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FRAMEWORK FOR PRODUCT REVIEW OF SACCOS

FINAL REPORT



July, 2006

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Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

FRAMEWORK FOR PRODUCT REVIEW OF SACCOS

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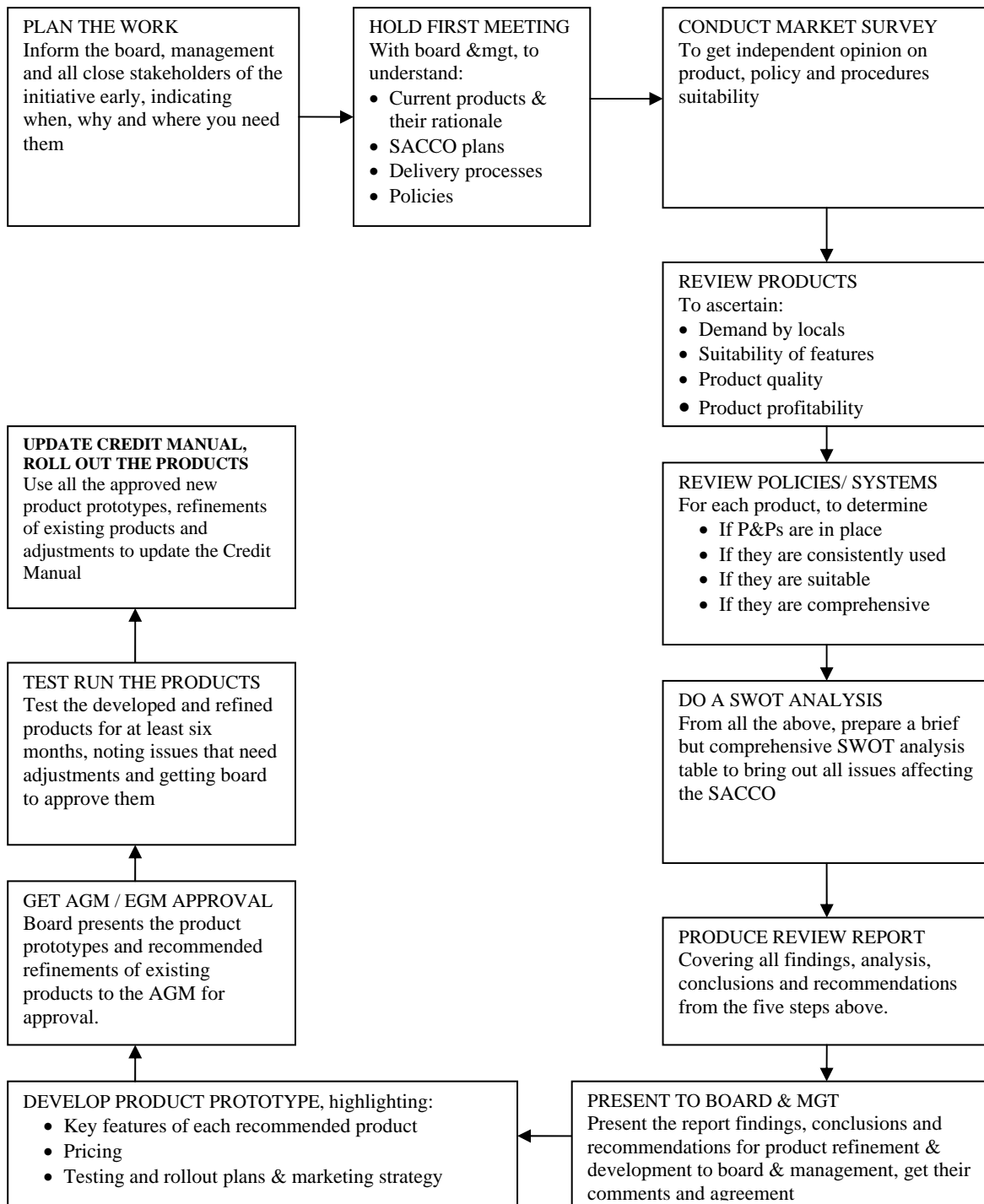
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EXECUTIVE SUMMARY



BACKGROUND

Introduction

This manual is a step-by-step guide to persons offering technical assistance to SACCOs in reviewing, refining and developing products. It is meant to be a reference text for consultants and development partners engaged in such undertakings to accomplish the work with economy and efficiency. The steps are presented in the logical, chronological order in which they should be implemented.

Most methodologies for financial services product development tend to be too long, elaborate and complicated for SACCO managers and members to follow. This manual presents a fairly simple but logical and comprehensive way of working with SACCO stakeholder in ways that they can fully understand, to develop products they can fully own and implement.

STEP 1 PLAN THE WORK

This is often the most neglected, yet vital step for the success of the whole exercise. In planning the work:

- Make appointments with the Manager, Board chair and all the other stakeholders that will be interviewed during the process, indicating why, where and when you need them;
- Prepare any market survey and other interview guides that you might need – this is necessary so that once in the field, you do not forget to ask vital questions or probe issues that matter for the product review
- Determine and write down the information you will need to get from document reviews and other observations within the SACCO

As part of the work planning, it is useful to have a checklist of all activities, which should include all the steps in the cycle presented in the Executive Summary of this manual.

STEP 2 HOLD THE FIRST MEETING WITH BOARD AND MANAGEMENT

The logical first step once at the SACCO premises is to hold a meeting, fairly unstructured but informative, with the management and board members of the SACCO. At this meeting, ask questions that will help you to better understand:

- Current savings products, their features and rationale
- Current loan products, their features and rationale
- Current other products, their features and rationale
- Delivery methodologies and processes for each of the products
- Policies and procedures, whether they are documented and followed
- SACCO plans for expansion and product diversification
- Challenges the SACCO faces in operating existing products
- Board & management views on member satisfaction with existing products
- The general aptitude of board members and management

STEP 3 CONDUCT A MARKET SURVEY

To get independent opinion on the SACCO's products, delivery methodologies, policy and procedures and their suitability to users, carry out interviews with members and non-members of the SACCO, roughly in respective proportions of 3:1. The number interviewed should be large enough, at least 5% of the number of SACCO members. For these market survey interviews, first get a fair view of the SACCO's geographical area of coverage and then choose places to interview people in, so that the respondents come from different geographical locations within the catchment- area, and not from just one concentrated area. Also, select the respondents so that they fairly represent the different economic activities (mainstays or economic livelihood) like trade, agricultural production, agro processing, artisanship etc.

The market survey should give useful insights on issues such as:

- Members' views on the SACCO products
- What they like about the products
- What they do not like about the products
- Suggestions on required new products
- Suggestions on required changes/ refinements to existing products
- Views on the effectiveness of the SACCO leadership and management

STEP 4 REVIEW THE PRODUCTS

Product reviews are necessary to ascertain:

- Demand by locals
- Suitability of product features
- Product quality
- Product profitability

It is necessary to review savings and credit/ loan products as well as any others.

Savings Products

For the savings products, the issues to concentrate on should revolve around:

- The number savings products offered, and characteristics of each
- Requirements for accessibility and continual enjoyment of the product(s)
- Procedures for deposit and withdrawal
- Physical evidence/ records maintained
- Cost/ charges levied on the savers
- Interest paid on savers' deposits
- Accessibility of the money saved to the account holder
- Promotion of the savings products
- A summary of the savings products' situation in terms of the total savings portfolio and how this is shared among the different savings products.

Loan Products

Very often, there will be more issues with loan products than with savings. Accordingly, allocate at least double the time used to assess savings products to the assessment of loan products. For the loan products, the issues to concentrate on should revolve around:

- The number loan products offered, and the terms and conditions of each
- Requirements for borrowing
- Procedures for loan application, assessment, contracting and disbursement
- Procedures for portfolio management and delinquency control
- Physical evidence/ records maintained for each loan product
- Fees and charges levied on borrowers
- Interest charged on the different loan products
- Analysis of the productivity and profitability of existing loan products
- Loan quality analysis, using the Portfolio-At-Risk (PAR) and a sample of loans with recent-past completion dates, to ascertain what proportion of them were/ are:
 - retired as scheduled
 - retired with some delays
 - still outstanding/ delinquent

Analyse the similarities and differences to see if there are common characteristics that the SACCO should guard against in its current and future loan products. In further discussions with board and management, generate a discussion to probe them on what they see as the major causes of delinquency (if that is a problem)

STEP 5 REVIEW THE POLICIES AND PROCEDURES MANUALS

For each product, check to determine whether there is a policies and procedures manual, or if there are provisions regarding it in a larger P&P manual. After this, review the policy-and-procedure provisions for each, determining:

- If the P&Ps are consistently used
- If the P&Ps are suitable in view of customer satisfaction and institutional sustainability
- If they are comprehensive enough to cover all key issues

Highlight issues, if any, which are provided for in the P&P manuals but are not followed in practice and find out from the board and management why these provisions are not followed.

STEP 6 DO A SWOT ANALYSIS

From all the above, prepare a brief but comprehensive analysis of the Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis table to bring out all issues affecting the SACCO, using the following general guidelines:

Strengths – Internal advantages that the SACCO enjoys, like good management, a focused/faithful board, good control systems to support product delivery, good physical security for savings, suitable product policies etc

Weaknesses – Internal disadvantages the SACCO suffers with regard to its product variety and delivery, like improper back-office support systems, incompetent management, and absence of a methodical product development system or wrong product features.

Opportunities – External circumstances that make business prospects good for the SACCO, like a growing market demand, increasing support from development partners, growing incomes of local people, weak competition etc.

Threats - External circumstances that make business prospects doubtful or challenging for the SACCO, like a shrinking market for the products, reduced support from development partners, increasing levels of poverty among locals, strong existing competition, incoming competition etc.

STEP 7 PRODUCE THE REVIEW REPORT

Analyse all the findings from the above five steps and prepare a review report, focused on product and related issues. The report should be straight forward, simple enough to be understood by the sometimes modest SACCO management and board members, and comprehensive enough to cover all the pertinent issues. It should at a minimum contain:

- i) A summary of the methodology used in the assignment
- ii) Findings from the internal document reviews
- iii) Findings from meetings/ interviews with management and board
- iv) Findings from the market survey
- v) Analysis of existing product features
- vi) The profitability and/ or productivity of products
- vii) Loan portfolio quality and the SACCO's effectiveness in credit management e
- viii) SWOT table
- ix) Recommendations for new product development, existing products refinement and other improvements to support the product overall offering.

STEP 8 PRESENT TO BOARD & MGT

Present the report findings, conclusions and recommendations for product refinement & development to the board and management, noting their comments. Agree with them on the recommendations to be used in developing new product prototypes, and in refining the existing products.

STEP 9 DEVELOP PRODUCT PROTOTYPES

After agreeing with the board and management on the key feature of the new and refined products, develop product prototypes for the new products, including:

- The key features of each recommended product, including minimum and maximum loan periods, quantitative limits, product purpose, repayment frequency etc
- Pricing – fees, penalties and interest chargeable or payable
- Recommended testing and rollout plans

STEP 10 GET AGM / EGM APPROVAL

The board should present the product prototypes and recommendations to the members for democratic decision making. The board and management should by this time be in position to explain the proposed new products, having been involved right from the start.

After clarifying any questions and issues from the members, the board should seek approval of the members for the new products to be introduced and for the refined ones to be accordingly changed.

STEP 11 TEST & ROLL OUT

Using the recommended testing plan, the management and board should start offering the new products on a test basis, and administering the refined ones in their new state. The test should run for at least six months, during which time required changes are noted and referred to the board for approval. By the end of the test period, the new products should have been adequately refined.

STEP 12 INCORPORATE CHANGES INTO PRODUCT MANUAL AND ROLL OUT

After the test period, the new and refined products will have been sufficiently adjusted. At this final stage, the changes should be incorporated into the product manual(s), which should from then on be adhered to. At this stage, the new products should be launched or rolled out.