KAJARA DUE DILIGENCE

FINAL REPORT

June 2006

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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

Kajara Peoples' SACCO 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.

Kajara SACCO however has to address itself to other pertinent areas like asset/liability management 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.

BACKGROUND

Introduction

Rural SPEED contracted FRIENDS Consult Ltd to conduct a due diligence of Kajara Peoples SACCO Ltd. in Rwashamaire Trading Center, Ntungamo District. The objective of the due diligence is to assess the governance and operational position of the SACCO in order to provide Rural SPEED with adequate information on what assistance if any, to provide to the SACCO to help it become a sustainable, growing institution.

Messrs. William Mugerwa and Samuel Ojiambo conducted the assessment on June 22nd, 2006. We met and interviewed the Board Chairman, the chair of the education committee, the manager, staff, and members transacting business on the day of assessment.

Below is a report covering all areas assessed. The assessors held free and uninterrupted discussions, had access to the SACCO documents and records in the course of the assessment. The report is divided into sections – the Qualifiers and Raters. Qualifiers address the conditions the organization must meet to be a SACCO. An organization must meet all conditions to qualify. Raters represent the various areas of a SACCO that measure institutional health, profitability, and sustainability.

Part A – The Qualifiers

Does the SACCO have (please tick Yes or No):

	Yes	No
1.A Valid registration certificate from the Department for Cooperatives?[1] ***# 6619 Issued December 4th, 2002***	√	
2. Identifiable place of business where they carry out their activities?	√	
3. At least one full time staff? 7 – Mgr, Accountant, Ledger Keeper, 2 Loans Officers, 1 Attendant	√	
4. Financial services as its core business? No other Business	√	
5. Active loans and savings operations? Loans 389m/=; Savings 238m/= as at date of last AGM held March 25th, 2006	√	
6. An active Board/ Committee Directors? 9 Members including 2 women, meet Quarterly	√	

On the basis of the above, Kajara People's SACCO is operating as a SACCO.

[1] An institution that is, at the time of the assessment, changing its form from NGO or any other into a cooperative will for this purpose be deemed to be registered as a cooperative society

RATERS

GOVERNANCE EFFECTIVENESS AND STRATEGY

ASSESSMENT QUESTIONS ***Does the SACCO have…***	**MAX SCORE**	**SCORE**	**REMARKS**
Full control of its affairs resting on the membership, board and management, with no external superior authority?	**2**	2	Despite pressures to accept loans for operations, the membership opted to keep using their internal loans, until such a time as they could get loans on friendly terms. They opted to grow at their own pace.
1.2 An able board, with the right skills and dedication to move it forward?	**2**	2	Board members are able, have the skills and commitment to move their SACCO forward. Many have vast cooperative movement experience. Board has 9 members, two of whom are women. Members also lead various committees.
1.3 A clear governance structure?	**2**	2	Management reports to the Board, which in turn reports to the general assembly. Loans, Finance, Education, and Audit/Supervision committees exist.
1.4 Well laid out and followed responsibility and accountability practices for all organs & persons?	**2**	2	Well laid out statements of responsibility and reports, and follow up on issues.
1.5 A clear ownership structure?	**2**	2	Interviewed members know they own the 'bank', and are issued with share certificates. They articulate their demands, and vote in the AGM.
1.6 A focus on the savings and credit business?	**2**	2	The SACCO is involved in the MFI business full time. Other activities are just aimed at member development.
1.7 A strategic/ business plan, supporting the mission that is followed?	**2**	2	A 3-year business plan is in place. Management and Board refer to plan, and were able to point out that their expansion plan was overtaken by the need to consolidate their current position.
1.8 Beneficial linkages with external Partners	**2**	2	UCA, AMFIA, Ankole Private Sector Promotion Center, CCA
1.9 Its by-laws, constitution, or such other internal governance guidance documents?	**2**	2	The SACCO has adopted the UCA model of by laws, and uses them regularly, per compliance tests.

MANAGEMENT EFFECTIVENESS

2.1 Management staff with suitable qualifications and experience to manage the SACCO?	**2**	2	Manager has Dip. in Coop. & Business Admin, 6 yrs exp.; Acct has dip. in Coop & Business Admin & 1 yr exp (not yet confirmed in job), both Loans Officers have diplomas from MUBS, attendant has A level.
2.2 A balance of focus between profit & development in the SACCO operations?	**2**	2	Management & BOD organize education, sensitization, and other relevant technical assistance, as well as member workshops addressing topical issues. Education committee of board exists.

2.3 Observable business growth?	**2**	1.5	Savings – 81%, Loans 33%, Membership – 28% over past year

PRODUCT DEVELOPMENT AND DELIVERY

3.1 Variable and adaptable products?	**2**	2	Ordinary & Fixed deposit savings; Business, school fees, development , and agricultural loans. BOD and Mgt respond to members' emerging needs.
3.2 Documented operational policies and procedures	**2**	2	Supervision, personnel, credit policy, operations, and accounting manuals exist and are used.
3.3 Efficiency in service delivery mechanisms?	**2**	2	Loans committee sits 2 times a week, and loans take at most 2 weeks to access. Savings, other than Fixed Deposits, can be accessed any time

ASST-AND-LIABILITY MANAGEMENT

4.1 Effective delinquency management?	**2**	1	Efforts are underway to manage delinquency. May 2005 PAR 11.4%; May 2006 4.73%
4.2 Safety of clients' deposits?	**2**	2	SACCO has a safe & strong room, insurance cover for CIT, cash on counters, and cash in the safe
4.3 Moderate gearing?	**2**	2	SACCO has debt to equity ratio of 1.7:1, below the 2:1 ratio.
4.4 Prudence in intermediation?	**2**	1	Savings Cash Cover stands at 42%, an improvement towards the 50%.
4.5 Proper assessment of borrowers & anti-concentration	**2**	1	Assessments are done but are not well documented. Need to incorporate mini cash flow analysis of borrowers, and a detailed appraisal report
4.6 Clear documentation of loans, savings, other assets and liabilities	**2**	1.5	Loan ledgers are posted, up to date Savings ledgers are posted, up to date Need Loan documentation improvement

ACCOUNTING AND FINANCIAL MANAGEMENT

5.1 A proper book-keeping system?	**2**	1	• Posting done, up to date • Fixed asset register in place • Manual cashbook in place. Manual system is cumbersome and error prone
5.2 A suitable accounting system?	**2**	2	Manual Balance sheet & Income statements done monthly; Annual accounts audited by Alber Consultants.
5.3 Proper financial management principles?	**2**	1.5	Annual budgets are done, from which monthly targets are derived. Variance analysis is not done
5.4 Documented accounting & financial management manual	**2**	2	Accounting manual is in place, regularly consulted and used, per tests conducted.

FINANCIAL SUSTAINABILITY

6.1 Measures of sustainability consistently monitored?	**2**	1	OSS and FSS are not regularly monitored. LLR is inadequate
6.2 Good levels of operational and financial sustainability?	**2**	2	Calculated OSS of 192%, FSS of 138% after adjustments. Management does not regularly track these indicators.

6.3 Profitability and sustainability embedded in business plans	**2**	2	Incremental profitability is embedded in the business plan

RURAL OUTREACH

7.1 Rural operations	**2**	2	SACCO is located is located in Rwashamaire, over 90km from Mbarara

PRUDENCE AND TRANSPARENCY IN PRODUCT PRICING

8.1 All direct and indirect overhead costs taken into account in determining interest rates and fees	**2**	0.5	SACCO has not done formal product costing, and need training in this area
8.2 Market rates charged by competitors taken into account in determining interest rates and fees	**2**	2	Charges by nearby SACCOs are taken into account. Good market intelligence network
8.3 All interest rates and charges displayed and fully disclosed to the client before they decide to borrow	**2**	2	Charges, fees, and commissions are clearly displayed. Need to be translated into local language

FINANCIAL TRANSPARENCY

9.1 General Ledger	**6**	5	• Traced recently acquired Board Furniture to source documents, ledger, and register. Found to be well documented. • Traced entries from sample shareholder passbooks to the share register, and ledger – found to be well documented • Reviewed the bank reconciliation and found it properly done and the statements filed
9.2 Customer savings	**6**	4	• Checked consistency of passbook updating • Traced balances in GL to daily posting, found up to date • Interest is paid annually, per the shareholder register • Noted a few instances when members withdraw without passbooks.
9.3 Loan/ Credit Ledger	**6**	4	• Traced 3 member passbooks to their ledger – 2 were OK, while one had a mistake on posting • Traced interest payable – updates are done at end of year • Interest on loans is recognized and posted on a cash basis, per policy
9.4 Income	**6**	4	• Interest income is recognized on a cash basis by direct debit • Loan Loss Provision is only calculated at end of year • Ledger fees, loan commissions, and other charges are properly charged and posted.
9.5 Expenditure	**6**	4	• Traced salaries, rent, and security expenses all properly handled • Depreciation and loan loss provisioning are not properly done, and result in sudden fluctuations in income
9.6 Loan loss provisions	**6**	3.5	• The organization does not do the 1% general loan loss provisioning. Loan Loss provisioning is only done at year end, leading to overstating of income and understating of expense, as well as very high charges in the last month of the year

SUMMARY OF SCORES BY ASSESSMENT AREA

ASSESSMENT AREA	**MAX SCORE**	*SCORE*
Governance Effectiveness and Strategy	**18**	*18*
Management Effectiveness	**6**	*5.5*
Product Development and Delivery	**4**	*4*
Asset-and-Liability Management	**14**	*8.5*
Accounting and Financial Management	**8**	*6.5*
Financial Sustainability	**6**	*5*
Outreach	**2**	*2*
Prudence and transparency in product pricing	**6**	*4.5*
Financial Transparency	**36**	*24.5*
TOTAL	**100**	*78.5*

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	***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***
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 the assessment, Kajara Peoples' SACCO is a fairly strong SACCO with strengths in governance, management, products suitability and membership sensitization. Further improvements could benefit the SACCO in areas of[2]:

- Asset and liability management *(especially proper and complete documentation of loan assessments, including mini-cash flow projections of the borrower)*
- Product costing in pricing – *Introducing a mechanism for annually reviewing the costing and pricing of the products, to complement the market rates in determining the SACCO's pricing structure*
- Improving the frequency of loan loss provisions to at least twice a year, and applying the 1% overall provision on the gross loan portfolio.

Kajara SACCO is by Ugandan standards quite a healthy one, and should make a promising partner for Rural SPEED.

[2] For details, refer to the "Remarks" column of the report

APPENDIX 1 PERSONS INTERVIEWED

NAMES	DESIGNATION
Nsasiirwe Privah	– Manager
Byamugisha Salongo Ssempa	– Ledger keeper
Mr. Jomo Kindyomunda	– Board Chairman
Alice Barungi Tumusime	– Member Audit Committee
Tumusime Lauben	– Loans Officer
Tumwebaze Hope	- Cashier