



## MUHAME 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

## MUHAME 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

---

|  |          |
|--|----------|
| <b>Executive summary</b> .....                     | <b>i</b> |
| <b>Background</b> .....                            | <b>1</b> |
| 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        |
| Outreach.....                                      | 4        |
| Prudence and Transparency in Product Pricing ..... | 4        |
| Financial Transparency.....                        | 4        |
| <b>Summary of scores by Assessment Area</b> .....  | <b>5</b> |
| <b>Conclusion</b> .....                            | <b>6</b> |
| <b>Appendix 1 PERSONS INTERVIEWED</b> .....        | <b>7</b> |

## **EXECUTIVE SUMMARY**

---

Muhame SACCO has made a significant improvement in its performance this year compared to the time the LDD exercise was done last year. A lot of this improvement has been no doubt attributed to Rural SPEED trainings and the regular on-site mentoring.

Unlike last year, Muhame 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 and savings, which could be due to the general economic conditions prevailing in the country, the SACCO has been outstanding in making strategic and operational achievements.

Despite this year's LDD exercise being more stringent because of the adjustments that were done and the higher expertise of the team that executed the tool, Muhame still 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 Muhame Financial Cooperative Society, the subject of this report

After the due diligence, our opinion is that Muhame has made notable improvements since we last evaluated it for Rural SPEED one year ago. From the manager's own explanations, the improvements have resulted mainly from the training and technical assistance offered or facilitated by Rural SPEED.

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?                                   | ✓   |    |

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

| <b>ASSESSMENT QUESTIONS</b><br><i>Does the SACCO have...</i>  | <b>MAX SCORE</b> | <i>SCORE</i> | <b>COMMENT</b>   |
|---|------------------|--------------|--|
| Full control of its affairs resting on the membership, board and management, with no external superior authority? | <b>2</b>         | 2            | Muhame SACCO is fully in control of its affairs  |
| An able board, with the right skills and dedication to move it forward?   | <b>2</b>         | 2            | Chair- Dip Educ; Treasurer-Degree in Finance, Sec-Degree in. Educ Vice Chair-Cert Educ. The rest, degrees & diplomas. All board members have now been trained in O&G, Loan Mgt, Supervision with assistance from Rural SPEED |
| A clear governance structure?   | <b>2</b>         | 2            | Structure very clear. Board reports to AGM. Board has committees for loans, HR & member education, audit and supervisory/working.  |
| Well laid out and followed responsibility and accountability practices for all organs & persons?                  | <b>2</b>         | 1.5          | Fully adopted the standard By-laws from UCA, which are now actively used.  |
| A clear ownership structure?  | <b>2</b>         | 2            | All users are share holders, and they have share certificates  |
| A focus on the savings and credit business?   | <b>2</b>         | 2            | Financial services are the sole business   |
| A strategic/ business plan, supporting the mission that is followed?  | <b>2</b>         | 2            | Seen, quite detailed and focused   |
| Beneficial linkages with external partners  | <b>2</b>         | 2            | Network membership/ affiliation to AMFIA, R-SPEED, MSCL, APROCEL. Resolved to join AMFIU   |
| Its by-laws, constitution, or such other internal governance guidance documents?                                  | <b>2</b>         | 2            | Muhame effectively uses the By-laws  |

**MANAGEMENT EFFECTIVENESS**

|   |          |   |   |
|---|----------|---|---|
| Management staff with suitable qualifications and experience to manage the SACCO? | <b>2</b> | 2 | Mgr BBA, Accountant BBA (Acc), Loan officer-UDBS, the rest UDDBS.<br>Mgt far better qualified than a year ago |
| A balance of focus  | <b>2</b> | 1 | Fairly responsive products; sensitization on loans  |

|   |   |     |   |
|---|---|-----|---|
| between profit & development in the SACCO operations? |   |     | management, on personal financial management  |
| Observable business growth?                           | 2 | 0.5 | Membership growth; 43% in six months; loan portfolio growth = 2.6% in six months; Savings growth savings drop of 22% from Sep to May 2006 Share cap 10.3% growth.. <i>Red flag on savings and loan portfolio growth</i> |

### PRODUCT DEVELOPMENT AND DELIVERY

|  |   |   |  |
|--|---|---|--|
| Variable and adaptable products?               | 2 | 2 | Tunda Juba (1-2 day maturity) loans, asset loans (solar, rain water harvest, bodaboda, bicycle), commercial loans – good range. Saving: fixed and ordinary, junior savings |
| Documented operational policies and procedures | 2 | 1 | Adopted from APROCEL, plus own. Used consistently. Some still being updated  |
| Efficiency in service delivery mechanisms?     | 2 | 2 | Averaging one to 2 weeks   |

### ASSET-AND-LIABILITY MANAGEMENT

|   |   |     |  |
|---|---|-----|--|
| Effective delinquency management?                                   | 2 | 1   | PAR 30 days 9.6% as at end of May 2006, compared to about 15% Dec 2005   |
| Safety of clients' deposits?  | 2 | 2   | Strong room, insurance in place up to 30m, beyond which Muhame never goes  |
| Moderate gearing?   | 2 | 2   | D/E ratio 106%   |
| Prudence in intermediation?   | 2 | 0.5 | 23% cash/ savings cover, suggesting a high level of intermediation   |
| Proper assessment of borrowers & anti-concentration                 | 2 | 1.5 | Some attempt at cash flow assessment, but still could be improved by restructuring the LA form to assess free cash flows of the applicant. |
| Clear documentation of loans, savings, other assets and liabilities | 2 | 2   | Documentation ok, and improved significantly from a year ago   |

### ACCOUNTING AND FINANCIAL MANAGEMENT

|   |   |   |   |
|---|---|---|---|
| A proper bookkeeping system?                        | 2 | 2 | Well kept source documents and double entry book keeping maintained |
| A suitable accounting system?                       | 2 | 1 | Good manual system in place; need an automated accounting system.   |
| Proper financial management principles?             | 2 | 2 | Annual budgets done, against which mgt is monitored                 |
| Documented accounting & financial management manual | 2 | 1 | From PSDP, rather outdated, Muhame now wants to change it.          |

**FINANCIAL SUSTAINABILITY**

|   |          |   |  |
|---|----------|---|--|
| Measures of sustainability consistently monitored?          | <b>2</b> | 2 | Muhame now tracks its OSS quarterly.           |
| Good levels of operational and financial sustainability?    | <b>2</b> | 1 | 113 Jan-May 2006, compared to 130% a year ago  |
| Profitability and sustainability embedded in business plans | <b>2</b> | 2 | Fully embedded in the five year strategic plan |

**OUTREACH**

|                  |          |     |  |
|------------------|----------|-----|--|
| Rural operations | <b>2</b> | 1.5 | Kabwohe Trading centre, with good rural outreach |
|------------------|----------|-----|--|

**PRUDENCE AND TRANSPARENCY IN PRODUCT PRICING**

|   |          |   |  |
|---|----------|---|--|
| All direct and indirect overhead costs taken into account in determining interest rates and fees        | <b>2</b> | 1 | Done by management, but AGM does not always listen keenly to the “costs” argument.                                 |
| Market rates charged by competitors taken into account in determining interest rates and fees           | <b>2</b> | 2 | Big improvement compared to a year ago. They now consider what competitors charge in determining the interest rate |
| All interest rates and charges displayed and fully disclosed to the client before they decide to borrow | <b>2</b> | 2 | Now fully displayed, a huge improvement from one year ago  |

**FINANCIAL TRANSPARENCY**

|                      |          |   |   |
|----------------------|----------|---|---|
| General Ledger       | <b>6</b> | 6 | Now it is near-perfect –very good. Huge improvement from last year.                   |
| Customer savings     | <b>6</b> | 6 | Problems identified last year well addressed  |
| Loan/ Credit Ledger  | <b>6</b> | 6 | Streamlined and working very well   |
| Income               | <b>6</b> | 6 | Test-audits showed very good compliance and consistency                               |
| Expenditure          | <b>6</b> | 6 | Good records  |
| Loan loss provisions | <b>6</b> | 6 | Now streamlined; Muhame uses the standard aging procedure to make monthly provisions. |

**SUMMARY OF SCORES BY ASSESSMENT AREA**

| <b>ASSESSMENT AREA</b>                       | <b>MAX SCORE</b> | <i>SCORE</i> |
|--|------------------|--------------|
| Governance Effectiveness and Strategy        | 18               | <i>17.5</i>  |
| Management Effectiveness                     | 6                | <i>3.5</i>   |
| Product Development and Delivery             | 6                | <i>5</i>     |
| Asset-and-Liability Management               | 12               | <i>9</i>     |
| Accounting and Financial Management          | 8                | <i>6</i>     |
| Financial Sustainability                     | 6                | <i>5</i>     |
| Outreach                                     | 2                | <i>1.5</i>   |
| Prudence and transparency in product pricing | 6                | <i>5</i>     |
| Financial Transparency                       | 36               | <i>36</i>    |
| <b>TOTAL</b>                                 | <b>100</b>       | <b>88.5</b>  |

**Score Interpretation Guidelines**

| <b>SCORE</b>    | <b>INTERPRETATION</b>  |
|-----------------|--|
| <i>Over 80%</i> | <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

---

Muhame SACCO has made vivid progress and improvements in key strategic and operational areas. The improvements have been in areas of networking, management aptitude, board skills, portfolio/delinquency management, borrower assessment, loan documentation, sustainability tracking, product pricing with reference to competition, transparency in displaying product information, and General ledger records/ maintenance. 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*" This describes Muhame fairly well at present. Below are briefs on the areas of concern highlighted in the previous due diligence:

- Book-keeping and accounting – *Now fully streamlined and greatly improved, although still manual*
- PMT tool usage and information interpretation for management and staff – *They now understand the key PMT ratios better, although they could still benefit from some training*
- Board training in MF operations, Best Practices and PMT ratio analysis, for more effective supervision – *trainings done since the last due diligence, and the staff say these were very useful.*
- Reviewing/ rewriting policies and procedures – *Done, and in some cases work is still in progress*
- Product costing and pricing – *improved quite a lot since a year ago; they now price with reference to market rates and competition*
- Portfolio & delinquency management – *Improved significantly, PAR (30 days) reducing from 15% to 9.6%*
- Loan appraisal (cash flow based) – *Both the application form and loan appraisal now improved to include borrower cash flow assessment.*
- Change from manual to automated (computerized) systems – *Problem still exists, and R-SPEED assistance might be useful here*

Save for the concerns on savings/ loan portfolio growth and the need for computerization of the loans, savings and accounting systems, Muhame SACCO is making tremendous improvements.

**APPENDIX 1 PERSONS INTERVIEWED**

---

|                    |                           |
|--------------------|---------------------------|
| Hope Komujuni      | - Manager                 |
| Nabboth Katarwa    | - Senior Loans officer    |
| Mwesigwa Asalph    | - Board member/ Treasurer |
| Kenneth Mucunguzi  | - Accountant              |
| Crescent Tumwebaze | - Loan Officer            |

**TRAINEES (Both from MedNet)**

Ronald Ssemitala  
Lynn Rukuba

Both trainees said they were more informed on SACCO appraisal and thought the tool was good for SACCO due diligence.