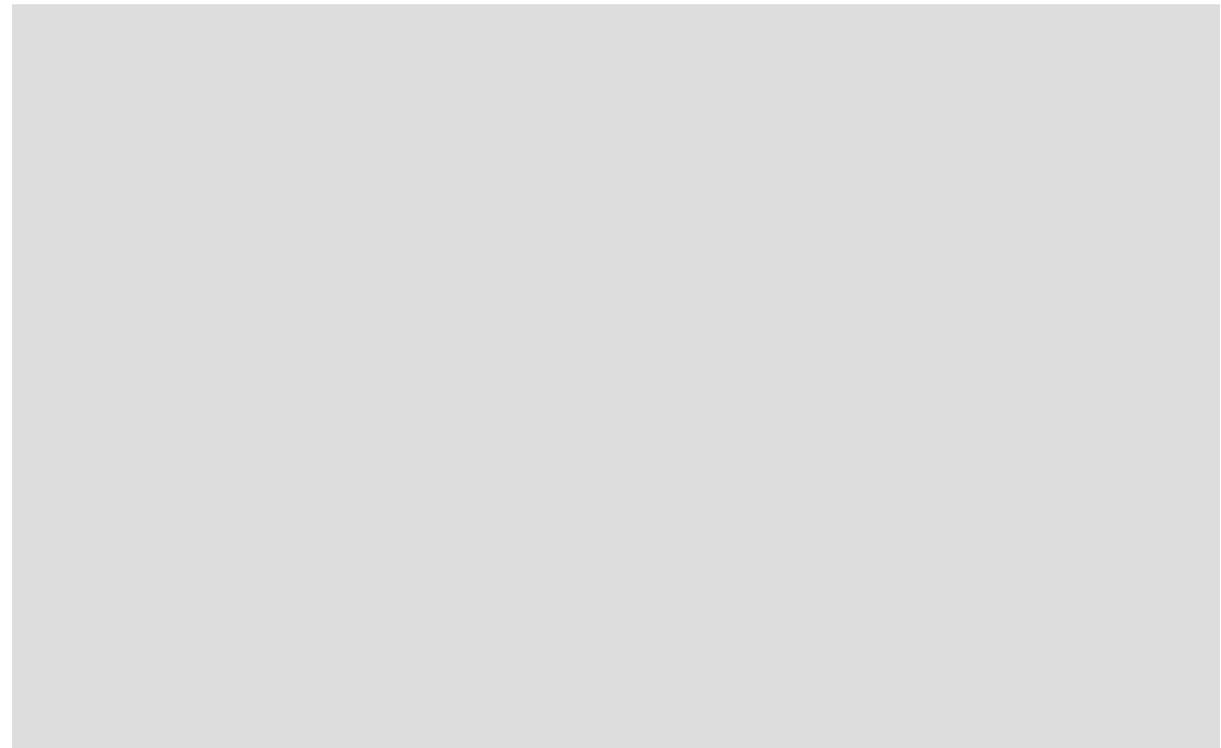




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DEVELOPMENT OF A DUE DILIGENCE TOOL AND ASSESSMENT OF SAVINGS AND CREDIT COOPERATIVE ORGANISATIONS

FINAL REPORT ON THE TOOL'S EFFECTIVENESS



August 19, 2005

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc.



Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

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

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Executive Summary

This report summarizes the work done and results of an assignment, undertaken by FRIENDS Consult Ltd, for the USAID – Rural SPEED program. The job was to develop, test and report on a one-day SACCO due diligence tool. Following the signing of the contract, the consultant started the work and proceeded in line with the pre-determined scope of work till the assignment was concluded.

The main result/ deliverable of this assignment is a carefully developed, tested and proven due diligence tool that can be used to assess a SACCO in one day. Developed to be time-saving, user friendly and effective in assessing the main performance areas of a SACCO, the tool highlights the SACCO's areas of strength and weakness. It also rates the SACCO against a pre-determined overall score interpretation guideline and against any other SACCOs assessed in a similar way.

Background

Introduction

With the focus on increasing and strengthening access to financial services by rural communities in Uganda, the USAID funded Rural SPEED program supports institutional capacity building for institutions that provide these services in rural areas. Rural SPEED has identified 10 savings and credit cooperative organizations (SACCOs) in rural areas of Western Uganda that it will work with to enhance their outreach and strengthen their capacity to offer financial services to increasing numbers of rural people.

Among the established needs in dealing with SACCOs was a tool that could be used, in focused due diligence, to assess a SACCO in a day. This assignment aimed at developing that tool, testing it and using it to assess and report on the SACCOs affiliated to Rural SPEED.

This report summarizes the assignment objective, rationale, work methodology used and the conclusions and recommendations resulting from it.

Assignment Objective

The main objective of this assignment was to develop and test an effective tool that could, in a limited (one day) due diligence, to be used by stakeholders like bankers, donors/ development partners and directors to assess the performance of a SACCO. This could make such stakeholder better able to beneficially work with the SACCO so assessed.

Methodology of Work

To effectively and efficiently complete the assignment, the consultants used the following work methodologies:

- Using the items in the winning technical proposal to prepare a design proposal for comments by the client;
- Face to face interviews with officers of Rural SPEED
- Face to face field interviews and focus group discussions with board members, managers and staff of ten SACCOs
- Examination of documents and records at the SACCOs (book-keeping, accounting, savings, loan tracking and related documents/ records)
- Analysis of data, findings and preparation of reports.

Activity Summary

What was done

In line with the terms of reference/ scope of work, the consultants undertook the following tasks to accomplish the assignment:

- Prepared and presented to Rural SPEED a Design Proposal for comment;
- Developed the SACCO Due Diligence Tool, using the technical proposal, the subsequent design proposal and comments received from Rural SPEED;
- Tested the tool on one SACCO chosen by Rural SPEED, compared the tool findings to the most recent audit report of the SACCO and prepared/ presented a report comparing the two (tool based due diligence and the audit report) to Rural SPEED;
- Used the tool to carry out one-day assessments on nine other SACCOs affiliated to Rural SPEED, including preparing opinions on each of the nine, for presentation to Rural SPEED
- Prepared a final report on the effectiveness of the tool and submitted it to Rural SPEED.

Why the activities were undertaken

All the above activities were carried out in their logical sequence in order to fulfill the scope of work and to come out with a tool that is tested and proven to be workable.

How it was done

In carrying out the assignment, the consultant's work approach was:

- ✓ Consultative, involving working closely with the client (Rural SPEED) and other stakeholders to ensure optimum usefulness of the final product;
- ✓ Fully objective, as much as possible drawing conclusions only from observed and confirmed circumstances;
- ✓ Creative, building on the consultants' prior work with and knowledge gained from SACCOs, other MFI types and in the wider financial sector.

Conclusions and Recommendations

Conclusions

The following conclusions can be drawn about the tool:

- ✓ The tool is effective in assessing SACCOs in a multi-dimensional way – governance, management, loan and savings management, financial controls, systems and rural outreach;
- ✓ The tool can be used in a one-day assessment per SACCO, thereby solving the long-experienced problem of the cost-effectiveness of evaluating rural SACCOs;
- ✓ The tool is handy, self-guiding and user-friendly, and thus would take only a short, half day training for an experienced micro-finance of banking sector specialist to proficiently use;
- ✓ It was an insightful innovation for Rural SPEED to come up with the idea of developing the tool, which solves the long standing problem of the high cost and time wastage in evaluating SACCOs.
- ✓ The tool could complement the SACCOs' own in-house evaluation and monitoring mechanisms.

Recommendations

1. *Popularize the tool* by exposing other development partners and wider SACCO stakeholder categories to it, through seminars, bulletins and other information dissemination methods

2. *Train different kinds of stakeholders to use the tool.* To be effective, FRIENDS Consult, the tool developer, could be hired to train interested stakeholders on the contents of the tool and how to use it.

3. *Use the recommendations in the assessments done under this assignment to help the SACCOs in their most pressing areas of need, which are:*

- Book-keeping, accounting and internal controls
- Portfolio and delinquency management
- MIS streamlining
- Cash flow based assessment of loan applicants
- Update, review and development of policies and procedures
- Governance training and TA
- Development of strategic/ business plans
- PMT Reporting and results interpretation

Appendices

1. The SACCO Due Diligence Tool
2. Assessment Reports on the following SACCOs
 - Ankole Farmers
 - Kamukuzi
 - Kitagata
 - Kyamuhunga
 - Muhame
 - Nyarwanya
 - Rubabo
 - RUSCA
 - Shuuku