



**USAID** | **UGANDA**  
FROM THE AMERICAN PEOPLE

# KYAMUHUNGA DUE DILIGENCE

FINAL REPORT



**August 2006**

This publication was produced for review by the United States Agency for International Development. It was prepared by FRIENDS Consult, a Subcontractor for Chemonics International Inc.



# Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

## KYAMUHUNGA DUE DILIGENCE

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.

---

Rural SPEED  
A USAID funded project  
Contract No. PCE-I-00-99-00003-00, TO 826

This report submitted by Chemonics International Inc./August 2006

TABLE OF CONTENTS

---

**Executive Summary ..... I**

**Background ..... 1**

    Introduction ..... 1

    Governance Effectiveness and Strategy ..... 2

    Management Effectiveness ..... 2

    Product Development and Delivery ..... 3

    Asset-and-Liability Management ..... 3

    Accounting and Financial Management ..... 3

    Financial Sustainability ..... 3

    Rural Outreach ..... 4

    Prudence and Transparency in Product Pricing ..... 4

    Financial Transparency ..... 4

**Summary of Scores by Assessment area ..... 4**

**Conclusion ..... 5**

**Appendix 1 Persons Interviewed ..... 6**

## **EXECUTIVE SUMMARY**

---

Kyamuhunga SACCO has made tremendous improvement in its performance this year compared to the time the LDD exercise was done last year. This year's exercise revealed that most of the past mistakes/weaknesses have been corrected. This improvement has been no doubt attributed to Rural SPEED trainings and the regular on-site mentoring.

Unlike last year, Kyamuhunga Peoples' SACCO has made good progress in portfolio management, governance, management effectiveness, proper product pricing and the systems though still manual, has been significantly streamlined. Despite the relatively slow growth in loan portfolio, which could be due to the general economic conditions prevailing in the country, the SACCO has been outstanding in making strategic and operational achievements.

It should also be noted that this year's LDD exercise has been more stringent because of the adjustments that were done and the higher expertise of the team that executed the tool. The trainees on the team were impressed with the high level of professionalism and operational efficiency the SACCO has. It demonstrated more compliance and professional consistency in their operations.

## BACKGROUND

---

### Introduction

The USAID/ Rural SPEED Project contracted FRIENDS Consult Ltd to conduct one-day SACCO due diligence tool to assess its eight affiliate SACCOs and three applicants for affiliation in Western Uganda. In the process, the consultants were required to conduct on-the-job training of bank/MDI/MFI staffs on the use of the Tool. Among the nine SACCOs assessed was Kyamuhunga People's Cooperative Savings and Credit Ltd., the subject of this report

After the due diligence, our opinion is that Kyamuhunga has made significant improvements since we last evaluated it for Rural SPEED one year ago. Most of the improvements have resulted from the SACCO's relationship with Rural SPEED (training and technical assistance).

This report is based on a one-day, limited due diligence and is in no way a substitute for external audit, internal audit or extended/in-depth due diligence in circumstances where any of these would be required.

### QUALIFIERS

Does the SACCO have ...

	Yes	No
A Valid registration certificate from the Department for Cooperatives?	✓	
Identifiable place of business where they carry out their activities?	✓	
At least one full time staff?	✓	
Micro-finance as its core business?	✓	
Active loans and savings operations?	✓	

### *Decision at this stage:*

Did you tick Yes for all the above? *Yes*

**RATERS****GOVERNANCE EFFECTIVENESS AND STRATEGY**

Full control of its affairs resting on the membership, board and management, with no external superior authority?	2	2	Full self-control. Board members, who report to the AGM, are fully in charge of governance and strategy
An able board, with the right skills and dedication to move it forward?	2	2	Since last due diligence, Board and management have been trained in Ownership & Governance, , Financial Mgt, Portfolio mgt etc by Rural-SPEED, SUFFICE and APROCEL
A clear governance structure?	2	2	AGM supreme, able board with committees for Finance/planning, Mobilization/ Education, Audit and Loans
Well laid out and followed responsibility and accountability practices for all organs & persons?	2	2	In place, and consistently followed by board and management
A clear ownership structure?	2	2	Members are aware they are owners, exercise full ownership rights
A focus on the savings and credit business?	2	2	Does only financial services business
A strategic/ business plan, supporting the mission that is followed?	2	2	Well written plan that is followed and referred to.
Beneficial linkages with external Partners	2	2	AMFIA, APROCEL, MSCL, R-SPEED, SUFFICE
Its by-laws, constitution, or such other internal governance guidance documents?	2	2	Seen, satisfactory and actively used.

**MANAGEMENT EFFECTIVENESS**

Management staff with suitable qualifications and experience to manage the SACCO?	2	2	Manager BBA, Accountant BBA
A balance of focus between profit & development in the SACCO operations?	2	2	Training in loan mgt and entrepreneurship etc
Observable business growth?	2	2	9% p.a membership. Share K 14.5%; loan portfolio; loan portfolio 41% in 6 months or 82% annualized Savings 57% <sup>1</sup> ,

<sup>1</sup> Said that because of Rural SPEED's help, they have done effective mobilization

**PRODUCT DEVELOPMENT AND DELIVERY**

Documented operational policies and procedures	2	2	P&P manual seen and test-checked for adherence
Efficiency in service delivery mechanisms?	2	1.5	Between to weeks and one month lead period

**ASSET-AND-LIABILITY MANAGEMENT**

Variable and adaptable products?	2	2	3 Loan products and 3 variants of a savings products
Effective delinquency management?	2	1	PAR 8.5%, improved from 25% <sup>2</sup> a year ago, now the track PAR unlike last year not tracked
Safety of clients' deposits?	2	2	Safe & strong room in place, insurance up to 40m
Moderate gearing?	2	1.5	Overall D/E of 1.8:1 including savings deposit liability
Prudence in intermediation?	2	1.5	Approx 40.1% of savings retained, compared to 16% last year
Proper assessment of borrowers & anti-concentration	2	2	Full character assessment and basic cash flow evaluation done before lending
Clear documentation of loans, savings, other assets and liabilities	2	2	Loans and savings transactions clearly documented

**ACCOUNTING AND FINANCIAL MANAGEMENT**

A proper book-keeping system?	2	2	Full, substantially error-free double entry book keeping in place
A suitable accounting system?	2	1	Good, consistent system in place, although there are complaints about the software used for processing savings/ loan transactions
Proper financial management principles?	2	2	Annual budgets done; regular variance analysis carried out
Documented accounting/financial management manual	2	2	Kyamuhunga now has a consistently followed F Mgt manual

**FINANCIAL SUSTAINABILITY**

Measures of sustainability consistently monitored?	2	1	Kyamuhunga now tracks OSS, and management could benefit from further training on PMT and the logic of sustainability
Good levels of operational and financial sustainability?	2	1	Just over 111% OSS, up from about 100.8% last year
Profitability and sustainability embedded in business plans	2	1	Not provided for in the current strategic plan (2006-2010), although annual work plans all have profitability targets

<sup>2</sup> Better loan scheduling and portfolio management have helped improve; good payers now get better rates

**RURAL OUTREACH**

Rural operations	2	2	Fully rural
------------------	---	---	-------------

**PRUDENCE AND TRANSPARENCY IN PRODUCT PRICING**

All direct and indirect overhead costs taken into account in determining interest rates and fees	2	1.5	Done
Market rates charged by competitors taken into account in determining interest rates and fees	2	2	SACCO abreast with and keeps track of what competition charges, and sets its rates to be competitive.
All interest rates and charges displayed and fully disclosed to the client before they decide to borrow	2	2	Now all rates and charges are clearly displayed in the banking hall

**FINANCIAL TRANSPARENCY**

General Ledger	6	6	Improvement noticed from a year ago
Customer savings	6	6	Good and consistent
Loan/ Credit Ledger	6	4	Good records, though provisioning policy needs documenting
Income	6	6	God, consistent procedures and recording
Expenditure	6	6	-do-
Loan loss provisions	6	4	Now debts are properly aged. From Rural SPEED advice, they have a scheme they use for calculating provisions but this is not yet documented in the manuals

**SUMMARY OF SCORES BY ASSESSMENT AREA**

<b>ASSESSMENT AREA</b>	<b>MAX SCORE</b>	<b>SCORE</b>
Governance Effectiveness and Strategy	18	18
Management Effectiveness	6	6
Product Development and Delivery	4	3.5
Asset-and-Liability Management	14	12
Accounting and Financial Management	8	7
Financial Sustainability	6	3
Outreach	2	2
Prudence and transparency in product pricing	6	5.5
Financial Transparency	36	32
<b>TOTAL</b>	<b>100</b>	<b>89</b>

## SCORE INTERPRETATION GUIDELINES

SCORE	INTERPRETATION
80% and over	<i>Excellent institution with a potential for high performance in most areas</i>
65-79%	Good institution whose performance and impact could be greatly enhanced through focused and well targeted technical/ financial assistance
50-64%	Average institutional health and performance. Careful discretion needs to be exercised in determining whether or not the institution is suitable
Below 50%	Poor health and performance. Deep rooted weaknesses might hinder any potential impact of BDS, technical or financial assistance. Drop the application.

## CONCLUSION

In a fairly objective process that followed all the instructions and guidelines of the tool, the assessors scored Kyamuhunga on the different aspects and came up with an aggregate of 89% for the August 2006 due diligence. This portrays impressive improvements compared to 76% aggregate score a year ago. According to the tool's score interpretation guidelines (above), this score would be interpreted as "*Excellent institution with a potential for high performance in most areas*" and the consultants believe that this is, by Ugandan standards, what Kyamuhunga is.

The areas of improvement identified during the 2005 due diligence and the updates for the 2006 situation:

- Need to Cash flow based borrower appraisal – *now introduced and each loan applicant is assessed for character as well as cash flow.*
- Streamlining of Book-keeping and Accounting (esp. balance sheet items and provisions) - *Now improved and the records are clear*
- PMT reporting and ratio interpretation/ use –*now the OSS is tracked and used more, though management could benefit from more PMT training*
- Portfolio & Delinquency management – *now greatly improved; PAR 30 days from over 25% to 8.5%*
- Review/ development of policies and procedures manuals, and sensitization on how to use and enforce their provisions – *Most of the manuals are now in place and in use*
- Computerization of the loan tracking, accounting systems and relevant training – perhaps including replacing the current system, which several SACCOs, Kyamuhunga inclusive, have found very disruptive. *Problem remains, because Kyamuhunga still maintains the problematic software.*
- Replacement/ acquisition of new computer hard ware. *Partially addressed by the purchase of a few computers*

Rural SPEED's training/technical assistance and Kyamuhunga's keenness for inhouse improvement have enabled the SACCO to improve a great deal. Rural SPEED's relationship with Kyamuhunga now would be advantageous if it focused on

- ✓ Replacement of the accounting/ banking software
- ✓ Monitoring of the portfolio quality for further improvement
- ✓ Imparting more skills onto management for interpreting and tracking sustainability and other PMT ratios

**APPENDIX 1 PERSONS INTERVIEWED**

---

Harriet Katiti Muhebwa	Manager
Henry Bamwine	Loan Officer
Joseph Bahame –	Accounts assistant
Sharon Nahabwe	Accountant
Ronald Mwebe	Loan Officer

**TRAINEES** (Both from CERUDEB):

Maria Ntoreine

Robert Canwat

Both trainees were glad to attend the training and rated the tool to be simple, comprehensive and effective