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LIGHT DUE DILIGENCE KAYONZA SACCO

FINAL REPORT



November 2006

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Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

LIGHT DUE DILIGENCE KAYONZA SACCO FINAL REPORT

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

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EXECUTIVE SUMMARY

Kayonza SACCO was initially registered as Company limited by shares with the registrar of Companies. It was in July 2005 that it changed its status and registered as a Cooperative. It is a relatively young institution which has however made tremendous progress in quite a short time. It has achieved a lot of successes in management effectiveness, strong governance structures and product suitability. This has in turn led to strong systems and procedures which have enabled the SACCO leadership and management staff to propel the SACCO ahead. This is partly the reason why it has achieved robust business growth.

Kayonza SACCO however has to address itself to other pertinent areas like asset/liability management, product pricing and to some extent, financial transparency. With some capacity building in these areas, a lot of improvement in general performance can be guaranteed. It is recommended that the SACCO takes urgent measures to address these shortcomings so as to achieve sustained growth.

Introduction

In November 2006, USAID - Rural SPEED Project contracted **KISAKA & COMPANY** to conduct a due diligence of KAYONZA Micro-finance Cooperative and Savings Credit Society Limited Butogota, Kanungu District.

The objective of the assignment was to perform a Light Due Diligence on the SACCO which is proposing partnership with USAID/Rural SPEED.

USAID Rural SPEED provided us with a Standard Limited Due Diligence (LDD) Tool that we used as the basis of undertaking this assignment.

We held free discussions with the SACCO staff and Board Members, and had access to the SACCO documents and records in the course of the performance of the Light Due Diligence.

This report is based on a one-day, Limited Due Diligence (LDD) performed at the SACCO and is in no way a substitute for external audit, or internal audit or extended/in-depth due diligence in circumstances where any of these reviews would be required by the users of this report.

In the event that Rural SPEED requires additional information upon which we based our rating in any of the aspects below, we are more than willing to furnish such information.

Qualifiers

Does the SACCO have?

	Yes	No
A Valid registration certificate from the Department for Cooperatives? Certificate Number 7354 dated July, 5th 2005 issued by the Registrar of Cooperatives	√	
Identifiable place of business where they (SACCO) carry out their activities? SACCO has an identifiable office located in Butogota Trading Center (Main Road), Kanungu District	√	
At least one full time staff? SACCO has 5 staff (1 Manager, 1 Cashier/Accountant, Records officer, Credit officer, Credit officer in charge of Bwindi Branch)	√	
Financial services as its core business? No other business	√	

Active loans and savings operations? 1563 savers Amounting to 56 Million, Total Loans are 466 and amount to Ugx149 Million and all savers are members	√	
An active Board/ Committee Directors? SACCO has a Board of 7 Members and meet on quarterly basis with one committee (the Loans) The Audit Committee Comprise of Non-Board Members	√	
Overall decision at this stage is YES because all qualifiers Were rated YES		

Raters

Governance, Effectiveness and Strategy

	ASSESSMENT QUESTIONS Does the SACCO have?	MAX SCORE	SCORE	REMARKS
1.1	Full control of its affairs resting on the membership, board and management, with no external superior authority?	2	2	Kayonza SACCO members control its affairs through the (AGM), Board & Mg fully control the SACCO; no external control was noted.
1.2	An able board, with the right skills and dedication to move it forward?	2	1.5	Board comprise of 3 graduates including the Chairman, one with a Diploma, and 3 with certificates Most members attend board meetings regularly. None of the BOD has demonstrable experience or training in financial matters/banking
1.3	A clear governance structure?	2	1.5	AGM is the supreme organ, which elects the Board, which in turn appoints and supervises management. There are loans and Audit committees .The Audit Committee Comprise non-Board Members however a quick review of their reports indicated their inability to effectively carry out the Committee work.

1.4	Well laid out and followed responsibility and accountability practices for all organs & persons?	2	1.5	<p>Monthly Reports from Management to board and from board to AGM were seen.</p> <p>Directors have Loans (4directors) amounting to 11.2 Million (7.5%) which is above 5%</p> <p>Three of the directors hold larger denominations of the loans (between 4 & 5m) compared to other borrowers, although these loans are currently performing</p> <p>Since these loans are approved by the Loans Committee, and two of the BOD who hold largest denominations of loans are Committee members representing the BOD, responsibility and accountability practices are highly doubtful and thoughtful</p> <p>Directors need capacity building in their responsibilities and accountability skills</p>
1.5	A clear ownership structure?	2	2	<p>Noted high sense of ownership among BOD members interviewed.</p> <p>Members Register exists</p> <p>Share certificates issued to all paid up members;</p>
1.6	A focus on the savings and credit business?	2	2	<p>Provision of savings and credit services is the SACCO's core business.</p>
1.7	A strategic/ business plan, supporting the mission that is followed?	2	2	<p>KAYONZA SACCO has a 3-year business plan.</p> <p>In which the Vision and mission, objectives, Development strategies are</p>

				clearly stated Plan has Targets for loans, membership and Savings,
1.8	Beneficial linkages with external Partners	2	2	<input type="checkbox"/> AMFIU, as apex body <input type="checkbox"/> KPSPD for technical advice and linkages <input type="checkbox"/> Micro-finance Support Center for Financing purposes
1.9	Its by-laws, constitution, or such other internal governance guidance documents?	2	2	<input type="checkbox"/> SACCO has Bylaws <input checked="" type="checkbox"/> Verified/ examined the SACCO By laws and found them to be satisfactory and are being followed
	Total	18	16.5	

Management Effectiveness

	ASSESSMENT QUESTIONS	MAX SCORE	SCORE	REMARKS
	Does the SACCO have?			
2.1	Management staff with suitable qualifications and experience to manage the SACCO?	2	2	<input type="checkbox"/> Manager has a BCom/Finance <input type="checkbox"/> 4-staff hold Diplomas, <input type="checkbox"/> Most staffs claimed to have MFI experience but not verifiable.
2.2	A balance of focus between profit & development in the SACCO operations?	2	1	<input type="checkbox"/> All SACCO services to members are mainly linked to credit/savings. <input type="checkbox"/> No member development services are provided
2.3	Observable business growth?	2	2	<input type="checkbox"/> Membership -1563 from 1123 in 2005 amounting to UGX 86m and 65.7m respectively <input type="checkbox"/> Savings -1563 from 1123 in 2005 amounting to UGX 56.1m and 24.9m respectively <input type="checkbox"/> Loan -466 from 395 in 2005 amounting to UGX 149m and 84.2m respectively
	Total	6	5	

Product Developments and Delivery

	ASSESSMENT QUESTIONS Does the SACCO have?	MAX SCORE	SCORE	REMARKS
3.1	Variable and adaptable products?	2	1.5	<ul style="list-style-type: none"> ✓ Savings – voluntary and Collection accounts for schools. ✓ 3 Loan products Viz Agricultural loans, Salary loans and Commercial loans charged at 3.5% per month ✓ Emergency loan for periods not exceeding one month and charged at 5% per month ✓ Fewer products are offered by the SACCO
3.2	Documented operational policies and procedures	2	1.5	<ul style="list-style-type: none"> <input type="checkbox"/> Following manuals exist <input type="checkbox"/> Operations and accounting Manual <input type="checkbox"/> Loan procedures and guidelines manual <input type="checkbox"/> Governance and Human Resource Manual <input type="checkbox"/> Delinquency management procedures not seen
3.3	Efficiency in service delivery mechanisms?	2	2	<ul style="list-style-type: none"> <input type="checkbox"/> Emergency loans take one day or less <input type="checkbox"/> Loans Committee sits at least twice a month. <input type="checkbox"/> Applicants served within 2 weeks
	Total	6	5	

Assets and Liability Management

	ASSESSMENT QUESTIONS Does the SACCO have?	MAX SCORE	SCORE	REMARKS
4.1	Effective delinquency management?	2	1	Portfolio aged on quarterly basis and not Monthly with PAR > 30 at 4.26%

4.2	Safety of clients' deposits?	2	1	<p>KAYONZA SACCO has a strong room & safe, with insurance cover for cash in transit but does not have one for cash on hand</p> <p>Strong room located just next to cashiers place and has ordinary metallic doors</p> <p>One armed guard on duty despite heavy traffic of customers on most days</p>
4.3	Moderate gearing?	2	2	<p>As at 31st October 2006</p> <ul style="list-style-type: none"> • Share capital was UGX 83,320,000 and loan balance from MFSC 41m • 41m /83m=49 % • Debt equity ratio is appx 2:1 ranked as good
4.4	Prudence in intermediation?	2	0.5	<ul style="list-style-type: none"> • Used Total liquid assets/Average savings at the end of every months in 2006 • Savings/Cash cover of 27% as at 31st October 2006, was lower than 30% and therefore poor. • Average for other months in 2006 was also lower than 30% at 26% and therefore poor • Also used average liquid assets/ average current liabilities to determine Quick Ration and found it to be 33% for the period June to September 2006 which is relatively poor • The SACCO is faced with a high liquidity risk given that the members are using it for general banking purposes as there is no other bank in the area other than the SACCO yet it, (SACCO)

				has another busy outlet at Bwindi
4.5	Proper assessment of borrowers & anti-concentration	2	0.5	<ul style="list-style-type: none"> • Verified the existing Loan appraisal form and found it not to be very satisfactory. • The current appraisal form is so inferior that it does not clearly bring out the character, capacity to repay the loan and capital base of the applicant • The system does not aim at scoring or underscoring the applicant being appraised, but just to” fill a scanty form and put on file”
4.6	Clear documentation of loans, savings, other assets and liabilities	2	2	<ul style="list-style-type: none"> • Loan files are properly kept, a savings ledger up-to-date, shareholder register maintained and is up-to-date.
	Total	12	7	

Accounting and Financial Management

	ASSESSMENT QUESTIONS	MAX SCORE	SCORE	REMARKS
	Does the SACCO have?			
5.1	A proper bookkeeping system?	2	1.5	<input type="checkbox"/> Active & up to date cashbook exists <input type="checkbox"/> No General ledger except for Control accounts <input type="checkbox"/> Assets Register and loans ledgers are in place.
5.2	A suitable accounting system?	2	1.5	<input type="checkbox"/> Daily posting of transactions <input type="checkbox"/> Monthly financial reports to BOD <input type="checkbox"/> Quarterly balancing of ledgers is a longer time <input type="checkbox"/> Annual audit by independent auditors and Certified Public Accountants.

5.3	Proper financial management principles?	2	1.5	<input type="checkbox"/> Budget approved by AGM <input type="checkbox"/> Annual budget divided into quarters. <input type="checkbox"/> Quarterly financials compared to budget. <input type="checkbox"/> Variiances not well explained in the returns.
5.4	Documented accounting & financial management manual	2	2	Accounting and financial management manual in place
	Total	8	6.5	

Financial Sustainability

	ASSESSMENT QUESTIONS Does the SACCO have?	MAX SCORE	SCORE	REMARKS
6.1	Measures of sustainability consistently monitored?	2	1.5	<input type="checkbox"/> OSS and FSS monitored by (PMT) quarterly reports to the BOD <input type="checkbox"/> No evidence to show that BOD reviews these rather important reports
6.2	Good levels of operational and financial sustainability?	2	1.5	<input type="checkbox"/> ASS of 137.3% and FSS of 145.8% for 31 October 2006. <input type="checkbox"/> However, loan loss provision of 1.05% is < PAR >30days of 4.26%
6.3	Profitability and sustainability embedded in business plans	2	2	<input type="checkbox"/> OSS and profitability embedded in the business plan.
	Total	6	5	

Rural Outreach

	ASSESSMENT QUESTIONS Does the SACCO have?	MAX SCORE	SCORE	REMARKS
7.1	Rural operations	2	2	The SACCO is rural based.

Prudence and Transparency in Product Pricing

	ASSESSMENT QUESTIONS Does the SACCO have?	MAX SCORE	SCORE	REMARKS
8.1	All direct and indirect overhead costs taken into account in determining interest rates and fees	2	1	<input type="checkbox"/> The SACCO does not have a scientific way of deriving interest rates so as to be sure that they have included all

				<p>overheads</p> <ul style="list-style-type: none"> <input type="checkbox"/> Need proper costing exercise
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	ASSESSMENT QUESTIONS Does the SACCO have?	MAX SCORE	SCORE	REMARKS
8.2	Market rates charged by competitors taken into account in determining interest rates and fees	2	1.5	<ul style="list-style-type: none"> • Manager explained that they do market intelligence in an informal way and compare rates • No evidence of market intelligence is on file
8.3	All interest rates and charges displayed and fully disclosed to the client before they decide to borrow	2	0.5	<ul style="list-style-type: none"> <input type="checkbox"/> Interest rates, charges, and fees are not properly displayed <input type="checkbox"/> But discussed with members as they come to borrow. <input type="checkbox"/> Need to translate rate into local language.
	Total	6	3	

Financial Transparency

	ASSESSMENT QUESTIONS Does the SACCO have?	MAX SCORE	SCORE	REMARKS
9.1	General Ledger	6	5	<ul style="list-style-type: none"> • Loans payable is properly documented and recorded • Bank transactions properly recorded, reconciled though not promptly • Fixed asset register is up to date • Share holders Capital agrees with the figures in the Members Register

	ASSESSMENT QUESTIONS Does the SACCO have?	MAX SCORE	SCORE	REMARKS
9.2	Customer savings	6	4	<ul style="list-style-type: none"> • Traced 2 clients' savings passbooks to the ledger – and found to be -OK • Traced and 2 member deposits to their ledger and cash tills;= OK • Traced and agreed 2 member

				<p>withdrawals to their ledger and cash tills</p> <ul style="list-style-type: none"> • No interest is paid to Voluntary savings Customers
9.3	Loan/ Credit Ledger	6	4	<ul style="list-style-type: none"> • Customers are given separate loan pass books • On the day when the review was carried out the SACCO did not handle any loan client because they were handling salaries of the KGTF and therefore unable to carry out the test • Loan ledger maintained and up to date
9.4	Income	6	5	<ul style="list-style-type: none"> • Growth trend of interest income is satisfactory • Ledger Fees properly recognized, recorded • Interest income recognized on cash basis
9.5	Expenditure	6	4	<ul style="list-style-type: none"> • Traced rent expense control accounts and reports and income statements • Traced fuel and motorcycle costs control accounts and reports and income statements

	ASSESSMENT QUESTIONS Does the SACCO have?	MAX SCORE	SCORE	REMARKS
9.6	Loan loss provisions	6	3	<ul style="list-style-type: none"> • Loan aging and provisioning is done monthly and detailed analysis done quarterly • Loan loss provisions are not accurately handled and are less the PAR greater than 30 days
	Total	36	25	

Summary of Scores by Assessment Area

ASSESSMENT AREA	MAX SCORE	SCORE
1. Governance Effectiveness and Strategy	18	16.5
2. Management Effectiveness	6	5
3. Product Development and Delivery	6	5
4. Asset-and-Liability Management	12	7
5. Accounting and Financial Management	8	6.5
6. Financial Sustainability	6	5
7. Outreach	2	2
8. Prudence and transparency in product pricing	6	3
9. Financial Transparency	36	25
TOTAL	100	75

Score interpretation guidelines

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

Conclusion

On the basis of this assessment, KAYONZA SACCO is a good performing SACCO that can form good partnership with USAID Rural SPEED but only require improved delivery in the following areas

- Full computerization of banking and accounting operations preferably a simple accounting system that can loan track and at the same time generate accounting reports
- Enhanced deposit mobilization from its members. The SACCO has the potential to mobilize more deposits but they lack the time to do so
- Documentation of roles and responsibilities of the governance organs. This is urgently needed so that the BOD can know their role in order to enhance Corporate governance
- Improved physical controls over cash. This can be done by increasing on the physical security and insuring cash on hand
- Capacity building of its Members and Staff
- Directors need capacity building in responsibilities and accountability skills
- The SACCO urgently requires capacity building in the appraisal of loans so that the system that they use adequately captures the applicants character, capacity to repay the loan and the capacity base of the applicant

Persons Interviewed

Name	Title
Kusasira Benon	Manager
Mahsemererwa Ivan	Credit Officer
Asiimwe Alex	Cashier accountant
Safari Abdul Mufaransa	Records officer
Mugabe Gregory	BOD Chairman
Habomugisha Richard	Director