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# GOVERNANCE MENTORING PROGRAM MBARARA REGION

FINAL REPORT



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# Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

## GOVERNANCE MENTORING PROGRAM MBARARA REGION

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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Rural SPEED collaborates with SACCOs by building their institutional capacity so as to deepen and strengthen Uganda's financial sector in the rural sector. It's against this background that Rural SPEED organized a workshop for fifteen SACCOs on governance training in Mbarara. A total of 30 participants composed of the chairperson and Manager represented the SACCOs. The main objective of this workshop was to expose the participants to successful governance models including and not limited to organizational structure, the roles of boards, committees and management, review of SACCO by laws.

In order to emphasize the learning from the workshop, a mentoring exercise was made to all nine partner SACCOs. This mentoring addressed the challenges a specific SACCO was facing regarding governance and management.

Based on the workshop and mentoring of the SACCO partners the major findings and conclusion revealed that provision of capacity building in the following areas could result in improvement of efficiency of SACCOs and hence increase access of financial services in the rural areas:

- Leadership development;
- Strategic management skills; and,
- Membership awareness and responsibilities.

Within these, emphasis should be on organizational structures with clearly defined roles, functions and responsibilities, separation of ownership and control and review of by laws.

Financial management systems that will guarantee transparent financial reporting and accountability by those mandated to lead these institutions.

All in all, the workshop and mentoring revealed that SACCOs have a huge potential for growth as financial service providers in their areas of operations.

## Section I

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### 1.0 Introduction

Since 1987, when the Government of Uganda instituted major economic policy reforms, the financial sector has become increasingly efficient, productive, and competitive. Uganda is well on its way to a vibrant financial services sector, with 15 commercial banks, seven commercial credit institutions, one licensed and four potential micro-deposit taking institutions, and numerous micro finance institutions and member-owned organizations. However, despite recent growth and liberalized economic policies, only 10 percent of the rural population has access to basic financial services and the formal and informal financial sectors still require some structural changes to provide the range of financial services that individuals and businesses require. Commercial lending and the majority of micro finance activities remain confined to urban and peri-urban areas due the high cost and low return of rural outreach. In addition, interest rates remain high, adequate forms of collateral do not exist due to continuing disorganization within the land registry system, and there is little accountability of Tier 4 institution such as savings and credit cooperative organizations and savings and loan associations. To stay true to goals set in the GOU's Poverty Eradication Action Plan to achieve an economic growth rate of seven percent to eight percent and reduce poverty to 10 percent by 2017, all citizens, especially the poorest, must benefit from economic growth and have access to financial services.

The USAID/Uganda's 2002-2008 Strategy calls for expanded sustainable economic opportunities for rural sector growth, promoting a connection between productive strategies by the private sector in rural areas and expansion of financial services sector. Rural Savings Promotion and Enhancement of Enterprise Development (Rural SPEED) was designed to help meet this goal.

### 1.1 Project Context

The objective of Rural SPEED is to deepen and strengthen Uganda's financial sector in response to this rural sector demand for financial services. Increased provision of financial services should leverage economic activity to complement other mission's programs in rural areas. The resulting increase in economic activity should help Uganda achieve the economic growth rates proposed in Uganda's Poverty Eradication Action Plan. The project is supporting and executing activities in the key areas of:

#### **Institutional Capacity Building, including:**

- Savings Mobilization;
- Agriculture Finance;
- Non-agriculture Finance
- Bank/MDI/MFI/SACCO Linkages; and

#### **New Product Development and Service Delivery.**

## Section II

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### 2.0 Rationale of the Assignment

#### 2.1 Context of the Study

The purpose of the assignment was to train 30 SACCO representatives (15 board members and 15 General Managers) on successful standard models of governance including, roles of boards, committees and management; organizational structure; bylaws, policies and procedures. Another training, for the same number of trainees, was conducted concurrently by another consultant. The trainings are the first step towards wider capacity building and toward opening opportunities for these SACCOs to expand their respective businesses. The training was followed by mentoring sessions with Rural SPEED's ten partner SACCOs.

#### 2.2 Objective of the Assignment

The Terms of Reference (ToR) provided by Rural SPEED were to;

- a) Prepare in advance electronic copies of documents including model bylaws, governance structures, policies and procedures, etc, from an existing successful rural SACCO movement (for example from Kenya, Ethiopia, Malawi or Tanzania). Upon arriving in Uganda, review two SACCOs at the field level; review current legal frameworks; and meet with Rural SPEED staff and other professionals to better understand the Ugandan context.
- b) Collaboratively with another consultant, develop a two day training module to cover:
  - SACCO organizational structure and roles of the board, the committees and the management.
  - SACCO bylaws and their practical application
  - SACCO policies and procedures and how they relate to bylaws
- c) Ensure after Rural SPEED approval of the module, deliver the training module for 30 participants.
- d) Mentor Rural SPEED's nine partner SACCOs
- e) Prepare a final report taking into account institutions visited, contacts made and recommendations for further training

#### 2.3 Expected Outputs

The expected outputs of the assignment were:

- A two-day course module, with content and scheduling for covering:
  - SACCO organizational structure and roles of the board, the committees and the management.
  - SACCO Bylaws and their practical application.
  - SACCO policies and procedures and how they relate to Bylaws.
- One two-day session with 30 SACCO participants to deliver the training module.
- A final report based on the training sessions and field observations with recommendations for further capacity building.

## Section III

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### **3.0 Data, Services and Facilities Provided By the Client**

The Consultants obtained the following documents from RURAL SPEED and the visited SACCOs.

- The Cooperatives Societies Statute and Regulations
- Sample Credit Policies;
- Sample By-Laws;
- Sample organizational structure
- Sample publicity documents
- Bank of Uganda Circular
- Accounting Manuals
- Roadmap for strengthening and regulating tier 4 micro finance
- Regulating and strengthening tier 4 micro finance institutions in Uganda
- Proposals to reform the regulatory framework for Ugandan Savings and Credit Cooperatives
- Possible mechanisms to regulate tier 4 MFIs in Uganda

This information obtained from these sources was very helpful in preparation for the governance training workshop.

## Section IV

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### **4.0 Methodology and approach in accomplishing the Assignment**

The consultants adopted the following approach in accomplishing the assignment;

#### **4.1 Project inception and preparatory activities**

The overall objective of this first step was for the Consultants to harmonize the expectations of Rural SPEED, agree on the broad goals and jointly develop an acceptable strategy and action plan to deliver the program. The consultants clarified their understanding of the TOR of the assignment and agreed with the Client on the most appropriate approach to implement the assignment.

The main tasks that have been accomplished at this stage for the successful implementation of the assignment include:

#### **4.2 Contract briefing:**

Information pertaining to the terms of the contract had been availed in advance. Further discussions with regard to the assignment were held with the Rural SPEED Rural Financial Institutions Advisor, Mr. Richard Pelrine and the Rural Finance Specialist, Ms Judith Aguga Acon.

#### **4.3 Mapping, planning and resource allocation**

The Consultants were assigned the SACCOS to be visited for the purposes of data collection and interviews. Rural SPEED did the selection.

#### **4.4 Communication of Consultants itinerary**

The Rural Finance Specialist Ms. Judith Aguga Acon made all the communication related to workshop dates, venues, and programme with the participating SACCO leaders and managers.

#### **4.5 Workshop Evaluation**

A workshop evaluation was carried out with the use of a questionnaire and the information that was solicited from the participants was in relation to the relevance of the topics, duration, materials, coverage by resource persons and the hotel facilities. A summary of the views of the participants is attached (Appendix I).

#### **4.6 Preparation and presentation of Final Report**

Upon completion of the mentoring visits to the SACCO societies and conduct of the Governance Training Workshop a final report was prepared and presented to the Rural Finance Institutions Advisor, Mr. Richard Pelrine



## Section V

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### 5.0 Recommendations

The Consultant's recommendations are:

#### 5.1 Organizational Structure

The Organizational Structure varied from organization to organization depending on the original promoters, nature of operations and location. Some of the anomalies in the Organizational Structure were:

- Management cadre being placed at the same level as the Committees.
- The Board of Directors appointing the Audit/Supervisory Committee.
- The Annual General Meeting directly electing the Chairperson, Treasurer and the Hon. Secretary.
- Audit Committee reporting to the Board of Directors.
- Duplication of Supervisory roles with a certain SACCO having a Supervisory/Audit Committee (3), Internal Audit Sub-committee of the Board of Directors (3) and a Coordinator to oversee the Manager.
- Some Board Members were serving in at least two (2) Committees.
- Internal Auditor reporting directly to the Management Committee and the Cashier reporting to the Loans Officer.
- In some cases the Loan Officers reporting to the Accountant and thus contradicting the principle of separation of duties and responsibilities between the two key departments in a SACCO Society.
- Absence of an Education/Mobilization Committee, which is critical to member recruitment, awareness and outreach programs development and implementation.
- Whereas implied, most of the organizations did not have a functional Executive Committee.
- Overall, majority of the SACCOs did not have specific defined roles and responsibilities for the Committees.

It is therefore recommended that all SACCO Societies adopt a structure whereby the Annual General Meeting elects the Board of Directors (of between 5 and 9) and three members of the Supervisory/Audit Committee. The Board of Directors including the Executive Committee, Credit Committee and Education/Mobilization Committee, Finance Committee, where necessary, elect relevant Committees. In addition, the duties of these committees should be clearly spelt out. Guidelines for this are provided in greater detail in Appendix III.

#### 5.2 Transformation to SACCOs

Several of the organizations have mixed identity in terms of operations, whether MFIs, Companies, Trust or SACCO. There is therefore need for the willing organizations to be guided on clear steps of transforming into a SACCO Society. The requirement by the Bank of Uganda for deposit taking organizations, with the exception of Cooperatives, to obtain licenses will facilitate many of the organizations to register as SACCOs.

We recommend that Rural SPEED explain the implications of the BOU's circular to the SACCO leadership to enable compliance.

#### 5.3 Capacity Building

There stands a lot of potential in the development of the rural SACCO movement in Uganda. Within the sample SACCO societies that were mentored and those that attended the workshop, the following were the identified areas requiring further training:

- Credit Policy and Administration
- Delinquency management and control
- Financial Management
- Auditing Standards and Internal Controls

- Training of Trainers (TOT)
- Savings Mobilization techniques and strategies
- Promotional techniques and marketing strategies
- Management Information Systems
- Product design and pricing of SACCO products and services
- Asset Liability Management techniques

#### **5.4 Reviews of By-laws**

The Consultants have prepared two sets of Model By-laws for SACCOs. One set is for SACCO societies that have adopted the general membership system under an Annual General Meeting and another is one that has adopted the Delegates System. The By-laws have been harmonized with Model SACCO Policies and Procedures Manual. SACCO societies with a large membership, expansive regional outreach and those dealing with numerous groups could be encouraged by the project to adopt the delegates system to enhance efficiency and effectiveness and equitable representation.

#### **5.5 Collaboration of Development Partners**

There are many players involved in the development of SACCOs in Uganda including the Governmental, USAID, DFID, Rural SPEED, UNDP, UCA, USCCU, Uganda Microfinance Support Center, and Prime WEST. Others involved include GTZ, SNV, Pride, AMFIA, AMFIU, and Microfinance Outreach Programme. A Steering Committee comprising of the various development partners would lead to the harmonious development of the SACCO sector in Uganda

The participants' recommendations in respect of SACCO development were:

##### **5.5.1 Rural SPEED**

- A follow-up workshop be arranged in order to assess implementation of lessons learnt.
- The project provide funding for the training of board members and members
- Follow-up visits to SACCO societies should be made in order to assess performance.
- Provision of regular updates on the SACCO Sector
- The project to link the poor SACCOs to appropriate sources of financing
- The project provide seed capital on lending to members through a revolving fund
- Need for continuous capacity building
- Facilitate/training of trainers' workshops
- Need for exchange visits between SACCOs in Kenya and Uganda in order to share.
- Need for capacity building programmes at the management levels

##### **5.5.2 Government of Uganda**

- Need for the standardization of the financial year for SACCOs
- Need to enhance outreach to all SACCOs
- Government to enhance support of SACCOs
- Regionalization of the National SACCO Union.

##### **5.5.3 SACCOs**

- Need for adequate loanable funds to members
- Need for transport to recover loans from members

## Appendix I Governance Training Workshop evaluation

### EVALUATION OF THE GOVERNANCE TRAINING WORKSHOP AT RWIZI ARCH HOTEL, MBARARA ON 18<sup>TH</sup> AND 19<sup>TH</sup> JULY 2005

Twenty six (28) participants, comprising mainly of Chairpersons and Managers attended the two day Governance workshop at RWIZI ARCH HOTEL in MBARARA. The Consultant, Mr. PAUL K. WAMBUA in collaboration with the Communications Specialist, Ms. Diana Mushabe from Rural SPEED, facilitated the workshop.

Out of the 30 participants invited to attend the workshop, 28 participants attended. All of them responded to the evaluation questionnaire as follows:

#### COURSE DESIGN

- Relevance:** 22 participants (78.6%) found the topics very relevant to their jobs while 6 Participants (21.4%) found the topics relevant.
- Duration:** 15 participants (53.5%) found the sessions as too short, while 13(46.5%) found the sessions adequate.
- Materials:** 14 participants (50%) were of the view that the workshop materials were above Average and 14 participants (50%) found the workshop materials were adequate  
While no participant regarded the material as inadequate.
- Coverage:** 22 participants (78.6%) were of the view that the subjects were adequately covered while 6 participants (21.4%) indicated that certain subjects might not have been adequately covered.

According to the participants, the following areas needed deeper coverage if the time allowed

- Delinquency Management and Control
- Credit Management
- Financial Management
- Governance
- Policies and procedures

#### FACILITATORS

Out of the 28 respondents, 24 participants (85.7%) rated the consultant, PAUL K. WAMBUA as excellent while 4 participants (14.3%) rated the consultant as good.

#### FACILITIES

	Excellent	Good	Fair	Poor
Venue	4	14	10	0
Quality of food	2	15	11	0
Quantity of food	2	15	6	2
Accommodation facilities	1	8	12	2
Service by hotel staff	1	6	16	2

According to the responses most of the participants found the hotel facilities as either or good.

**Please note that some respondents did not respond to all the questions and therefore the totals responses may not correspond to the total number of participants.**

Other general comments by the participants related to the issue of sharing rooms the location of the hotel being in a busy and noisy highway, the seminar room being too small, etc.

## Appendix II Governance Issues Affecting SACCOS

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### Introduction

The principle – agent *relationships* exist in Savings and Credit Co-operatives. Member-owners are also its clients who are made up of groups with *different interests*. Some are net savers and others net borrowers. Each member has *one vote* regardless of the amount of wealth invested by the member while most SACCO electorate do not have high levels of *business or financial acumen*. These among other concerns demand the need for good governance. The SACCO *Governance structure* comprises of the Annual General Meeting, Committee members, Supervisory Committee, Managers and other staff. However the principal-agent nature of the relationship requires *separation of ownership* and decision-making between the Board members and Management. It is for this reason that good corporate governance practices must be nurtured and encouraged to evolve *best practices*.

### The Concept of Corporate Governance

**Corporate Governance** is defined as the system by which a corporation is directed, controlled and held to account for the manner in which power is exercised in the stewardship of its assets and resources to increase and sustain shareholder value and satisfy the needs and interests of all stakeholders.

### Scope of Corporate Governance

**Corporate Governance considers** public policy, national values and ethics during formulation. It covers Systems by which the individual corporation regulates itself for competitiveness and sustainability through practices and procedures for supervising, monitoring, regulating and controlling. Regulatory authorities, national trade and business associations, professional bodies and society as whole practice corporate governance.

### Forces Driving Interest in Corporate Governance

#### *At International Level.*

The following incidents are among other occurrences and factors that stimulated interest in corporate Governance:

- The Asian financial crisis
- The Corporate failures and scandals in the USA and other countries
- The fight against money laundering, corruption, bribery and abuse of corporate power
- The shareholder activism
- Globalization and economic liberalization
- The green (environmental) movement
- The power of transnational and multinationals
- The need to make corporations viable destinations for investment in competitive global market
- The realization that good corporate governance has “an economic payoff.”

### Governance Problems at Co-Operative Level

#### *At Board Level*

The Board oversight and management operational responsibilities are inadequately defined in the by-laws. The major concerns include:

- *Key decisions* on urgent matters such as change in interest rates, introduction of new products and services have to await approval by the Annual General Meeting
- Elected Board members would frequently be non-professional volunteers yet they assume *highly technical responsibilities* such as loan analysis and disbursement, budgeting and financial expenditure control.
- *Lack of clear guidelines* on where, for example the Credit Committees authority ends and where the Executive Committee begins, and where the staff members authority begins hence delayed decision making.

- *Over-reliance on guidelines/circulars* from the Commissioner's Office that are obsolete or may not apply across the board for all types of Co-operatives
- Board members succumbing to *political pressure* from external forces to implement activities that counter the management ethics and standards.
- *Unrealistic office tenure* that ends up being costly in mainstreaming governance interventions in respect of training and instilling professionalism
- Board members and Supervisory Committee may *collude* to protect one another's interests, e.g. insider loans and high managers' salaries.

#### **At Staff Level**

- *Job insecurity* due to changes in the Management Committee and weak terms and conditions of service lead to poor performance
- *Unprofessional process* of recruitment that encourages, favourism, tribalism, and nepotism sometimes attracts incompetent personnel
- Absence of appropriate *personnel and administration* policies and Accounting Procedures Manual, job descriptions and specifications and performance appraisal tools compound to the problems of governance.

#### **At Member Level**

- *Inadequacy of resources*, lack of Education and Training force members to exert pressure on the committee member to implement issues in a manner that abuses the spirit of good governance
- Salaries for the staff are not competitive as those paid to other financial institutions because *members reject offering salaries* that appear higher than what they earn from their employers. Therefore attracting and retaining better-qualified managers is difficult.
- Where a SACCO is very large, members may fail to look closely at the *prudential actions* of their Board members.
- The *one member one vote* principle at times undermines the genuine concerns of the minority. The academic and patronage criteria are at times overlooked for other minor considerations.

### **Aims and pillars of Good Corporate Governance**

Good corporate governance aims at achieving:

- Increased profitability and efficiency of business enterprises
- Enhanced ability to create wealth for shareholders
- Increased employment opportunities with better terms of workers
- Enhanced separation of ownership from control
- Viability in corporations for investment in a competitive global market
- Enhanced legitimacy, responsibility and responsiveness of the business enterprise
- Transparency, accountability and probity of business enterprises.

### **Why the main Focus On Corporate Leadership?**

The Savings and Credit Cooperatives require a leadership that can deliver the *expectations* of the shareholders. That feat is attainable only if a *responsible and responsive* leadership is nurtured in corporate governance standards and works towards

### **Principles and Codes of Best Practice**

A code of best practice is necessary for purposes of facilitating of *best business practices*, development of *ethical business behavior*, creation of *uniform codes of conduct* and the development of a *free and fair business environment*. All international Codes of Best Practice emphasize clear definition of:

- Authorities and Duties of Members
- Roles and Responsibilities of Directors in light of the principles of ethical Conduct of Business and corporate Citizenship

### **Core Principles in the Kenyan Code of Best Practice**

The following are the *seven principles of Co-operation* applied in mainstreaming corporate governance in the Co-operative Societies:

- Voluntary and open Membership
- Democratic Member Control

- Economic participation by Members
- Autonomy and independence
- Education, training and information
- Co-operation among Co-operatives
- Concern for community in general

**The key corporate issues addressed in operationalising the principles of cooperation entails the following features:**

- Authority and Duties of Members (or Shareholders)
- Rights and Obligations of the Members
- Leadership
- Appointments to the Board
- Strategy and values
- Structure and Organization:
- Corporate Performance
- Accountability
- Responsibility to Stakeholders
- Balance of Powers
- Internal Control Procedures
- Assessment of Performance of the Board of Directors
- Induction, Development and Strengthening of Skills of Board Members
- Appointment and Development of Executive Management
- Adoption of Technology and Skills
- Management of Corporate Risk
- Corporate Culture
- Social and Environmental Responsibility
- Recognition and utilization of Professional Skills and Competencies
- Corporate compliance
- Corporate communication
- Corporate Governance Reporting

### **Importance of Good Corporate Governance Practices**

They facilitate achievement of the following in the Co-operative Societies

- Strategic thinking and strategy setting
- Balance of power and control
- Efficiency and effectiveness
- Transparency and probity
- Productivity and responsiveness
- Responsibility and respectiveness
- Creativity and innovativeness
- Competitiveness and sustainability

### **Consequences of Not Practicing Corporate Governance**

- *High staff turnover* and the resultant high costs attributed to repeated recruitment, training and replacement affect the image of the organization and the income level
- *Environment for fraud*, misappropriation of funds and loss of track of operations is created
- *Reduced profitability* to the organization thus affecting the reward level (dividends) to the member-owners thus weakening their confidence in the organization and the subsequent degeneration into possible oblivion.

### **Governance Reforms in Place**

The Policy on co-operatives acknowledges the need for sound co-operative governance, while the Co-operative societies statute 1991 and Co-operative Societies Regulations 1992 have mechanisms in place for cooperative governance. These are however, inadequate and need urgent review.

There is need to set appropriate compliance standards and regulations on areas such as audit standards, misappropriation of funds, reporting requirements, and other measures to embrace prudential standards.

In line with the recent Bank of Uganda circular dated 20th June 2005, all micro finance institutions taking deposits and intermediating deposits or loan insurance funds should have a license issued by the Bank of Uganda, otherwise this shall constitute an offence. SACCOs should therefore see this as a clear signal of unwelcome regulation in the event that they do not embrace sound corporate governance practices.

**Other Policy reforms relate to:**

- Distinction of the *role* of the Board of the Directors and Management
- Review of *By-Laws* to define who qualifies to assume positions of a director and the functions of the Supervisory Committee
- *Removal* of Board members for failure to meet their responsibilities, for mismanagement or improprieties.
- Establishment of *ethical codes* of best practices and control
- *By-Laws* to provide for *staggered rotation* by Board members
- *Anti-corruption Commission* to investigate cases of fraud and corruption
- *Appointment of Public Prosecutors with a background on Co-operatives to preside over* cases arising on mismanagement of Co-operatives.
- *Routine inspections* of books and records of Co-operative Societies

**Conclusion**

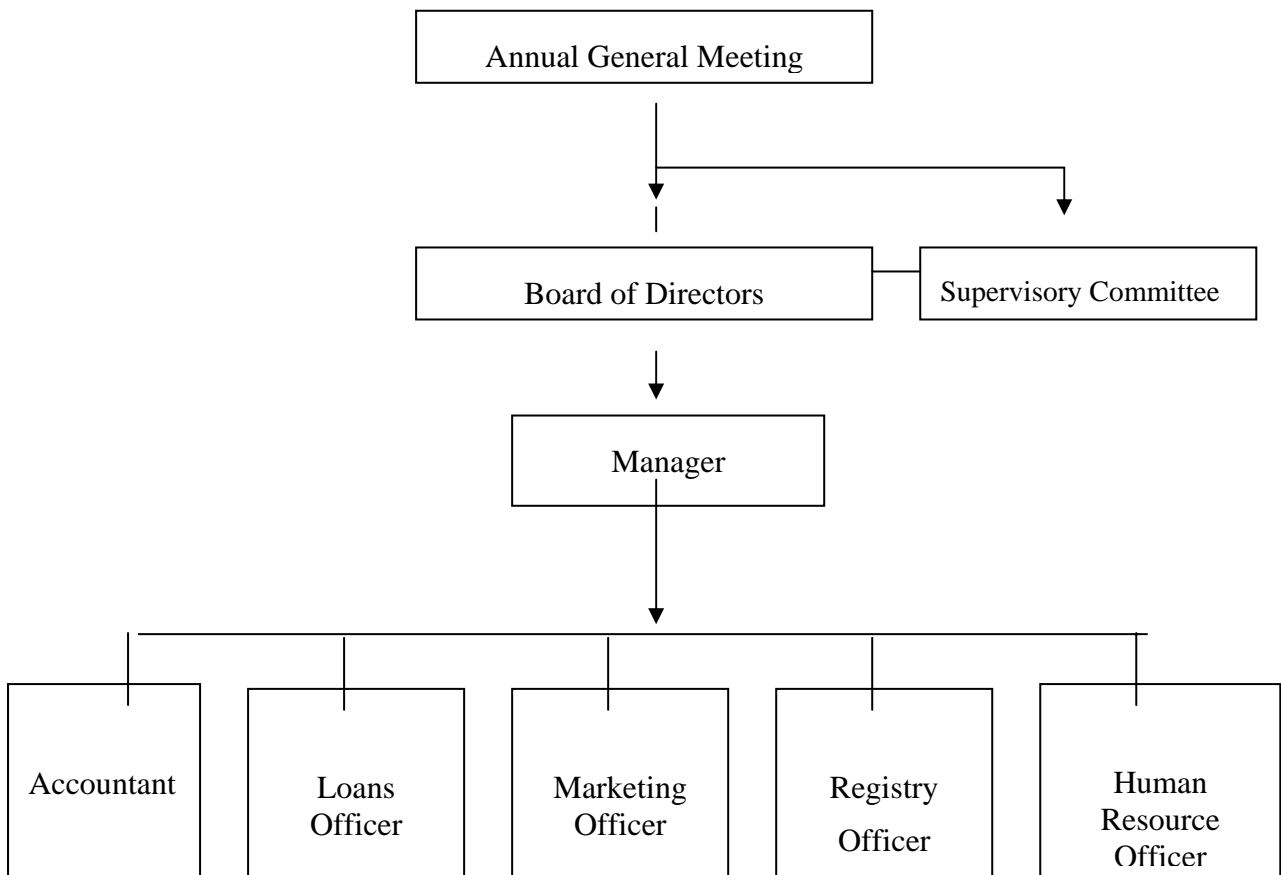
Corporate Governance issues in the Co-operative Societies therefore revolve around authority and powers of the members, mode of appointment, composition, training and Development, tenure of the Members of the Committees, their authority and responsibilities, Succession Planning and the relationship between Committees and Management.

## Appendix III Organization Structure of a SACCO

### Introduction

The Organization structure, the overall design of the organization determines the reporting relationships and job design. It influences the workflow and the behavior of people on the job. It is a powerful control mechanism.

### THE ORGANIZATION STRUCTURE OF THE UNION AND THE ESTABLISHMENT



1. The organization structures of a Savings and Credit Co-operative (SACCO) consist of the Annual General Meeting of members.
2. Below the Annual General Meeting is the Board of Directors consisting of 9 members including the Chairman and Vice Chairman, elected at the Annual General Meeting. The Board of Directors is responsible for policy formulation and guidance of the day-to-day management of the SACCO. The Supervisory Committee comprising of 3 members is also elected at the Annual General Meeting.
3. The Board of Directors have the various sub-committees performing specifically defined functions like the Executive Committee (Managing), the Credit Committee (Loans) and the Supervisory Committee (Audit function)
4. Under the Board of Directors is the Manager, who is the chief Executive of the SACCO and carries out the policies emanating from the Board of Directors and its sub-committees.
5. The Manager is assisted by various staff including the Accountant, Loans Officer, Registry Officer, Marketing Officer and Human Resource Officer. The number of employees is dependent on the number of members and operations of the SACCO Society. Each of these officers has a functional line management responsibility and skeleton staff to assist them achieve the department's goals.



## 2.0 Duties and Responsibilities of Board of Directors and Sub-Committees

The Board of Directors is also considered as a symbol of strength and leadership capable of motivating people towards the achievement of goals.

### 2.1 According to the SACCO By-Laws, The Board of Directors Shall;

- Observe in all its activities the Act and the Rules, these By-laws and prudent business practice.
- Generally manage the affairs of the society
- Act upon all applications for membership
- Ensure that true and accurate records and accounts are kept
- Decide the amount and kind of surety bond, or other security, which shall be required of the Treasurer, secretary and any other officer or employee having custody of or handling funds or property of the society.
- Determine: -
  - \* The interest rates on loans (subject to the maximum permitted by by-laws or Annual General Meeting).
  - \* The maximum maturities and terms of payment or amortization of loans to members
  - \* The maximum amounts that may be loaned with or without security to any members
- Lay before the Annual General Meeting the dividend rate to be paid on shares and the interest refund (if any) to be paid to borrowers.
- Authorize investments of the society
- Employ and fix compensation of a manager and such other employees as may be necessary to carry on the business of the society
- Impose fines as under by-laws
- Approve transfers of shares between members
- Supervise the collection of loans from members and authorize the write-off of uncollectable accounts
- Affiliate the society to a co-operative union of savings and credit societies, or an Apex society
- Perform such other duties as the members may from time to time
- Write correct minutes of meetings
- (May) appoint other committees
- Report on its activities during the past financial year to the General Meeting

### 2.2 Advantages of Committees

There are various merits, which may be associated with the Committee of a SACCO Society, and these include: -

- It is possible to co-ordinate the work of the various sub-committees (credit, education, executive, investments) which aim at achieving the objectives of the SACCO Society
- Ideas of the committee members can be pooled and utilized for the benefit of the society
- Committee members meet regularly and handle various problems and as a result many ideas are expressed and developed
- Feelings of the members may be represented to the management through the various sub-committees

### 2.3 Disadvantages of Committees

Whereas there are many advantages of committee, some of the disadvantages include: -

- At times committee may come up with decisions which are against the wishes of majority members
- A committee may be self-destructive if it has a weak chairman or two opposing factions

- Negotiations are at times prolonged or postponed indefinitely
- Some members of the committee can prevent it from operating efficiently by putting forward arguments which are irrelevant

It is the responsibility of the whole Board of Directors to manage the affairs of the co-operative society as directed by the Act, Rules and By-laws of the society, and the implementations of the commissioner for Co-operative Development's circulars and directives of the Annual General Meeting.

### **3.0 The Executive Committee**

The Executive Committee is a sub-committee of the Board of Directors. It is elected by members of the Board of Directors and is comprised of the following: -

- Chairman
- Vice-chairman
- Treasurer
- Secretary

The main duties of Executive committee include: -

- Accomplishing the assignments given by the Board of Directors
- Attending to urgent matters that would otherwise not wait to be attended on regular Board meetings
- Attending to staff matters when requested by the manager of the society
- Helping the sub-committees and employees to work together
- Giving work to one of the members of the committee
- Signing documents, contracts and cheques
- Performing in general such other duties within the societies by-law

### **4.0 Duties of the Credit Committee**

The Credit Committee consists of three members of the Board of Directors, none of whom should be Executive Officers. This committee is chosen at a meeting of the Board of Directors within seven days of each General Meeting, for a term of three years. It is supposed to hold such meetings, as the business of the society may require not less frequently than once a month.

#### **Main Duties**

- The Credit Committee shall meet to act upon loan applications once a month or as often as needs of members require meetings
- To ascertain the applications ability to repay fully and promptly the obligations incurred by him
- It shall inquire carefully into the character and financial conditions to ascertain the ability of each applicant for loan, and of his guarantors, if any
- To determine whether the loan is for worthy purpose and will be of probable benefit to the borrower
- The committee shall endeavor diligently to assist members to solve their financial problems
- To observe the loan policy and the by-laws when acting on loan applications
- To ensure that "Loan Application Register" is maintained and that the loan cheques schedule is prepared
- Follow up loan repayment and act on loan defaulting
- The Credit Committee must keep minute of their meetings. The minutes must always state the register number of the loan applications processed during the meeting.

The Credit Committee has therefore a very important function to undertake within the Board of Directors of a society. They should analyze the lending activity to evaluate the efficiency of the

lending process. They are supposed to fulfill the obligations of the society faithfully and with determination. The Credit Committee is expected to make detailed reports about their deliberations for the consumption of other committees and the general membership.

## **5.0 Duties of the Education Committee**

Co-operative Education and Training aims at the development and transfer of a combination of knowledge, skills and persuasive attitudes to various target groups in order to facilitate the efficient running of a co-operative society. Co-operatives and education have gone hand in hand with education producing co-operatives and sometimes co-operatives sponsoring education. Essential features of a successful co-operative are informed and loyal members growing and efficient business.

In Savings and Credit Co-operatives there is an established Education committee. While not clearly spelt out in the by-laws of the societies, those carrying out education and training programmes have the following duties to perform:

- Identification and Determination of education needs of the members, the Board of Directors, employees and of the potential members, in the principles and techniques of co-operatives both economic and democratic.
- Evaluating training activities: due to
  - \* Limited supply of resources
  - \* Feedback obtained from evaluation is intended for use in correction measures
  - \* Feedback obtained from evaluation activities motivates those implementing and those benefiting
- To create good relations between the Board of Directors, staff members, other co-operatives, suppliers, business and public at large for increased productivity of the organization (Public Relations).
- To acquire literature on behalf of the society, with a view to setting up well stocked library. This could comprise of the Co-operative Act, rules and by-laws, policies, Co-operative texts and journals.
- To arrange for education and tours in liaison with other members of the Board of Directors.
- To advise the Board of Directors and members in general on matters within their jurisdiction, such as in event of any changes in the regulations.
- Ensuring that adequate funds have been allocated for educational purposes and utilized properly, for the benefit of the whole society.
- To present the organization in other bodies carrying educational functions
- Preparation of educational reports on a fortnightly basis, monthly, quarterly, half-yearly or annually depending on the needs of the society.
- Identification, collection and preparation of co-operative news on behalf of the society. Annual General Meetings, minutes authorized visits and interview could constitute news

The main function of the Board of Directors is to manage the affairs of the registered by-laws of that society, plus implementation of government regulations and the Annual General Meeting.

A good co-operative Society is a continuous source of education for the members for example, a credit society teaches the proper use of money. A consumer co-operative trains the members in what to buy and the true value of goods and also educates producers in better methods of production.

“If we had occasion to start our movement a fresh, and if we were given the choice between two possibilities, that of starting without capital but with enlightened membership and staff or on the contrary that of starting with a large amount of capital and ill informed members our experience would incline us to choose the first course” All the time and money spent on Co-operative education is worth the trouble and should be considered as an investment and not an expense.

## 6.0 The Supervisory Committee

A Supervisory Committee exists to determine whether a Savings and Credit Co-operative Society is functioning, as it should. While it is appreciated that members of a SACCO Society are required to verify and evaluate the works of the Board of Directors, it is impractical for all members to carry out such activities together. It is for this reason that the members elect three members during the Annual General Meeting to be in this committee. The members of the Supervisory Committee should not be individuals serving in the Board of Directors. This committee should completely be independent from any control of the Board of Directors.

The committee of the SACCO Society should always be alert to ensure that the transactions are carried out with accuracy and honesty. All this should be within the requirements of the Co-operative Societies Act, rules and by-laws. It is for this reason that the Supervisory Committee organizes regular audits of affairs of the SACCO Society.

Apart from the formal auditing of the Co-operative Society, the committee should also be on to look out for potential problems. For example, they should take note of any money-handling officials who are anxious to handle certain accounts. It is also essential that employees dealing with finances should take their annual leave.

Since the duties of the Supervisory Committee are largely technical, it would be appropriate if at least one of the people elected to it has some experience or training in auditing or book-keeping. It is from whoever has some knowledge that the other members of the committee can be guided.

### 6.1 What the Supervisory Committee should Do.

The duties of the Supervisory Committee may include to:

- Make or cause to be made meaningful audits regularly
- Submit audit reports to the Board of Directors
- Verify with the members their share and loan balances
- Maintain confidential relationships with members
- When necessary for due reasons recommended that suspension of the Board of Directors. Credit Committee or any member of a sub-committee
- Call special General Meetings whenever necessary
- Maintain the committee records
- Report to the members at the Annual General Meeting or Special General Meeting
- Follow up on the recommendations and suggestions of the committee. This may be derived from the previous audits of the committee and establish that actions were taken
- Request the Board of Directors to approve the compensation of clerical and auditing assistance

### 6.2 What the Supervisory Committee should not do

The committee should NOT: -

- Participate directly in any of the activities or operations of the Board of Directors
- Judge the operations and decisions taken by the Board of Directors officials on personal criteria. Any evaluation should be done on the basis of the Co-operative Society's Act, Rules, By-laws and the internal policy of the SACCO Society.
- Directly correct any employees of the SACCO Society observed making errors in their work. The Supervisory Committee should report such errors to the Board of Directors or Treasurer where the by-laws specify. It is up to the Board of Directors or Treasurer to see that they are corrected
- Create antagonism or dissension among committee members and employees
- Make public its report before it is known by the Board of Directors
- Make report on the basis of rumors or imprecise information. Any errors noted should be based on evaluation of first hand information

In conclusion, the above are merely the general guidelines of what the Supervisory Committee should do and what it should not do. The specific aspects on what the Supervisory Committee should look at are covered under aspects of the Supervisory Committee and the auditing of SACCO Societies. What needs to be emphasized is that the Supervisory Committee should be independent and they need to work without fear or favor.

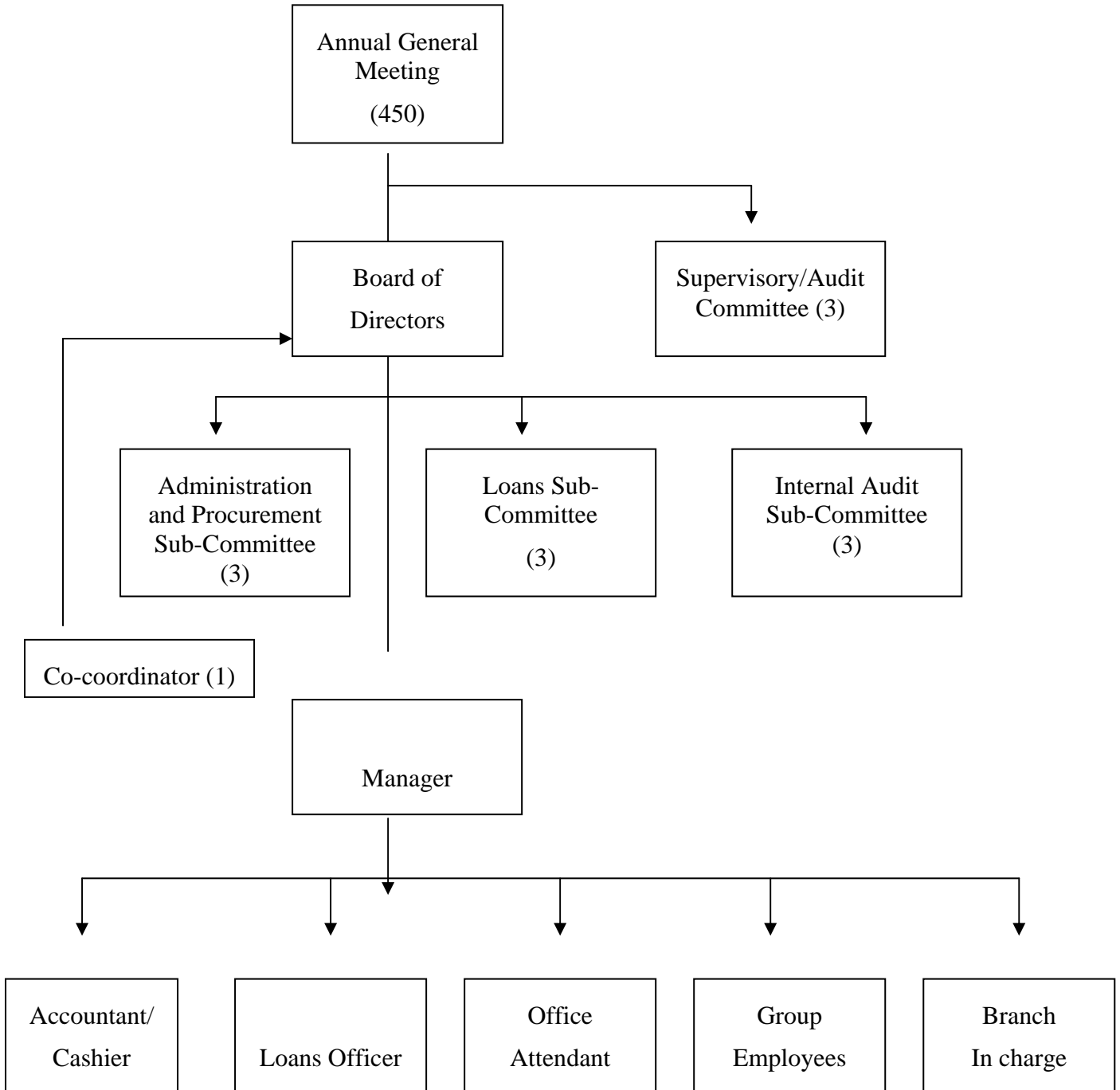
## **7.0 Manager**

The Manager is the Chief Executive of the Society. His powers and duties are assigned by the Board of Directors and in particular to: -

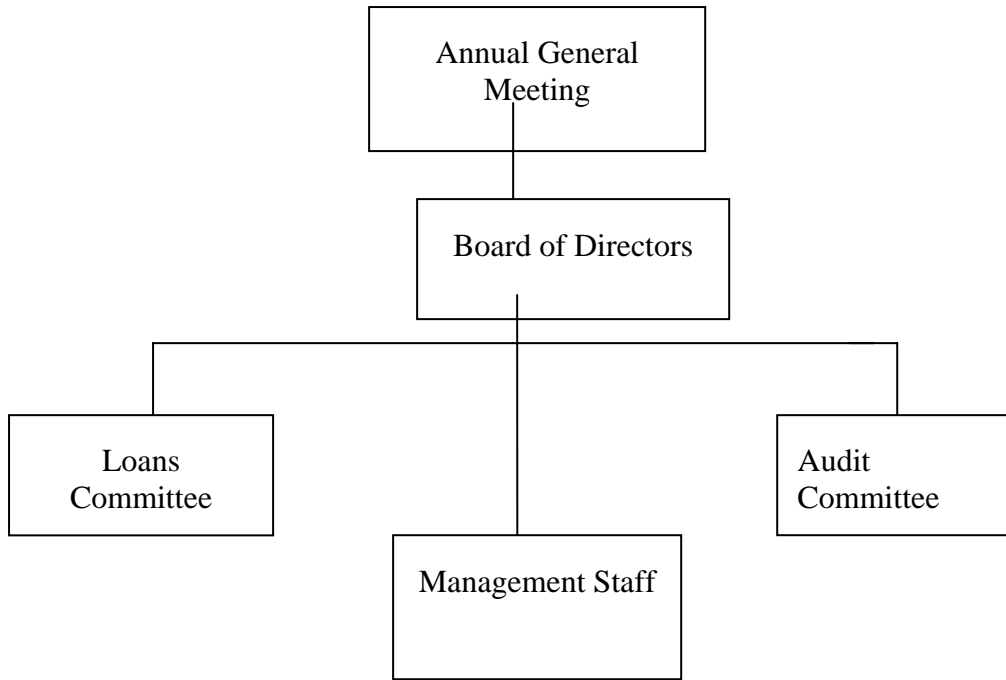
- Manage the affairs of the Society in a competent and professional manner.
- Cause to be kept proper books of accounts, records and registers.
- Attend Board of Directors Meetings and the Annual General Meetings in an advisory capacity but have no voting rights.
- Prepare and analyze on a quarterly basis the Society's business plan and budget.
- Represent the society in business transactions and any other transactions authorized by the Board of Directors.
- Provide information required by the Supervisory Committee in time.
- Propose to the Board of Directors of new positions arising at the Society, and the revision of the salary schedule for all the Society's staff.
- Implement recommendations set forth in the audit reports and those issued by the Supervisory Committee.
- Ensure on a monthly basis the accounting records are in balance and the individual accounts subsidiaries are up-to date and the income statement, balance sheet, and delinquency lists are complete and correct. Ensure that the account records are maintained in accordance with internationally accepted accounting principles.
- Ensure that adequate insurance is in place if available for all employees, officials and property of the society.
- Direct and supervise the administration and processing of loan applications.
- Establish a pricing strategy for products and services, in which the interest rates structure will seek a balance between the loans available to the members, and the long-term viability of Society.
- Assist the Board of Directors in determining acceptable types of collateral that can be used to secure the SACCO's loans.
- Ensure there is adequate liquidity to meet loan demands, savings withdrawal, and operating expenses.
- Ensure drawing up and updating job descriptions of each employee.
- Ensure that he/she must be a member of the SACCO.
- Ensure implementation without delay of all decisions of all committees of the Society and the General/Members Meetings.
- Carry out such other duties as prescribed in the rules or directed by the Board of Directors.

Appendix IV Organizational Structure

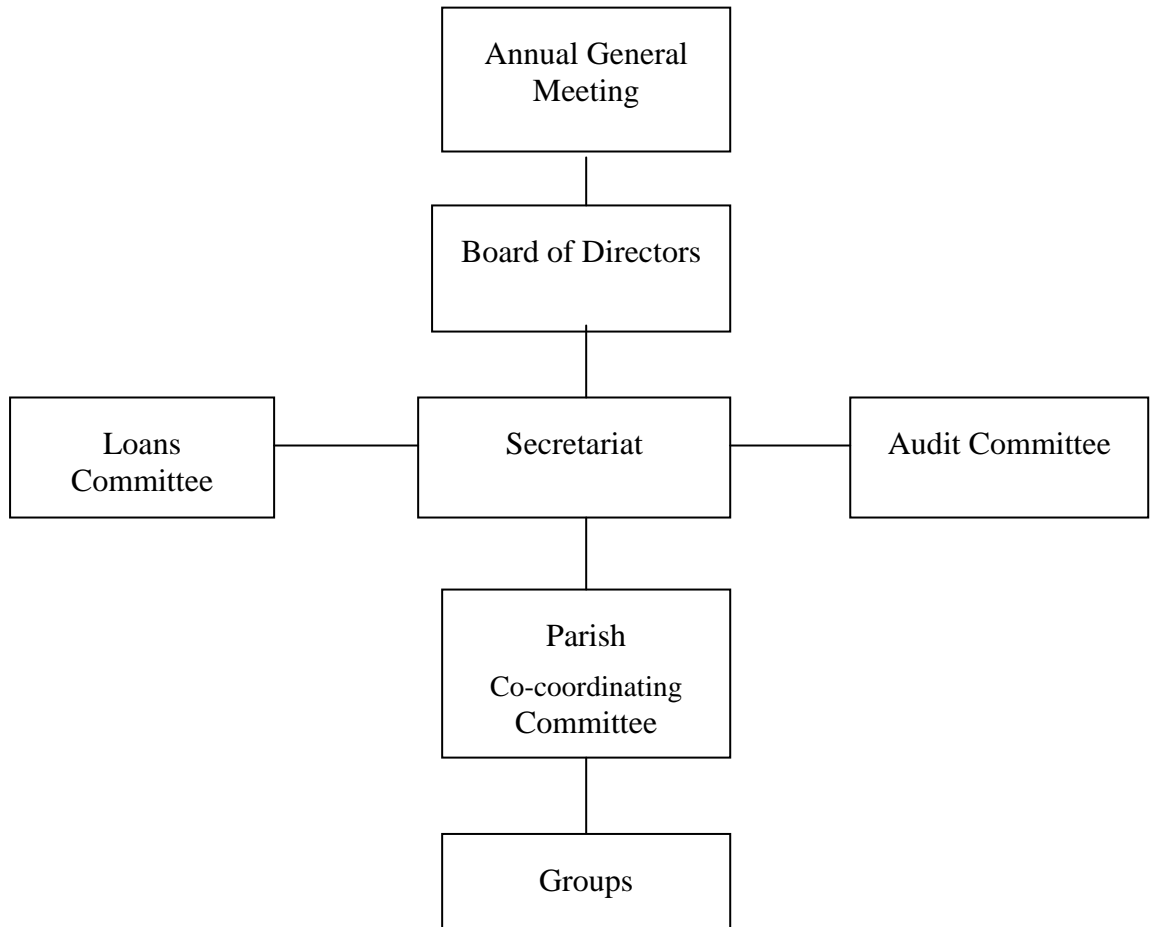
a) Organization Structure of KAZZO



**(b) Structure of Rukiga SACCO**

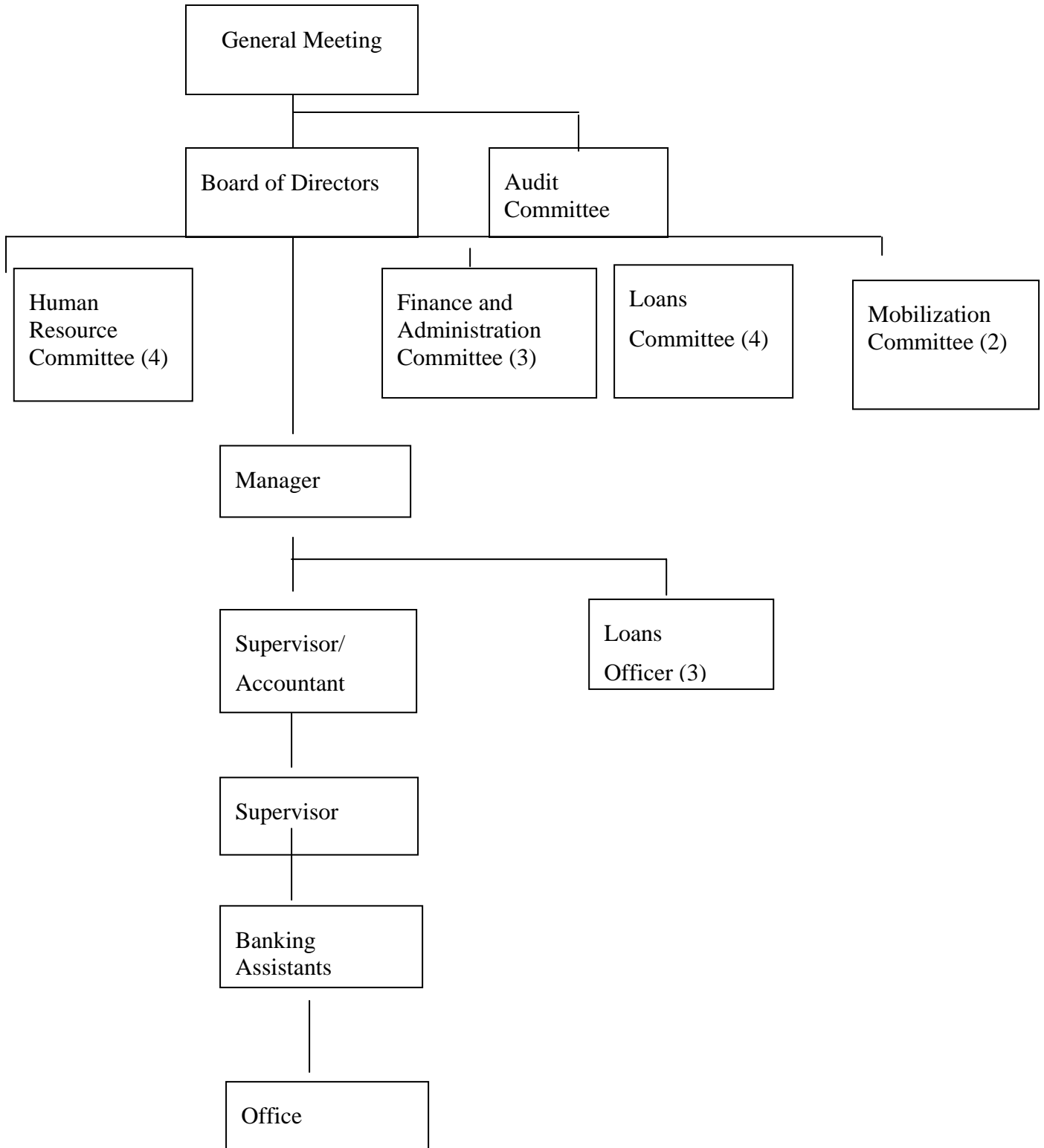


**(c) Organization Structure of Bukonzo**

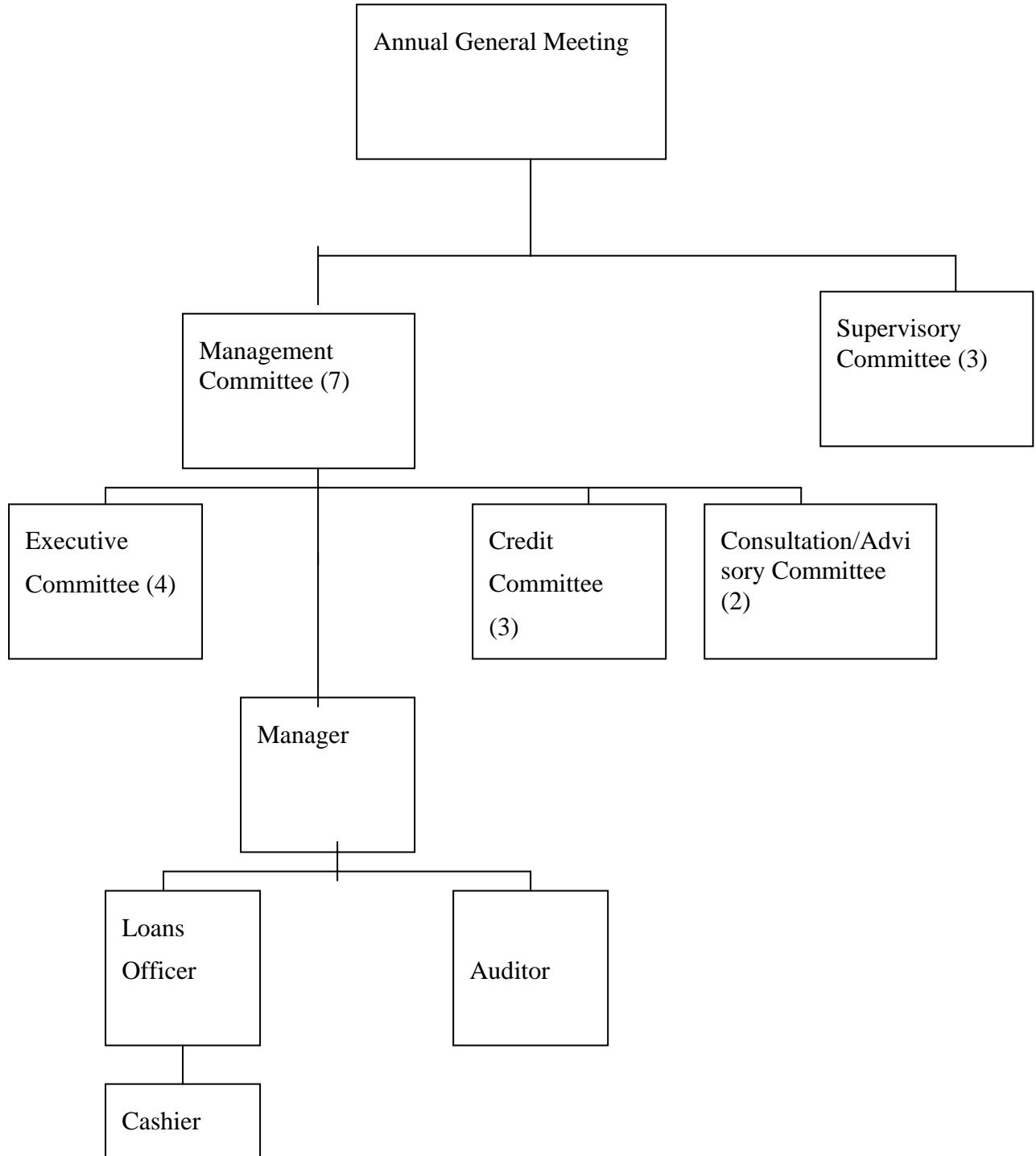




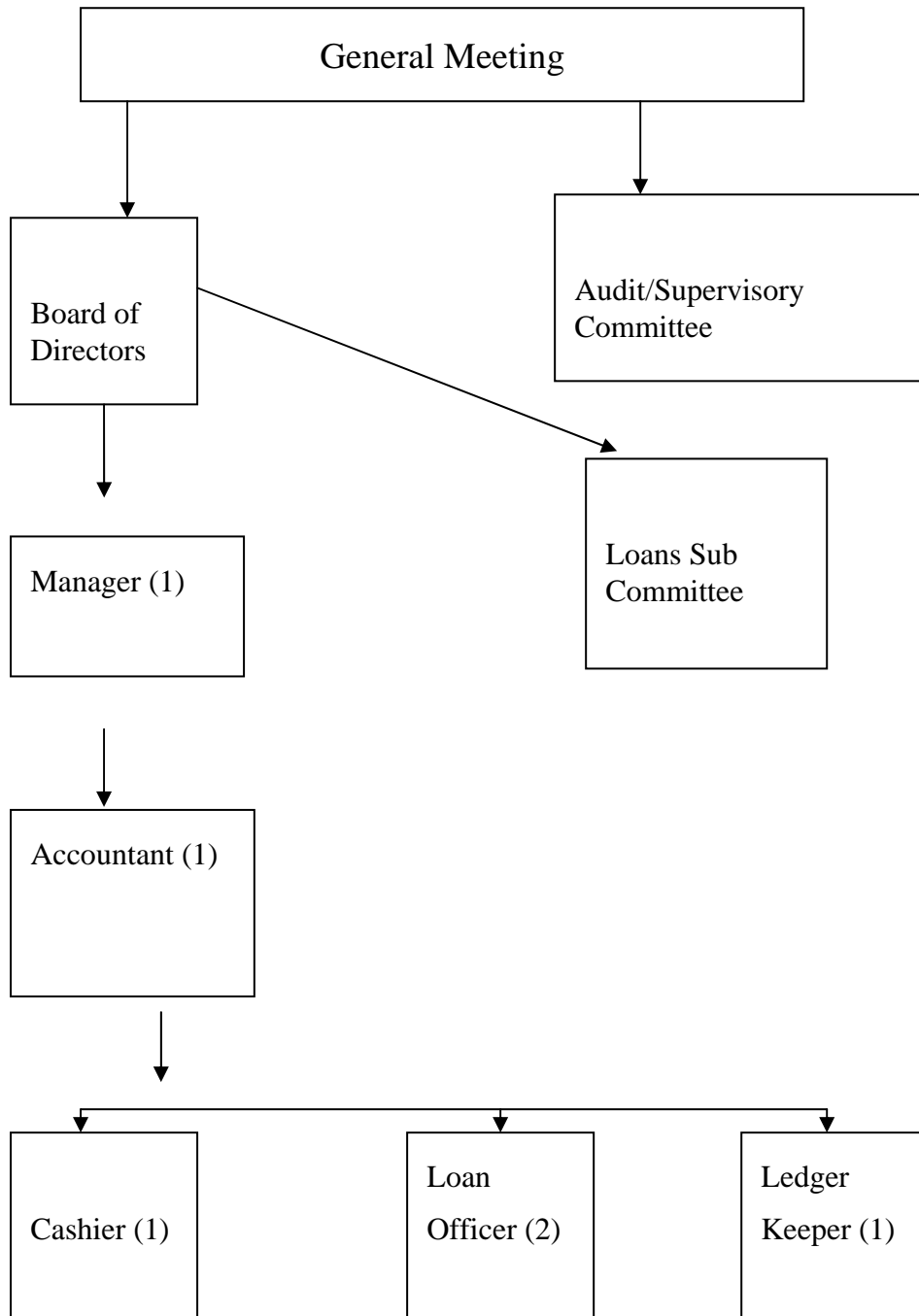
**(d) Organizational Structure of Masaka Microfinance & Development Co-operative Trust (MAMIDECOT) Limited**



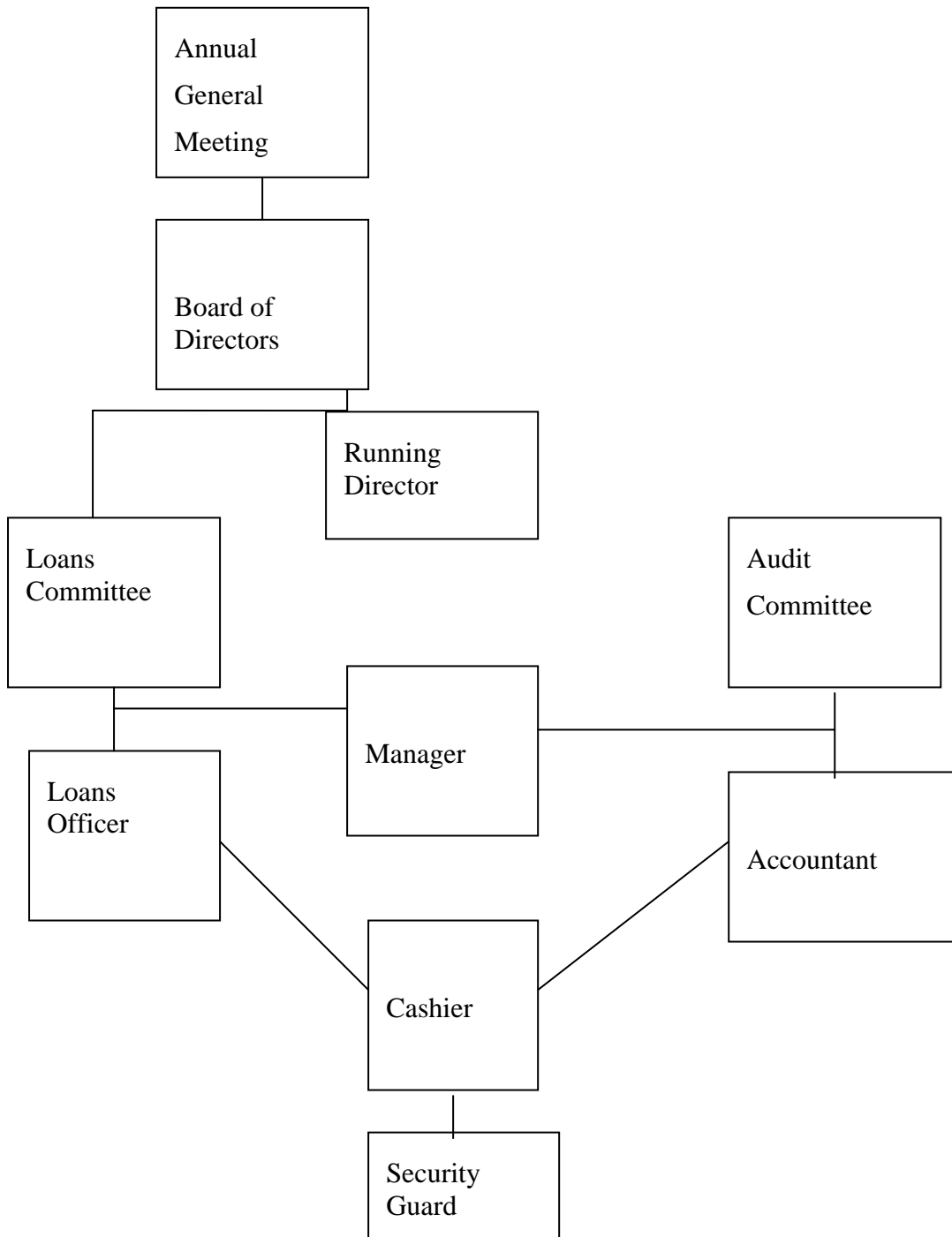
**e) Organizational Structure of Kitooro Rural SACCO**



**(f) Rubabo Peoples Cooperative Savings & Credit Society**



**(g) Current Kamukuzi Village Trust Organizational Chart**



## Appendix V Effective Management of SACCOS

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### Introduction

A Savings and Credit Co-operative collects money from its members, saving it on their behalf, and gives it back to them in form of loans, bonuses, dividends or interest on deposits. Savings and Credit Co-operatives (SACCOS) deal mainly with collecting members' money in form of shares and deposits and then saving this money, granting loans or investing it for the benefit of the members.

### 2.0 Essential Features of a SACCO Society

The future of SACCO business depends largely on a number of basic factors. These include:

#### a) Legal-political

- Easy entry into the business. Thus, there are no strict legal restrictions to those intending to start a SACCO as long as they meet the minimum requirements of the Co-operative Societies Statute (in the case of Uganda).
- Un-regulated number within a certain locality
- Self-managed through elected board members and
- Accountability for the business returns during Annual General Meetings.

#### b) Technology Factors

SACCOS need to embrace Information Communication Technology as a business tool for effective delivery of member services.

#### Socio-Economic Factors

SACCOS have an essential role to play in the socio-economic development of the community within which they operate. Some of the key contributions made by SACCO societies include:

- Provision of quality service
- Employment opportunities
- Contribution to the National Income for Development
- Creation of wealth
- Mobilization of resources and transferring the same to the desired goals
- Innovation and creation of capital

The foregoing are major challenges that require focused leadership and management.

#### c) Human Resources

Management skills must be improved through training and education in business and entrepreneurial skills. Members must be equipped to assess the future of the business through appropriate products and services, and adopting prudent financial standards.

### 3.0 The New Approach to SACCO Management

The effective SACCO Society of the 21st century should aim to improve on the standards of its products and services to its members. In order to achieve this objective the following business attributes would be desirable:

<b>IDEOLOGY</b>	<b>DESIRED ATTRIBUTES</b>
Focus	Business orientation
Type of member	Diverse background of members
Reasons for joining	Benefit individually and collectively
Principal service	Savings and Credit services
Philosophy vs. Results	Continually scrutinized to fit business needs
By-laws	Updated regularly
Debt capital	Member Savings and Deposits
Equity Capital	Member risk and capital reserves
<b>2. INTEREST RATES</b>	<b>DESIRED ATTRIBUTES</b>
Loans	Rates which cover all costs
Savings Deposits	Real rates which preserve nominal value
Shares (Risk capital)	At least equal to savings Deposits
<b>3.CREDIT ADMINISTRATION</b>	<b>DESIRED ATTRIBUTES</b>
Loan analysis	Based on repayment capacity
Loan size	Limited by capital requirements and/or risk exposure
Loan collateral	Legally binding and cash convertible
Delinquent measurement	Delinquent loan balance/loan portfolio
Loan loss provisions	100% of all delinquent loans > 1 year
Loan write-downs	Quarterly eliminations
<b>4. FINANCIAL DCIPLINE</b>	<b>DESIRED ATTRIBUTES</b>
Liquidity	10 –20% of savings deposits
Risk Management	Expanded coverage based on business risk management requirements
Non earning assets	5% of total assets
Capitalization	100% of net earnings
Accounting	Balanced and timely
Planning and budgeting	Aggressive goal setting
Performance	Internationally accepted standards
<b>5. HUMAN RESOURCES</b>	<b>DESIRED ATTRIBUTES</b>
Directors	Business oriented Savers/Borrowers
Employees	Qualified and competent professionals
Salaries	Competitive and market-oriented
<b>6. PHYSICAL IMAGE</b>	<b>DESIRED ATTRIBUTES</b>
Building	Appropriate Business premises
Public areas	Comfortable, well lighted, efficient
Security	Security bars, vault and guards
Employee dress code	Appropriate dress

## New reforms needed

1. *Review pricing structures* for both loans and savings to reflect prevailing market realities. This should be done without losing sight of the Co-operative objective of “service to members”. The board Members need to be mandated to set *entrepreneurial interest rates* on loans.
2. *Expanded field of membership* (FOM) to diversify the base. This is an absolute necessity now that majority of SACCOs facing competition from other players in the industry.
3. SACCOs are called upon to *operate profitably* in order to give reasonable returns to the members. This entails that they have to be efficient in their operations in order to build institutional reserves, which is a necessity in ensuring financial growth, stability and sustainability.
4. Elections and development of dedicated members to assume *positions of leadership*. This is possible through member education, member participation and ideal reviewed SACCO By-laws. SACCO Societies have also to embrace good corporate governance and best practices.
5. *Education and Training* is the backbone of the SACCO movement anywhere in the world. To this extent, intensive and regular education and training of committee members and staff should be increased. Members should continuously be empowered to know their rights, obligations and the effects of liberalization business environments.
6. *Change of attitude* by members, leadership and management that the SACCOs Have to operate as business entities employing the available resources effectively and efficiently for the benefit of the member – owners.
7. *Review of SACCO By-laws* to conform to changing legislative environment, which call for expanded roles and responsibilities of the Board of Directors, Management and Staff.
8. *Marketing of SACCO products and services* in order to broaden and deepen patronage to enable SACCOs expands their outreach. In building model SACCO institutions, they will need to formulate, implement, monitor and evaluate effective and comprehensive strategic marketing plans.

These among others are some of the key reforms we believe need to be consolidated and extensively covered to achieve result.

## 4.0 Conclusion

With the fierce competition in the financial services industry, there is need for SACCO Societies to develop marketing and new quality products and services, making members benefit from competitive interest rates on loans borrowed and providing a wider selection of financial products and services.

### (b) Effective SACCO Management

#### 1. Business Orientation

- Good Leadership, management and qualifications
- Attractive interest rates, fees, commissions.
- Sensitization of members
- Sound by-laws, policies and procedures
- Attractive salaries for staff
- Attractive incentives and maximization of returns to members
- Minimization of costs
- Easy access of services
- Member survey for demand driven services and products
- Enhanced outreach of members

#### 2. Credit Administration

- Credit Committee appointment
- Credit Policies
  - Character
  - Capacity
  - Collateral
  - Condition

- Credit Procedures
  - Loan application
  - Loan appraisal
  - Loan approval
  - Loan disbursement
  - Loan follow up
  - Prompt recovery

### 3. Interest Rates

The rates of interest should:-

- Suit customers' ability
- Benefit the SACCO, and be
- Competitive rates.

Factors to consider in determining interest rates

- Financial market behavior
- Current inflation rate
- Transaction costs
- Savings mobilization and disbursement of loans volume

### 4. Human Resource

Human Resource could be enhanced through: -

- i. Staff
  - Qualified staff
  - Capable and willing to serve
  - Job description
  - Terms and conditions
  - Training
  - Incentives
  - Promotion
- ii. Board Members
  - Election of literate board
  - Honest and trustworthy
  - Committee reports and minutes
  - Education and training
  - Motivated Board
- iii. Members
  - Education and training
  - Access to information

### 5. Products and Services

- Attributes of Ideal Products
- Accessibility
- Affordability of the product (cost effective)
- Demand driven
- Profitable to the SACCO
- Manageable
  - Agricultural Loan
  - Commercial Loan
  - Emergency Loan
  - Education Loan



## **6. Physical Image**

An Appropriate Image of the SACCO would entail: -

- Location and address – Sign post
- Office Structure and layout
- Personnel and staff (Good grooming)
- Legal documents on display
- Vision and Mission statement
- Security measures
- Brochures
- Newsletters
- Conspicuous organizational chart
- Common seal
- Ideal Logo

## **7. Financial Management**

Sound financial management entails appropriate:

- Financial policy
- Books of Accounts in place
- Budgetary provisions
- Reporting System
- Internal and External Audits
- Reports
- Risk Management and Insurance
- Linkage bank for safety and security of members' funds

## Appendix VI Model SACCO by Laws

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1. Name and Area of Operation
2. Registered Office/Postal Address
3. Definitions/Interpretations
4. Objects
5. Cooperative Principles
6. Membership eligibility
7. Membership composition
8. Application for Membership
9. Admission into membership
10. Member number
11. Refusal of Membership
12. Rights of Members
13. Members Obligations
14. Members personal Account
15. Nominees
16. Payment to unadmitted nominee
17. Cessation of Membership
18. Voluntary withdrawal
19. Suspension from membership
20. Suspension and expulsion procedure
21. Society funds
22. Refunds
23. Application of funds
24. Withdraw able Shares
25. Power to borrow
26. Liability
27. Reserve fund
28. General meeting
29. Notice
30. Quorum
31. Powers of the Annual General Meeting
32. Board of Directors
33. Eligibility for election into the Board
34. Board Meetings
35. Minute Book
36. Sub Committees
37. Board of Directors
38. Legal Standard of care
39. Executive Officers
40. Chairman and Vice Chairman
41. Treasurer
42. Secretary
43. Credit committee
44. The Manager
45. Supervisory Committee
46. Duties of Supervisory Committee
47. Liabilities of the Supervisory Committee
48. Books and Records
49. Financial Year
50. Conduct of Business
51. Election
52. Authorization to sign documents
53. Disposal of surplus
54. Loans to members

55. Security for loans
56. Repayment of loans
57. Cash reserve
58. Common seal
59. Fines
60. Disputes
61. Confidentiality by Officers of the Society
62. Designation
63. Books of Accounts
64. Copy of By Laws
65. Branches
66. Amendment of Laws
67. Dissolution
68. Acceptance

## Appendix VII                      SACCO Policies and Procedures

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### **Introduction**

Definitions

Organization of the manual

### **Part I. Operations**

#### **Institutional Framework**

- Legal status
- Mission
- Objects of the Society

#### **Relationship with other organization**

#### **Organizational Structure**

- Governance
- Annual General Meeting (AGM)
- Supervisory committee
- A Board of Directors
- Executive Committee
- Credit committee

#### **Management Systems**

- Authority and Responsibility
- Segregation of duties
- The budgeting & Budgetary control
- Budgeting Policy

#### **Membership**

- Common bond
- Eligibility
- Application for membership
- Membership Register
- Retention of membership
- Renewal of membership
- Cessation of membership

#### **Loan Policies**

##### **Purpose**

- General lending policies
- Normal loans
- Emergency loans
- School Fees loans
- Installations
- Interest rates

##### **Loan Application**

- Requirement for qualification
- Loan application
- Loan processing
- Disbursements
- Loan repayments
- Loan security
- Guarantee

##### **Default Management**

- Arrears

- Delinquent loans
- Defaults
- Loan recovery
- Loss of a member in default
- Loan provision and write offs
- Loan rescheduling and refinancing

### **Savings**

- Savings mobilization
- Flexible savings products
- Interest rates on savings

### **Shares**

- Shares mobilization
- Dividends

### **Operations Procedures**

#### **- Membership Procedures**

- Application for membership
- Updating members register
- Withdrawal of membership

#### **- Lending Procedures**

- Filling loan application
- Processing loan application
- Loan approval
- Loan disbursement

### **Loan Management**

- Loan repayment
- Reporting on default
- Actions to be taken
- Loan provisioning and write off

### **Part II: Accounting System**

- Basis of accounting
- Charts of accounts
- Cash
  - Cash receipts
  - Receipts
  - Petty Cash
  - Cheque payments
  - Bank reconciliation
- **Fixed Assets**
  - Asset register
  - Depreciation
  - Disposal of Assets
  - Security on Assets
- **Investment**
  - Matching principle
  - Fixed rate investments
  - Asset/Liability Management
  - Cash Reserve
- **Incomes**
  - Interest on loans
- **Expenses**
  - Payroll
  - Committee allowances

- Travel expenses
- Other expenses
- **General Journals**
  - Purpose of journal
  - Correction of errors
- **Accounting Procedures**
  - **Accounting for cash in hand**
    - Cash receipts
    - Petty cash
- Accounting for cash at Bank
  - Receipts
  - Payments
  - Bank reconciliation
- Accounting for loans
- Fixed Assets
  - Acquisition
  - Disposal
  - Depreciation
- Investments
- Accounting for Stationery
- Expenses
- General Ledger
  - Posting journals entries
  - Trial Balance
- **Procurement**
  - Procurement Policies
  - Procurement Procedures

### **Part III: Personal Policy**

- Recruitment and staffing
  - Staffing
  - Recruitment
  - Employment Terms
- **Conduct and Discipline**
  - Conflict of interest
  - Confidentiality
  - Code of conduct
  - Staff attendance records
  - Grooming
- **Remuneration**
  - Salaries and Wages
  - House allowance
  - Staff medical scheme
  - Acting allowance
  - Advances
  - Overtime pay
- **Leave**
  - Annual leave
  - Emergency leave
  - Sick leave
  - Maternity Leave
  - Public Holidays
  - Special Leave of absence without pay
  - Exam leave

- **Staff Development**
  - Appraisal
  - Promotion
  - Staff Training
- **Termination of Services**
  - Voluntary termination of employment
  - Termination of employment for cause
  - Warning procedures
  - Interdiction
  - Suspension from duty
  - Certificate of service
- **Travel and use of Society Vehicle**
  - Travel Policy
  - Car Allowance
  - Use of Society`s Vehicle

**Part IV: Management Information System**

- **Documentation**
  - Purpose
  - Classification of documentation
  - Filing
  - Documentation Security
  - Destruction of Documents and Records
- **Documents**
- **Reports**
  - Member based Reports
  - Financial and Management Report