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# PRODUCT REVIEW AND DEVELOPMENT FOR KITAGATA SACCO

FINAL REPORT



**July, 2006**

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# Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

## PRODUCT REVIEW AND DEVELOPMENT FOR KITAGATA 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**

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This report summarizes the work done and results of an assignment, undertaken by FRIENDS Consult Ltd, for the USAID/Rural SPEED. The job was to review existing products, recommend refinements to them, propose new products, outline their features in prototypes, and to recommend the testing, rollout and marketing plans for the new products. Following the signing of the contract, the consultant started the work and proceeded in line with the agreed scope of work till the assignment was concluded.

The deliverables of this assignment, all of which have been submitted to the client and to usaid/Rural SPEED, were:

- A work plan for the executing the multi-stage assignment
- Market/ product review & development report
- Progress report
- Final report (this one)

The activities under the Scope of Work (SOW) have been accomplished. The deliverables, if well utilized and implemented, should help Kitagata Savings & Credit Cooperative Society (SACCO) to greatly improve its product offering.



## **BACKGROUND**

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### **Introduction**

The remote rural Kitagata SACCO offers basic financial services to its 1,700 members and, with technical and financial assistance from USAID/Rural SPEED, decided to diversify and refine its products. The aim of this was to attract more members and enhance financial sustainability of the institution.

In June, 2006, USAID/Rural SPEED hired FRIENDS Consult to offer technical assistance in reviewing, refining and developing products. The overall aim of the assignment was to enable Kitagata SACCO to improve its product offering from both the financial and market viability standpoints.

### **Assignment Objective**

The main objectives of this assignment were to:

- Critically assess the current product offering of the SACCO in view of market demand/needs and the SACCO's own need for profitability and sustainability
- Recommend changes/ refinements that would make existing products more appealing to the market and supportive of institutional profitability
- Recommend new products that the SACCO could realistically introduce, and develop prototypes to highlight the features of such products

### **Methodology of Work**

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

- Guided initial discussions and brainstorming with board members and management ;
- Field interviews in three different geographical areas of the SACCO's market catchment
- Document reviews – covering credit policies/procedures and other documents that guide internal operations
- Review of the portfolio to assess arrears levels, product performance and the general health of the loan portfolio
- Profitability analyses of the existing products, using annualized percentage yield calculations
- Internal brainstorming by the consultants to come up with the appropriate product types to recommend, and their proposed features
- Sharing the recommendations and proposals with all the board and management, and using their comments to adjust the prototypes and recommendations
- Developing the testing, roll out and marketing plans for the new products.

## ACTIVITY SUMMARY

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### What was done

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

- Interviewed the board, management and staff on various aspects of existing products, operational and strategic level support for their delivery and the rationale for having them
- Reviewed the credit policies and procedures manual and assessed its appropriateness to the institution
- Reviewed the year-end and monthly financial statements
- Carried out an analysis of the most recently completed 1201loans and categorized them into successfully completed, those paid with some delays and delinquent loans (those not yet fully repaid).
- Analyzed the findings of the loan analysis and presented them to the board and management
- Conducted a market study to assess the members’/ clients’ perceptions and attitudes about the products
- Conducted a strengths-weaknesses-opportunities-threats (SWOT) analysis and identified strengths and weaknesses of the institution in assessing loan applications and offering credit.
- Analyzed the costs, profitability and productivity of the existing products and made recommendations on how to improve
- Presented the findings of all the above to the board and management and made recommendations for product refinement and new product development.
- Using the board and management’s comments, adjusted the report and recommendations
- Developed two product prototypes for Kitagata SACCO – one for agricultural loans and the other for salary loans. These included the product features, terms and conditions of offer as well as recommendations for product testing, rollout and marketing strategies.

### Why the activities were undertaken

All the above activities were carried out in order to fulfill the scope of work and to come out recommendations, prototypes and implementation strategy that would enable Kitagata SACCO to improve its product offering. This would enable the SACCO to attract more members, increase business volumes, and improve its profitability.

### How the assignment done

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

- Consultative, involving working closely with the Kitagata board and management
- Objective and analytical, focusing on how the old and proposed new products could enhance the performance of the SACCO
- Practical, ensuring that recommendations made were realistically executable and relevant
- Creative, building on the consultants’ prior work with and knowledge gained from SACCOs, other rural financial institutions and the wider financial sector.

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<sup>1</sup> The ToR stipulated 100; the consultant analyzed 20 more

## **CONCLUSIONS AND RECOMMENDATIONS**

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### **Conclusions**

Kitagata is one of the few SACCOs with a vivid potential for growth in the provision of rural financial services in Uganda. Using its own funds, the SACCO had an outstanding portfolio of Uganda Shillings (USh) 339 million as at the end of June 2006. For a balance sheet size (total assets) of USh 488 million, the only external liability (outside of members' savings) is a USh 55 million revolving fund. So far, the SACCO has prudently stayed out of contracting debts. The board is active and shows utmost dedication in supporting management to deliver the products that meet members' needs. Management, though rather modest in aptitude, appears honest and hard working. The area of significant challenge is now product development.

If Kitagata SACCO takes up the recommended product refinement and new product introduction and receives the recommended training and technical assistance, it will have greatly enhanced its capacity to widen and deepen its outreach.

### **Recommendations**

Following full execution of the assignment, the consultants made recommendations for Kitagata SACCO aimed at guiding the SACCO on what to do in order to diversify its product portfolio and make it more profitable. In summary<sup>2</sup>, the recommendations are to:

- i. Introduce two new products – the Agricultural loans and Salary loans (supported by salary accounts, also to be introduced);
- ii. Refine existing products in the areas of loan recovery, interest payable on member savings, commitment fees, borrower due diligence, documentation and pricing of fixed deposits, incidental lending fees, and firming up of loan guarantees;
- iii. Improve member sensitization and education
- iv. Streamline the accounting treatment of dividends
- v. Get and utilize accounting/ financial management technical assistance (TA)
- vi. Radically change the Bodaboda and Solar loan products, pricing them commercially for profitability and sustainability
- vii. Run a tailored short Credit course for staff, management and board
- viii. Update the Credit Policies and Procedures Manual, after board and AGM approval of the refinements and new products recommended

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<sup>2</sup> For details, please refer to section 9 of the Market & Product Review Report