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# SHUUKU DUE DILIGENCE

FINAL REPORT



**July 2006**

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# Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

## SHUUKU 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.

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## **EXECUTIVE SUMMARY**

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Shuuku SACCO has demonstrated a lot of successes in management effectiveness and strong governance structures over the past one year. This has in turn led to strong systems and procedures which have enabled the SACCO leadership to have streamlined roles, duties and responsibilities.

However, there are some pertinent areas that have not registered as much progress as the two above. These are product pricing, development and delivery, asset/liability management and to some extent, financial transparency. This has ultimately led to gross inconsistencies in general performance and resulted in a marked decline in the assessment this year. It is recommended that the SACCO takes urgent measures to address these shortcomings so as to achieve sustained growth.

## BACKGROUND

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### Introduction

In June 2006, Rural SPEED contracted FRIENDS Consult Ltd to conduct a due diligence assessment of Shuuku Cooperative Savings & Credit Society Ltd in Shuuku Trading Center, Bushenyi District. The objective of the due diligence was to get an overall update on the health and performance of the SACCO since the last due diligence a year ago, and to train two bank staff in the use of the limited due diligence Tool. This, it is hoped, will enhance bank/ SACCO linkages by helping the bank to be able to efficiently but comprehensively screen SACCOs for mutually beneficial relationships.

The assessors held free and uninterrupted discussions, had access to the SACCO documents and records in the course of the assessment. Below is a report covering all areas assessed.

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
1. A Valid registration certificate from the Department for Cooperatives? <sup>1</sup> #	√	
2. Identifiable place of business where they carry out their activities?	√	
3. At least one full time staff?	√	
4. Financial services as its core business?	√	
5. Active loans and savings operations?	√	
6. An active Board/ Committee Directors?	√	

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<sup>1</sup> An institution that is, at the time of the assessment, changing its form from NGO or any other into a cooperative has for this purpose be deemed to be registered as a cooperative society

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

<b>ASSESSMENT QUESTIONS</b>	<b>MAX SCORE</b>	<b>SCORE</b>	<b>REMARKS</b>
<i>Does the SACCO have...</i>			
Full control of its affairs resting on the membership, board and management, with no external superior authority?	<b>2</b>	2.0	AGM is the supreme organ which elects board. AGM minutes show a high degree of member control. No external control or influence.
An able board, with the right skills and dedication to move it forward?	<b>2</b>	1.5	Minimum education is O level. Board has-1-master's degree level(Chairman) with long experience in Microfinance, 2 first degree level holders, 2 diploma holders, 1-Certificate(A-Level equivalent), 3-O-level holders. Board sits quarterly, with almost full attendance.
A clear governance structure?	<b>2</b>	2.0	General assembly is supreme organ and elects the board and audit committee, Board makes policies & decisions with mandate from the AGM & supervises management, There are loans, supervision, education, HR and Finance & Admin. Committees in place.
Well laid out and followed responsibility and accountability practices for all organs & persons?	<b>2</b>	1.5	Scope of work articulated in policy documents – there is no written statement of responsibilities. There is need to document clear roles & responsibilities.
A clear ownership structure?	<b>2</b>	1.5	Members interviewed showed a high sense of ownership. Share certificates are issued to paid up members; Shareholders register in place & up-to-date. Members vote at AGM.
A focus on the savings and credit business?	<b>2</b>	2.0	Savings and credit services to member shareholders are the SACCO's core business.
A strategic/ business plan, supporting the mission that is followed?	<b>2</b>	2.0	Shuuku has a business plan that whose span is ending, Targets for loans, membership, savings, profitability are embedded, followed & projections overtaken
Beneficial linkages with external Partners	<b>2</b>	2.0	Rural SPEED, UCA Ltd, AMFIA, Ankole Private Sector
Its by-laws, constitution, or such other internal governance guidance documents?	<b>2</b>	1.5	Shuuku has generic UCA Ltd model by-laws in place, also in place are; accounting & operational manual, supervision manual, HR manual

**MANAGEMENT EFFECTIVENESS**

Management staff with suitable qualifications and experience to manage the SACCO?	<b>2</b>	2.0	Manager has UDDBS with MFI experience; Accountant has Diploma in accounting, all other staff has Diplomas, most staffs have on-job MFI experience.
A balance of focus between	<b>2</b>	1.0	SACCO provides savings and credit related training

profit & development in the SACCO operations?			services to members, Need more member development services
Observable business growth?	<b>2</b>	1.0	Savings grew by 33%, membership by 8%, & loans by 24% in the last 12 months as at 30 <sup>th</sup> June, 2006. Need targeted growth intervention

### PRODUCT DEVELOPMENT AND DELIVERY

Variable and adaptable products?	<b>2</b>	1.0	Savings – Voluntary, FDR accounts. Loans–commercial, agricultural, solar, motorcycle, rain water harvest, school fees loans, loans with varied rates and terms. Need to increase savings products to support loans, and to review some loan products.
Documented operational policies and procedures	<b>2</b>	2.0	Accounting/financial mgt manual, HR manual, credit manual, supervisory manual in place,
Efficiency in service delivery mechanisms?	<b>2</b>	1.0	Access to loans varies between 2 weeks & one month. Mgr approves loans below 300,000/= while loans committee sits once a month to approve loans>300,000

### ASSET-AND-LIABILITY MANAGEMENT

Effective delinquency management?	<b>2</b>	1.5	Portfolio aged using PMT; PAR > 30 as at Dec 2005 - 24% & PAR as at June, 2006 - 5.6% Need to aggressively recover bad loans written off
Safety of clients' deposits?	<b>2</b>	2.0	Shuuku has strong room & safe both at head office & branch, insurance cover to cash in tills, safe & transit of 10millions each.
Moderate gearing?	<b>2</b>	2.0	Debt/ Equity ratio of 2:1 as at close of June, 2006
Prudence in intermediation?	<b>2</b>	1.0	Savings/Cash cover of 34%, Shuuku needs to increase savings mobilization from groups, recover bad loans to raise the Cash cover ratio,
Proper assessment of borrowers & anti-concentration	<b>2</b>	0.5	Loan appraisal templates do not cover adequate details, No appraisal reports, No cash flow. No concentration of credit to particular groups seen
Clear documentation of loans, savings, other assets and liabilities	<b>2</b>	2.0	Loan files are properly & individually maintained, loan ledgers, savings ledgers, share holders register are maintained & up-to-date,

### ACCOUNTING AND FINANCIAL MANAGEMENT

A proper bookkeeping system?	<b>2</b>	2.0	Double entry cash accounting, up-to-date GL seen and traced against loans, expenses-salary, rent. Active & up to date cashbook, as well as assets and loans ledgers.
A suitable accounting system?	<b>2</b>	2.0	Monthly financial statements-manual & Quarterly PMT report-latest June, 2006. Annual audit by independent auditors.
Proper financial management principles?	<b>2</b>	1.0	Business plan in place with growth indicators, Annual budget divided into quarters. No budget controls & variance analysis done

Documented accounting & financial management manual	2	2.0	Accounting and financial management manual in place, operational and accounting manual in place, system is manual.
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### FINANCIAL SUSTAINABILITY

Measures of sustainability consistently monitored?	2	2	OSS and FSS monitored and tracked using PMT
Good levels of operational and financial sustainability?	2	1	OSS of 128.3%, excluding depreciation & loan loss provisions and FSS not established
Profitability and sustainability embedded in business plans	2	2	Sustainability and profitability well articulated in the business plan, Targets in the business plan have been surpassed

### RURAL OUTREACH

Rural operations	2	2.0	Head Office & two branches are all rural-based
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### PRUDENCE AND TRANSPARENCY IN PRODUCT PRICING

All direct and indirect overhead costs taken into account in determining interest rates and fees	2	1.0	Pricing not based on all direct & indirect SACCO costs, members concerns are incorporated into costs. Need proper costing exercise
Market rates charged by competitors taken into account in determining interest rates and fees	2	2.0	Charges by Bugongi SACCO, Muhame, Sheema, Ankole farmers & traders Association considered.
All interest rates and charges displayed and fully disclosed to the client before they decide to borrow	2	1.0	Interest rates, charges, and fees are not properly displayed, although discussed with members. SACCO needs to display all charges on larger charts & in language members understand. Need to translate into local language.

### FINANCIAL TRANSPARENCY

General Ledger	6	3	<ul style="list-style-type: none"> <li>Loans payable account – Not up-to-date</li> <li>SACCO transactions recorded, reconciled though not posted promptly</li> <li>Fixed asset register up-to-date but needs improvement to include asset classification, cost, depreciation rate to come up with accurate depreciation charge</li> <li>Shareholder register up-to-date and well maintained,</li> <li>Bank balances reconciled &amp; OK</li> </ul>
Customer savings	6	6	<ul style="list-style-type: none"> <li>Traced 5 clients' savings passbooks to the ledger – OK</li> <li>Passbooks are posted promptly &amp; reconciled three loan repayments with loan ledgers</li> <li>Traced and agreed 4 member withdrawals to their ledger and cash till sheets &amp; waste sheet</li> </ul>
Loan/ Credit Ledger	6	5	<ul style="list-style-type: none"> <li>Reconciled 4 member borrower passbooks Vs savings ledgers =OK</li> <li>Checked 4 member borrower passbooks Vs loan ledgers = OK</li> <li>Interest receivable is promptly calculated &amp; posted to the income</li> </ul>

			<p>ledger</p> <ul style="list-style-type: none"> <li>• Interest payable provided for but not paid to members savings accounts until end of year</li> <li>• Loan ledger well maintained but not posted promptly posted</li> </ul>
Income	<b>6</b>	3	<ul style="list-style-type: none"> <li>• Income properly recognized &amp; recorded – traced sale of passbooks agreed to the ledger,</li> <li>• Interest expense paid at end of year-monthly income overstated</li> <li>• LLR not properly computed</li> <li>• Interest income recognized on cash basis</li> </ul>
Expenditure	<b>6</b>	4	<ul style="list-style-type: none"> <li>• Reconciled salaries, stationary and security &amp; agreed to the general ledger and income statements</li> <li>• Posting to the general ledger is not prompt,</li> </ul>
Loan loss provisions	<b>6</b>	3	<ul style="list-style-type: none"> <li>• Loans are properly aged and provisioning done.</li> <li>• Gross loans reduced by the loan loss reserve (LLR),</li> <li>• Under provisioning because loan loss reserve is below the amount per policy, implying a significant overstatement of incomes and reserves</li> </ul>

**SUMMARY OF SCORES BY ASSESSMENT AREA**

<b>ASSESSMENT AREA</b>	<b>MAX SCORE</b>	<i>SCORE</i>
Governance Effectiveness and Strategy	18	<i>16</i>
Management Effectiveness	6	<i>4.0</i>
Product Development and Delivery	6	<i>4.0</i>
Asset-and-Liability Management	12	<i>9.0</i>
Accounting and Financial Management	8	<i>7.0</i>
Financial Sustainability	6	<i>5.0</i>
Outreach	2	<i>2.0</i>
Prudence and transparency in product pricing	6	<i>4.0</i>
Financial Transparency	36	<i>24</i>
<b>TOTAL</b>	<b>100</b>	<b><i>75</i></b>

**SCORE INTERPRETATION GUIDELINES**

<b>SCORE</b>	<b>INTERPRETATION</b>
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	<i>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</i>
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

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Despite the drastic fall in the score compared to last year, Shuuku still remains a promising SACCO with strengths in governance and management effectiveness and outreach. It needs to put more efforts in areas like loan loss provisioning and making adequate provisions. It is also necessary that Shuuku 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 Shuuku much stronger:

- Planning and strategic management for systematic growth
- Product costing to aid sustainability-focused pricing
- Borrower assessments, especially their cash flows and ability to service the loans
- Book keeping and the specific areas of accounting highlighted in the body of the report.

The areas last identified for improvement and the updates are:

- Loan tracking, overall portfolio and delinquency management – *significant improvement observed*
- Change from manual to automated (computerized) systems – *still needs to be done*
- Training of management and board on the PMT – *improved; PMT now in use*

## **APPENDIX 1 PERSONS INTERVIEWED**

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Alfred Munyabwera - Board Treasurer  
Miriam Tikamushaba– Manager  
Other SACCO staff and members

### **TRAINEES (BOTH FROM NILE BANK)**

Michael Nuwagaba  
Moses Bikara

The trainees rated the tool as excellent in terms of potential time saving and breadth of appraisal focus. They showed a high level of comprehension in their ability to appraise SACCOs in the future using the Tool.