

HOFOKAM Ltd., Uganda

HOFOKAM Limited was incorporated as a company limited by guarantee on July 9, 2003 by the Catholic Dioceses of Hoima, Fort Portal and Kasese upon a merger of its respective microfinance projects who date back as early as 1994. As such, it is classified as a Tier IV institution not regulated by the Bank of Uganda and is not allowed to pursue financial intermediation. HOFOKAM operates in western Uganda in and especially around the towns of Hoima, Fort Portal and Kasese with a strong rural focus. As of March 2007, HOFOKAM has a gross loan portfolio of 1.47 M USD and serves 14,270 borrowers with both group and individual loans.

GIRAFE Rating

Rating

C

Outlook

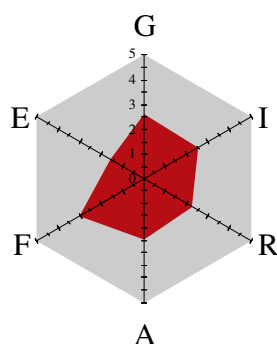
Positive

Date of the rating

May 2007

Valid until April 2008

Rating per evaluation area



Governance – Information – Risk –
Activities – Funding – Efficiency

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Rating highlights

- HOFOKAM is not yet profitable (-5.8% ROA in 2006), but ROA levels show steady improvement over time; HOFOKAM could break even in 2007; this improved performance is mainly driven by a significant drop in operating expense ratio from 100% in 2004 to 41.2% in March 2007;
- Cost structure improved partially due to post-merger rationalization (though not yet optimized) and economies of scale benefits derived from a growing portfolio; this trend is expected to continue if HOFOKAM pursues further rationalization;
- Committed Board of Directors to make clearer strategic trade-offs on level of focus on rural vs. peri-urban areas and social vs. financial bottom line; it would be beneficial to include more private sector profiles to bring in risk-based perspective;
- Skilled and capable top management although broadening of management team skills is necessary; current branch management set up is not optimal to manage the portfolio; competitive rural edge in Western Uganda although main growth has been in peri-urban areas and town centers in the past two years; and
- Urgent need for formalized Internal Audit function and more training needed for lending staff to align their capacities with new loan products.

Outlook

The positive outlook is granted based on the following reasons:

- Clear commitment to and strong likelihood to break even in 2007;
- Good capacity to raise external borrowings for future growth; support from CRS is likely to continue given its strong link to the Church and its resources; and
- Ongoing improvements in lending operations.

Performance indicators

USD , unless otherwise stated	Jun. 2004	Jun. 2005	Jun. 2006	Mar. 2007*
Assets	782,529	992,972	1,504,524	1,978,067
Growth	5.4%	23.4%	60.9%	27.2%
Loan portfolio	558,169	783,835	1,080,762	1,471,909
Growth	25.7%	36.6%	46.4%	31.8%
Active borrowers	10,645	10,235	11,555	14,270
Staff	63	58	65	63
ROE	(31.7%)	(28.2%)	(6.2%)	5.7%
ROA	(31.0%)	(27.4%)	(5.8%)	5.2%
Liabilities / Equity	0.04x	0.02x	0.11x	0.09x
Portfolio Yield	48.0%	62.0%	57.9%	50.8%
Operating expense ratio	100.0%	102.9%	67.9%	41.2%
PAR 31-365	12.9%	3.1%	2.7%	9.4%
PAR > 365	0.0%	0.0%	0.0%	0.3%
Write-off ratio	0.0%	2.2%	3.6%	0.0%

* March 2007 indicators are based on financial statements that do not include loan loss provision or write-offs.

Microfinance sector

The Uganda microfinance sector is characterized by a diverse set of MFIs organized via the Association of Microfinance Institutions in Uganda (AMFIU) and regulated through a tiered regulatory system. The commercial banks comprise Tier I and include one commercial microfinance bank (CERUDEB). Tier II consists of Credit Institutions of which one is focused on microfinance (CMF Ltd.). Since the passing of the Micro-Deposit Taking Institutions Act in 2003 four MFIs have transformed into an MDI, comprising Tier III of the regulatory system (FINCA Uganda Ltd., Uganda Microfinance Ltd., Pride Microfinance Ltd. and Uganda Finance Trust, Ltd.). The 'Upper Tiers', or Tier I through III, are regulated by the Bank of Uganda (BoU) and can pursue financial intermediation of clients savings.

However, the majority of microfinance institutions, estimated at 750¹, fall in to Tier IV who are not regulated by the BoU. The majority (600) of the Tier IV institutions are Savings and Credit Cooperatives (SACCOs) that are allowed to intermediate savings and are governed by the Cooperatives Regulations Act of 1992. SACCOs experience limited supervision from District Cooperative Officers. Other Tier IV institutions (NGOs, Companies) are not allowed to take deposits.

The market share for savings and loans of the different Tiers is shown in the two tables below. These figures exclude data from several thousand Village Savings and Loans Associations (VSLAs) and Community Based Organisations (CBOs) that provide financial intermediation by and for village members.

MFI type	MFIs	Active borrowers	Outst. loan portfolio
Tier I	1	57,880 12%	53 M USD 40%
Tier II	1	6,826 1%	5 M USD 3%
Tier III: MDI	4	142,296 30%	39 M USD 30%
Tier IV: SACCO	600	80,000 17%	11 M USD 8%
Tier IV: other	150	190,000 40%	25 M USD 19%
Total	756	477,002 100%	132 M USD 100%

MFI type	MFIs	Savings accounts	Outstanding deposits
Tier I	1	488,213 39%	97 M USD 63%
Tier II	1	53,216 4%	4 M USD 3%
Tier III: MDI	4	310,474 25%	17 M USD 12%
Tier IV: SACCO	600	215,000 17%	18 M USD 12%
Tier IV: other	150	180,000 14%	7 M USD 5%
Total	756	1,247,176 100%	142 M USD 100%

Source: Tier I-III: www.mixmarket.org; Tier IV: Census Tier IV MFIs by MoFPED, FSDU, DCC. Data: Dec. 2005

Overall the Uganda microfinance sector shows a skewed distribution with most microfinance services concentrated in southern and south western Uganda most notably in urban

¹ Including only active MFIs

and peri-urban areas with high cross-indebtedness of clients. Rural areas on the other hand, especially in the north and north east, remain underserved.

The proposed government program *Prosperity for All*, which targets to set-up and support a SACCO in each of the estimated 900 sub-counties in Uganda, combined with the closing of many of the long-time microfinance support projects (DFID's FSDU, EU/GoU's SUFFICE, USAID's Rural SPEED), will make the coming year a crucial test for the Uganda microfinance sector to show its maturity and resilience.

Political & economic environment

The impact of the drought on farm production and hydropower generation in early 2006 slowed economic growth and affected a still relatively underdeveloped processing industry. Dynamic services and civil engineering sectors nonetheless kept economic growth at satisfactory levels. Subject to adequate rainfall, forecasts for 2007 project a growth still notably underpinned by energy sector investments in thermal and hydropower stations.

Reflecting its lack of diversification, the country's tax base is still narrow despite the strengthening of fiscal management with social, investment, and security spending remaining substantial and major imbalances undermining public accounts. Similarly, external accounts have suffered from the increase in imports (oil, capital goods) and the vulnerability of exports (coffee, tea, horticultural products) to weather conditions and world price trends. In this context, international aid is still essential. It covers almost half of the fiscal deficit and has led to sharp reduction in foreign debt.

Political tensions, heightened by the campaigns for the February 2006 presidential and legislative elections won by President Museveni (with 59% of the votes cast) and his party, have been gradually easing. Donor countries have, however, criticized the regime for not being open enough and for the persistence of major governance problems. Despite the ceasefire agreement signed with the LRA hopes for settlement of the conflict ravaging the northern part of the country for the past 18 years remain frail.

Assets

- Uganda boasts substantial economic potential (agriculture, fishing, tourism, minerals, and recently discovered oil fields).
- Greater integration into the East African Community constitutes an additional asset.
- With its sustained efforts on structural reform, the country has earned international financial community

backing, which has resulted in substantial foreign debt relief under the HIPC and MDRI programs.

- Uganda has made encouraging progress on education, combating poverty, and improving health conditions.

Weaknesses

- Uganda's landlocked condition and its inadequate transport and energy supply infrastructure have resulted in high production costs.
- A regional environment marked by continued instability in the Great Lakes area together with a difficult business climate has undermined attractiveness to investors.
- The potential and the diversification of Uganda's economic fabric have thus remained underdeveloped with agriculture – generating 33% of GDP and 70% of jobs – still predominant.
- Covering internal and external financing needs still depends on international aid.

COFACE Country Rating: C – A very unsteady political and economic environment could deteriorate an already bad payment record.

(USD millions)	2004	2005	2006 e	2007 f
Economic growth (%)	5.6	5.6	5.0	5.3
Inflation (%)	5.0	8.0	6.5	6.0
Public sector balance (%GDP)	(11.1)	(8.7)	(8.8)	(7.7)
Exports	647	682	863	994
Imports	1,321	1,604	1,888	2,007
Trade balance	(674)	(922)	(1,025)	(1,013)
Current account balance (%GDP)	(12)	(10.2)	(11.4)	(10)
Foreign debt (%GDP)	69	58	58	11
Debt service (%G&S exports)	7.9	7.8	6.6	2.8
Foreign currency reserves (in months of imports)	6.6	6.4	5.8	5.6

Source: COFACE Country Risk Rating Guidebook. e: estimates, f: forecasts. Note: COFACE is a shareholder of Planet Rating.

Institutional presentation

Legal form, supervision and audit

HOFOKAM was incorporated as a company limited by guarantee on July 9 2003 by the Catholic Dioceses of Hoima, Fort Portal and Kasese upon a merger of its respective microfinance projects. As such HOFOKAM falls into the Tier IV category of microfinance institutions and is therefore not regulated by the Bank of Uganda (BoU) and is not allowed to pursue financial intermediation.

For the past three years HOFOKAM has been audited by Jasper-Semu & Associates based on the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP). Besides the

external audit the auditors also provided in-depth operational audits. The 2005/2006 financial year was the first time that the auditors provided an unqualified opinion. HOFOKAM's financial year ends June 30th.

Ownership

As a company limited by guarantee HOFOKAM has no shareholders but is owned by its guarantors – the Bishops of the Catholic Dioceses of Hoima, Fort Portal and Kasese. The ultimate decision making power lies with the General Assembly that is composed of the Bishops of Hoima, Fort Portal and Kasese Dioceses who elects the Board of Directors (BOD). The BOD is composed of seven members with various backgrounds in business, law, HR as well as microfinance. The BOD is not subdivided into sub-committees.

Donations

HOFOKAM has received the majority of its donations from Catholic Relief Services (CRS) in the amount of 2.7 G UGX (1.5 M USD) for both operational subsidies as well as loan capital. Other donations have been received from Trocaire (275 M UGX; 155 K USD), Mercy Works Foundation (194 M UGX, 109 K USD) as well as smaller grants from DFID as well as SUFFICE.

Funding composition

HOFOKAM currently only has one loan from the Microfinance Support Center Ltd. (MSC) with an initial amount of 300 M UGX (168 K USD) at 13% interest per annum. Only the first trench of 150 M UGX was disbursed with the second tranche pending on repayment of a prior loan by Kasese Microfinance Company – guaranteed by the Bishop of Kasese – to MSCL.

Management team

The management team includes the General Manager (GM), the Portfolio Manager (PM), the Finance Manager (FM) and HR Manager and is located in the Head Office (HO) in Fort Portal.

- The GM, Januariro Ntungwa, took on the position in June 2005. Previously he has worked at CERUDEB for 14 years where he last held the position of Deputy GM. He holds an MBA from Uganda Martyrs University (2002), and has partaken in various trainings on microfinance and management development.

Organization

HOFOKAM is headquartered in Fort Portal with three main branches in Hoima, Fort Portal and Kasese with a fourth branch recently spun-off from the Fort Portal branch located

in Kyenjojo. Branch staff consists of Finance and Administrative Manager (FAM), Deputy FAM, Finance Officer, Accounts Assistant, Loan Supervisors (LS) and Loan Officers (LOs). Besides the branches, there are 19 field offices, often located in trading centers that are served by at least one LO. LS report both to the FAM and the PM.

Each branch runs on a stand-alone MIS. Loans are disbursed either via check by the cashier or transferred directly to members' accounts. Repayments are typically made through deposits on bank accounts of HOFOKAM after which the deposit slip is presented to HOFOKAM.

Market penetration

With its four branches and 19 field offices HOFOKAM currently operates in Lira, Hoima, Masindi, Kibale, Kabarole, Kyenjojo, Bundibugyo, Kamwenge and Kasese districts in Western Uganda.

Products and services

As a credit only MFI HOFOKAM offers 5 loan products. Village Bank loans (Umoja) are for groups of 20-45 members based on group collateral and with loan amounts ranging from 50 K-3 M UGX (28–1,684 USD). Repayments are bi-weekly and terms range from 2 to 12 months with a 2.5% flat monthly interest. Late 2005, HOFOKAM introduced four new loan products. The first one being solidarity group loans (Watano) that only differ from Village Bank loans in group size (5-10 members) and starting loan size (300 K UGX; 168 USD). Village Bank loans and solidarity group loans require 20% mandatory savings. Those savings need to be deposited on the group bank accounts with regulated banks. For solidarity group loans, HOFOKAM allows clients to deposit the savings on its own accounts.²

HOFOKAM offers two types of individual loans: business and salary loans. The loan amounts range from 500 K–10 M UGX (281–5,615 USD) at 2.3% and 2.0% flat monthly interest rates respectively. Where the latter requires a letter of undertaking from the employer as collateral, the form requires hard collateral (chattel, land, etc.) or 20% mandatory savings for long standing clients. For one year now, HOFOKAM is piloting an agricultural loan product with the same terms as Village Bank loans but with flexible repayment schedules and a choice of group guarantee or hard collateral on an individual basis. All loan products require 1% application fee (agricultural loans 2%) and mandatory death insurance with 1% commission on the loan amount.

² This is in order to avoid for members to have to open a bank account which can be a cumbersome process. HOFOKAM invests these savings as it is not allowed by law to on-lend these savings.

Networks

HOFOKAM is a member of the Association of Microfinance Institutions of Uganda (AMFIU) where the GM is a Board member.

■ Governance

Governance and Decision Making is rated “c”

Decision-making

Upon the merger, HOFOKAM founders provided it a clear mission and focus on rural areas. Its BOD and management share the same vision, but also state a commitment to commercial sustainability. A main reason for the three microfinance programs to come together was to have the microfinance services professionally managed and to become profitable. Since the merger in late 2003, HOFOKAM did not reap as much in terms of cost synergies as normally expected. The cost structures of the three founding entities more or less added up together without a clear cost rationalization program despite some evident overlaps. Despite the rather slower pace of integration, the merger did create a stronger and better positioned institution replacing the three individual programs that had little ability to expand beyond their respective hometowns.

The BOD is committed and informed of HOFOKAM challenges and issues. BOD members meet regularly, receive relevant data for their decision-making and minutes are documented. Its present member composition fully reflects its church and social roots. Given its stated desire to be more commercially-minded and ultimately to transform into a MDI, it would be beneficial that HOFOKAM include private sector or business-oriented BOD members in order to bring in different expertise and perspectives. The BOD can strengthen its skills and competencies in the following areas: market strategy, risk management, internal audit, financing strategy and financial management.

In the immediate future, the BOD will have to decide whether HOFOKAM should merge with the Wekembe microfinance program (backed/funded by CRS and owned by the Central Uganda Catholic Diocese). The intention is for this weak program (smaller size with PAR>30 over 20%) to benefit from the stronger organization of HOFOKAM and provide HOFOKAM with an opportunity to expand outside its Western Uganda stronghold. While HOFOKAM is doing better since the merger, it still has a number of pressing challenges and it is not certain whether it can afford to be distracted at the present time. The business case of the Wekembe merger is not clear. In many regards, HOFOKAM still has more to do to fully realize the potential of its own past merger prior to undertaking another one.

Planning

The conservative 2004-2009 Business Plan (BP) and Microfin-generated projections outline three Transformation Stages: Capacity Building (implementing the merger), Transformation (institutional & staff strengthening) and Sustainability (100% sustainable by 2009). HOFOKAM is in the middle of the Second Stage and is somewhat ahead financially as there is a good chance that it will break even in 2007. On other aspects, HOFOKAM still faces the challenges of improving the portfolio quality, building staff capacity/productivity and making its new MIS software work properly in order to gain more efficiency.

Being true to its mission, HOFOKAM currently services many clients living in the remotest areas reached by any MFI in Uganda. These laudable efforts have an implied high service cost model that the BOD, while aware, has not fixed any limits or trade-offs on the lending operations (e.g. pricing in remote areas is the same as the more urban areas for a given product and no clear limits are set on how far the clients are from a branch). Given the fact that HOFOKAM has continuously improved its financial condition and the CRS core funding is secured until September 2008, the BOD has not been under pressure to make clear or difficult trade-offs in its planning process between its social and financial objectives thus far.

Beside from strategic planning, HOFOKAM has a systematic planning process where each branch develops its own annual operating plan and draft budget which the HO consolidates and validates at the BOD level. Budget monitoring is done monthly both at the branch and HO levels. Finally as the funding agreement with its main historical backer CRS will expire by September 2008, it would be useful to develop a more detailed plan on how to “live” without grants money going forward even if CRS remains overall very supportive.

Management team

HOFOKAM had the foresight to recruit some strong senior managers following the merger: its experienced GM coming from CERUDEB, its Portfolio Manager (PM) coming from FINCA Uganda and a Finance Manager (FM) with various private sector experiences. In contrast with its strong lending management expertise, HOFOKAM still needs to complete its management team by building the capacity of its less experienced managers and by redeploying or hiring staff to fill critical management team slots of Internal Auditor and IT Manager, especially given lingering MIS and internal control problems. In the meantime, there remains a key person risk at the GM level.

With regard to branch management, it is somewhat unusual that HOFOKAM branches are not headed by a single person,

but that the Loan Supervisors report to the PM at HO and the Finance and Administrative Manager (FAM) reports to the FM at HO. Neither one has overall authority over the branch, although the FAM is the one coordinating administrating functions throughout the branch. As a result, the branches not as market-aggressive and business-minded as expected. Another result of this set-up is that the branches’ back office is on the heavy side and is not very efficient from a global resource deployment perspective. HOFOKAM does however have room to retrain and redeploy some of its back office staff to other key presently unfilled functions such as internal audit and market research.

Human resources management

Basic HR procedures and policies are in place and documented in the HR Manual. Adequate recruitment and training practices are also in place, but they can be further enhanced in order to make sure that the hired staff fits the jobs well and that the training schedule fully fits HOFOKAM’s evolving needs. HOFOKAM’s 2007 training plan does include the necessary training to enhance the credit analysis skills of its LOs that have until now mostly been working on village banking and will be doing more and more individual lending. HOFOKAM excels at systematically conducting semi-annual performance reviews. However, staff morale is uneven overall as some feel that HOFOKAM compensation is below market and uneven, and that its bonus scheme is too tough to reasonably aim for.

Its HR Manager is still rather new and presently focuses on the administrative tasks, but has a good potential to fully grow into strategic roles. For instance, HOFOKAM frequently transfers its staff between distant branches and it does have a systematic system in place. But, post-transfer monitoring could be improved to ensure that the transferred staff (both lending and admin) fits in well and is fully productive. Team building exercises and more frequent communication on merger progress and market challenges would also be helpful.

■ Information

Information is rated “c”

In July 2005 HOFOKAM implemented a computerized, integrated MIS – Finance Solutions by Sigma D&C Ltd, of Kampala, Uganda – that is currently running on a stand-alone basis in the three branches with monthly consolidation at HO outside the system. The MIS has facilitated information processing within the institution by reducing manual paperwork necessary for loan processing, accounting and tracking and basic accounting. However, errors in data reconciliation by the system and a gap in the accounting trail have meant that until recent the MIS system had to be partly

doubled by manual systems reducing possible efficiency gains. Currently the main issues have been resolved although data accuracy is not yet 100% guaranteed. HOFOKAM is still to reap the cost saving benefits of introducing the MIS.

HOFOKAM has no in-house IT expertise and is dependent on Sigma D&C for support, maintenance and updating of the MIS and on a contracted IT consultant to maintain the local area networks in the branches and at HO. Finance Solutions has proven to have its limitations but no IT-plan has yet been drafted to plan for future IT and MIS needs, especially given planned expansion.

Digital data security is reasonably well guaranteed through adequate anti-virus protection and bi-weekly back-up of digital data on USB as well as network computers. Back-up could benefit from automation and storage on more secure data carriers stored safely. Paper data in branches is not stored securely facing risk of data manipulation and data loss through for example fire or theft.

Accounting statements and monitoring reports – prepared at branch level and consolidated at HO – provide all key indicators for loan tracking and basic financial performance data. However, fully informed financial statements are only produced semi-annually as loan loss provision is only calculated at those intervals. The current performance report contains all necessary indicators but lacks focus on a set of key indicators as the current list is too numerous creating possible confusion as well as distracts from core performance indicators.

As commonly done in village banking, HOFOKAM has chosen to track Village Bank loans as one group loan instead of on an individual client basis in order to reduce administrative work. This results in a reduced ability to track repayment records of individual Village Bank members as well as an overly conservative calculation of PAR. Information on loan activities also lacks tracking of business sector per client for loans tracked individually, a feature available in the MIS.

For financial analysis a more detailed analysis of the profitability per product and location (rural vs. urban) would now be necessary given the development of products with different yields and cost structures in order to be able to define with more precision the optimal level of interest rates for each product and location. An initial start has been made but it has been mainly planned for in the next financial year.

■ Risk Management

Risk Management is rated “c”

Procedures and internal controls

Procedures are overall well documented in manuals. However, not all manuals are up to date; the loan manual is outdated but is currently under review and intermediate updates (e.g. changes in interest rates) have been communicated to all staff through internal memos. The manuals should also become more specific as in some instances specificities are lacking (e.g. liquidity level for HOFOKAM in the financial manual; extent of cash flow analysis in loan manual, etc.).

HOFOKAM has well developed internal controls embedded in its systems through:

- Good separation of duties at the branch level.
- A well implemented hierarchical structure in loan approval exists which is adapted to the performance of the branches. The level of approval is however not formally linked to the level of performance.
- The PM does (spot) checks of LOs and operations of branches and is supported by the LS in the control of LOs. Visits are documented in reports with action points for follow-up. However, time constraints prevent the PM from adhering to the monthly schedule of branch visits.
- The FM does similar (spot) checks for the back office staff at branches.

Control of branches is reduced due to the lack of one specific manager within the branch that is responsible for all operations of the branch.

Even though internal controls are relatively strong, these do not compensate for lack of Internal Audit function as in practice overall adherence to procedures is generally weak with continuing breaches of procedures by LOs (including embezzlement of funds). A likely contributing factor is the lack of motivation of some staff (see HR section).

Internal audit

To date the Internal Audit (IA) function has not yet been implemented within HOFOKAM as in the business plan it was only planned for the Second Stage. The IA function is however needed, which is planned for by mid 2007.

To date the IA function has been partly compensated by a strong focus on internal controls by the External Auditors and the stronger than average internal controls by operational staff, but as noted above this fails to adequately compensate an independent non-operational related IA function and lacks audit of HO functions as well as an overall assessment and prioritization of institutional risks.

■ Activities

Activities: products and services is rated “c”

Market position

In western Uganda the town centres are well served by MFIs with the presence of CERUDEB and all MDIs (FINCA, Pride Uganda, U-Trust, UML). However, the Upper Tier MFIs mainly limit themselves to the town centres, where competition is fierce and a strong risk of cross-indebtedness exists, but leaving the rural areas under served. The rural areas are mainly served by Tier IV institutions of which HOFOKAM is by far the largest in the region and include others such as PEARL Microfinance, Five Talents (Kasese), SOMED (Hoima) as well as numerous smaller SACCOs.

HOFOKAM has traditionally had a very strong rural focus serving clients in remote villages and trading centres where it has a very strong overall market position which is not effectively challenged by weak local SACCOs. With its recent further expansion into town areas, HOFOKAM is encountering strong competition from the Upper Tier MFIs. In relation to competition, HOFOKAM is catching up with introduction of solidarity, individual and salary loans that are better adapted to the demands of clients. HOFOKAM's main competitive advantage is its strong rural and social focus. The latter however entails the risk of leaving HOFOKAM with the less reliable clients as it has been translated by HOFOKAM in a lack of strict client selection and follow-up of late loans.

It is clear that the main focus will remain on the rural areas and to this extent HOFOKAM has started trials with an agricultural loan product.

Loan portfolio management

Credit methodologies of the different products are overall well designed and fit with client needs. Transaction costs for clients are however pretty high, especially for those in remote areas, as it involves bi-weekly deposits at banks in the town centres. Certain gaps still exist such as lack of documentation of cash flow analysis for solidarity group loans and lack of written conclusion of cash flow analysis for individual loans.

Although the credit methodologies are well developed, their implementation is not as strong:

- The bonus system does not function as an incentive system due to limited number of LOs that avail of it and the low level of the bonus compared to the salary level.
- As a result client selection by LOs is not strict with an over emphasis on growth and/or maintaining of clients and portfolio vis-à-vis minimizing PAR.

- Follow-up of late payments can clearly be improved and here HOFOKAM needs to clearly decide how strict/lenient it wants to be in relation to its social mission.
- Monitoring of late payments in MIS is sufficient, but LOs in field offices lack daily updated information which reduces their ability to conduct swift follow-up.
- LOs have appropriate skills for Village Banking, but business analysis skills for LOs working on solidarity group and individual loans need improvement.

Portfolio has seen a steady growth overall in the past three years with growth rates increasing from 26% (03/04), 37% (04/05) to 46% (05/06) with a growth of 32% in the first 9 months of the current financial year. The majority of the growth has been due to the introduction of the new products since late 2005 and the subsequent growth of these new products (with the exception of salary loans). Even though most growth is due to the new products, their roll out has been gradual both as a result of prudence as well as a result of lack of clear management of LOs in setting their targets. The number of clients has also grown, but less so, as the new products have a significantly higher average outstanding loan amount per client. The average amount outstanding per loan per product has remained fairly stable over the past two years.

The rural markets in which HOFOKAM works have a significant seasonality factor due to the agricultural seasons, but are also characterised by a peak and subsequent lull of the holiday season.

Credit risk

Overall there is a lack of awareness regarding concentration risk within HOFOKAM both at LO and LS as well as management levels. Currently no information is available on portfolio diversification as this data is not tracked. Hence also no portfolio diversification rules have yet been set-up, with the single exception of a ban on fishery. Concentration risk is however expected to be low as most clients are in trading which includes various business sectors. A significant number of clients are involved in subsistence agriculture.

Credit risk is fairly high. PAR figures at end of the fiscal years show relatively low levels and a declining trend: 6.9% (03/04); 3.1% (04/05) and 2.7% (05/06), but one should take into account however that:

- June is the best period of the year given seasonality of the portfolio quality;
- In June 2005 and in June 2006, 2.2% and 3.6% of the portfolio was written off respectively;
- PAR is overstated as Village Bank loans are tracked as one and count as such in PAR although countered by an

understatement of real PAR as group members pay for each other.

The increase in PAR in the past 9 months from 2.7% to 9.7% is in part due to the seasonality and the fact that write-offs have not yet been accounted for in the current year, but also due to deteriorating PAR levels in solidarity group loans and especially in salary loans. The latter is mainly due to the restructuring of the Kasese municipal government resulting in the non-payment of civil servants for several months.

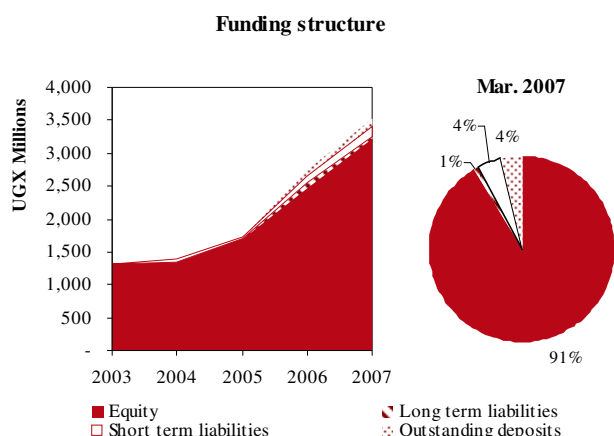
HOFOKAM writes-off loans over 120 days late once yearly in June. The write-off policy is well executed for the past two years, but outside the loan loss reserves. Follow-up of written-off loans is monitored quarterly and tracked in off-balance sheet accounts in the MIS. No specific guidelines have been set-up as of yet when to stop collection and remove late loans from the off-balance sheet accounts.

HOFOKAM has an adequately conservative loan-loss provisioning, but loan loss provision expenses are made infrequently (semi-annually). As of June 2006 the loan loss provision was adequate with a risk coverage ratio of 65.6%.

Loans are well collateralized through either group guarantee and mandatory savings (Village Bank and solidarity group loans), a letter of undertaking by the employer (salary loans), or hard collateral (individual loans). Hard collateral other than chattel provides significant challenges in execution but to date HOFOKAM has not yet had to rely on execution of collateral and mainly uses it as a deterrent for non-payment.

■ Funding and liquidity

Funding and liquidity is rated “c”



Capital structure and leverage

HOFOKAM is well capitalized and possesses a typical NGO funding structure characterized by a significant proportion of donated equity that presently comprises 91% of its total funding. However this existing structure also reveals the

institution's continued dependency on its principal funding partner CRS with the only other source of funding being a subsidized loan from MSCL that makes up only 2.6% of its present capital structure. With its present low leverage ratio at 0.1x and a close break-even perspective, HOFOKAM has capacity to absorb a moderate amount of additional debt to fund its portfolio.

Asset & Liability Management

Presently, HOFOKAM is exposed to very low levels of ALM risks that remain both limited and manageable in the short and medium term. As at March 2007, a UGX 90 M loan, constituting 3% of total funding, was the only outstanding funding liability.

- *Maturity risk* is low and immaterial as the institution's loan portfolio is for the most part funded by equity.
- *Interest rate risk* is limited as MSC historically has not often revised its interest rates, although it is allowed to at its discretion according to the loan contract.
- No *FX risk* as HOFOKAM has no assets or liabilities denominated in foreign currency.

Funding strategy

Until recently, there was no justified need for HOFOKAM to undertake comprehensive fund sourcing, given its preceding long term funding agreement with CRS. The institution now acknowledges the need to devise a comprehensive strategy to attract funding from diverse sources and increase its present funding base.

Efforts are thus being directed towards developing and strengthening relationships with both commercial banks and microfinance wholesale lenders. HOFOKAM has recently established a 100 M UGX overdraft facility with CERUDEB at 15% per annum. Currently it is also in advanced negotiations for another loan with a Ugandan based wholesale lender as well as negotiations with international funds. Relationship management and negotiation skills will be crucial in the above efforts which at present are taken up by the GM given his prior banking experience.

Liquidity management

The institution carries out annual cash flow projections using an Excel-based template and these, as well as related liquidity management procedures, are centralized at HO. Disbursements are managed based on expected cash inflows, including both loan repayments and grant allocations, while ad hoc measures are employed to keep idle cash levels at a minimum (mainly by pooling resources across branches). There still remains a clear need for more formalized and efficient liquidity management procedures and that asset deployment is more efficiently accomplished.

■ Efficiency and Profitability

Efficiency and Profitability is rated “d”

Profitability analysis

Three years into the merger, HOFOKAM is yet to formally register any profit from its operations despite the anticipated cost synergies and improved efficiencies related with the merger. The trend has nevertheless been positive with significantly improving ROA [2004: (32.8%); 2005: (29.3%) and 2006 (5.8%)]. For its current financial year, HOFOKAM is set to break even given that ROA as of March 2007 stands at 5.2%. This figure however does not yet include a needed Loan Loss Provisioning expense of 76 M UGX that would reduce this year’s profits to date by 62%. ROE figures follow the ROA figures closely due to the low leverage of HOFOKAM.

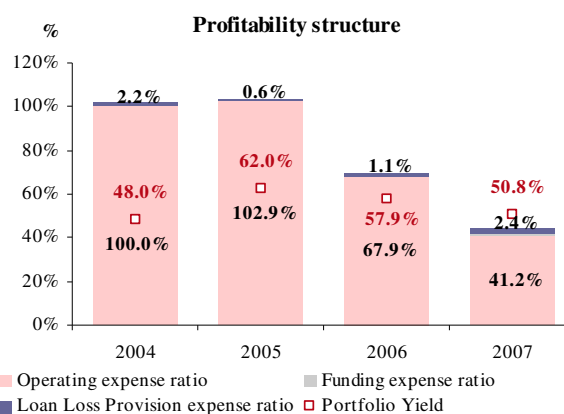
HOFOKAM’s profit structure has been impacted by the falling levels in portfolio yield as a result of the introduction of new products with lower APRs as well as a reduction of interest rates due to competitive pressure in April 2006. However, on the cost side more significant gains have been made (as a % of the portfolio) which, as discussed above, has resulted in ROA improvements.

With the bulk of its operations remaining decentralized after the merger, the operating cost structure at HOFOKAM also more or less remained unchanged in absolute terms. However, where the operating expenses only grew by 19% from 2004 to 2006, the loan portfolio more than doubled which led to higher economies of scale and to significant reduction of the operating expense ratio. The partial year figures for 2007 signaled a further reduction of the operating expense ratio, again as a result of maintaining absolute cost levels while increasing the number of clients and portfolio. 2007 also shows a significant increase in staff productivity and an actual decrease in cost per borrower. While HOFOKAM did not necessarily change its operating structure following the merger, it has been able to significantly increase the productivity of its operations. This also highlights the potential for further operational rationalizations among the three merged entities to squeeze out more cost savings or synergies.

The loan loss provision expense ratio has been relatively low until June 2006 but shows an upward trend in the current financial year even as not all required Loan Loss Provision expenses have been made. To date the funding expenses have been negligible due to very low leverage as compared to overall expenses. In the past few years, HOFOKAM has been able to slightly increase its percentage of assets deployed towards its income-earning loan portfolio (currently at 72.1%), but overall figures have remained low

holding back the return on assets. This is another important profit driver area.

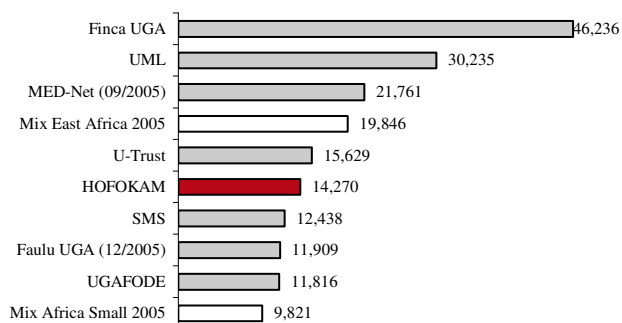
Overall however the profitability outlook of HOFOKAM is positive and the institution is on track to break even for the first time in 2007. A further resource optimization is possible deploying a higher percentage of assets to the income earning portfolio. Projected further increases in average loan per borrower can further reduce the operating expense ratio. However, with the institution recently focusing on increased funding through debt – a trend likely to continue in the near future – this will significantly increase its funding expense ratio. The above outlook remains largely conditional to the institution’s ability to continually implement cost control and saving measures such as rationalization of rural expansion plans, appropriate product pricing as well as increasing staff efficiency and portfolio quality.



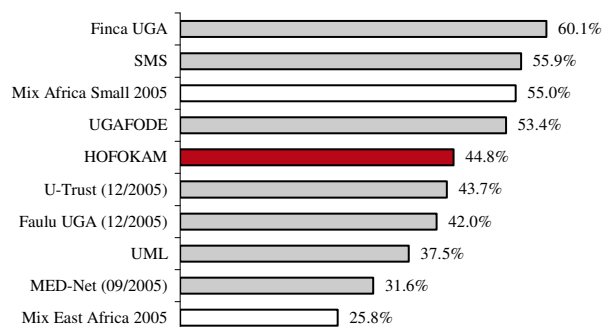
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution’s performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

Benchmarking

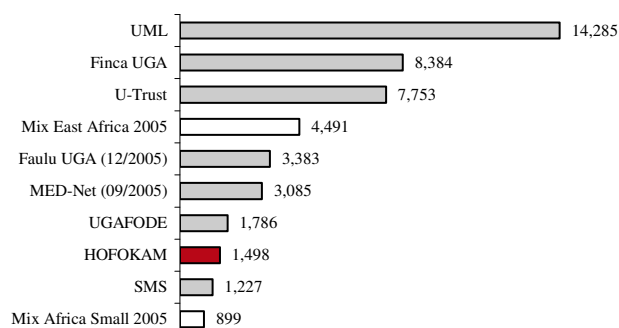
Active borrowers



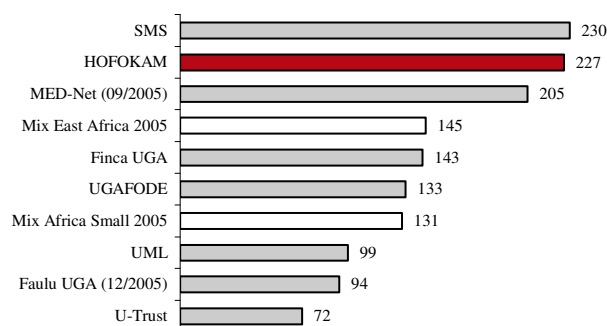
Operating expense ratio



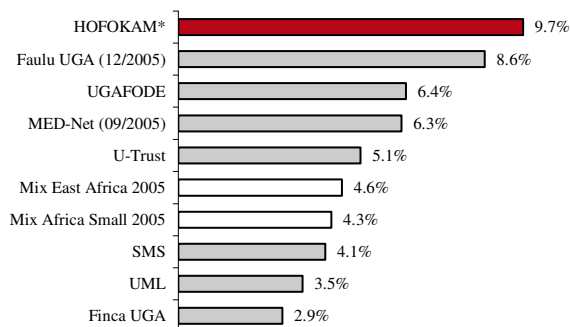
Loan portfolio



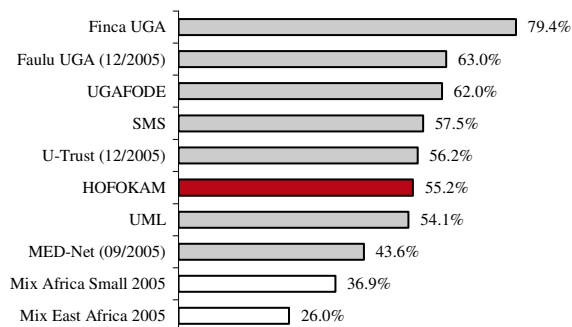
Staff productivity



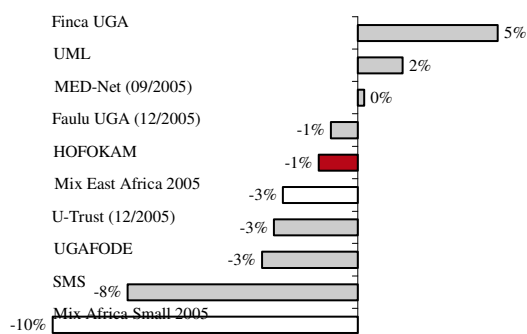
PAR 31-365



Portfolio Yield



ARO



Source: www.mixmarket.org (12/2006) unless stated otherwise
MFIs: Faulu Uganda, Finca Uganda, HOFOKAM, MED-Net, Success Microfinance Services (SMS), Uganda Finance Trust (UFT), Uganda Microfinance Limited (UML), UGAFODE
MBB Peer groups; benchmarks 2005 (medians)

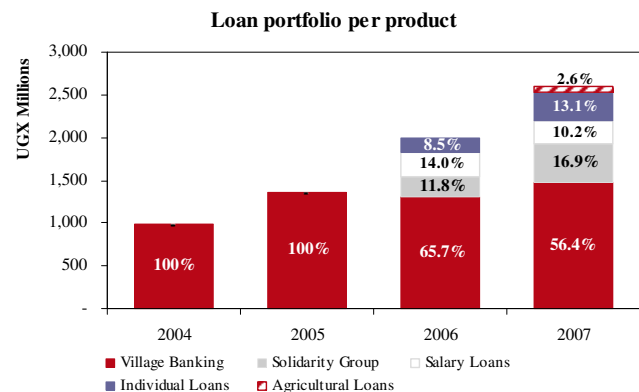
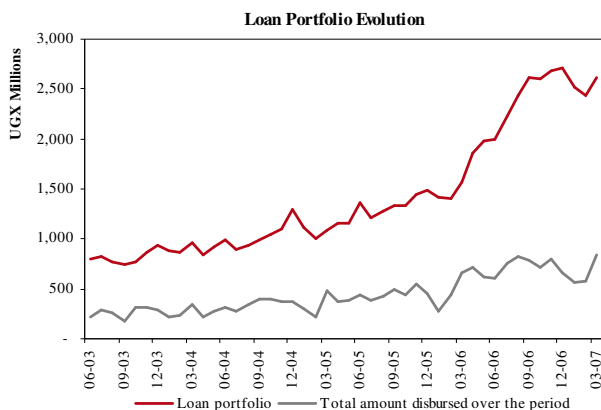
* PAR data of HOFOKAM is calculated more conservatively including the whole group loan in PAR when a minimum of one group member is late.

■ Performance indicators

Data in USD, unless otherwise stated

Loan Portfolio	Jun. 2004	Jun. 2005	Jun. 2006	Mar. 2007*
Loan portfolio	558,169	783,835	1,080,762	1,471,909
Loan portfolio (UGX)	995,092,273	1,359,169,529	1,989,682,288	2,621,470,491
Evolution	25.7%	36.6%	46.4%	31.8%
Average outstanding loan portfolio	479,896	623,943	815,497	1,406,339
Active borrowers	10,645	10,235	11,555	14,270
Evolution	16.2%	(3.9%)	12.9%	23.5%
Average outstanding loan per client	52	77	94	103
% of GDP per capita	19.7%	25.2%	29.8%	28.7%
Average amount disbursed per loan	105	135	193	236
% of GDP per capita	39.6%	44.5%	61.7%	65.7%
PAR 31-365	12.9%	3.1%	2.7%	9.4%
PAR > 365	0.0%	0.0%	0.0%	0.3%
Write-off ratio	0.0%	2.2%	3.6%	0.0%
Risk coverage ratio	70.3%	169.7%	65.6%	31.8%
PAR 31 net of loan loss provision / Equity	2.8%	(1.7%)	0.7%	5.4%
Staff	Jun. 2004	Jun. 2005	Jun. 2006	Mar. 2007
Total number of staff	63	58	65	63
% Credit officers	61.9%	60.3%	60.0%	58.7%
Turnover	22.0%	13.2%	17.9%	7.8%
Profitability analysis	Jun. 2004	Jun. 2005	Jun. 2006	Mar. 2007
ROE	(31.7%)	(28.2%)	(6.2%)	5.7%
Liabilities / Equity	0.0x	0.0x	0.1x	0.1x
ROA	(31.0%)	(27.4%)	(5.8%)	5.2%
Portfolio Yield	48.0%	62.0%	57.9%	50.8%
Operating expense ratio	100.0%	102.9%	67.9%	41.2%
Cost per borrower	80,403	108,783	88,177	72,400
Staff productivity	169	176	178	227
Loan officer productivity	273	292	296	386
Average outstanding loan per client (USD)	52	77	94	103
Funding expense ratio	0.0%	0.0%	0.3%	0.6%
Cost of liabilities	0.0%	0.0%	7.2%	13.8%
Loan Loss Provision expense ratio	2.2%	0.6%	1.1%	2.4%
Outstanding Loan Portfolio / Assets	64.7%	74.7%	70.6%	72.1%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%	0.0%
Liquidity / Total assets (LAR)	21.6%	14.8%	19.0%	16.3%
Exchange rate 1 USD= xx UGX	1,782	1,734	1,841	1,781

* March 2007 indicators are based on financial statements that do not include loan loss provision or write-offs



HOFOKAM Income Statement	Notes	K UGX				USD				Evolution		
		Jun. 2004	Jun. 2005	Jun. 2006	Mar. 2007	Jun. 2004	Jun. 2005	Jun. 2006	Mar. 2007	2005/ 2004	2006/ 2005	2007/ 2006
Financial Revenue (a)		453,821	691,851	909,630	955,337	254,558	398,991	494,095	536,405	52.5%	31.5%	5.0%
Financial Revenue from Loan Portfolio		410,429	670,951	869,829	953,948	230,218	386,938	472,477	535,625	63.5%	29.6%	9.7%
Interest on Loan Portfolio		410,429	625,162	821,708	894,750	230,218	360,532	446,338	502,386	52.3%	31.4%	8.9%
Fees and Commissions on Loan Portfolio		-	41,098	48,122	59,198	-	23,702	26,139	33,239	-	17.1%	23.0%
Penalty Revenue on Loan Portfolio		-	4,690	-	-	-	2,705	-	-	-	(100.0%)	-
Financial Revenue from Investments		-	-	-	-	-	-	-	-	-	-	-
Other Operating Revenue		43,393	20,900	39,800	1,389	24,340	12,053	21,619	780	(51.8%)	90.4%	(96.5%)
Financial Expense (b)		-	-	4,875	11,700	-	-	2,648	6,569	-	-	140.0%
Interest paid on borrowings		-	-	4,875	11,700	-	-	2,648	6,569	-	-	140.0%
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses		-	-	-	-	-	-	-	-	-	-	-
Financial income [c=a-b]		453,821	691,851	904,755	943,637	254,558	398,991	491,447	529,835	52.5%	30.8%	4.3%
Net Loan Loss provision expense (d)		18,756	6,005	16,107	45,862	10,520	3,463	8,749	25,751	(68.0%)	168.2%	184.7%
Loan loss provision expense and write-off	1	18,756	6,005	16,107	45,862	10,520	3,463	8,749	25,751	(68.0%)	168.2%	184.7%
Recovery from Loans written off		-	-	-	-	-	-	-	-	-	-	-
Operating expense (e)		855,892	1,113,390	1,018,886	774,864	480,089	642,094	553,442	435,072	30.1%	(8.5%)	(23.9%)
Personnel Expense (includes fringe)		300,398	419,388	491,024	443,037	168,500	241,862	266,716	248,757	39.6%	17.1%	(9.8%)
Administrative Expense (non-staff operating expenses)		555,495	694,002	527,862	331,827	311,589	400,232	286,726	186,315	21.5%	24.9%	(23.9%)
Depreciation and amortization		68,580	39,164	60,017	33,241	38,468	22,586	32,600	18,664	(42.9%)	53.2%	(44.6%)
Consulting fees		32,651	9,695	9,785	8,045	18,315	5,591	5,315	4,517	(70.3%)	0.9%	(17.8%)
Rental costs		24,291	36,846	45,896	36,623	13,625	21,249	24,930	20,563	51.7%	24.6%	(20.2%)
Travel, per diem & accommodation costs		60,034	87,535	30,347	13,941	33,675	50,482	16,484	7,828	45.8%	(65.3%)	(54.1%)
Printing, stationary, general office expenses		144,612	264,837	157,800	89,969	81,116	152,732	85,714	50,516	83.1%	(40.4%)	(43.0%)
BOD fees		2,219	10,739	8,590	13,413	1,245	6,193	4,666	7,531	383.9%	(20.0%)	56.1%
Bank charges		18,940	24,272	16,746	20,328	10,624	13,998	9,096	11,414	28.2%	(31.0%)	21.4%
Motor vehicle/cycle expenses		178,964	172,651	176,376	108,890	100,385	99,568	95,805	61,140	(3.5%)	2.2%	(38.3%)
Training costs		23,848	28,953	22,305	7,377	13,377	16,697	12,116	4,142	21.4%	(23.0%)	(66.9%)
Others		1,355	19,310	-	-	760	11,136	-	-	1,325.2%	(100.0%)	-
Net Operating Income Before Taxes and Donations [f=c-d-e]		(420,826)	(427,544)	(130,239)	122,911	(236,051)	(246,565)	(70,744)	69,012	1.6%	(69.5%)	(194.4%)
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		(420,826)	(427,544)	(130,239)	122,911	(236,051)	(246,565)	(70,744)	69,012	1.6%	(69.5%)	(194.4%)
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	2	5,246	25,750	-	-	2,943	14,850	-	-	390.8%	(100.0%)	-
Net Income Before Donations [k=h+i-j]		(426,073)	(453,294)	(130,239)	122,911	(238,993)	(261,415)	(70,744)	69,012	6.4%	(71.3%)	(194.4%)
Donations (l)		285,304	504,865	87,000	-	160,033	291,156	47,257	-	77.0%	(82.8%)	(100.0%)
Net Income (after Taxes and Donations) [m=k+l]	1	(140,768)	51,571	(43,239)	122,911	(78,960)	29,741	(23,487)	69,012	(115.0%)	(136.6%)	(183.8%)

HOFOKAM Balance sheet	Notes	K UGX				USD				Evolution		
		Jun. 2004	Jun. 2005	Jun. 2006	Mar. 2007	Jun. 2004	Jun. 2005	Jun. 2006	Mar. 2007	2005/ 2004	2006/ 2005	2007/ 2006
ASSETS		1,395,078	1,721,813	2,769,828	3,522,937	782,529	992,972	1,504,524	1,978,067	23.4%	60.9%	27.2%
Short Term Assets		1,275,762	1,595,118	2,642,392	3,386,120	715,602	919,907	1,435,302	1,901,247	25.0%	65.7%	28.1%
Cash and Due from Banks		301,009	255,478	526,014	574,035	168,843	147,335	285,722	322,310	(15.1%)	105.9%	9.1%
Short Term Investments		-	-	96,170	219,655	-	-	52,238	123,332	-	-	128.4%
Short Term Net Loan Portfolio		904,938	1,287,010	1,954,852	2,540,779	507,599	742,220	1,061,843	1,426,602	42.2%	51.9%	30.0%
Short Term Gross Loan Portfolio		995,092	1,359,170	1,989,682	2,621,470	558,169	783,835	1,080,762	1,471,909	36.6%	46.4%	31.8%
(Loan Loss Reserve)		90,155	72,159	34,830	80,692	50,570	41,614	18,919	45,307	(20.0%)	(51.7%)	131.7%
Interest Receivable		-	-	-	-	-	-	-	-	-	-	-
On loan portfolio		-	-	-	-	-	-	-	-	-	-	-
On investments		-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		69,815	52,630	65,356	51,652	39,161	30,352	35,500	29,002	(24.6%)	24.2%	(21.0%)
Long term assets		119,316	126,695	127,437	136,816	66,927	73,065	69,221	76,820	6.2%	0.6%	7.4%
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		119,316	126,695	127,437	136,816	66,927	73,065	69,221	76,820	6.2%	0.6%	7.4%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		1,395,078	1,721,813	2,769,828	3,522,937	782,529	992,972	1,504,524	1,978,067	23.4%	60.9%	27.2%
Liabilities		52,142	27,553	285,550	303,731	29,248	15,890	155,106	170,540	(47.2%)	936.4%	6.4%
Short term liabilities		52,142	27,553	210,550	273,731	29,248	15,890	114,367	153,695	(47.2%)	664.2%	30.0%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits	3	-	-	106,462	123,845	-	-	57,829	69,537	-	-	16.3%
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		1,337	-	60,918	60,000	750	-	33,090	33,689	(100.0%)	-	(1.5%)
Interest payable		-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities		50,805	27,553	43,170	89,887	28,498	15,890	23,449	50,470	(45.8%)	56.7%	108.2%
Long term liabilities		-	-	75,000	30,000	-	-	40,739	16,844	-	-	(60.0%)
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		-	-	75,000	30,000	-	-	40,739	16,844	-	-	(60.0%)
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-
Equity		1,342,935	1,694,260	2,484,278	3,219,205	753,282	977,082	1,349,418	1,807,527	26.2%	46.6%	29.6%
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-
Donated equity		2,256,045	3,065,910	4,012,173	4,568,904	1,265,465	1,768,114	2,179,344	2,565,359	35.9%	30.9%	13.9%
Retained earnings without donations and reserves		(918,356)	(1,371,651)	(1,527,895)	(1,349,699)	(515,126)	(791,033)	(829,927)	(757,832)	49.4%	11.4%	(11.7%)
Current year		(426,073)	(453,294)	(130,239)	122,911	(238,993)	(261,415)	(70,744)	69,012	6.4%	(71.3%)	(194.4%)
Other equity accounts	4	5,246	-	-	-	2,943	-	-	-	(100.0%)	-	-

Notes: 1: For 2004 and 2005 17.7 M UGX and 27.7 M UGX respectively were moved directly from the loan loss provision to the retained earnings without passing through the income statement in the AFS. In the financial statements provided here this has been restated in the income statement to present the fair loan loss provision expenses and net income of HOFOKAM; 2: Cash loss during cash transport for disbursement at Hoima branch; 3: Savings deposits held for customers securing solidarity group loans; 4: Provision for stolen cash.

■ Formulas

Personnel productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Loan officer productivity:	$\text{Active borrowers} / \text{Total Loan Officers (end of period)}$
Return on assets (ROA):	$\text{Net operating income before donations} / \text{Average assets}$
Adjusted return on assets (AROA):	$\text{Adjusted net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Adjusted return on equity (AROE):	$\text{Adjusted net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Debt (savings + debts)} / \text{equity (end of period)}$
Portfolio yield:	$\text{Portfolio revenue} / \text{13-month average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{13-month average gross outstanding portfolio}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{13-month average gross outstanding portfolio}$
Cost of savings ratio:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings ratio:	$\text{Interest and fees paid on borrowings} / \text{Average borrowing}$
Loan loss expense ratio:	$\text{Net loan loss expense} / \text{13-month average gross outstanding portfolio}$
Adjustment expense ratio:	$\text{Total adjustments} / \text{13-month average gross outstanding portfolio}$
Net portfolio as a % of assets:	$\text{Net outstanding portfolio} / \text{total assets (end of period)}$
Financial self-sufficiency:	$\text{Revenue from operations} / (\text{Expenses (financial, loan loss, operating)} + \text{Adjustments})$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$
Write-off ratio:	$\text{Loans written off} / \text{13-month average gross outstanding portfolio}$

■ Rating scale

Rating	Definition
A+	Excellent
A	The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
A-	
B+	Good
B	Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
B-	
C+	Minimum required
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D	Insufficient
	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	Immediate risk of default or very insufficient
	There are immediate or underlying risks for operations or an unacceptable under performance.