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RUBABO DUE DILIGENCE

FINAL REPORT



June 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

RUBABO 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./June 2006

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EXECUTIVE SUMMARY

Despite some reasonable improvement in governance effectiveness and rural outreach, Rubabo SACCO has not performed well in this year's due diligence. Compared to last year, it has actually registered a decline mainly in the areas of accounting/ financial management, asset/liability management, financial transparency and product development and delivery. Much as this may be attributed to a number of factors including unreliable software, a newly opened up branch, newly recruited untrained staff, it was expected that Rubabo would make general improvement in all areas.

The above has ultimately led to gross inconsistencies in general performance and it has to seriously address the weak areas so as to achieve robust growth. The above notwithstanding however, Rubabo SACCO is located in an economically active area and can therefore rely on this advantage to streamline the operational setbacks it has experienced to steer the institution to greater heights. 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 Rubabo SACCO. The objective of the due diligence is to assess the overall health and performance of the SACCO in order to provide Rural SPEED with fair information on whether to take on the SACCO and what areas assistance, if any, to focus on.

Below is the 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:

	Yes	No
1. Rubabo SACCO has a valid registration certificate from the Commissioner of Cooperatives certificate No. dated	✓	
2. Rubabo SACCO has an identifiable rented place of business located at Rubabo Trading Centre, Rukungiri District.	✓	
3. The SACCO has nine (9) full time staffs (1Mgr, 1 Acct, 2 loans Officers, 1 Ledger Keeper, 1 Cashier, 3 support staffs)	✓	
4. Rubabo SACCO offers Savings and Credit services as its core business.	✓	
5. Active loans and savings operations? (Loan = 452,723,473/= and Savings = 205,319,762/= as at 31 st May, 2006)	✓	
6. An active Board/ Committee Directors? (9 member board; 3 women & 6 men)	✓	

Decision at this stage:

Does the SACCO fulfill all the above basic requirements?

- ✓ -----Yes (please continue with the assessment)
- No (please drop the application and stop further assessment).

RATERS**GOVERNANCE EFFECTIVENESS AND STRATEGY**

ASSESSMENT QUESTIONS	MAX SCORE	SCORE	REMARKS
<i>Does the SACCO have</i>			
1.1 Full control of its affairs resting on the membership, board and management, with no external superior authority?	2	1.5	<ul style="list-style-type: none"> • SACCO started on Cooperative principle. • Board is key policy organ and gets mandate from AGM. • Board involved in ensuring management operational compliance. • Emergency board decisions endorsed by members. • Shareholders show a high sense of ownership. <p><i>Comment:</i> The decision to build SACCO branch offices was not reached at in a special general meeting or AGM, but by the Board</p>
1.2 An able board, with the right skills and dedication to move it forward?	2	2.0	<ul style="list-style-type: none"> • Good board skill mix with three university graduates and rest Diploma holders. • Board members all attend most board meetings. • Board acting in the interest of members.
1.3 A clear governance structure?	2	2.0	<ul style="list-style-type: none"> • Good prototype structure with additional education & standing committee. • 9 member board (3 loans comm., 3 Audit comm., & 3 standing/overseer comm.) • AGM, Board, loans comm., and audit comm. minutes well captured and written. • Little power concentration if any
1.4 Well laid out and followed responsibility and accountability practices for all organs & persons?	2	1.5	<ul style="list-style-type: none"> • SACCO governance committees active and in place. • Board and committee responsibility written in SACCO policy documents. • Responsibility of management well written in contracts of service and working memos. • Management and committee reports to board in place. • Board reports to general assembly in place. <p><i>Observation.</i> SACCO advised to improve on the filing system and to extract each committee responsibilities from policy document.</p>
1.5 A clear ownership structure?	2	2.0	<ul style="list-style-type: none"> • An improved prototype structure based on membership mandate in place. • Up to date shareholders register with 2,318 members in place. • Share certificates issued to members. • Interviewed members showed a clear conscious of ownership.
1.6 A focus on the savings and credit business?	2	2.0	<ul style="list-style-type: none"> • Savings and credit as core business. • SACCO promotes individuals and groups to do business.

			<p><i>Observation:</i> The SACCO board built a branch SACCO premises about 10 Km apart for lack of a modest strong house in the trading centre and to beat competition from UML.</p>
1.7 A strategic/business plan, supporting the mission that is followed?	2	1.0	<ul style="list-style-type: none"> No documented strategic business plan at the SACCO. Vision, Mission and SACCO objectives in place. Annual work plan and annual budget in place. <p><i>Observation:</i> Business plan was sent to Kabale private sector for finalization. Monthly work plans and monthly budgets not extracted and administered on monthly basis to tract monthly performance.</p>
1.8 Beneficial linkages with external Partners	2	2.0	<ul style="list-style-type: none"> Established linkages include: UCA Ltd, AMFIA, Kabale – Kigezi Private Sector Prom. Centre, MSCL, applied to SUFFICE & Rural SPEED.
1.9 Its by-laws, constitution, or such other internal governance guidance documents?	2	2.0	<ul style="list-style-type: none"> SACCO model by-laws in place. Accounting and operational manual, supervision manual, finance and accounting manual, lending policy and guidelines and staff terms and conditions of service in place.

MANAGEMENT EFFECTIVENESS

2.1 Management staff with suitable qualifications and experience to manage the SACCO?	2	1.5	<ul style="list-style-type: none"> Manager has a diploma in business accounting with 6 yrs MFI experience; Accountant has a diploma in business administration with 5 yrs experience. Loans Officer has a diploma in marketing
2.2 A balance of focus between profit & development in the SACCO operations?	2	1.5	<ul style="list-style-type: none"> Committee / membership education regularly done by SACCO. Links members to agricultural extension staffs and other service providers.
2.3 Observable business growth?	2	1.0	<ul style="list-style-type: none"> Savings grew by 32.3%; Loans by 17.9% and membership by 9% for the period April 2005 to May 31st, 2006 <p><i>Observation</i> SACCO rapidly grew in loan portfolio without building internal capacity. There is low membership and savings mobilization and a high proportion of delinquent loans.</p>

PRODUCT DEVELOPMENT AND DELIVERY

3.1 Variable and adaptable products?	2	1	<ul style="list-style-type: none"> SACCO operates variable and averagely adoptable products with different loan periods and interest rates. <p><i>Observation:</i> SACCO products could be refined for better profitability</p>
3.2 Documented operational policies and procedures	2	1.5	<ul style="list-style-type: none"> Finance and Accounting manual in place. Staff policies in place Lending policies and guidelines in place. Delinquency reporting in place but need to be

			improved.
3.3 Efficiency in service delivery mechanisms?	2	1.5	<ul style="list-style-type: none"> Loans disbursed within two weeks. School fees and other emergency loans structured to meet the demand. Costs and revenues are moderate.

ASSET-AND-LIABILITY MANAGEMENT

4.1 Effective delinquency management?	2	0	<ul style="list-style-type: none"> Manual loan ageing being developed. Monthly loan ageing not consistently done Loans poorly tracked and monitored. <p><i>Observation;</i> The SACCO had just started ageing their loans due to failure in the financial solutions software. It was not possible to establish PAR. We trained the Manager and loans officers to age their loans.</p>
4.2 Safety of clients' deposits?	2	1.0	<ul style="list-style-type: none"> Safe present at H/O in manager's office. Branch has strong room and safe. Till sheets, Day sheets, Waste sheets and general ledger in place. Pass books, savings ledgers regularly posted. Security guard in place. <p><i>Observation:</i> There is no insurance cover at premises and for cash in transit.</p>
4.3 Moderate gearing?	2	2.0	<ul style="list-style-type: none"> 1:2, D:E ratio (50m:108m) Low gearing
4.4 Prudence in intermediation?	2	0.5	<ul style="list-style-type: none"> Cash/ savings cover is 20%; cash of (40.6m supporting savings of 205m. 80% of savings are in loans. Liquidity generally low
4.5 Proper assessment of borrowers & anti-concentration	2	1.0	<ul style="list-style-type: none"> Appraisal templates fairly detailed. <p><i>Observation:</i> No cash flows embedded in appraisal. Also site visit reports missing.</p>
4.6 Clear documentation of loans, savings, other assets and liabilities	2	1.0	<ul style="list-style-type: none"> Fixed assets register in place Loans payable well documented. Shareholders register up to date. Savings ledgers and control up to date. Loan register in place but not well tracked. <p><i>Observation:</i> Fixed assets register needs to be written and depreciation charge passed according to classes of assets. The shareholders register to be adjusted to allow multiple share purchases. Loan ageing schedule to be improved to incorporate appropriate provision percentages.</p>

ACCOUNTING AND FINANCIAL MANAGEMENT

5.1 A proper book-keeping system?	2	1.0	<ul style="list-style-type: none"> • SACCO uses double entry cash accounting. • Manual GL up to date. • SACCO maintains a reserve cash book. • Fixed assets register in place • Savings and loans ledger and controls in place. • Quick check of savings deposits shows compliance. • Manual accounting cumbersome, error-prone • Charging of depreciation is inaccurate.
5.2 A suitable accounting system?	2	1.0	<ul style="list-style-type: none"> • Financial statements prepared on monthly basis. • Loan tracking prepared on quarterly basis. • Financial statements for May 2006 available. • Accounts audited by cooperative department.
5.3 Proper financial management principles?	2	1.0	<ul style="list-style-type: none"> • Annual budgets done and in place. • Monthly budgets not prepared. • Budgetary control/variance analysis not done.
5.4 Documented accounting & financial management manual	2	1.0	<ul style="list-style-type: none"> • Accounting and financial management manuals developed by UCA Ltd and Kigezi – Kabale Private Sector Promotion Centre in place, but likely not fully used/ followed.

FINANCIAL SUSTAINABILITY

6.1 Measures of sustainability consistently monitored?	2	1.5	<ul style="list-style-type: none"> • Sustainability measures are monitored using the PMT and documented.
6.2 Good levels of operational and financial sustainability?	2	1.0	<ul style="list-style-type: none"> • OSS – 127% • No complete records to establish FSS
6.3 Profitability and sustainability embedded in business plans	2	1.0	<ul style="list-style-type: none"> • Business plan not seen (taken to Kabale - Kigezi Private Sector Prom Centre) • Profitability and sustainability planning seen in the annual work plan.

RURAL OUTREACH

7.1 Rural operations	2	2.0	<ul style="list-style-type: none"> • SACCO Head Office and branch are all rural.
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PRUDENCE AND TRANSPARENCY IN PRODUCT PRICING

8.1 All direct and indirect overhead costs taken into account in determining interest rates and fees	2	1.0	<ul style="list-style-type: none"> • Product pricing not done. • Overhead costs discussed and agreed on in the board in consideration of market rates. <p><i>Observation:</i> Product costing not empirically done. This has a bearing on the profitability and cost appropriateness.</p>
8.2 Market rates charged by competitors taken into account in determining interest rates and fees	2	1.5	<ul style="list-style-type: none"> • Interest rates charged by competitors such as UMU, RUSCA, taken into consideration.

8.3 All interest rates and charges displayed and fully disclosed to the client before they decide to borrow	2	2.0	<ul style="list-style-type: none"> Interest rates, fees and charges are clearly displayed.
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FINANCIAL TRANSPARENCY

9.1 General Ledger	6	4.0	<ul style="list-style-type: none"> Fixed assets shows up to date purchased assets Loan payable account documented and up to date. Share capital register maintained, up to date but needs to be refined to allow multiple share purchase and instant retrieval. Bank reconciliation statements not prepared monthly. <p>The SACCO needs to maintain an asset register by classes of assets to allow appropriate periodic depreciation charge.</p>
9.2 Customer savings	6	5.0	<ul style="list-style-type: none"> Customer ledgers posted up to date Pass book up to date and reconciled with savings ledgers. Loan payable account up to date and well maintained No interest payable on savings accounts. Ledger fees charged on annual basis.
9.3 Loan/ Credit Ledger	6	4.0	<ul style="list-style-type: none"> Loan ledger cards consistent and up to date. Credit ledgers well maintained, tested and tracked. Reconciliation of clients information to ledgers agreed Loans not well aged and tracked on monthly basis.
9.4 Income	6	4.0	<ul style="list-style-type: none"> Income recognition is on cash basis. Accrued income not recognized
9.5 Expenditure	6	3.0	<ul style="list-style-type: none"> Expenditure well recognized Salaries and rent expenditures tracked and accurate. Expenditures not matched with incomes. Accrued expenditure not recognized Provisions not promptly done.
9.6 Loan loss provisions	6	2.0	<ul style="list-style-type: none"> No loan ageing schedule in placed to track past loans. Loan provisions done based on the managers own standards. Overall, poor loan loss provisioning

SUMMARY OF SCORES BY ASSESSMENT AREA

ASSESSMENT AREA	MAX SCORE	<i>SCORE</i>
Governance Effectiveness and Strategy	18	16
Management Effectiveness	6	4
Product Development and Delivery	6	4
Asset-and-Liability Management	14	5.5
Accounting and Financial Management	8	3.5
Financial Sustainability	6	2
Outreach	2	2
Prudence and transparency in product pricing	6	4.5
Financial Transparency	36	22
TOTAL	100	63.5

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%	<i>Average institutional health and performance. Careful discretion needs to be exercised in determining whether or not the institution is suitable</i>
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

Despite the drastic fall in the score compared to last year, Rubabo SACCO still remains a promising SACCO with reasonable strengths in governance and management effectiveness and outreach. It needs to put more efforts in the technical areas of accounting/ financial management through adequate capacity building of staff. It is also necessary that Rubabo does proper product pricing and costing so as to improve on the prudence and transparency in that area. Targeted assistance in the following identified weak areas could help make Rubabo much stronger:

Significant weaknesses that need urgent attention include the following areas¹:

- Asset and liability management (*especially the loan portfolio management/ delinquency control, cash insurance – at till and in transit, Aging of loans to determine PAR and provisions, restraint on savings intermediation, and improvement of loan assessments*).
- Governance, especially strategic planning for systematic growth and *establishment of/ adherence to documented responsibility and accountability guidelines*.
- Accounting and financial management – *introduction and use of budgetary control and a good automated accounting system*
- Prudence in financial management, especially with regard to savings intermediation, which needs to be reduced.
- Mobilization of more membership and savings, to grow the business volumes

¹ For details, refer to the “Remarks” column of the report

APPENDIX 1 PERSONS INTERVIEWED

NAMES	DESIGNATION
Turyahabwe Esau	- Manager
Wenamanya Justus	- Member Audit Committee
Turinawe Topher	- Accountant
Asimwe Ivan	- Loans Officer
Byamugisha Jorame	- Loans Officer
Teriyeitu Patrick	- Loans Officer
Tusiime Teopista	- Cashier
Bassaja	Support staff