FINAL REPORT OF EVALUATION OF MUHABURA MICROFINANCE PROGRAMME

DECEMBER 2004

BY:

OLIVE KABATALYA
&
BETTY WALUGERE

TABLE OF CONTENTS

LIST OF ACRONYMS

CBHC	Community Based Health Care
CO	Credit Officer
FSA	Financial Services Associations
IT	Information Technology
MFSI	Muhabura Financial Services Institution
PAYE	Pay As You Earn
PMT	Performance Monitoring Tool
Rev	Reverend
SF	Stromme Foundation

EXECUTIVE SUMMARY

Background

Stromme Foundation (SF) is an International Norwegian Development Funding Organisation based on Christian values with regional offices in East and West Africa, Asia and South America. It provides financial and technical support in education and microfinance activities by collaborating with partner institutions that share its core values.

SF established a partnership with Muhabura Diocese in 1995 under the Community Based Health Care (CBHC) project, which it later transformed into a credit programme with a view of increasing its impact. The program initially targeted widows and orphans and later embraced the enterprising poor to promote their micro businesses thereby improving their standard of living. SF has been extending finance and business support in form of loans and grants to the microfinance component from 1995 up to 2003 when the operations were halted due to leadership wrangles that cropped up in the diocese. The wrangles have negatively affected the both the education and the microfinance programme thus prompting SF to hire the services of consultants to evaluate the entire programme.

Scope of work
The scope of work involved evaluating the operations of the microfinance programme from inception to date and recommend a way forward.

Approach
The process included holding meetings with management of SF and reviewing documents pertinent to the assignment. Travel was made to the Muhabura Diocese where different stakeholders including, staff of the diocese, staff of the programme, clients and board members were interviewed. Relevant literature at the site of operations was also reviewed. This formed a basis for the way forward.

Implementation Framework

The microfinance activities were implemented under the auspices of the church administration whereby partnership agreements were executed between SF and the Muhabura Diocese. In order to streamline the operations of the microfinance component, a company was formed and registered in August 2003. The company’s name is Muhabura Financial Services Institution (MFSI) Ltd. The company has twelve subscribers who have minimal financial stake in the company. They appointed a team of nine board members to perform the governance function. The company has hardly transacted any new business because of the leadership wrangles in the diocese.

Operations of the microfinance programme

Management and staffing
Management was by a coordinator who supervised a sole credit officer for all the operations of the programme. The programme was understaffed right from inception and both categories of staff lacked the competencies required to manage and deliver microfinance services efficiently and effectively.

Products

The programme offered loans and savings products. The loan products were delivered through solidarity groups and this was appropriate given the rural setting of the programme and the nature of clients i.e. the poor. The savings product offered was the compulsory savings which clients had to accumulate before accessing loans.

Clients outreach

The programme covered 21 out of the 33 parishes of Kisoro district by the time disbursements ceased in June 2003. Client outreach totalled 1,635 out of which about 700 have outstanding loans. The programme had disbursed shs.372.3 million cumulatively. By the end of the year 2003 it had an outstanding loan portfolio of shs.178.5 million.

Operations manuals

There were no policies and procedures, accounting, loan tracking and human resource manuals in place and accordingly the operations lacked standardization and benchmarks to guide the staff. As a result, accounting and loan tracking records were poorly maintained.

Performance of loan portfolio

Performance indicators portray a very poor quality loan portfolio. Apart from the initial year of operation when portfolio at risk was 0%, the subsequent years saw the ratio rising to 20% and above hitting 100% by November 2004.

Financial Management of programme

Management demonstrated some degree of transparency in managing the funds as shown by operating four separate accounts (by function) and requiring at least three signatories. Some control was exhibited in cash payment processes. However, prudence in loan loss provision was not properly executed.

SF extended to Muhabura Diocese a total of shs.242,781,391 in loans during the partnership and out of this shs.157,140,873 is still outstanding as principal and shs.20,229,474 as interest accrued.

Programme Achievements/Impact

Interviews conducted with different stakeholders revealed that the programme registered positive impact on its recipients. Impact ranged from increased business income to construction of residential and commercial houses and general improvement in the standard of living.

Programme assets

The programme assets funded by SF comprise of a computer with its accessories, two motorcycles and office furniture. The current book value is estimated at about shs.2.5 million.

Conclusion and recommendations

The microfinance component of Stromme Foundation's partnership with Muhabura Diocese had very good intentions and was very useful to the poor people of Kisoro district in that it had positive impact on the day-to-day lives of the borrowers. However, it experienced some challenges that led to a very poor performance. The main challenges were operating under a church environment and the leadership crisis that occurred. Several options have been suggested as a way forward for Stromme Foundation regarding the future of the microfinance programme of Muhabura Diocese. These include:

i. Overhauling of the microfinance programme but keeping it under the diocese:
ii. Getting the microfinance operations out of the diocese/church environment
iii. Negotiating with other MFIs in the area to take over the loan portfolio
iv. Pulling out of the partnership completely

1.0. INTRODUCTION

1.1. Background

Stromme Foundation (SF) is an International Norwegian Development Funding Organisation based on Christian values with Regional Offices in Eastern Africa, West Africa, Asia and South America. It works through two components, the education component and the microfinance component. The strategic objectives of the microfinance component are to:

- Provide access to financial services to the enterprising poor
- Partner with institutions that can provide microfinance to the poor in the rural areas especially women.
- Provide technical support to microfinance institutions

To meet the above objectives, SF works through implementing partners that share SF's core values, and one such partner is Muhabura Diocese with which SF established a microfinance partnership in 1995. Before then, SF was working with the diocese under the Community Based Health Care (CBHC) project. The microfinance intervention came in after a realization that assistance to the target group of the CBHC i.e. orphans, widows, guardians of orphans would yield better results if credit was extended to them to improve their micro businesses. Accordingly, SF extended its first loan of UGX.5,000,000 to Muhabura Diocese and the diocese in turn made its first disbursements to clients on October 6, 1995. More loans and some grants in form of technical support and assets from SF to the diocese followed in 2000, 2001, 2002 and 2003. The loans totalled to shs.242,781,391 and attracted an interest rate of 5% per annum later revised to 6% per annum charged on a declining balance. The initial target group was widows, guardians of orphans and able orphans just as in the 'mother' Community Based Health Care intervention. High default was characteristic of the programme right from the start and accordingly, the diocese changed the target group to the 'enterprising poor' in June 1999 and the repayment performance improved between 1999 and 2000.

Stromme Foundation also did the following to help steer the microfinance operations with partners successfully:

- Separating and holding of separate bank accounts for SF supported Partner Projects.
- Assigning specific staff in charge of (or employing them) for the projects.
- Increasing level of facilitation in form of purchasing necessary equipment and materials for running the projects.
- Providing means of transport to partners and
- Providing workshops and training for the Partner staff to enhance their skills in microfinance.

In 2001, a leadership crisis started in the diocese, following the retirement of the first bishop of the diocese - Bishop Shalita and the ensuing disagreement on the elected successor (Reverend Canon David Sebuhinja). Two groups clearly emerged among the diocesan staff and leaders, one pro and the other against the elected successor. The disagreement intensified in 2002 widening the rift. This has negatively affected the performance of the programmes supported by Stromme Foundation. The microfinance component saw clients taking sides and being encouraged not to pay back their loan obligations. In July 2003, one of the splinter groups led by the Reverend

Canon Sebuhinja moved the operations of the microfinance component together with some assets provided by SF from the diocesan offices to another location within Kisoro township not far from the diocese. This group formed a company, which was named Muhabura Financial Services Institution (MFSI) Ltd in August 2003. SF facilitated the registration of the company with a view of aiding the monitoring and better performance of the component/project. The company has not managed to transact new business i.e. disburse new loans because the wrangles led to the freezing of the bank accounts of the microfinance component. It however, continues to receive loan repayments from clients, though these continue to dwindle in amount and frequency of collection.

A caretaker bishop has assumed the office of Bishop of Muhabura and arrived in the diocese during the evaluation exercise.

1.2. Scope of work

Considering the state of affairs described above, SF is contemplating a termination of its partnership with Muhabura Diocese. Accordingly, SF has commissioned two consultants to conduct an evaluation of the operations of the company so far with the following objectives:

- Assess the tangible achievements and the perceived achievements from the project i.e. impact
- Assess any negative effects of the project
- Promote learning from the implementation and experiences of this project
- Carry out an operations review of Muhabura Financial Services Institution including loan portfolio examination, systems examination, loan and financial policies and procedures review, human resources policies and practices review, product analysis and competition
- Review the organizational and governance structure including management of funds and assessment of company assets funded by SF
- Determine and evaluate the challenges that the company faced in delivering the microfinance services to the target group
- Advise Stromme Foundation on the way forward

1.3. Approach

To achieve the above objectives, the consultants followed the following approach:

i. Held an inception meeting with the management of SF to discuss the task so as to gain an in-depth understanding of the task and to be availed with documents/literature relevant to the assignment.

ii. Reviewed the available literature with the objective of determining operational performance, fund management, governance effectiveness and harmonization with management, if loan product design and delivery is appropriate and if loan agreement guidelines and conditions were adhered to. The review also identified the shareholders of the company and the extent of their financial responsibilities.

iii. Held discussions with the two groups warring over the microfinance component i.e. those from the company and those from the diocese with the idea of creating an enabling environment for the evaluation thereby facilitating easy and smooth collection of information. The discussions also included a briefing to them about the objectives of the exercise.

iv. Interviewed the microfinance coordinator and the credit officer of MFSI to gather first hand information on the operations of the company including clientele, products, processes, outreach, the challenges they face and comments on performance so far.

v. Interviewed the board of the company to determine the effectiveness of the governance function in the company.

vi. Held discussions with Reverend Canon Baker Habimana the current diocesan secretary as a representative from the splinter group that currently runs the affairs of the diocese to get his views on the future of the working relations between the diocese and the company.

vii. Held discussions with Reverend Arthur Niyonsaba a former clergy at the diocese to get his views on the future of the working relations between the diocese and the company.

viii. Conducted Focused Group Discussions with clients to determine their needs and to gauge their satisfaction or lack of satisfaction. The meetings with clients also helped to identify competition from other MF service providers in the company's area of operation.

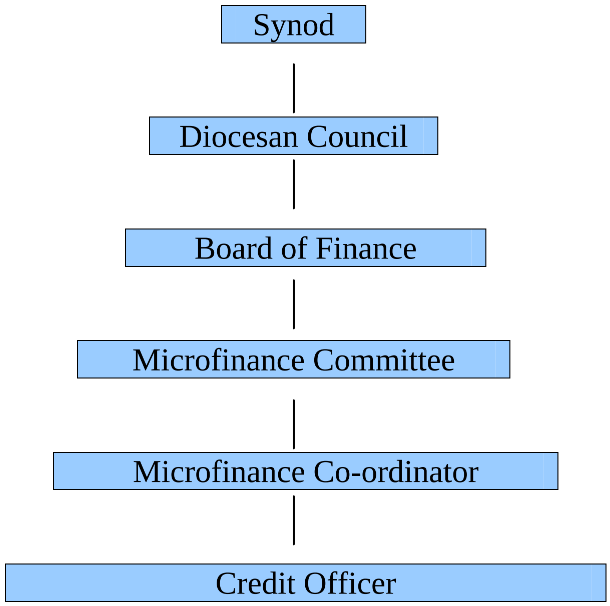
2.0. IMPLEMENTATION FRAMEWORK

The activities of the microfinance component were implemented under the auspices of the church. Agreements of co-operation or loan agreements were drawn between Stromme Foundation and the Diocese of Muhabura.

2.1. Corporate Structure

Before leadership crisis:

The framework under the church (before the company was formed) is presented below:



The synod, diocesan council, and board of finance tiers are comprised of a host of individuals who were involved mostly with church activities. The fourth tier i.e. the microfinance committee was the one responsible for the day to day running of the microfinance operations. It was made up of nine individuals as follows:

Joan Bahizi	–	Diocesean Treasurer
Canon Muruta	–	Archdeacon
Canon Gatwekubaho	–	Archdeacon
Canon Kwizera	–	Dean of Cathedral
Reverend Munyombarahaga	–	In charge of Bible Revision
Marion Sebuhinja	–	Mothers Union worker
Erasmus Bijira	–	Headmaster of primary school
Sam Museminali	–	Community Based Health Care program worker
David Rwarinda	–	Headmaster of a secondary school

After leadership crisis:

When the microfinance component was moved from the diocese to the company, the implementation framework changed. The company formed was registered as a Company Limited by Guarantee with Share Capital on 5th August 2003 with 12 subscribers, one co-opted after registration. The company's name is Muhabura Financial Services Institution (MFSI) Ltd.

Vision and mission

Vision: *Increased household income with special focus on women empowerment in order to create an enabling environment that will benefit and facilitate development or rural communities and individuals in Kisoro district.*

Mission*:* *To empower the poor, especially women at the grass-root level in Kisoro District with a view of making them economically independent and self-sustaining by extending to them* *micro-credit at favourable terms, at a charge which will enable the organization to meet its obligation on a sustainable basis to the satisfaction of all stakeholders.*

The vision and mission are in line with SF's working objectives and with microfinance best practices ensuring that the company is set to continue meeting SF goals. The company has a 5-year draft business plan for the period 2003-2008.

The subscribers are:

Names	**Occupation**	**Paid-up capital (Shs.)**
Rev. Canon D. Sebuhinja	Bishop Elect	50,000
Rev. Canon E. Muruta	Archdeacon	
Rev. Canon E. Mature	Archdeacon	
Rev. Canon E. Gapfuyekubaho	Archdeacon	50,000
Mr. Sam Musominali	Clinical Officer	
Mrs. Lydia Tusiime	Farmer/Retired Teacher	
Mrs. Harriet Nzabarinda	Agriculture Field Officer	20,000
Mrs. Alice Kajura	Farmer	10,000
Mr. David Rwarinda	Secondary school head teacher	
Mr. Peter Bahizi	Social worker	50,000
Mr. Benon Ndemeye	Primary school head teacher	30,000
Mr. Christopher Dufitumukiza	Retired Banker/now businessman	50,000
Total		**260,000**

The authorised share capital of the company is shs.20,000,000 made up of 2,000 ordinary shares of shs.10,000 each. Paid-up share capital amounts to only shs.260,000 i.e. 26 shares. Only seven subscribers have so far purchased shares in the company and very minimal shares at that. The rest of the subscribers have no material stake in the company. The shareholders are looking only to SF to give loans to the company to enable it resume operations.

2.2. Governance

Before leadership crisis:

There was no formal governance structure before the split but for all practical purposes, the microfinance committee played the governance role of the component. The members of the committee are listed in 2.1.1. above.

After leadership crisis:

The subscribers appointed nine individuals, as board members of the company and seven of these are the subscribers themselves.
The board members are listed hereunder:

Names	Occupation & position on board
Rev. Canon D. Sebuhinja	Bishop Elect - Chairperson
Mr. Peter Bahizi	Social worker - Member
Mrs. Lydia Tusiime	Farmer/Retired Teacher - Member
Mr. Dufitumukiza	Retired Banker/Now businessman - Member
Mr. Sam Musominali	Clinical Officer - Member
Mrs. Harriet Nzabarinda	Agriculture Field Officer - Member
Mr. David Rwarinda	Secondary school head teacher - Member
Mrs. Joan Bahizi	Accountant - Member
Mr. Benon Ndemeye	Primary school head teacher - Member

The board meets monthly and the meetings attract a sitting allowance of shs.10,000. The board members however, have not been paid a sitting allowance in the last few meetings because the company cannot raise the money. The board meetings have been so frequent because of the challenges the company is facing. There is no board manual in place and no board sub-committees have been created as yet.

The board realizes that the major activity of a microfinance programme needs to take place to demonstrate that Muhabura Financial Services Institution Ltd is serious and firm on the ground. The major activity is disbursing loans. The last loans were disbursed in June 2003 before MFSI was formed and when the programme was still working under the diocese. The board has failed to raise some money to set the ball rolling but is hoping that Stromme Foundation will bail MFSI out of this predicament.

Observations:

- The church environment under which the programme was implemented laid ground for targeting very vulnerable client categories, setting lenient loan terms and handling clients with a lot of kindness/softness that led to poor performance of the credit programme at the beginning. Though there was improvement in performance after revising the terms and target clients, the ensuing crisis in the church after the revision, again negatively affected the programme performance.
- The administrative framework under the church arrangement was not placed to give the necessary and relevant support to the microfinance programme. The microfinance committee charged to give guidance to the day to day running of the programmes' operations, for example, did not have any experience at all in a field it was set up to guide.
- The subscribers of the company that was formed after the leadership crisis have not bought substantial shares in the company. Only minimal shares have been paid-up and the money is being eroded through bank charges while on the account on which it is kept. Without adequate paid-up capital, the subscribers have no material stake in the company and the company is a mere shell without any financial backing.
- Registration of a company to carry out the financial services independently from the church was a good idea but this was done at the peak of the crisis and without involving the diocese, which is the legal partner to Stromme Foundation. Facilitating the formation of the company should have involved the diocese.

- The company has no legal right to transact business on behalf of the diocese without the authority from the diocese because SF co-operation/loan agreements were signed with the diocese. Borrowing clients' loan agreements were again signed with the diocese and not with the company. Clients have taken note of this loophole and have sued the company for seeking loan repayments from them when no loan agreements exist between them and the company.
- The board of the microfinance company lacks the relevant combination of professional and technical skills to ably guide company operations. An ideal board for a microfinance company needs members who have experience in microfinance, banking, legal practice, social welfare, development economics, financial management/accounting, business management and corporate governance. Only three of these skills are represented on this board and one of them (accounting) inadequately.
- Through reading the minutes of the company board meetings, it came out clearly that the board of directors is more of a managing board than a governing board. The members meet to deliberate mainly about operational issues like opening administrative files, suing loan defaulters, cleaning toilets etc. A member of staff who resigned was required to hand over to the board of directors!
- Management of the company has no background experience in microfinance and only learnt on the job. The credit officer also learnt on the job. The additional training they have received has not been adequate.

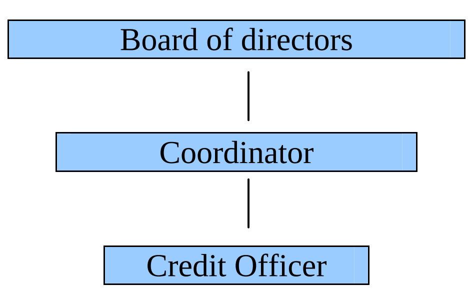
Recommendation:

- If Stromme Foundation is to continue with the partnership, it should ensure that the legal irregularities created by the formation of the company are put right i.e. it would have to enter into new agreements with the new company after agreeing with the diocese. Management of the operations would also need to be vested in an individual with adequate experience.

3.0. OPERATIONS OF MUHABURA MICROFINANCE PROGRAM

3.1. Structure of Operations

As mentioned above, MFSI operations are steered by a microfinance coordinator who reports to the board of directors. Under him is the sole credit officer. These two have run the operations of the microfinance component since its inception (even when it was under the diocese).
The structure is illustrated below:



Coordinator:

Mr. Solomon Kanna–Rugera who has been the program's coordinator since inception has a diploma from Kigumba Cooperatives College. He had served for 15 years before in the Ministry of Cooperatives & Marketing by then as Assistant Commercial Officer. He has been charged with day-to-day operations of the program, attend Board meetings, prepare narrative monthly/ quarterly/ annual reports for Stromme Foundation. From time to time, he has also been helping the Credit Officer with training and monitoring of clients.

Credit Officer (CO)

Mr. Herbert Rwerekane has been CO since program's inception. He is an A' level certificate holder who has built up capacity by training on job. As CO, he has been training clients, attending clients' meetings, preparing clients for loans, processing the applications and recommending them to the loans committee. Other duties included processing disbursements, collecting repayments both in the field and at the office, secretarial work, preparing financial and portfolio reports and monitoring of clients.

Both staff received SF funded training in Microfinance Best Practices, Microfinance Management, Loan Performer and Performance Monitoring Tool.

3.2. Products offered

3.2.1. Loan Products

Muhabura Financial Services Institution (MFSI) has been offering one loan product – the solidarity groups loans product. The main features for credit delivery included the following policies:

- Eligible members are from age of 18 – 60 years.
- Clients were self – selected in groups of 5 to 10 members, mobilized and sensitised for training. They could be from same locality but not relatives.
- Training and sensitisation is allocated 4 weeks which involves; savings mobilization, lending principles of MFSI, group formation and development, Business planning and management, credit management, and loan appraisal and monitoring.
- Loan term is a period of six months with monthly repayments.
- Short-term loans and very small loans appropriate for meeting day-to-day financial requirements of the enterprises for easy guarantee and repayment.
- Loan size ranges from shs. 100,000 to shs.3, 000,000.
- Interest rate charged is 3% per month flat rate. Application fee of shs 2,000 and passbook sold at shs. 2,000.
- Group members with guidance of the CO fill simple loan application and appraisal forms.
- Group members are held responsible for each other's loans and ensure that loans are fully paid.
- Clients are required to save 10% of the loan request, which forms part of security for the loan.
- Loans are disbursed directly to each member in a group from MFSI office.

- Loan security is by character loan coupled with group/ individual guarantee, compulsory savings and personal assets like buildings, land and lock –ups in the market.
- The loans committee made up of nine diocese officials and credit staff inspect the securities offered by the applicant before loan approval.
- The CO processes disbursement forms, which are presented to the coordinator for authorization. These forms are sent to diocesan treasurer for processing and further authorization by administrator before the release of funds.

3.2.2. Savings Product

MFSI facilitates savings by the clients through making the practice a requirement for accessing loans. The clients are required to save 10% of loan requested. The savings can be accessed by clients after a loan is fully repaid. Some groups save voluntarily but the practice is at minimal and MFSI does not formally encourage it among the clients.
The savings collected and monitored are the compulsory savings and these amount to shs.5,304,008 comprised of shs.5,273,008 on a frozen diocesan account and shs.31,000 on the company account.

3.3. Clients /Outreach

The MFSI target group is the enterprising poor especially women in the whole district. The clients are characterized by economic activities engaged in. The majority of clients are farmers growing Irish potatoes estimated at 60%, followed by produce buying estimated at 25%, trading carries 5% and others like second hand retailing, fishing and animal slaughtering carry 10%.

Outreach details and volumes are given in the table below:

Table 1: Client outreach and Volumes

Year	Clients (including savers)	Parishes	Disbursements made (million shs.)	Portfolio outstanding	Arrears per year	Clients with outstanding loans
1995	103	2	5m	5,136,000	-	-
1996	250	3	8m	8,109,479	-	-
1997	426	4	10m	13,769,979	140,500	5
1998	650	4	15m	18,661,729	960,623	19
1999	935	7	32m	18,416,979	5,741,500	57
2000	1,250	9	63.3m	44,274,929	12,876,700	93
2001	1,438	10	74m	88,354,679	34,041,600	118
2002	1,558	21	84.3m	139,632,616	45,861,000	128
2003	1,635	21	80.7m	178,505,293	65,341,000	266
Nov 2004	-	21	Nil	164,962,923	164,962,923	686

Source: Coordinator’s office/ Audited Accounts

From the figures given in the table, the program had reached 21 parishes out of the 33 parishes in the district. It had fully covered 12 parishes and partially covered 9 by the time disbursements ceased in June 2003. Disbursements increased from shs.5 million in 1995 to shs.80.7 million in year 2003. There have been no disbursements this year due to liquidity crisis experienced after the frozen accounts. The total portfolio as at 31/12/2003 was shs.178,505,293, however, write-offs for the year amounted to shs.2,500,000 leaving a net portfolio figure of shs.176,005,293.

During the operation period, the number of clients served was growing as illustrated above from initial figure of 103 to 1,635 by the time operation activities were halted. There was growth in portfolio outstanding from shs.5,136,000 in 1995 to shs.178, 505,293 in 2003.

3.4. Policies/Procedures

The operations staff have been using a two-page document outlining the lending policies for the MFSI. The main features are outlined already in section 3.2.1

There was no operations manual in place documenting detailed policies and procedures for the staff to follow. By the time lending operations ceased in year 2003, a hired consultant was preparing an operations manual.

Like the operations manual, there was no accounting manual in place or financial policies for the staff to follow and neither was there an internal controls manual.

3.5. Management Information System (MIS)

The Management information System for MFSI is manual. The following sub-sections were examined for evaluation purposes.

Loan/Saving tracking System

The program office keeps a client ledger card for office records. The loan tracking is per individual in a group not as group loan information. The ledger cards are filed in box file according to groups per parish. The loan transactions are posted on each ledger card and passbook together with compulsory savings using source documents like receipts, bank deposit slips and payment vouchers.

Every client keeps a passbook that comprises of the holders' individual loan transactions section posted to indicate loan disbursements and repayments and a compulsory savings section.

There are four options/methods for loan collections:

i. The credit officer or coordinator receives loan repayments from group members during group meetings and issues the clients with receipts to acknowledge the repayment.
ii. Clients make their payments to the group treasurer during group meetings and the treasurer banks the money into the program's account with Stanbic Bank, Kisoro branch and take the bank slip to the program office where he is issued with a receipt.
iii. The group treasurer takes the collected repayments to the credit officer at the office and is issued with a receipt. The credit officer banks the money.
iv. The CO collects repayments from individual clients in the field, issues receipts and banks the money.

The CO posts the loan payments to individual client ledger cards and updates the client's passbook. The compulsory savings are also posted on the same card though banked in separate account.

The current system does not generate various portfolio reports required for management to monitor the portfolio. The only record that can trace clients that have benefited out of the program were the client ledger cards.

Accounting System

The only books of accounts in place are the individual loan ledgers and the cashbook. There are no journals, other ledger accounts or general ledger. Disbursements, payments or expenditure transactions are not posted in subsidiary ledger accounts. All accounting and financial information is compiled from source documents and the cashbook. The diocesan treasurer, Mrs. Joan Bahizi has been helping with the accounting work during the time of the external audits. There are some rudimentary financial statements generated quarterly basing on the performance monitoring tool (PMT) format. Detailed financial statements in place are those prepared by external auditors who did not leave behind any records leading to the preparation of the financial statements.

3.6. Performance of Loan Portfolio

The portfolio management of MFSI has been the responsibility of the Coordinator and Credit Officer. The CO consolidated the financial and portfolio information to prepare the Financial/ Portfolio Analysis report with a format provided by SF. The Financial/ Portfolio Analysis report was being prepared on monthly basis initially but later generated quarterly by the time operations ceased. It provides a range of financial and portfolio information for the reporting period, which is always quarterly and year-end period. Portfolio information like; total disbursements, repayments, number of loans disbursed, number of loans outstanding, portfolio outstanding, active clients, female clients, balance of loans in arrears and compulsory savings could be obtained. Some ratios like portfolio quality ratios, efficiency ratios and sustainability ratios could be computed.

The coordinator has been preparing narrative monthly reports for the board.

The trend of portfolio analysis is depicted by the performance indicators extracted from the available report in the table below:

Table 2: Performance indicators

Year	Portfolio outstanding	Growth rate. p.a.	Loan balance with arrears 30 over days	PAR over 30 days %	Risk covered by savings %	Admin. efficiency	Operating efficiency	Portfolio yield	Coverage Running costs
1995	5,136,000	-	-	0	-	2.13	2.13	1.95	.91
1996	8,109,479	57.9	5,150,000	63.5	15.5	2.14	2.28	13.07	5.73
1997	13,769,979	69.8	3,933,979	28.6	25.4	.61	.67	24.51	36.59
1998	18,661,729	35.5	4,325,729	23.2	34.7	.51	.55	21.28	38.82
1999	18,416,979	-1.3	9,330,550	50.7	32.2	.39	.42	20.11	47.36
2000	44,274,929	140	28,430,979	64.2	55.1	.29	.31	27.49	89.50
2001	88,354,679	99.6	25,682,225	29.1	87.6	.19	.21	19.34	91.61
2002	139,632,616	58	-	-	-	-	-	-	-
2003	178,505,293	27.8	159,050,200	89	3.3	.15	.16	.12	.77

Source: SF quarterly reports and annual reports from diocese

From the ratios given in the table above: Portfolio growth rate per annum was increasing but not in a defined pattern, save year 1999 when it retrograded at - 1.3%. In 1996, it grew at 57.9%, then increased to 69.8% in 1997 and reduced to 35,5% in year 1998. Growth rate in year 2000 was highest at 140% just before the crisis in the diocese due to disbursements made that increased three folds from shs.20 million in year 1999 to shs.62 .2 million in year 2000.

Portfolio quality was compromised throughout the years of operations for the MFSI. It was only in the first year of operation when portfolio at risk was at 0%. In the second year, it was at 63.5% then improved in third year and fourth year to 28.6% and 23.2%, respectively. It again deteriorated at 50.7% in the fifth year and at 64.2% in the sixth year. Surprisingly it improved a bit at 29.1% in year 2001 when the conflicts in the diocese started. In year 2003 it worsened to 89% and at the time of compiling this report, portfolio at risk was 100% i.e. the entire portfolio was in arrears.

Other portfolio indicators were not impressive either as depicted from the ratios given above.

Observations:

- The microfinance program was understaffed right from commencement of the operations.
- The lone CO did all the work such as the bulk of back office information processing, secretarial duties, training clients, loans processing, preparing disbursement forms and field monitoring. That increased the CO's work and reduced time of the CO to go round all groups on schedule. As a result, some crucial duties like verifying collaterals were delegated to group members and client selection was wholly left to group members who were not trained in this aspect. Accordingly, the portfolio quality was compromised beyond manageable rates.
- Though the Coordinator had along working experience of over 15 years, he lacked the competencies required to head the microfinance program.
- The operations required a lot of technical assistance and capacity building to improve efficiency and effective microfinance delivery.
- The solidarity group-lending product was ideal for the rural community where traditional collateral and securities are not readily available. However the majority of the clients were farmers and the product features were not tailored to agriculture lending. This might have contributed to the poor loan portfolio quality.
- With the absence of the operational manual, procedures for loan application, approval, disbursements, repayment, loan monitoring and delinquency management were not documented. Allowing clients varied options to repay loans for example, created a loophole for default and delayed reconciliation of periodic repayments.
- There was laxity in handling defaulters as evidenced by lack of penalty to deter or reduce the default rate.
- Clients experienced delays in loan approvals as immediate response for any loan request was not possible. The credit committee was too big (eleven members) and majority of the members lack professionalism and appraisal techniques to handle loan applications.
- The liquidity crisis due to frozen accounts constrained the operations and expansion in outreach of the program.
- Lack of a deliberate policy on voluntary savings hindered development of a savings culture among clients
- While clients were happy with the existing loan product, some felt that there was a need to introduce school fees loan to cater for that growing need of the clients.

- There were no field reports made to support some of the field work the staff claimed to have done.
- The practice of tracking individual in a group was quite good in determining the credit history of each client.
- Portfolio reports like; outstanding loans balance, disbursement report, aging report, arrears report, repayments due and others could not be generated from the current information system for use by management. That made monitoring of the loan portfolio almost impossible, a situation that resulted in poor delinquency management. CO did not prepare activity/travel plans and field report visits.
- The loans subsidiary ledgers were not up to date. Keeping books of accounts was a major weakness in the institution. During the time of external auditing management spent a lot of time compiling accounting information from source documents. Only a cashbook and clients ledger cards were kept.
- The savings ledger was not updated with withdrawals when clients exited the programme and accordingly the savings bank balance does not agree with the office savings ledger records.
- The compulsory savings balance i.e. loan protection fund was observed to be shs.5,273,008 and yet the loan portfolio outstanding was shs.164,962,923. This is not proportionate to the 10% ratio set as policy requirement for upfront savings.
- Portfolio management requires accurate and timely information processed to monitor and follow up delinquent loans. However, that could not be effectively carried out because only one report was compiled on quarterly basis and submitted to SF. As managers of the program they could not generate portfolio reports on regular basis for themselves to be able to manage the portfolio effectively.
- There are no concrete measures management has put in place to ensure loan recovery. The entire portfolio is in arrears for more than a year.
- All loan agreements signed by the clients were between the Savings and Credit Scheme under the Muhabura Diocese and not with the new company and to that effect some confused clients have petitioned the new company (MFSI) to court.

Recommendations:

If at all there is a chance of resolving the conflict in the diocese and operations of the MFSI resumes, the following are recommended for the program’s operations:

- SF should follow up the frozen accounts with Stanbic Kisoro branch to be released because the monthly ledger fees levied are eroding the funds.
- Recruitment of a qualified person, preferably a degree holder with microfinance experience of at least three years, project management, monitoring and evaluation skills to head the program.
- The program should adequately be staffed with additional credit officer, accountant, cashier and IT person.
- The operations should be standardized by putting in place operations manual, accounting manual and internal controls manual.
- A strategic planning process should be embarked on immediately to set clear goals and objectives for sustainability of the program.
- The Management Information System function should be established and a person with experience in IT joins the management team.

- Provide training opportunities to COs (workshops and seminars) to understand the factors that drive the industry and appreciate the challenges.
- MFSI to continue with the existing product but it requires innovations to suit clients' needs in a rural remote environment where agriculture is the main activity.
- The MFSI should encourage voluntary savings among clients to reduce poverty levels and to gauge the capacity of clients to save as a future product when the right time comes.
- Management needs to review all the reports generated by the system with a view of identifying reports that can enhance decision making and improved services delivery.
- A capable accountant should establish an accounting system immediately.
- MFSI will consider expansion in the current areas of operations as one of its opportunities in its overall expansion strategy. This will help in consideration of efforts and investments as it builds its portfolio in future.

4.0. FINANCIAL MANAGEMENT OF THE PROGRAMME

As already mentioned there was no accounting and internal control systems in place for the program to ensure accuracy and reliability in accounting and operating data as well as compliance with the institution's policies and procedures.

The financial information was obtained only from the cashbook records. The cashbook was posted using receipts issued, bank slips and payment vouchers and cheques drawn. There were no journals, general ledger, and petty cash.

There was some degree of transparency in the management of funds. The program operated four separate accounts that were opened in Stanbic Kisoro Branch. At least three people were appointed as signatories to those accounts. The program coordinator used to sign with either the Diocesan Treasurer or the Administrator. The accounts were opened in the names of Muhabura Diocese and had balances as at 31/8/2004 as follows:

Table 3: Frozen bank accounts

Account Title	**Account number**	**Amount (Shs)**
Operational account[1]	0140067704301	4, 668,138
Loan Protection Fund	0121067734801	5,273,008
Interest earned	0121067617201	10,922,704
Loan Repayments	0121067617101	62,719,307
Total		**83,583,157**

However, the bank stopped the diocese from operating the above accounts from August 2003. That affected the operations negatively. The MFSI management had to open new accounts in the names of Muhabura Finance Services Institution as follows:

[1] The operational account contains funds provided by Muhabura Diocese for operational expenses.

Table 4: Active bank accounts

Account Title	Account number	Amount (Shs)
Loan Repayments	0140067982103	3,235,900
Loan Protection fund	014067982102	31,000
Interest earned	01400679821101	736,299
Share capital fund	0140067982104	171,000
Total		**4,174,199**

The share capital account had a balance of shs.171,000 as at 31/8/2004 yet the paid up share capital schedule presented to the consultants indicated a figure of shs.260,000. The funds are being eroded by bank charges. The loan protection fund account was opened with shs.50,000 and this amount has been eroded to shs.31,000.

There was some form of control demonstrated to a certain extent in the cash requisition transactions and disbursements made. For instance, to obtain money for field visits; the staff filled in requisition forms and presented to the diocesan treasurer for approval after which the forms were presented to the administrator for authorization. After authorization, the diocesan cashier wrote a cheque and the treasurer signed with either the coordinator or the administrator.

As for disbursements; the loan officer processed a loan file, presented to loans committee for approval. The loans officer then prepared disbursement forms and presented them to the coordinator for approval. The approved forms were presented to the Administrator for authorization for payment. The cash was withdrawn from the bank and released to clients who signed for the money in the presence of the group officials at the program office.
The diocesan treasurer on a monthly basis did internal checks by reconciling field collections with bank slips.
There was no loan loss provisioning for the years the program was in operation.

4.1. Status of SF loan with Muhabura Diocese

The status of the of SF's loan component with Muhabura Diocese is shown in the table below:

Table 5: Status of SF loans to Diocese of Muhabura

Date	Details	Dr	Cr	Principle balance	Interest unpaid
2.2.2002	Disbursement	16,050,000		16,050,000	
3.4.2002	Disbursement	33,000,000		49,050,000	
6.8.2002	Disbursement	10,700,000		59,750,000	
25.10.2002	Disbursement	3,550,000		63,300,000	
16.12.2002	Disbursement	21,000,000		84,300,000	
21.1.2003	Disbursement	23,200,000		107,500,000	
8.4.2003	Disbursement	38,000,000		145,500,000	
29.5.2003	Disbursement	19,550,000		165,050,000	
June 2004	Loan repayment		7,909,127	**157,140,873**	**20,229,474**

Source: SF Credit component summary report

The principal loan was only serviced once with a partial payment in June this year which left a balance of shs.157,140,873 owed to SF in the books of MFSI.

Observations

- Due to lack of accounting and internal controls systems and a programme accountant, accuracy of the data was questionable.
- The checking of the transactions was done on monthly basis by the Diocesan Treasurer who herself was not a qualified accountant. That was a weakness on the part of management as early detection of errors could not be possible.
- Cash counts were not done as per audit recommendations as there was no proof to show cash counts on regular basis.
- Throughout, the years of operation, there was no loan loss provision for unrecoverable loans. In the year 2003 a figure of shs.2,500,000 was set aside but management made an arbitrary decision to arrive at the figure. Prudent financial management therefore and full disclosure of unrecoverable loans outstanding was not observed which resulted into misrepresentation of the loan portfolio.
- The poor recording of loan transactions and absence of routine checking of transactions resulted into difference in the financial statements of shs.86,938 which remained unexplained as pointed out in the audit report for the year ended 31st December 2003.
- A statutory requirement of deducting Pay As You Earn (PAYE) and remitted by 15th day of the month subsequent to the deduction month was not adhered to.
- It was still difficult to trace the movement of loan balances and reconciling them to the cashbook and loan ledger cards for each individual for any month during the year.
- According to the agreed terms and conditions in the loan agreements between SF and Muhabura Diocese, there was compliance for utilization of money as loan funds. However, given the liquidity crisis being experienced by MFSI, the company might be forced to encroach on the loan funds to meet their operational expenses like rent and salaries.

Recommendations:

- Proper guidelines should be put in place for provision of loan loss to enable management come up with realistic figures.
- The policy for writing off loans should be put in place.
- Accounting system, internal control system and manuals should be worked on and put in place.
- SF should withdraw the idle funds on frozen accounts in the meantime as matters relating to succession to the Bishop are being resolved to prevent further erosion through bank charges

5.0. ACHIEVEMENTS/IMPACT & COMPETITION

Despite the problems that the microfinance component of Muhabura Diocese has endured, the programme has had a positive impact on its borrowers. Apart from talking to the board, management and staff of MFSI, the consultants also talked to the diocesan secretary and a former member of the clergy about the achievements of the programme. Two focused group discussions were held with a total of 24 clients. The consultants had requested management of MFSI to arrange for more clients but it was very difficult to raise clients as all of them are defaulters and were thinking that they were being sought after for loan repayment.

5.1. Interviews with clients

5.1.1. Gashegyeshe Group:

The members of this group operate their businesses in Kisoro town. Only nine of the eighteen members participated in the Focused Group Discussions. They were met during their weekly meetings held to conduct their savings collection activities. The nine have loans with MFSI all of which are long in arrears and yet they meet weekly to collect savings. The members of this group are among the clients that have sued MFSI.

Services delivered by MFSI:

Clients were asked to name the services they get from MFSI and they mentioned loans and training. They brought out savings as a service the institution has facilitated only after further probing. The reason could be that existing groups that were already collecting savings amongst themselves were the ones selected to participate in the diocese microfinance component. They therefore did not see it as an activity introduced by the diocese. Asked to rank the services in order of usefulness to them, the clients mentioned loans as the most useful followed by training. *"Training is useless if it is not accompanied by loans"*, said one of the clients. They said loans help them to make more money and improve their lives.

MFSI loan conditions:

When the clients were asked about the loan conditions of MFSI, again these did not come out easily and this can be attributed to the long time that the organization has remained inactive. Further probing helped the clients to bring out the following as the loan conditions:

Loan term	– 6 months
Repayment frequency	– Monthly
Interest	– 3% per month
Compulsory savings	– 10%

They also mentioned that they were required to have on-going businesses and could only access loans as solidarity groups.

They were asked if they find any problems with MFSI loan conditions in particular or the services in general and they mentioned the following:

- Loans are not disbursed in a timely manner
- Processing time when disbursements were still being made could take 3-4 months
- Loan amounts applied for were often reduced

The clients mentioned that they needed other services from MFSI such as:

- School fees loan product
- Uniforms for children
- Help to orphans
- Voluntary savings product to enable them bank and withdraw savings at will

This response points to the usefulness or importance that the clients attach to Stromme Foundation's education component.

Impact of MFSI services:

The clients were asked if the microfinance programme has helped them meet any needs in their day-to-day lives and they were very quick to mention the following:

- Enabled one client to roof his commercial house, which he now rents out, and the proceeds enable him to meet his family needs
- Enabled one client to increase his business income and this has resulted into better feeding for his family like affording to add milk to the family diet
- Enabled a widowed client to build a house
- Enabled one client to buy a piece of land that has helped him to engage in agricultural activities

The consultants commented to the clients that if such good results emanated from the loan programme, the clients should show their gratefulness by paying back the loans. '*We shall pay back the loan when the diocese wrangles have been resolved*' was the response from the clients. The consultants felt however that this was not a sincere response.

Competitors:

The clients highlighted the following as competitors to MFSI:

- Uganda Microfinance Union (UMU)
- Financial Services Association (FSA)
- Stanbic Bank

While none of them had received any loans from FSA and Stanbic Bank, two were servicing loans from UMU. Those that had loans from UMU talked positively of the organization's efficiency in disbursing loans and that the maximum loan sizes were bigger than those of MFSI. They reported that UMU borrowers can access loans within three days of applying. They also easily brought out the loan conditions of UMU. Mention was made to the effect that UMU has a wider variety of products such as the working capital loans, employer guarantee loans, capita asset loans and others. They pointed out that the only 'negative' aspect of UMU is the strictness and seriousness they attach to their loans in that if a borrower missed a repayment by only one day, the credit officer of UMU would chase the borrower up and make him/her pay a fine. They mentioned that MFSI is lenient on the other hand and they don't fine borrowers who repay late and because of those attributes, they would come back to get loans from MFSI if the institution resumed operations.

5.1.2. Mixed group:

Another focused group discussion meeting was held with fifteen clients from different groups. These were rural clients about ten kilometres from Kisoro town and their main activity is farming. Though some of them are long in arrears in their loan repayment schedule with MFSI, the rural groups were reported to have performed better when compared to their urban counterparts.

Services delivered by MFSI:

This group also mentioned loans, monitoring and training as the services that MFSI offers. Again the savings service was not mentioned outright but came up through probing. Ranking the services in order of usefulness revealed loans as the most useful followed by training and savings. The reason for ranking loans highest was because loans (money) are the basis for any work while training facilitates proper use of the loan proceeds. Savings on the other ensures own source of funds in case of emergencies.

MFSI loan conditions:

The group listed the MFSI loan conditions very easily, chipping in the actual loan processes as well. They were happy with the conditions because they used to get loan disbursements within one month of applying unlike the Gashegyeshe group. This group was given preferential treatment as far as disbursements were concerned because of their better performance.

When they were asked if they had any problems or concerns about MFSI services, they mentioned that the diocesan wrangles/crisis, which led to a stop on loan disbursements, was their major concern. They informed the team that one faction of the diocese had written to them advising them not to pay back their loans and added that before the crisis things were moving smoothly. They would be willing to resume relations with Muhabura Diocese if the crisis ended because they were handled very well. Confusion on the part of the clients between Diocese of Muhabura and MFSI was evident during the discussions as they kept on referring to the programme as that of the Diocese of Muhabura and yet the discussions were introduced as between themselves and MFSI.

The clients mentioned that other services they would have liked to get from MFSI are:

- Providing marketing linkages for their Irish potatoes
- A loan product that would enable them to buy water storage tanks

Impact of MFSI services:

When the clients were asked if the programme had helped them meet any of their needs, they confirmed that it had helped them a lot and listed the following as specific evidence:
- One managed to build a house out of profits
- Another client bought a cow
- Enabled another client to buy a bicycle
- One client built a commercial/residential house
- Enabled a client to pay fees for children in secondary school. His children used to stop in primary seven

They said that there was no negative impact at all.

Competitors:

UMU was the only competitor known to the clientele in this area and a few of them had on-going loans with UMU so were quick to highlight the loan conditions of the organizations. They also mentioned that UMU is very efficient but were quick to add *"UMU staff will get a borrower from up a tree and make him pay fine and fuel for the motor bike if he is late to repay by one day"*

Again MFSI was applauded for being understanding *"Muhabura will not harass a borrower too much but only tell him to find the money."*

They would accordingly go back to MFSI if the operations resumed.

5.2. Interview with MFSI staff and Diocesan secretary

The Microfinance programme coordinator, the credit officer and the diocesan secretary echoed the voices of the clients as far as impact of the programme were concerned. Specific positive impact was quoted as:

- Increase in number of children going to school
- Change from grass thatched roofing to iron sheets roofing of their homes
- Increase in domestic animals
- Putting up of latrines
- Social integration improved through accessing loans in groups.

The programme used to monitor these indicators specifically so it can be stated without any doubt that the microfinance programme had very positive impact for the people of Kisoro.

Observations:

- The microfinance programme was a very useful one to the recipients and their families as positive impact was echoed from different sources. However the impact could have been more if the leadership crisis had not set in and if the staff had been trained to professionally deliver the financial services. Clients echoed inefficiencies and leniency indicating that these affected the performance of the programme.
- Clients are deliberately defaulting on the loan repayments because the factions have confused them. They are not ashamed to tell MFSI staff that they have on-going loans with UMU and yet they are not meeting their loan obligations with MFSI.
- Other reasons for non-payment were observed to be:
    - management and staff lacked competencies in credit delivery and management
    - the guidance as provided by the credit committee under the diocese and the governing board under the company was wanting
    - the product features did not suit the activities of the majority clients i.e. farmers
    - lack of standardised and documented loan policies and procedures

- The demand for loans is present as evidenced by the fact clients of MFSI have already crossed to UMU, including those in the rural areas. Others are eagerly awaiting MFSI operations to resume so that they apply for new loans.
- It is possible to deliver microfinance services successfully in Kisoro as long the deliverer is serious, firm and is independently doing so as a corporate company, the way UMU is.
- Though competition is present, it should not have affected the services of MFSI if the services were being delivered more professionally and continuously. The programme would have capitalized on its niche as an indigenous/local programme.
- It would be very difficult for the MFSI to successfully resume operations because a bad precedent has been set – that of not repaying loans and getting away with it.

7.0. PROGRAMME ASSETS/EQUIPMENT

The audited accounts for the year ended December 2003 indicated a figure of shs.5,373,235 for the net fixed assets. However, the balance sheet statement did not indicate a schedule of the fixed assets. Management was interviewed by the consultants and gave a list as follows:

Table 6: Fixed assets funded by SF

Item	Date of purchase	Serial no.	Brand	Cost	Estimated Book value	Condition	Remaining useful life
1 Computer	Jan 2003	99087H92 21003844P53492P	BenQ	1,992,000	664,000	Good	1
1 Printer	Jan 2003	CN17UIM208	HP desk jet 845c			Good	1
1 UPS		FM802512M	Samsung			Good	1
1 Motor cycle # UBC 806U	2001	Engine # 3HA-088793, Chassis no. JPYA3HA00000089242	Yamaha	5,300,000	1,325,000	Good but needs servicing	1
1 Motor cycle # USC 889T	2000	Log book not available	Yamaha	4,500,000	-	Has mechanical problems	0
12 chairs, 3 with MFSI, rest with diocese	2000			800,000	480,000	Good	6
1 Cupboard	2000					Good	6
1 Bookshelf	2000					Good	6
4 Desks, 2 with MFSI and 2 at diocese	2000					Good	6
Total				**12,592,000**	**2,469,000**		

Note: Assumptions to arrive at book value figures above:

Computers: Useful life 3 years
Depreciated for 2 yrs using straight line method

Motorcycles: Useful life 4 yrs
1 depreciated for 3 years and the other fully depreciated

Office furniture: Useful life 10 years
Depreciated for 4 years

Observations:

- Though a fixed asset register was put in place as recommended by the auditors, it only listed the items but did not indicate the cost, cumulative depreciation over the years neither was it updated to indicate the net book value.
- The list of fixed assets could not be cross checked with the net fixed assets in the balance sheet of year ended 31st December 2003 as the details were not given.
- The logbook for the second motorcycle could not be availed to the consultants

Recommendations:
The book value for the assets is relatively low. SF should consider two options:

- Have a valuer establish the market value of the items and auction item to offset the loans if it is cost effective
- Donate the assets to the diocese or company depending on the decision of SF as to whether to continue business and with whom.

8.0. OVERALL CONCLUSION & RECOMMENDATIONS

The overall conclusion is that the microfinance component of Stromme Foundation's partnership with Muhabura Diocese had very good intentions and was very useful to the poor people of Kisoro district in that it had positive impact on the day-to-day lives of the borrowers. The main problems/constraints have been:

- The limited training and experience of the staff i.e. credit officer
- The limited training and experience of management and the board
- The leadership crisis that engulfed the diocese
- The church environment under which the microfinance operations were conducted was not conducive since the culture of the church i.e. giving alms to the poor, handling people with kindness etc is not compatible with successful microfinance delivery
- The limited staff running the programme prohibited effective accomplishment of their responsibilities

The leadership crisis was the last nail in the coffin as it led to complete halting of the program. Clients have been influenced to become defaulters and as a result portfolio at risk is 100%. Both factions of the crisis are not taking any initiative to resolve their differences but are instead urging Stromme Foundation to be patient with them and wait until the differences are resolved one day and thereafter fund the programme again.

Considering, the above facts, Stromme Foundation should consider the following options:

1. **Overhauling of the microfinance programme but keeping it under the diocese:**

This would entail:

- Recruiting qualified and experienced personnel to run the programme professionally for effective and efficient service delivery.
- Putting in place supportive systems i.e. loan tracking and accounting to enable effective monitoring of operations. Internal control systems would also need to be put in place to augment compliance.
- Documenting in detail guiding manuals. These include: Human resources, Loan policies and procedures, Accounting and Internal control manuals.
- Capitalizing the programme to enable it resume operations.
- Legitimising the company with the diocese
- Making final and aggressive follow-up and recovery efforts using diocese personnel, after which writing off the loans proved unrecoverable would follow

2. **Getting the microfinance operations out of the diocese/church environment**

This would entail pulling out SF funds from diocese and making fresh co-operation agreements with the company recognizing it as a legal and separate entity to transact microfinance business in a sustainable manner. Again that would require:

- Recruiting qualified and experienced personnel to run the programme professionally for effective and efficient service delivery.
- Putting in place supportive systems i.e. loan tracking and accounting to enable effective monitoring of operations. Internal control systems would also need to be put in place to augment compliance.
- Documenting in detail guiding manuals. These include: Human resources, Loan policies and procedures, Accounting and Internal control manuals.
- Capitalizing the programme to enable it resume operations.
- Writing off the portfolio after detailed auditing

3. **Negotiating with other MFIs in the area to take over the loan portfolio**

Working with the diocese and the MFSI, this would necessitate hiring a debt collector for a period of about six months to seriously and aggressively follow up on defaulters, take defaulters to court or re-negotiate with them new repayment terms. This would ensure damage control for any potential MFI willing to take over the loan portfolio. When the portfolio quality improves, then the MFI can negotiate with SF on the terms of take over.
The likely candidate for this option would be Uganda Microfinance Union.

4. **Pulling out of the partnership completely**

This option requires withdrawing funds on the frozen and active accounts to offset the SF's unpaid loans and interest. The funds that can be withdrawn are those pertaining to the interest earned account and the loan repayments account and part of the loan protection fund account. Some of the money on the loan protection fund account belongs to the clients who paid off their loan obligations but were not refunded their savings deposits because the account got frozen by the bank. As mentioned before, these funds are being eroded by bank charges. According to the co-operation agreement SF should give the diocese six months written notice to terminate the partnership. The 2002 agreement calls for three months notice while the 2003 agreement calls for six months notice.

Considering the nature of SF’s business and the state of affairs both at the diocese and the company, options 1, 2 and 3 would be too costly and involving for SF and accordingly, the consultants recommend that SF takes the fourth option. Taking the fourth option will involve the following:

- Asking MFSI Ltd to remit the money on the loan repayment active account and interest earned active account immediately. The charges for remittance can be deducted from the very funds to be remitted.
- Giving notice of partnership termination to Muhabura Diocese caretaker bishop.
- Holding discussions with Muhabura Diocese officials to agree on the amount owing to Stromme Foundation.
- Initiating a dialogue between Muhabura Diocese caretaker and the bank with the objective of having the ban on operating the frozen accounts lifted
- Getting the microfinance coordinator and the credit officer to work out how much of the loan protection fund money belongs to clients who paid off their loans and to clients who defaulted. SF should claim the savings deposits for the defaulting clients.
- Asking the diocese to remit the money once the accounts are unfrozen and sorted out.
- Negotiating with the diocese to pay any shortfall in their indebtedness through other sources such as the diocesan funds on the operational account and others.

APPENDIX 1

List of persons and client groups interviewed

1. Solomon Kanna Rugera – Microfinance coordinator
2. Herbert Rwerikana – Credit Officer
3. Rev. Canon Sebuhinja – Bishop Elect of Muhabura Diocese, board member MFSI Ltd
4. Peter Bahizi – Board Member MFSI Ltd
5. Christopher Dufitumukiza – Board member MFSI Ltd
6. Harriet Nzabarinda – Board member MFSILtd.
7. Joan Bahizi – Diocesan treasurer and board member MFSI Ltd.
8. Canon Baker Habimana – Diocesan Secretary
9. Reverend Arthur Niyonsaba – Former clergy of Muhabura Diocese
10. Gashegyeshe Clients group (9 members interviewed)
11. Mixed group (15 members interviewed)
12. Retired Bishop Rukirande – caretaker bishop – Muhabura Diocese