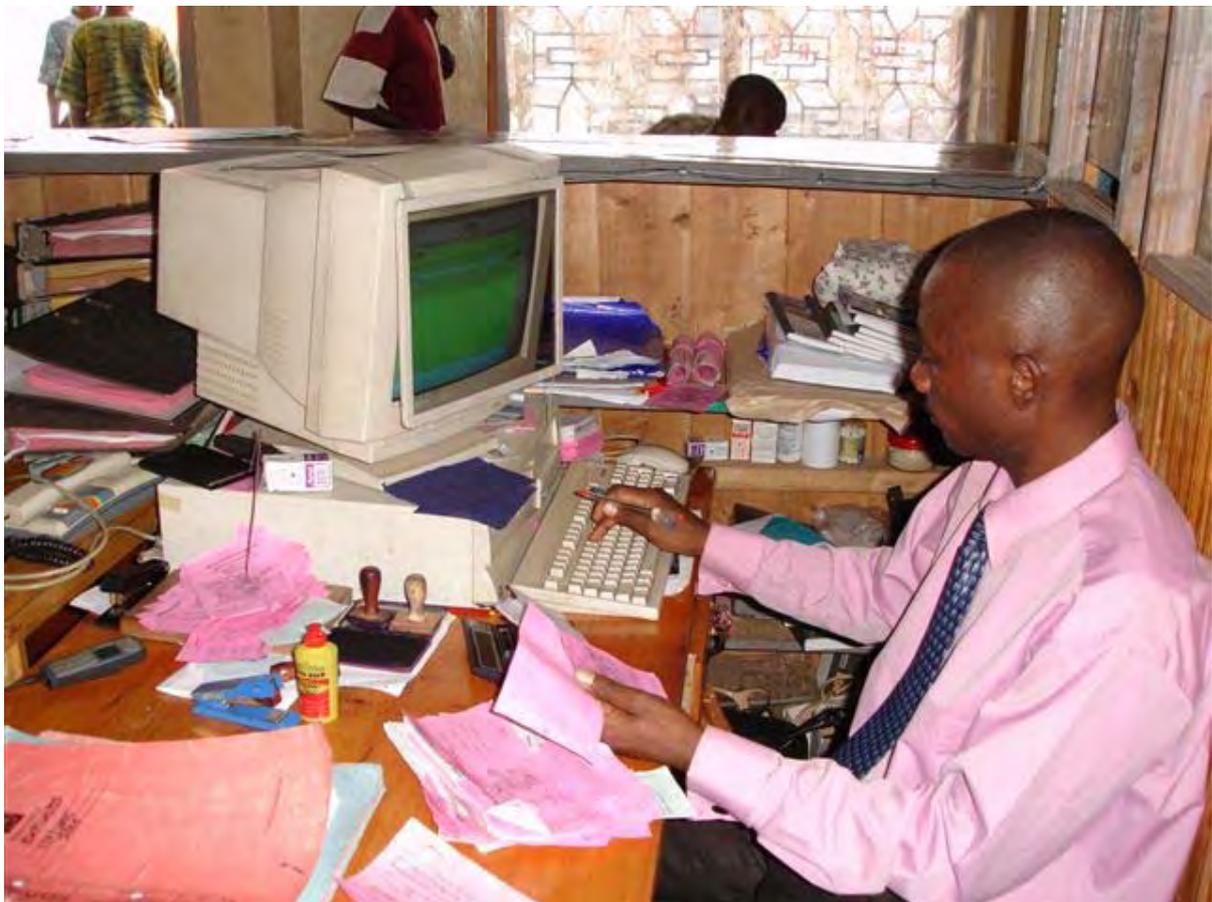




**USAID** | **UGANDA**  
FROM THE AMERICAN PEOPLE

# LIGHT DUE DILIGENCE MATETE SACCO

## FINAL REPORT



November 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by Kisaka & Company, for Chemonics International Inc.



# Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

## LIGHT DUE DILIGENCE MATETE 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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Matete SACCO is a four year old institution and has made quite good progress in expanding its outreach, strengthening its capital base and general performance. It has shown a lot of strength in governance, management effectiveness, service delivery and asset/liability management. The SACCO is performing reasonably well in other areas and with some capacity building support; it is well posed to improve tremendously.

This has been the first assessment of this institution and it has shown very strong indications of sustainable growth, viability, efficiency and outreach. This is due to its robust growth in quite a short time.

The SACCO has to address itself to the following areas: financial transparency and sustainability and product pricing. Matete SACCO has not had quite sufficient trainings to make it strong in those areas so once it is given the necessary technical support, it will make tremendous improvement. It is a promising institution with a lot of potential for growth.

## INTRODUCTION

In November 2006, The USAID- Rural SPEED Project contracted KISAKA & COMPANY to conduct Light Due Diligence of Mateete Micro finance Cooperative Trust Limited in Sembabule District

The objectives of the assignment was to perform a Light Due Diligence on the SACCO which is proposing partnership with USAID/Rural SPEED

USAID Rural SPEED provided us with a Standard Limited Due Diligence (LDD) Tool that we used as the basis of undertaking this assignment

We held free discussions with the SACCO staff and Board Members, and had access to the SACCO documents and records in the course of the performance of the Light Due Diligence

This report is based on a one-day, Limited Due Diligence (LDD) performed at the SACCO and is in no way a substitute for external audit, or internal audit or extended/in-depth due diligence in circumstances where any of these reviews would be required the users of this report.

In the event that Rural SPEED requires additional information upon which we based our rating in any of the aspects below, we are more than willing to furnish such information

## QUALIFIERS

### Does the SACCO have?

	Yes	No
A Valid registration certificate from the Department for Cooperatives? <i>Certificate Number 6590 dated 29/10/2002 issued by the Registrar of Cooperatives</i>	√	
Identifiable place of business where they (SACCO) carry out their activities? <i>SACCO has an identifiable office located in Mateete Trading Center (Rwebitakuri Road), Sembabule District</i>	√	
At least one full time staff? <i>SACCO has 5 staff (1Manager, 1 Cashier, Accounts Assistant, 2Credit officers),</i>	√	
Financial services as its core business? <i>No other business</i>	√	
Active loans and savings operations? <i>862 Savers Amounting to 68.6 Million, Total Loans are 161 and amount to Ugx138.5 Million and all Savers are members</i>	√	
An active Board/ Committee Directors? <i>SACCO has a Board of 5 Members and meet on Monthly basis with one credit committee (for the Loans) The Audit Committee Comprise of Non-Board Members</i>	√	
Overall decision at this stage is YES because all qualifiers Were rated YES		

**RATERS****1. GOVERNANCE EFFECTIVENESS AND STRATEGY**

	ASSESSMENT QUESTIONS	MAX SCORE	SCORE	REMARKS
1.1	Does the SACCO have Full control of its affairs resting on the membership, board and management, with no external superior authority?	2	2	MATEETE SACCO members control its affairs through the (AGM), Board & Mg fully control the SACCO; no external control was noted.
1.2	An able board, with the right skills and dedication to move it forward?	2	1.5	Board comprise of NO graduate, 4 with Diplomas, and one with a J2 certificate Most members attend board meetings regularly at least once a month. None of the BOD has demonstrable experience or training in financial matters/banking BOD Member qualifications were not verified
1.3	A clear governance structure?	2	1.5	AGM is the supreme organ, which elects the Board, which in turn appoints and supervises management. There are loans and Audit committees .The Audit Committee Comprise non- Board Members, however a quick review of their reports indicated their inability to effectively carry out the Committee work
1.4	Well laid out and followed responsibility and accountability practices for all organs & persons?	2	2	Reporting format was designed by UCA Monthly Reports from Management to UCA and the Board were seen Directors have loans but they are very small loans total amounting to Ugx 0.7m as at 31/10/2006(0.56% of total loan balances)
1.5	A clear ownership structure?	2	2	Noted high sense of ownership among BOD members interviewed. Members Register exists Share certificates issued to all paid up members;

1.6	A focus on the savings and credit business?	2	2	Provision of savings and credit services is the SACCO's core business.
1.7	A strategic/ business plan, supporting the mission that is followed?	2	1	MATEETE SACCO had a 3-year business plan but expires this year 2006. NO new Business Plan or efforts to write a new one were in place <a href="#">The SACCO may lose direction</a>
1.8	Beneficial linkages with external Partners	2	1	SACCO Partners with UCA (Uganda Cooperative Alliance) No other beneficial linkages or partnerships were noted <a href="#">We noted that UCA has some reasonable influence in the operation of the SACCO, although not so much in decision making of the SACCO</a>
1.9	Its by-laws, constitution, or such other internal governance guidance documents?	2	1	Mateete SACCO has Bylaws SACCO does not have an original By laws SACCO By Laws significantly differed from the usual By laws issued by the Registrar of Cooperatives <a href="#">Reliability of Bylaws doubtful and yet the SACCO Bylaw serves as the constitution</a>
	Total		14	

## 2. MANAGEMENT EFFECTIVENESS

2.1	Management staff with suitable qualifications and experience to manage the SACCO?	2	2	Manager has a BED/ITEK 3 Other staff are also graduates One holds a Diploma (UDBS) Copies of transcripts existed and were verified Most staffs claimed to have MFI experience but not verifiable.
2.2	A balance of focus between profit & development in the SACCO operations?	2	1	All SACCO services to members are mainly linked to credit/savings. No member development services are provided <a href="#">Once the member is recruited the SACCO does not offer other development services apart from receiving savings and granting loans to a few</a>

				who borrow
2.3	Observable business growth?	2	2	Membership -1446 from 1028 in 2005 amounting to Ugx 75.6m and 55.5m respectively Savings -862 from 727 in 2005 amounting to Ugx 68.6mand48.6m respectively Loan -161 from 153 in 2005 amounting to Ugx 138m and 68m respectively
	Total		5	

### 3. PRODUCT DEVELOPMENTS AND DELIVERY

3.1	Variable and adaptable products?	2	1.5	Savings – voluntary, and Collection accounts for schools. Normal loans to enhance Business granted to individuals Group loans Granted to group members and guaranteed by group members Emergency loans with different terms and Conditions Fewer loan products
3.2	Documented operational policies and procedures	2	1.5	Following manuals exist Operations and accounting Manual Savings and credit operations manual Governance and Human Resource Manual Loan procedures and guidelines manual  Delinquency management procedures not seen
3.3	Efficiency in service delivery mechanisms?	2	2	Emergency loans take one day Loans Committee sits regularly Applicants served within 2 weeks Savers give one days Notice in order to withdrawal amount in excess of 3 million
	Total		5	

## 4. ASSET-AND-LIABILITY MANAGEMENT

4.1	Effective delinquency management?	2	1	Portfolio aged on Monthly basis with PAR > 30 at 9%. PAR is High.
4.2	Safety of clients' deposits?	2	0.5	MATEETE SACCO has NO strong room, but has a safe NO insurance cover for cash in transit or cash on hand Safe is located just next to cashiers place NO armed guard(s) on duty
4.3	Moderate gearing?	2	2	As at 31 <sup>st</sup> October 2006 Share capital was UGX 77M and loan balance from MFSC 4.8m $4.8m / 77m = 6.3\%$ Debt equity ratio is too small and far less than 2:1
4.4	Prudence in intermediation?	2	2	Savings/Cash cover of 42% as at 31/October 2006 was considered to fair. Average for 10 months in 2006 was 55% which is above 50% and therefore good
4.5	Proper assessment of borrowers & anti-concentration	2	2	MATEETE SACCO has a well documented loan appraisal template
4.6	Clear documentation of loans, savings, other assets and liabilities	2	2	Loan files are properly kept with their respective loan Ledgers, a savings ledger up to date, shareholder register maintained and is up-to-date.
	Total		9.5	

## 5. ACCOUNTING AND FINANCIAL MANAGEMENT

5.1	A proper bookkeeping system?	2	1.5	Active & up to date cashbook exists No General ledger except for Control accounts Assets Register and loans ledgers are in place.
5.2	A suitable accounting system?	2	1	SACCO does Daily posting of transactions Monthly financial reports to UCA and copies the BOD Quarterly balancing of ledgers is Longer time Annual audit by the Registrar of Cooperatives and NOT Certified Public Accountants
5.3	Proper financial management principles?	2	1.5	Budget approved by AGM Annual budget divided into quarters. Budget analysis done monthly and actual compared to budget. Variances not well explained in the report.
5.4	Documented accounting & financial management manual	2	2	Accounting and financial management manual in place
	Total		6	

## 6. FINANCIAL SUSTAINABILITY

6.1	Measures of sustainability consistently monitored?	2	0.5	SACCO prepares a monthly detailed report initiated by UCA Current Report does not accurately track OSS and FSS No evidence to show that BOD reviews these rather important reports
6.2	Good levels of operational and financial sustainability?	2	0.5	SACCO does not track OSS and FSS. The current reporting format does not capture OSS and FSS yet these are key performance monitoring indicators for SACCOs Operating profit of 17.7 as at 31/10/2006 However, loan loss provision of 1.3% is < PAR >30days of 9% there is need for appropriate reporting
6.3	Profitability and sustainability embedded in business plans	2	1	OSS and profitability embedded in the business plan. BUT Plan expires 2006
	Total		2	

## 7. RURAL OUTREACH

7.1	Rural operations	2	2	The SACCO is rural based.
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8. 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	The SACCO does not have a scientific way of deriving interest rates so as to be sure that they have included all overheads . Need proper costing exercise
8.2	Market rates charged by competitors taken into account in determining interest rates and fees	2	1.5	Manager explained that they do market intelligence in an informal way and compare rates No evidence of market intelligence is on file
8.3	All interest rates and charges displayed and fully disclosed to the client before they decide to borrow	2	0.5	Interest rates, charges, and fees are not properly displayed But discussed with members as they come to borrow. Discussions not verifiable Need to translate rate into local language.
	Total		3	

## 9. FINANCIAL TRANSPARENCY

9.1	General Ledger	6	4	Loans payable is properly documented and recorded Bank transactions properly recorded, reconciled though not promptly Fixed asset register is up to date Member register exists but is not maintained in such a way as to show cumulative balances of share capital
9.2	Customer savings	6	4	Traced 2 clients' savings passbooks to the ledger – and found to be -OK Traced and 2 member deposits to their ledger and cash tills; and found to be OK Traced and agreed 2 member withdrawals to their ledger and cash tills No interest is paid to Voluntary savings Customers
9.3	Loan/ Credit Ledger	6	4	Customers are not given separate loan pass books but there is a page for the loan account This page is not updated or used by the customers Loan ledger maintained and up to date
9.4	Income	6	5	Growth trend of interest income is satisfactory Ledger Fees properly recognized, recorded  Interest income recognized on cash basis
9.5	Expenditure	6	4	Traced salaries to control accounts and UCA reports Traced rent expense to control accounts and income statements Traced fuel and motorcycle costs to control accounts and income statements
9.6	Loan loss provisions	6	4	Loan aging and provisioning is done monthly Loan loss provisions are not accurately handled and are less

				the PAR greater than 30 days
	Total			

## SUMMARY OF SCORES BY ASSESSMENT AREA

ASSESSMENT AREA	MAX SCORE	SCORE%
Governance Effectiveness and Strategy	18	14
Management Effectiveness	6	5
Product Development and Delivery	6	5
Asset-and-Liability Management	12	9.5
Accounting and Financial Management	8	6
Financial Sustainability	6	2
Outreach	2	2
Prudence and transparency in product pricing	6	3
Financial Transparency	36	25
TOTAL	100	71.5

## 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%	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

On the basis of this assessment, MATEETE SACCO is a good performing SACCO that can form good partnership with USAID Rural SPEED but only require improved delivery in the following areas

Full computerization of banking and accounting operations preferably a simple accounting system that can loan track and at the same time generate accounting reports

Enhanced deposit mobilization from its members The SACCO is faced with stiff competition from another seemingly more organized SACCO (TALYA Mawogola), just 200 meters away .Its survival will based on serious deposit and Member mobilization and retention of such members mobilized

Documentation of roles and responsibilities of the governance organs This is urgently needed so that the BOD can know their role in order to enhance Corporate governance

Improved physical controls over cash this can be done by improving on the physical security of the SACCO and insuring cash on hand and cash in transit

Capacity building of its Members and Staff Directors need capacity building in responsibilities and accountability and those who sit on the Committees need capacity building so that they get to know their roles and responsibilities. Currently they seem not have the skills necessary to perform their roles .

Accurate reporting of OSS and FSS.The SACCO reports do not explicitly report on this component

## PERSONS INTERVIEWED

Name	Title
Joseph Kiwanuka	Manager
Balaba Leticia -	Credit Officer
Busulwa Lawrance	Account Assistant
Arineitwe Isaac	CREDIT officer
Namukasa Robinah	Cashier
,Kigozi David	Treasurer BOD
Lutwama Cate	Member BOD