423,654 reducing from UGX 14,790,650 as at 31st December 2002 this was due to the repayment of the external credit earlier obtained from UCSCU. WOCCU has evidenced a progress in lending operations of the SACCO. The only drawback is the liquidity constraint currently faced by the SACCO. WOCCU recommends the SACCO should mobilize more savings from members to be placed in loans. This will reduce the liquidity problems and over dependency on the external credit that are currently limiting the SACCO's growth.

Ever since the SACCO joined the project the ratio of net loans/total assets has been far below the standard of excellence it improved from 21.96% as at 31st December 2002, when the SACCO joined the project to 23.46% as at 30th September 2003. The SACCO is urged to improve this ratio, the strategy here is to mobilize savings and be placed into loans.

b) The saving ratio

The SACCO's saving volume has been increasing since the SACCO joined the project to date. Savings volume was UGX 18,050,221 as at 31st December 2001 and increased to UGX 22,069,342 as at 30th September 2003. The SACCO registered an increase of only UGX 4,019,121 in almost 2 years. The SACCO should more than double the efforts in saving mobilization. The ratio of savings/total assets (E5) has been below the standard of excellence of 50-80% since the SACCO joined the project. E5 improved from 47.76% as at 31st December 2001 to 49.67% as at 30th September 2003. WOCCU recommends the

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SACCO to mobilize more savings in order to improve this ratio. Note that savings is the most reliable and cheap source of funds in the SACCO.

c) The net institutional capital

The institutional capital for Wekembe SACCO has been positive but declining since SACCO joined the project. This has been attributed to the capital donations by the diocese that totalled to UGX 14,940,000, nevertheless institutional capital has been eaten up by accumulated losses registered by the SACCO as at 31st December 2002 and 30th September 2003. The ratio of net institutional capital/total assets was -6.05% as at 30th September 2003 compared to 38.71% as at 31st December 2001. This was due to high delinquency that was recorded 30th September 2003 unlike non-tracking of delinquency as at 31st December 2001. Wekembe SACCO is urged to reduce delinquency and endeavour to make profits in order to improve its net institutional capital.

3. Asset quality

Originally the SACCO was not tracking delinquency and yet it was high in the SACCO. The Project, through technical assistance, rendered to the SACCO installed LPAT and trained the staff how to use the tool in tracking delinquency in the SACCO on a monthly basis. The SACCO can now report delinquency on a monthly basis using LPAT. Delinquency as of 30th September 2003 was 63.32%, this is a high rate compared to the standard of $\leq 5\%$. The causes of high delinquency in the SACCO have been identified; No technical analysis of loan applications and low collection efforts has been conducted to assess the cause of high delinquency in the SACCO.

WOCCU hopes that the SACCO has the ability to reduce delinquency if stringent collection efforts are employed and technical analysis of loans using Credit Scoring Tool (CREST) is applied.

The proportion of non-earning assets to total assets has been too high since the SACCO joined the project to date. The ratio of non-earning assets to total assets was 77.52% as of 31st December 20.01 compared to 75.87% as at 30th September 2003. This includes the donated building and problem assets.

4. Rates of return and costs

Fin. Costs: Member shares/Avg. Member shares (R7)

Ever since the SACCO started it has never rewarded members for shares invested in the SACCO. Investment in shares is regarded as risky investment and hence a return more than that on saving deposits should be given to members. Above all this would act as a motivation strategy for members to invest more in shares since they will be expecting a return on them. It is therefore recommended that Wekembe SACCO should start rewarding members for the shares purchased in the SACCO.

Operating expenses (R9)

The ratio of operating expenses to average assets (R9) has been above the bracket of standard of excellence 3-10% the SACCO joined the project. The ratio worsened from 18.73% as at 31st December 2001 to 20.18% as at 30th September 2003. The SACCO should control the operating expenses in order to make a profit for building institutional capital.

Profitability (R12)

The SACCO has been registering losses since it joined the project; on a worthy note the loss has been increasing every year. The loss was UGX 310,448 as of 31st December 2001 increased to UGX 5,280,550 as of 31st December 2002 and then UGX 3,496,942 as at 30th September 2003. This trend of profitability is not desirable at all and should be reversed by laying down strategies of registering profits. Delinquent loans should be collected and operating costs be controlled to the acceptable levels. R12 was -0.94% as at 31st December 2001 and worsened to -10.34% as at 30th September 2003.

5. Liquidity

Ever since the SACCO started its operations it has never placed some funds into liquidity reserves. It is prudent that the SACCO should place 10% of member savings into liquidity reserves this is a protection mechanism of protecting members' savings. The liquidity of the SACCO (L1) was below the required standard of minimum 15%, it was 9.92% as at 30th September 2003. The SACCO should have enough liquidity to meet unusual cash demands.

6. Signs of growth

The Membership (S10)

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Membership growth has been sluggish since the SACCO joined the project, above all WOCCU noted that a big proportion of the membership is dormant. As of 30th September 2003 total membership was 973 compared to 871 as of 31st December 2001, this means the SACCO grew by only 102 members in almost 2 years. There is a need to carry out a serious membership mobilization campaign in order to mobilize more members. Sensitization of dormant members to activate them should be carried out.

Total assets (S11)

Total assets increased from UGX 37,796,372 as at 31st December 2001 to UGX 44,435,254 as of 30th September 2003. In absolute terms total assets increased by UGX 6,638,882(17.56%), though desirable the SACCO is recommended to increase total assets by mobilizing more savings and be placed into loans.

The way forward

The management, BOD and supervisory committee should make sure that all the policies are adopted and are consistently followed.

Management should adopt the business plan that was designed by the project; the business plan is for 15 months, from 30th September 2003-31st December 2004. The projections can be highlighted in the following discussion.

The growth in total assets was projected to be 75%, this will increase total assets from UGX 44,435,254 to UGX 77,761,695 as at the end of 2004.

Loan portfolio will increase from UGX 10,423,654 to UGX 44,991,406.

The source of funds is mainly savings mobilized during the business plan period, total savings deposits are expected to increase from UGX 22,069,342 to UGX 49,767,484. Share capital will increase from UGX 6,446,563 to UGX 13,219,488 as at the end of the year 2004. Delinquency is expected to reduce from 63.32% to 15.56% as at the end of 2004.

The assumptions underlying the business plan are as follows.

- i. That member ship will increase from 973 to 1,200 putting into consideration that all in dormant members will be activated.
- ii. The SACCO will undertake aggressive membership recruitment drive.

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- iii. Stringent collection efforts will be employed to reduce delinquency.
- iv. Technical analysis of loans will be embarked up on.
- v. Marketing and sensitization will be carried out.
- vi. That saving deposits mobilized will be invested into loans not non- earning assets

Table 2: Wekembe SACCO Financial Statistics

Date Joined the Project:		30 th October 2002	
Report Date:		30 th September 2003	Target for December 2003
Members	Total	973	2,000
	Women	591	-
	Women (%)	60.74%	-
Loan Volume (Gross)	Total Ushs.	10,423,654	83,215,550
Average Loan Size:	Ushs.	173,728	
Number of Micro enterprise Loans	Total (Actual)	45	-
	Women (Actual)	Not tracked	-
	Women % (Actual)	Not tracked	-
Savings Volume	Total (Actual)	22,069,342	80,510,976
Share Capital	Total (Actual)	6,446,563	16,102,195
Number of savers	Total (Actual)	973	-
Average Savings per member	Total (Actual)	22,682	-
Total Portfolio At Risk > 30 days overdue	Total (Actual)	3,242,841	-
Delinquency Rate %	Total (Actual)	63.32%	11.78%

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