

## Rating

**E**

**Immediate risk of default or very insufficient**

There are immediate or underlying risks for operations or an unacceptable under performance.



## Performance indicators

(USD unless otherwise stated)

	Aug. 2003	Aug. 2004	Aug. 2005	Aug. 2006
<b>ACTIVITY</b>				
Total number of staff	8	10	12	13
Total assets (USD)	88,099	130,563	200,396	207,028
(M UGS)	156.8	238.9	366.7	383
Loan portfolio	70,153	105,040	160,038	167,673
Outstanding deposits	45,760	97,163	138,266	138,851
Active borrowers	192	299	439	429
Total depositors	893	1,177	1,443	1,581
APR	N/A	N/A	59.7%	60.4%
PAR 31-365 (%)*	0.0	9.7	15.0	4.5
PAR > 365 (%)*	0.0	0.0	0.0	9.6
Write-off ratio (%)	0.0	0.0	0.0	0.0
Risk coverage ratio	N/A	109.2	17.0	
<b>PERFORMANCE</b>				
ROE (%)*	41.9	49.6	33.0	16.1
Liabilities / Equity	117.4	290.9	273.3	231.3
ROA (%)*	22.3	16.7	8.7	4.6
OSS (%)*	160.5	172.6	130.3	118.6
FSS (%)*	160.5	157.8	86.8	86.6
Portfolio Yield (%)	50.4	48.0	42.1	34.6
Operating exp. Ratio	22.8	22.1	38.2	29.3
Staff productivity	24	30	37	33
Funding exp. Ratio	0.1	6.2	3.7	2.9
<b>GROWTH</b>				
Loan portfolio	271.8	53.9	52.4	5.9
Growth (%)				
Savings portfolio	218.7	118.3	42.3	1.5
growth (%)				
Assets growth (%)	539.2	52.4	53.5	4.4
<b>1 USD= xx UGX</b>	<b>1,780</b>	<b>1,830</b>	<b>1,830</b>	<b>1,850</b>

\* Not reliable data

## KALCADA, Uganda

**Oct 2006**

### Description of the institution

Kamwenge Lay Catholic Development Agency (KALCADA) is a Savings and Credit Co-operative Society (SACCO) operating within the western Uganda district of Kamwenge. Created in March 2000 it began operations in May of the same year as company limited by guarantee. In August 2003, it converted to a SACCO enabling deposit mobilization from its members. With three branches, KALCADA serves a clientele typically comprising of local micro-entrepreneurs engaged in various small businesses and micro-enterprises. As of August 2006, KALCADA had an outstanding loan portfolio of 310.1 M UGS serving 429 borrowers in addition to holding deposits of 1,581 members.

### Evaluation summary

KALCADA is a very weak institution handicapped by both serious operational weaknesses and unfavorable competitive environment. It has weak and inefficient governance and management structures resulting in unclear leadership and poor execution capability. Past unplanned geographic expansion combined with poor portfolio management practices and lack of control explain the present poor portfolio quality. Crucial elements such as adequate risk management procedures, effective information management systems as well as comprehensive planning processes continue to be conspicuously absent within the institution and further exacerbate an already worrying situation. KALCADA also does not have a coherent or credible market strategy to face the increasingly tough competitive environment and keep its clients in the long term. The institution is highly vulnerable to liquidity and default risks.

### Improvements needed to reach minimum requirements on specific evaluation areas

- Establish clear authority lines and accountability targets between BOD and management and undertake to carry out more training on governance, planning and oversight issues.
- Establish a clear and feasible IT strategic plan to utilize existing IT equipment and software for better and more secure accounting and portfolio tracking procedures.
- Institute and enforce risk management procedures at all levels (both cash and loan operations) and ensure adequate resources are dedicated to the above.

### Strategic goals

KALCADA's medium term goals are targeted at increasing its clientele base and geographical coverage to cover a wider portion of the Kamwenge district.

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## ▪ Institutional presentation

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### Networks

KALCADA Savings and Credit Society Ltd. (KALCADA) is a member of the Association of Microfinance Institutions of Uganda (AMFIU) as well as the Uganda Co-operatives Alliance. The institution is also affiliated to Kamwenge Catholic Men's Association, its founding body.

### Ownership

KALCADA was founded by members of the Kamwenge Catholic Men's Association, a local community based organization within Kamwenge district, which currently takes up the majority of the places on the 9-member Board of Directors (BOD) that governs KALCADA. The present BOD comprises community members engaged in civil service as well as private business. The BOD periodically reports to the founding body as well as to its shareholders/members through the annual general meeting (AGM). Besides formulating the strategic direction of the institution, KALCADA's BOD also forms sub-committees that are responsible for overseeing various activities and operations of the institution (including the credit, audit and human resource sub-committees). The current BOD was elected in March 2006, with the majority of the BOD members being re-elected, and will serve for a three-year term.

### Legal form, supervision and audit

Since August 2003, KALCADA has been operating as a SACCO registered under the 1991 Co-operatives Statute (currently undergoing amendment) and governed by the Co-operatives Regulations Act (1992). Prior to that, the institution operated as a company limited by guarantee from the time of its establishment in 2000.

As a SACCO, KALCADA falls under the tier four (IV) category of microfinance institutions, as established by the financial institutions categorization in 2003, and hence is not subject to any direct supervision by the Central Bank (Bank of Uganda). Nevertheless SACCOs are supposed to provide periodic reports to the District Co-operatives Officers (DCO) under the district commercial division for general supervision and overseeing of their activities.

The institution is currently audited by KIRT Associates as the external auditor after a recommendation by the DCO in 2005 to hire the services of a professional audit firm. Previously KALCADA was being audited by the Private Sector Development and Consultancy Centre (which wasn't qualified to provide the above services). Since then KIRT Associates have provided annual audits of the institution's financial statements since August 2005.

### Donations

KALCADA has received a considerable number of donations in form of capacity building grants from organizations such as the Bank of Uganda and the EU - GoU SUFFICE program. As recently as September 2006, the institution secured a product development grant from the SUFFICE program amounting to UGS 29M (approx. USD 15, 675).

### Management team

KALCADA's management team is small and made up of the Manager, Accountant (acting also as Finance Manager) and chief cashier. A senior loan officer informally plays the role of the Operations Manager. The Manager, senior loan officer and chief cashier have been in their present positions since the inception. Both the Manager and senior loan officer are also founders of KALCADA. Loan approval is centralized at the head office. Besides the main branch situated in Kamwenge town, KALCADA has two other branches at Bwizi and Kabuga trading centres about 5km and 14km from Kamwenge town respectively. Each branch is currently staffed by one person that doubles as a credit officer and branch manager. This officer is responsible for all day-to-day operations at the branch (including loan appraisal, disbursement and recovery as well as savings' collection and liquidity management) and periodically reports to management at the main branch. A branch typically does not have its own infrastructure.

### Market penetration

KALCADA operations are currently limited to Kamwenge district where its 3-branch network covers the central and eastern parts of district. With its branches situated in the small rural trading centers, its target clientele comprise mainly rural peasants engaged in various forms of micro-business and farming activities. However the clientele in and around Kamwenge town council undertake activities of a more commercial nature in comparison to their rural counterparts at the other branches e.g. wholesale consumer commodity trade, transportation, produce dealing and grain milling amongst many others. The Kamwenge town council branch also has the bulk of the KALCADA's total clientele (although the institution currently doesn't produce reports to show detailed breakdown per branch).

### Products and services

At present KALCADA offers two savings products to its members; a normal savings product earning 5% interest p.a. (with mandatory requirements of two shares and a minimum balance of UGS 10,000) and the fixed deposit product for varying periods ranging between 6–12 months offering interest between 5-12% p.a. The institution also collects school fees for a number of locally based educational institutions.

Additionally, the institution offers a number of loan products using both solidarity group and individual lending methodologies. Loan products include working capital loans and capital asset loans (both of these offered to members operating businesses) as well as employer guarantee/salary loans, school fees loans and development loans. Loan amounts range from 50,000 to 5M UGS. All loans, irrespective of category or borrower, bear a flat interest rate of 3% per month. Other related charges include application fees of 5,000 UGS and processing fees amounting to 1% of the approved loan amount. All loan applicants are additionally required to be residents of Kamwenge district and members of the SACCO. Repayment periods vary for the different products, ranging from 3 to 12 months, while any delay in repayment attracts a penalty or default fee amounting to 3% of the instalment amount due. Loan APRs range from 54% to 60% depending on loan product.

## ■ Governance

**Governance and Decision Making** is rated “e”

Kamwenge Catholic Men’s Association, the founding body of KALCADA, continues to exercise a considerable amount of influence on the institution’s strategic direction and decision processes three years onwards after its transformation from a company to a SACCO. The above is visibly evident through the active presence of founding members on both the BOD and management team of the institution.

### Decision making

- + KALCADA mission and vision are clearly outlined with particular attention focused on the socio-economic liberalization of members and targeted at the mostly rural clientele within the institution’s areas of operation. The above are well understood and ardently pursued by both the BOD and management team in setting out the strategic targets and goals of the institution.
- + Meetings are held on a regular basis, are well attended and documented, and actively involve the management team. Most BOD members exhibit a commendable level of commitment, not only to the strategic planning and decision-making process, but also to the day-to-day running of the institution. The latter is done through the BOD sub-committees (on supervisory, human resource, credit and audit issues) that are actively involved in the respective processes of loan approval, staff recruitment and institution audit.
- By and large, KALCADA benefits from an inclusive decision making process, with regular and open meetings and communication between the management and the BOD (particularly as a result of their shared

background in the institution’s founding body) as well as other branch staff.

- However this depicted relationship between the BOD and the management team (some of whom are also founders on the same footing as the BOD members) lacks clarity and boundary between what responsibilities and powers each party should have. This has led, in many circumstances, to unclear authority, indecision and weak accountability. This situation limits not only the scope of fresh ideas within the institution but, more importantly, presents a potential conflict of interest in setting out to implement and accomplish good governance practices.
- The BOD also lacks specific experience in microfinance, has weak knowledge of best practices and institution governance, although some training has been done to try and address these shortcomings.
- Despite the presence of BOD subcommittees to oversee and address specific issues such as credit and audit, these Committees often lack the essential information from management (such as monthly performance reports) to facilitate informed decision-making, outline action plans (which are themselves lacking) and institute follow-up mechanisms (as evidenced by the recurrence of discussions on management performance and efficiency without much action).
- The institution has exhibited a notable level of laxity in keeping the overall membership informed about matters regarding the strategic direction it wishes to take as evidenced by the continued delay in holding AGM sometimes reaching six months into the subsequent financial year.

### Planning

- + Within the last six years of its operations, KALCADA has developed two business plans. The most recent business plan (BP), for the period 2005-07, is a comprehensively written plan that attempts to map out the strategic direction and way forward for the institution (particularly in as far as growth and outreach are concerned).
- However, the bulk of the latest BP was formulated and developed by an external consultant, with noticeably minimal input from the institution’s BOD, management and other stakeholders. The above is clearly evidenced by the overly ambitious growth and outreach targets set out in the plan (which even the management team agreed were next to unattainable under the prevailing circumstances in the sector i.e. increasing competition).
- Furthermore, the BP lacks a deeper analysis of the institution (its activities and performance) as a basis for identifying deficiencies and setting out realistic targets. In particular, it fails to address certain crucial areas such as the MIS development as well as competitor analysis

vis-à-vis product development, growth and outreach strategies.

- While there are attempts to engage and involve the BOD, management and operational staff in the current planning processes, the shortage of planning skills, lack of adequate information to back up projections and over-reliance on external consultants, means that despite official endorsement of the BP, its actual institutional ownership or buy-in is questionable.
- Furthermore, while the institution undertakes budgeting, a number of assumptions, particularly the productivity levels as earlier indicated, are overly optimistic and have proved difficult to reach given that over the last two years the institution has fallen short of its productivity expectations.
- There is little evidence to show that the budget is consistently and regularly tracked against actual expenditures and analyzed for overruns. The latter is exacerbated by the evident laxity in monitoring branch operations in particular.

#### Management team

- + KALCADA's management team demonstrates noteworthy commitment and motivation. Management roles and job descriptions are clearly defined in the HR manual and there is an evident open communication policy both within and between management and the respective board sub-committees involved in the day-to-day running of the institution.
- However the institution clearly exhibits an overall shortage of skills and knowledge at managerial level and shows heavy reliance on experience of individuals who have local knowledge of the area or have been part of the founding body. Recruitment trends over the last three years have shown that the "insiders" are favored over "outsiders" who might possess the necessary formal education levels and appropriate skills that KALCADA needs.
- Management team efficiency and effectiveness is severely affected by the low degree of polyvalence and a questionable line of delegation of duties. Presently only the Manager and the accountant are able to prepare reports and conversantly use the available computers to do so. The case at branch level is even more disturbing given that in addition to the low skills' level and qualifications, there has been no formalized management training to prepare for such roles.

#### Human resource management

KALCADA's HR issues are handled by the BOD's sub-committee on human resources backed by the HR policy manual that was formalized in 2004.

- + The head of the HR sub-committee demonstrates an understanding of the importance of a proper HR policy

and its role within the overall development of the institution.

- However there are still notable inconsistencies between the stipulations in the policy manual and the actual reality on the ground, despite the existence of a comprehensive HR manual. The HR sub-committee has shown an inability to enforce many of the HR policy requirements (particularly those regarding recruitment, training and appraisals), although it also puts this down to lack of commitment and support from the BOD executives.
- There has been an under-investment in HR. Recruitment has not been strategically done that should tie in with identified needs. Recruitment has focused more on local knowledge and relation to the founding body rather than relevant qualifications and skills which has severely affected the skills pool of the institution HR pool.
- While there has been some general training over the last couple of years, there is a continued lack of more specialized training targeted at specific areas, particularly computer skills training, loan appraisal techniques, planning and budgeting techniques among others, which is clearly needed to bolster the institution's operations and outreach strategies.
- Nevertheless staff turn-over rate remains low perhaps due to the fact that employees are often also founders as well as the lack of alternative employment opportunities within the area. Still, recent salary-scale revisions have been proposed to match those in the sector, increase staff motivation and attract high quality staff.

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#### Areas for improvement:

- \* Establish clear authority lines and accountability targets between BOD and management
  - \* Provide more training to BOD members on governance and oversight issues
  - \* Adapt the BP goals to its current capability and closely monitor progress
  - \* Identify skills gaps, boost training and recruitment in key managerial functions
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## Information

Information and equipment is rated "e"

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#### Description of the MIS

- |           |  |
|-----------|--|
| Equipment | <ul style="list-style-type: none"><li>▪ IT equipment availability and use limited to HQ in Kamwenge town</li><li>▪ Presently equipment includes 2 desktop computers, 1 laptop and 1 printer; all provided by a grant from the Bank of Uganda</li><li>▪ No internal network or internet access in the institution</li></ul> |
|-----------|--|
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Accounting	<ul style="list-style-type: none"> <li>▪ Accounting is done manually at individual branches independently</li> <li>▪ Monthly reconciliation with bank statements normally done at HQ branch only</li> <li>▪ Annual reconciliation done to harmonize branch data for the whole institution</li> </ul>
Portfolio information	<ul style="list-style-type: none"> <li>▪ Information collected and generated manually by LOs and accountant</li> <li>▪ Data from the branches and sent to HQ once a year for reconciliation</li> <li>▪ Minimal information generated.</li> </ul>

### Management Information System (MIS) and equipment

- Despite numerous recommendations and attempts at computerisation, KALCADA's MIS is still very rudimentary. The bulk of the institution's information collection and management procedures are still carried out manually and even the use of basic software (such as Microsoft Excel) remains hugely limited.
- Both the Bank of Uganda and the Private Sector Development Program (under UNDP) have provided equipment, software and related training aimed at improving the MIS, however the major obstacle for the institution remains the low levels of computer literacy among the majority of KALCADA's staff that ultimately results in under-utilization of IT assets.
- No one pushes for or requires regular use of existing IT assets and infrastructure despite having access to solar power. Management has acknowledged this situation, but lacks concrete plan to tackle this issue. In the mean time, the manual system in place is quite inefficient, error prone and time-consuming. It has a limited capacity in as far as information analysis is concerned and is prone to errors and frauds (particularly in the process of recording and transfer of data).
- Data security levels are insufficient as most information is stored in hardcopy and prone to loss or destruction through fire or theft.

### Information on activities

- The quality of portfolio data is low. The current manual system and lack of an efficient data gathering/processing process only allows for annual data compilation which is compounded by limitations in staff skills and proper procedures. Information gathered continues to be unreliable and untimely due to errors, lack of control and infrequent reconciliation. Outside the annual date, it is not possible to have a consolidated picture of the institution or by branch.

- Detailed portfolio data by product, LO or branch has been hitherto unavailable (the portfolio was only recently divided among individual loan officers otherwise it used to be monitored as a whole).

### Financial and accounting information

- ✦ Financial and accounting information is collected using a relatively efficient and simple manual system and set of procedures. Procedures at the main branch are in place to cross-check and reconcile all financial data particularly. Some Excel files are used to track and store data.
- However the situation in the branches is far more appalling as there is evidence to suggest delays of up to a month in reconciling accounts by the branch personnel. Furthermore there is a lack of procedures to ensure that financial performance is tracked against projections at both HQ and branches.
- There continues to be a skills' gap in the staff handling the compilation and analysis of financial data (particularly those at branch level) and hence the need for further training of existing staff as well as recruitment of knowledgeable staff.

### Areas for improvement:

- ✦ Establish a plan to utilize the existing IT equipment and software for both accounting and portfolio tracking
- ✦ Update data gathering and processing from all branches in order to be able to produce at least quarterly reports
- ✦ Conduct systematic and regular data reconciliation to detect errors and anomalies in order to improve data quality
- ✦ Develop better ways to store and protect physical data files, boost IT skills for managers

## Risk

**Risk Management** is rated "e"

### Procedures and internal controls

- ✦ A significant number of procedures relating to various internal controls are in place and well documented within both the HR and lending procedures manuals. At the main branch there is a clear separation of duties and an adequately established set of approval limits involved both in the cash based transactions as well as loans' approval procedures.
- Key management staff is aware and have adequate understanding of internal control procedures and compliance requirements. However awareness levels are less sufficient both at the other branches and among junior staff at the main branch, which is potentially problematic given that delegation of managerial duties sometimes involves junior staff.

- Notably though, the above control chain establishment is lacking at the other branches which are manned by only one staff member (particularly for cash based transactions). Furthermore, there is also an evident laxity among some staff in complying with policy (despite the existence of comprehensive policy manuals). The latter clearly highlights a heightened exposure to fraud risk, particularly at branch levels and necessitates more stringent supervision and monitoring on the side of management to ensure stricter adherence to procedures.
- + Cash management and handling procedures at the head branch are in place and adequately address potential risks (strong room and safe with restricted access as well as presence of armed security personnel). Additionally, there are clearly set out cash limits at the counters and in the strong room.
- Even so, the procedures involving transportation of cash (from the main branch to linkage banks or branches) present a significant risk while the storage and cash handling and safekeeping procedures at the other branches are especially poor (further exposure to risk of fraud).

#### Internal audit

- KALCADA has a set of audit procedures in place that generally fall under the responsibilities of the institution's supervisory/audit committee headed by a BOD member, who is also a sub-accountant with Kamwenge district, on voluntary basis.
- However, besides the outlined duties of the above committee contained within the HR manual, the institution has no formalized audit procedures' manual specifying the audit plan, processes and methodology.
- The voluntary nature of the IA committee means audits are performed as and when members are available. Audit reports and follow-up action plans on recommendations are few and far apart, seldom delving into potential risk identification such as fraud detection, investigation and minimization. KALCADA remains extremely vulnerable to fraud and such fraud might not be detected quickly given the scarce and largely unsystematic controls in place.
- The institution's external auditors were hitherto unrecognized until recently when recommendations were taken up to change to a recognized audit firm. The internal audit component of the institution needs similar urgent corrective action to yield the required output.

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#### Areas for improvement:

- \* Raise awareness and instil a control culture in all operational levels
  - \* Enhance the enforcement of existing rules and procedures
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- \* Identify key risks to be controlled and dedicate the necessary resources
  - \* Get the BOD more involved in control issues
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## ■ Activities

**Activities: products and services** is rated "e"

#### Marketing and competition

KALCADA faces competition from a diverse spectrum of institutions within Kamwenge district. The latter range from similarly sized SACCOs and Village banks (that number about five) to the much larger upper tier four and tier three institutions (such as HOKOFAM, BUTO and Uganda Finance Trust) whose operations, unlike the first group, surpass Kamwenge district boundaries. This prevailing situation is likely to become even more competitive as commercial banks such as Centenary Bank look set to establish branches within the district in the near future and government plans to expand the SACCO movement get underway.

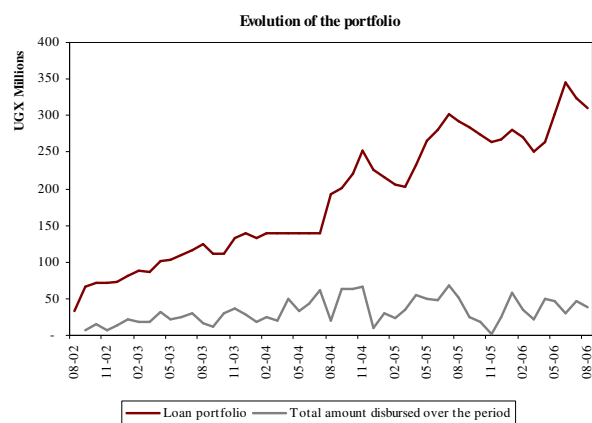
KALCADA has no significant competitive advantage over the majority of its competition as most of them offer almost identical products (in terms of product nature, pricing and flexibility). The institution is yet to embark on any concrete marketing strategy and has to date relied mainly on existing members' loyalty which is steadily dwindling as competition grows. An earlier strategy that entailed opening up of the two branches in Kabuga and Bwizi, and was meant to penetrate new, more remote areas less touched by the competition, has ended up increasing the operational costs and the risks of the institution due to difficulties in monitoring, control and supervision.

#### Credit Methodology/Portfolio Management

- + KALCADA's credit procedures are clearly outlined in its lending policies and procedures manual and spell out the required steps from client appraisal and business evaluation, client training and loan approval. The manual further specifies procedures and guidelines regarding portfolio monitoring and loan tracking as well as repayment and recovery of late loans.
- It is expected (as stipulated in the HR manual) that LOs must regularly read and apply the above guidelines in their day-to-day operations within the institution. Nonetheless, proper procedures seem to be repeatedly overlooked and guidelines poorly applied by LOs both at the head branch and other branches. Appraisal of clients, particularly for individual loan products, is observably deficient as a result of poor appraisal skills and insufficient training among LOs while there is also an element of laxity in appraisal of the institution's longer serving clients.

- Efforts to improve portfolio quality by increasing loan monitoring and client follow-up (through the creation of daily activity schedules for LOs and a field report log) have been hampered by the delay in portfolio allotment among LOs, particularly at the main branch. Delinquency management remains particularly poor as evidenced by recurrence and persistence of problems related to laxity and poor loan appraisal on the part of LOs.
- While performance indicators exist for the overall loan portfolio, there is lack of systematic mechanisms to ensure maintenance of tolerable levels (e.g. PAR at max. 5%) particularly as portfolio is not divided up among individual officers but handled as a whole by all LOs.

### Portfolio evolution and composition



KALCADA has witnessed a continued growth in its portfolio over the last three years, albeit the uneven nature of this growth, and has registered an increase from slightly under UGS 50M in August 2002 to just about UGS 300M in mid 2006. This growth may be attributed in part to the increasing numbers of clients (which has more than doubled over the stated period), the creation of two new branches and the continued allegiance of their existing clientele. However the rate of portfolio growth has slowed down remarkably as competition within the area becomes stiffer with the entrance of new players.

The institution's portfolio product composition remains pre-dominantly working capital loans for micro-enterprises of varying nature with the bulk of these loans being advanced through solidarity groups. During the last couple of years however capital asset loans (such as construction and solar loans) have also become increasingly popular. KALCADA doesn't compile data distinctively categorizing its loan product portfolio to show the percentage share of each loan product thus making it impossible to follow product trends, performance and preferences.

### Portfolio diversification

The bulk of KALCADA's target clientele remains the local populace of Kamwenge district, mostly within a 50 mile radius of KALCADA headquarters, and in particular the low income earners. As such its portfolio comprises micro-enterprises ranging from crop production, food processing and grain trade to animal husbandry, light manufacturing and petty trade. This diverse range of economic activities within the area has ensured a continued evenly mixed portfolio. The institution also limits its risk exposure to a single client by meticulously following its policy of not exceeding the maximum loan size of UGS 5M and ensuring that no single individual loan exceeds 3% of the institution's total net assets.

### Quality of the portfolio

USD , unless otherwise stated	Aug. 03	Aug. 04	Aug. 05	Aug. 06
Loan portfolio	70,153	105,040	160,038	167,673
'000 (UGX)	124,871	192,223	292,868	310,194
Evolution (%)	271.8	53.9	52.4	5.9
Av. outst. loan	48,695	75,033	129,898	155,048
Active borrowers	192	299	439	429
Evolution (%)	-	55.7	46.8	(2.3)
Average outst. Loan per client	365	351	365	391
Av. amount disbursed	401	428	473	385
PAR 31-365 (%)	0.0	9.7	15.0	4.5
PAR > 365 (%)	0.0	0.0	0.0	9.6
Write-off ratio (%)	0.0	0.0	0.0	0.0

Note: KALCADA's PAR calculations are based on unpaid principal balance of all loans that are past due. Data is unreliable due to reasons stated in section "I" and to informal rescheduling of loans.

- KALCADA's PAR>31 estimates over the 3 year period are evidently poor even by their own set standards (the institution sets a PAR>31 of 10% as the maximum tolerable limit). This can be explained by the poor analysis and appraisal techniques applied by the loan staff (particularly for individual loan clients) that place greater reliance on personal character and securities offered, focusing less on business viability and capacity to handle the loan.
- Furthermore, greater risks exist within the clientele base around Kamwenge town as evidenced by the high levels of default and late repayments. The latter are likely to increase as a result of increased competition and cross-indebtedness as new institutions set up within the area.
- The poor quality and lateness in assembling of portfolio data means that not only are the PAR estimates a poor reflection of the actual state of affairs within the institution but also, follow-up efforts to recover late loans are also greatly hampered.

**Credit risk coverage**

	Aug. 03	Aug. 04	Aug. 05	Aug. 06
Risk coverage ratio (%)		109.2	17.0	17.0
PAR 31 net of loan loss provision / Equity (%)	(19.)	(2.8)	37.1	31.4

- The institution’s credit risk coverage is completely inadequate as shown in the above table as a result of poor provisioning methods applied. The latter is the case despite the existence of a clear loan loss provisioning policy outlined in the lending policy manual.
- Management also acknowledges that difficulties have been encountered in trying to use guarantors and collateral in the recovery and pay-off of late loans, thus making these risk coverage methods, currently in use, inadequate.

**Write off**

- The institution’s write-off policy stipulates write-off of loans over 181 days late from a provision for loan losses’ reserve, upon recommendation by management and approval by the BOD.
- However to date, KALCADA has not carried out any loan write-offs despite the presence of such loans as described above clearly highlighting non-conformity to its own policy.

**Savings Activities**

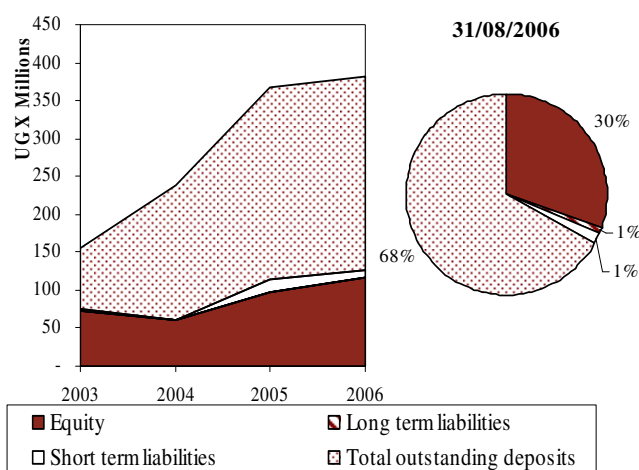
USD , unless otherwise stated	Aug. 03	Aug. 04	Aug. 05	Aug. 06
Total outstanding deposits	45,760	97,163	138,266	138,851
Total outstanding deposits ('000 UGX)	81,452	177,808	253,027	256,874
Evolution (%)	218.7	118.3	42.3	1.5
Total number of depositors	893	1,177	1,443	1,581
Evolution (%)		31.8	22.6	9.6
Average deposit balance per saver	51	83	96	88

- Despite experiencing continued growth in both the number of depositors and the outstanding deposits over the last three years, KALCADA has witnessed a notable reduction in the growth rate of both these parameters, with the growth rate in total outstanding deposits drastically reducing from over 118% in 2004 to a paltry 1.5% in 2006. The above is a clear indicator of the effects of competition that are beginning to set in as the increasing numbers of financial institutions compete for the clients’ deposits, but it is also due to KALCADA’s lack of a dynamic and effective deposit mobilization strategy to boost deposits.
- The institution offers to basic savings products; the simple savings and fixed deposits accounts. Each of these necessitates that one is a member through the

purchase of ordinary shares and interest paid out varies with each product as well as the length of time for the fixed deposits. An option also exists to allow schools to collect their fees through the institutions main branch in Kamwenge town.

**Financing and liquidity**

Financing and liquidity is rated “e”

**Funding structure**

- KALCADA funds the bulk of its activities through savings and equity (which comprised 68% and 30% respectively at the end of August 2006).
- Since its institutionalisation into a SACCO, KALCADA has been able to access a couple of loans including UGS 5M at 9% p.a. from MSCL (an indigenous wholesale lender specializing in micro-finance institutions) as well as a lease equivalent to UGS 30M from DFCU bank at 15% for a period of three years. Both these amount to less than 2% of KALCADA’s total liabilities.

	Aug. 03	Aug. 04	Aug. 05	Aug. 06
Liabilities / Equity (x)	1.1x	2.9x	2.7x	2.3x

- The institution currently remains lowly leveraged at 2.31 times its equity (the latter comprising both retained earnings and members’ shares). This level of leverage comfortably allows the institution the option of increased borrowing should the need arise in the near future (although portfolio quality will be a huge determinant on access to additional funding)

**Asset and Liability Management risks**

Identified ALM risks within KALCADA are presently considered low and controllable.

- Maturity risk: the maximum loan term for KALCADA’s portfolio term is 12 months (the majority being 6 months

or less). The bulk of this portfolio and is funded by the institution's short term fund base comprising savings (about 68%) most of which are voluntary and hence may tend to be volatile resulting in a possible mismatch in demand for loans and availability of funds

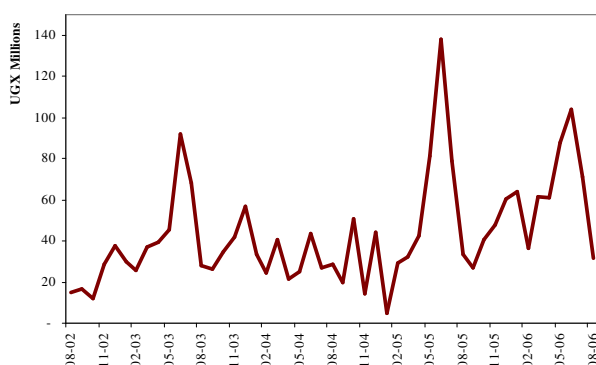
- No interest rate risk: while the institution has no active interest rate management policy; because its loans carry a fixed interest rate and its entire funding base (including the borrowed funds) is on a fixed interest rate over the entire loan period, the interest rate risks are minimised.
- No FX risks: the institution's only loan, thus far, is contracted in the local currency (UGS) and from the Microfinance Support Centre Ltd. (MSCL), a government-run wholesale MFI lender.

### Financing strategy

- KALCADA does not have an active or effective financing strategy beyond general desire to increase access to wholesale loans and boost savings. Traditional reliance on savings is now under strain as savings mobilisation has slowed resulting in a strain on the institution's growth.
- Furthermore, KALCADA has very little experience in accessing and negotiating commercial loans. To date only one loan of UGS 5M has been accessed by the institution.

### Liquidity management

Evolution of cash balance



- There exists no formalized liquidity management strategy while volatility of demand savings makes efficient liquidity management difficult.
- There is an urgent need for the institution to start performing liquidity projections and planning for anticipated cash shortages as well as excesses;
- Notably, cash management at the branches requires centralization and a closer, more efficient, monitoring system.
- While the institution has no records of any cash shortage occurring over the reviewed three year period, the trend

indicates that cash balances fell drastically during the month of January 2005

## Efficiency and Profitability

Efficiency and Profitability is rated "d"

	Aug. 03	Aug. 04	Aug. 05	*Aug. 06
ROE (%)	41.9	49.6	33.0	16.1
Liabilities / Equity (%)	117.4	290.9	273.3	231.3
ROA (%)	22.3	16.7	8.7	4.6
<b>Profit generation</b>				
OSS (%)	160.5	172.6	130.3	118.6
Portfolio Yield (%)	50.4	48.0	42.1	34.6
Operating expense ratio (%)	22.8	22.1	38.2	29.3
Staff productivity	24	30	37	33
Loan officer productivity	96	100	220	215
Average outstanding loan per client (USD)	365	351	365	391
Funding expense ratio (%)	0.1	6.2	3.7	2.9
Cost of savings		8.3	2.6	1.9
Cost of liabilities (%)				
Loan Loss Provision expense ratio (%)	15.8	4.9	(5.4)	N/A
**PAR > 31 (%)		9.7	15.0	4.5
Write-off ratio (%)	-	-	-	-
<b>Asset management</b>				
Outstanding Loan Portfolio / Assets (%)	70.9	71.9	77.8	79.0
Non-portfolio income as a % of financial revenues (%)	-	-	-	-

\*Aug '06 figures are yet to be audited and confirmed

\*\*PAR calculations are not reliable

### Overview of the profitability

KALCADA's current profitability data is inflated due to absence of loan loss provisioning since 2005 and the lack of an operational write-off policy. Even so, the institution's trend indicates a decline in profitability levels over the last couple of years affected by both reduced portfolio yields and fast expenses growth. Operational Self Sufficiency levels have dropped from just over 160% in 2003 to 118% in 2006 while ROA is just 4.6% down from 22% in 2003. Portfolio yield levels also continue to decline and currently lie at 34%, down from 50% in 2003.

### Portfolio yield and effective interest rate

The significant gap between estimated portfolio APR of about 55% and actual portfolio yield of 34.6% is a clear indication of the poor portfolio quality of the institution that exemplifies the shortfalls in KALCADA's current lending procedures.

### Operating expense ratio

The operating expense ratio currently hovers around 29% (down from 38%) although it had previously been in the region of 22% in the preceding years. The current state is not a bad a performance for a SACCO although this ratio can be further reduced by increasing the portfolio (as economies of scale reduce overall costs) as well as

embarking on implementing a more efficient MIS (although in the short term costs on training and installation will inevitably increase costs).

#### Funding expense ratio

Given the KALCADA's main source of funding is equity and members' savings. Furthermore the institution only pays interest on fixed demand deposits; its funding expense ratio is therefore expectedly low at 2.9%. However its increasing affinity for commercial funding, this ratio is likely to rise in the future.

#### Loan loss provision expense ratio

KALCADA's loan loss provisioning expense ratio for 2006 was 0%, which is notably unusual given the very poor quality of the institution's portfolio. This figure is likely to be a result of the absence of any loan loss provisioning by the institution over the current year (given the previous trend). Implementation of a proper and fully functional provisioning methodology would most likely result in a much higher figure than currently indicated.

#### Asset management

Although KALCADA currently deploys about 79% of its total assets into its income earning portfolio, there is still an evident need for clearer and more improved liquidity management in order to boost this ratio further.

#### Profitability outlook

KALCADA's profitability outlook is negative unless it can make serious improvements in areas of portfolio quality and cost control by increasing operational efficiency.

#### Formulas and ratios

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

#### Rating Scale

Factors	Area Rating	Global Rating	Explanation
4 to 5	a	A+	<b>Excellent</b> 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	
		A-	
3 to 4	b	B+	<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	
		B-	
2 to 3	c	C+	<b>Minimum required</b> Procedures are functional but with certain failings. There are minor risks in the medium term for operations, but these risks are being managed and monitored.
		C	
		C-	
1 to 2	d	D	<b>Insufficient</b> Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
0 to 1	e	E	<b>Immediate risk of default or very insufficient</b> There are immediate or underlying risks for operations or an unacceptable under performance.

## ■ Annexes

KALCADA		UGX				USD				Evolution		
Income Statement	Notes	31/08/2003	31/08/2004	31/08/2005	31/08/2006	31/08/2003	31/08/2004	31/08/2005	31/08/2006	2004/2003	2005/2004	2006/2005
<b>Financial Revenue (a)</b>		<b>53,769,801</b>	<b>78,627,167</b>	<b>112,935,384</b>	<b>109,713,962</b>	<b>30,208</b>	<b>42,966</b>	<b>61,713</b>	<b>59,305</b>	<b>46.2%</b>	<b>43.6%</b>	<b>(2.9%)</b>
Financial Revenue from Loan Portfolio		43,655,449	65,976,373	100,022,685	99,250,590	24,526	36,053	54,657	53,649	51.1%	51.6%	(0.8%)
Interest on Loan Portfolio		25,937,905	38,236,220	60,921,255	65,665,960	14,572	20,894	33,290	35,495	47.4%	59.3%	7.8%
Fees and Commissions on Loan Portfolio		13,619,000	23,404,400	34,397,500	31,911,700	7,651	12,789	18,796	17,250	71.9%	47.0%	(7.2%)
Penalty Revenue on Loan Portfolio	1	4,098,544	4,335,753	4,703,930	1,672,930	2,303	2,369	2,570	904	5.8%	8.5%	(64.4%)
Financial Revenue from Investments		-	-	-	-	-	-	-	-	-	-	-
Other Operating Revenue		10,114,352	12,650,794	12,912,699	10,463,372	5,682	6,913	7,056	5,656	25.1%	2.1%	(19.0%)
<b>Financial Expense (b)</b>		<b>86,400</b>	<b>8,490,559</b>	<b>8,818,677</b>	<b>8,359,895</b>	<b>49</b>	<b>4,640</b>	<b>4,819</b>	<b>4,519</b>	<b>9,727.0%</b>	<b>3.9%</b>	<b>(5.2%)</b>
Interest paid on borrowings	2	-	-	720,000	2,689,092	-	-	393	1,454	-	-	273.5%
Interest paid on deposits		-	8,328,359	5,923,089	5,043,735	-	4,551	3,237	2,726	-	(28.9%)	(14.8%)
Net Inflation Adjustment Expense		-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	3	86,400	162,200	2,175,588	627,068	49	89	1,189	339	87.7%	1,241.3%	(71.2%)
<b>Financial income [c=a-b]</b>		<b>53,683,401</b>	<b>70,136,608</b>	<b>104,116,707</b>	<b>101,354,067</b>	<b>30,159</b>	<b>38,326</b>	<b>56,894</b>	<b>54,786</b>	<b>30.6%</b>	<b>48.4%</b>	<b>(2.7%)</b>
<b>Net Loan Loss provision expense (d)</b>		<b>13,701,957</b>	<b>6,672,735</b>	<b>(12,923,802)</b>	<b>-</b>	<b>7,698</b>	<b>3,646</b>	<b>(7,062)</b>	<b>-</b>	<b>(51.3%)</b>	<b>(293.7%)</b>	<b>(100.0%)</b>
Loan loss provision expense and write-off		13,701,957	6,672,735	(12,923,802)	-	7,698	3,646	(7,062)	-	(51.3%)	(293.7%)	(100.0%)
Recovery from Loans written off		-	-	-	-	-	-	-	-	-	-	-
<b>Operating expense (e)</b>		<b>19,720,000</b>	<b>30,403,090</b>	<b>90,766,309</b>	<b>84,115,200</b>	<b>11,079</b>	<b>16,614</b>	<b>49,599</b>	<b>45,468</b>	<b>54.2%</b>	<b>198.5%</b>	<b>(7.3%)</b>
Personnel Expense (includes fringe)		7,450,800	14,771,500	27,439,000	32,303,650	4,186	8,072	14,994	17,461	98.3%	85.8%	17.7%
Administrative Expense (non-staff operating expenses)		12,269,200	15,631,590	63,327,309	51,811,550	6,893	8,542	34,605	28,006	27.4%	305.1%	(18.2%)
Depreciation and amortization		-	3,688,600	4,715,317	5,766,050	-	2,016	2,577	3,117	-	27.8%	22.3%
Consulting fees	4	842,000	1,765,000	3,720,000	4,065,000	473	964	2,033	2,197	109.6%	110.8%	9.3%
Printing and stationary		2,294,425	2,695,325	3,596,400	4,110,650	1,289	1,473	1,965	2,222	17.5%	33.4%	14.3%
Transport and travel		1,674,800	2,447,500	4,585,000	4,632,500	941	1,337	2,505	2,504	46.1%	87.3%	1.0%
Monitoring and supervision		1,439,000	-	1,300,000	1,465,000	808	-	710	792	(100.0%)	-	12.7%
Training and workshops		1,253,900	30,700	1,566,200	2,921,500	704	17	856	1,579	(97.6%)	5,001.6%	86.5%
Appraisal costs		1,214,300	2,626,000	2,903,700	5,291,000	682	1,435	1,587	2,860	116.3%	10.6%	82.2%
Repair and maintenance	5	1,338,175	714,500	1,336,400	1,843,200	752	390	730	996	(46.6%)	87.0%	37.9%
Others		2,212,600	1,663,965	39,604,292	21,716,650	1,243	909	21,642	11,739	(24.8%)	2,280.1%	(45.2%)
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>		<b>20,261,444</b>	<b>33,060,783</b>	<b>26,274,200</b>	<b>17,238,867</b>	<b>11,383</b>	<b>18,066</b>	<b>14,357</b>	<b>9,318</b>	<b>63.2%</b>	<b>(20.5%)</b>	<b>(34.4%)</b>
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>		<b>20,261,444</b>	<b>33,060,783</b>	<b>26,274,200</b>	<b>17,238,867</b>	<b>11,383</b>	<b>18,066</b>	<b>14,357</b>	<b>9,318</b>	<b>63.2%</b>	<b>(20.5%)</b>	<b>(34.4%)</b>
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>		<b>20,261,444</b>	<b>33,060,783</b>	<b>26,274,200</b>	<b>17,238,867</b>	<b>11,383</b>	<b>18,066</b>	<b>14,357</b>	<b>9,318</b>	<b>63.2%</b>	<b>(20.5%)</b>	<b>(34.4%)</b>
Donations (l)		155,750	5,940,000	-	-	88	3,246	-	-	3,713.8%	(100.0%)	-
<b>Net Income (after Taxes and Donations) [m=k+l]</b>		<b>20,417,194</b>	<b>39,000,783</b>	<b>26,274,200</b>	<b>17,238,867</b>	<b>11,470</b>	<b>21,312</b>	<b>14,357</b>	<b>9,318</b>	<b>91.0%</b>	<b>(32.6%)</b>	<b>(34.4%)</b>

**Planet Rating – KALCADA**

KALCADA Balance sheet	Notes	UGX					USD				Evolution		
		31/08/2002	31/08/2003	31/08/2004	31/08/2005	31/08/2006	31/08/2003	31/08/2004	31/08/2005	31/08/2006	2004/2003	2005/2004	2006/2005
<b>ASSETS</b>		<b>24,534,554</b>	<b>156,815,608</b>	<b>238,930,355</b>	<b>366,725,401</b>	<b>383,002,562</b>	<b>88,099</b>	<b>130,563</b>	<b>200,396</b>	<b>207,028</b>	<b>52.4%</b>	<b>53.5%</b>	<b>4.4%</b>
<b>Short Term Assets</b>			<b>140,913,908</b>	<b>211,675,955</b>	<b>331,924,783</b>	<b>347,551,994</b>	<b>79,165</b>	<b>115,670</b>	<b>181,380</b>	<b>187,866</b>	<b>50.2%</b>	<b>56.8%</b>	<b>4.7%</b>
Cash and Due from Banks			29,101,315	29,616,737	34,521,343	31,399,094	16,349	16,184	18,864	16,972	1.8%	16.6%	(9.0%)
Short Term Investments			-	-	-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio							62,455	93,907	155,966	163,645	54.6%	66.1%	6.1%
		33,587,553	111,169,893	171,849,218	285,417,990	302,743,850	70,153	105,040	160,038	167,673	53.9%	52.4%	5.9%
Short Term Gross Loan Portfolio (Loan Loss Reserve)		33,587,553	124,871,850	192,223,910	292,868,880	310,194,740	7,698	11,134	4,072	4,028	48.7%	(63.4%)	0.0%
Interest Receivable			-	-	-	-	-	-	-	-	-	-	-
On loan portfolio			-	-	-	-	-	-	-	-	-	-	-
On investments			-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets			642,700	10,210,000	11,985,450	13,409,050	361	5,579	6,549	7,248	1,488.6%	17.4%	11.9%
<b>Long term assets</b>			<b>15,901,700</b>	<b>27,254,400</b>	<b>34,800,618</b>	<b>35,450,568</b>	<b>8,934</b>	<b>14,893</b>	<b>19,017</b>	<b>19,162</b>	<b>71.4%</b>	<b>27.7%</b>	<b>1.9%</b>
Long Term Net Investments			-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio			-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		3,308,756	15,901,700	27,254,400	34,800,618	35,450,568	8,934	14,893	19,017	19,162	71.4%	27.7%	1.9%
Other Long Term Assets			-	-	-	-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>			<b>156,815,608</b>	<b>238,930,355</b>	<b>366,725,401</b>	<b>383,002,562</b>	<b>88,099</b>	<b>130,563</b>	<b>200,396</b>	<b>207,028</b>	<b>52.4%</b>	<b>53.5%</b>	<b>4.4%</b>
<b>Liabilities</b>			<b>84,671,925</b>	<b>177,808,607</b>	<b>268,492,415</b>	<b>267,400,134</b>	<b>47,568</b>	<b>97,163</b>	<b>146,717</b>	<b>144,541</b>	<b>110.0%</b>	<b>51.0%</b>	<b>(0.4%)</b>
Short term liabilities			84,671,925	177,808,607	268,492,415	262,400,134	47,568	97,163	146,717	141,838	110.0%	51.0%	(2.3%)
Demand Deposits		25,557,736	81,452,191	163,835,607	253,027,415	256,874,679	45,760	89,528	138,266	138,851	101.1%	54.4%	1.5%
Compulsory Deposits			-	13,973,000	-	-	-	7,636	-	-	-	(100.0%)	-
Short Term Time Deposits			-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings			-	-	-	-	-	-	-	-	-	-	-
Interest payable			3,219,734	-	-	1,150,455	1,809	-	-	622	(100.0%)	-	-
Accounts Payable and Other	1		-	-	15,465,000	4,375,000	-	-	8,451	2,365	-	-	(71.7%)
Short Term Liabilities			-	-	-	-	-	-	-	-	-	-	-
Long term liabilities			-	-	-	5,000,000	-	-	-	2,703	-	-	-
Long Term Time Deposits			-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	2		-	-	-	5,000,000	-	-	-	2,703	-	-	-
Other Long Term Liabilities			-	-	-	-	-	-	-	-	-	-	-
<b>Equity</b>		<b>24,534,554</b>	<b>72,143,683</b>	<b>61,121,748</b>	<b>98,232,986</b>	<b>115,602,428</b>	<b>40,530</b>	<b>33,400</b>	<b>53,679</b>	<b>62,488</b>	<b>(15.3%)</b>	<b>60.7%</b>	<b>17.7%</b>
Paid-In Capital			24,197,000	28,171,000	26,602,000	30,146,000	13,594	15,394	14,537	16,295	16.4%	(5.6%)	13.3%
Donated equity	3		-	-	4,000,000	4,000,000	-	-	2,186	2,162	-	-	0.0%
Retained earnings without donations and reserves			47,946,683	32,950,748	67,630,986	81,456,428	26,936	18,006	36,957	44,031	(31.3%)	105.2%	20.4%
Current year			20,261,444	33,060,783	26,274,200	17,238,867	11,383	18,066	14,357	9,318	63.2%	(20.5%)	(34.4%)
Other equity accounts			-	-	-	-	-	-	-	-	-	-	-

**Notes:**

Income Statement Notes : 1) Surcharge on loans; 2) FY2005 interest on external loan and DFCU lease; 3) Bank charges; 4) Professional fees, audit fees; 5) Motorcycle and general maintenance;  
Balance Sheet Notes: 1) Grant from Bank of Uganda