

Rating

D- Insufficient
 Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.



Performance indicators

(K USD, unless otherwise stated)

	Dec. 2003	Dec. 2004	Dec. 2005
ACTIVITY			
Total number of staff	3	4	5
Total assets (USD)	108,576	158,737	213,820
(K UGX)	210,311	274,297	389,366
Loan portfolio (USD)	75,706	126,231	150,042
Deposits (USD)	NA	NA	NA
Nb. active borrowers	190	444	617
Nb. of savers	NA	NA	NA
APR	NA	NA	NA
PAR 31-365	NA	NA	16.9%
Write-off ratio	NA	1.1%	5.2%
Risk coverage ratio	NA	NA	29.6%
PERFORMANCE			
ROE	(19.0%)	(16.2%)	(22.6%)
Liabilities / Equity	.019x	.067x	.14x
ROA	(18.7%)	(15.4%)	(20.4%)
OSS	64.8%	62.3%	58.5%
FSS	59.5%	54.9%	50.1%
Portfolio Yield	44.6%	33.7%	38.9%
Operating exp. ratio	68.8%	47.1%	60.1%
Staff productivity	63	111	123
Funding expense ratio	0.0%	0.0%	0.0%
GROWTH			
Loan portfolio growth	115.1%	48.7%	25.3%
Savings port. growth	NA	NA	NA
Assets growth	201.7%	30.4%	42.0%
1 USD = xx UGX	1,937	1,728	1,821

Note: Data not reliable; complete/audited 2006 data not available and thus not included in analysis.

KEDEP, Uganda

March 2007

Description of the institution

Kolping Entrepreneurs Development Program (KEDEP) is based in Hoima, Western Uganda and began its operations in 2003 as part of Uganda Kolping Society (UKS). UKS is a Non Governmental Organization (NGO) funded primarily by the International Kolping Society (IKS), an international Catholic NGO based in Germany. UKS is mostly engaged in a grants based development assistance projects in Uganda, but has been engaged in microfinance since 1995. KEDEP was formed after an initial UKS microfinance project, AFOS, broke away in 2002. The program has two offices, the Head Office (HO), located adjacent to the UKS country headquarters in Hoima, and a second office in Mityana trading centre, about 266 Km from the HO. In December 2006, KEDEP was spun off of UKS as a company limited by guarantee without shares, with UKS as the guarantor. As of December 2006 KEDEP serves 658 active borrowers with a current outstanding portfolio of 296 M UGX (166 K USD).

Evaluation summary

KEDEP is a very weak institution hampered by both serious operational weaknesses and an unfavorable competitive environment. It has weak and inefficient governance structures resulting in unclear leadership and poor planning and execution capability. Poor portfolio management practices and a serious 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. KEDEP also does not have a coherent market strategy to face the increasingly tough competitive environment and retain and grow its clients in the long term. However, KEDEP is unlikely to lose the support of UKS/IKS, which mitigates the risk of collapse or default in the near to medium term.

Improvements needed to reach minimum requirements on specific evaluation areas

- Establish a viable BoD with clear authority lines and accountability targets between Board and management, and carry out training on critical 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 (particularly loan operations) and ensure adequate resources are dedicated to the above.

Strategic goals

The stated vision of KEDEP is improved social economic status for families, and the stated mission is to empower individuals, families and communities through financial services and training.

■ Institutional presentation

Networks

KEDEP is a member of Association of Microfinance Institutions of Uganda (AMFIU).

Ownership

As a Company Limited by Guarantee without Shares, KEDEP is “owned” by Uganda Kolping Society, which serves as the sole guarantor. The institution is currently governed by the 9 member UKS Board of Directors, which comprises Ugandan members with different backgrounds engaged in farming, private business as well as civil service. The BoD sets the strategic direction for the entire UKS NGO, with KEDEP as a separate program under the larger initiative.

Legal form, supervision and audit

KEDEP operated from 2003 through September 2006 as a project of UKS without independent legal status. At the end of 2006, the project was converted to a Company Limited by Guarantee without Share Capital, with UKS as the sole guarantor. This legal form does not allow KEDEP to collect voluntary deposits. As such, KEDEP is not subject to any direct supervision by the central bank (Bank of Uganda). For the past three years KEDEP has been audited by ICS and Company Accountants located in Kampala (although audits for both 2005 and 2006 have not been finalized). The audits include qualifications for both 2004 and 2005. The fiscal year of KEDEP begins on January 1st and ends on December 31st.

Donations

Since the inception of the program, KEDEP has received substantial grants totaling 378,734,088 M UGX (220,194 USD). These funds are transferred from IKS to UKS and then to its various programs, including KEDEP. The donations primarily fund operations (losses) but also capital investments including 115,100,000 UGX (66,919 USD) for purchase of fixed assets including buildings, vehicles, and office equipment.

Funding

As of December 2006, KEDEP had no outstanding debts.

Management team

KEDEP’s management team consists of the General Manager at the HO along with the Mityana Branch Manager, and the UKS Deputy Executive Director, who attends all management meetings and reports to the UKS management team.

Organization

KEDEP is headquartered in Hoima and has one branch at Mityana, which opened at the same time due to the

existing UKS operations at Mityana. The HO centralizes all strategic functions and houses the management team which is further assisted by two Loan Officers (LOs) and one cashier. Branch staff is composed of a Branch Manager and a LO/Cashier. As of December 2006 the head office holds 71% of portfolio while the Mityana Branch has the remaining 29%.

Market penetration

KEDEP serves clients in and around Hoima District, as well as in around the Mityana trading center.

Products and services

KEDEP offers only credit to clients as it is not permitted to mobilize voluntary savings. There are three loan products (Commercial loans – both group and individual), water tank loans, and latrine construction loans. All loan products carry additional fees and mandatory savings, with effective interest rates ranging between 50% and 90%, and require monthly repayments. The specific loan product parameters are as follows:

- Commercial loans for working capital, offered to individuals at a rate of 24% per annum, and to groups at a rate of 30% flat with a term of 1-10 months. Fees include a 4% commitment fee and mandatory savings of 25% of the loan amount. The maximum loan size is 2M UGX.
- Water tank loans for construction of household water tanks. Specific requirements include 3 guarantors to co-sign and a deposit of ¼ of the total loan amount up front, with the remaining balance paid in 12 equal instalments, maximum 1.3 M UGX
- Toilet loans, for construction of sanitary pit latrines offered on the same term as above.

■ Governance

Governance and Decision Making is rated “d”

Decision-making

- There is currently no specific KEDEP governance organ, with KEDEP treated as simply a project of the larger UKS NGO. Although the UKS BoD meets quarterly and technically functions as the BoD of KEDEP, it does not meet specifically on strategic or operational issues concerning KEDEP.
- Main strategic and operational decisions are taken by KEDEP Management with limited oversight by BoD. Although UKS Deputy Executive Director participates in management meetings, requests to the BoD for approval (approval of formal policies and procedures, for ex.) are not addressed in a timely manner, impeding operations.
- Monthly management reports to the BoD (via Deputy Executive Director) include necessary information, like monthly profit/loss (September 2005) and budget

control. However, they lack key indicators such as PAR and the quality of information is low (see Information below). Some reports are sent directly to IKS, bypassing the oversight of the UKS BoD.

- The current BoD has no specific knowledge of microfinance or banking and the planned individual BoD for KEDEP (scheduled to hold its first meeting in April 2007) is also drawn from this larger BoD.

Planning

- KEDEP does not have a formalized business plan (BP). The UKS BoD has initiated drafting of a new 5 year strategic plan covering 2007-2012 for the entire UKS organization, with some input from KEDEP management and staff. However, this input largely consists of a detailed budget projection, without key performance indicators, a SWOT analysis, or analysis of critical challenges like competition.
- Reasonable, annual budgeting process with monthly budget tracking and knowledge of discrepancies. However, some budget items - including training costs - lack sufficient detail.

Management team

- Small and committed management team headed by the same Manager since 2003. However, the small size of the team limits appropriate division of labour, leaving HO Manager overburdened, and leaving KEDEP susceptible to key person risk.
- Both the HO and Branch Managers were sponsored to attend a specialized microfinance Bachelors degree program; nonetheless they require additional training on financial analysis, microfinance accounting and portfolio management.

Human resource management

- KEDEP has generally transparent recruitment procedures, but some staff members have been recruited from non-microfinance UKS programs without an appropriate focus on necessary skills – including loan officers.
- The salary levels are low compared to the market. However, staff members are committed as demonstrated by low turnover rates in the previous years.
- No formal evaluation of staff is done, either by the General Manager, or of General Manager by UKS Management. There are no formalized job descriptions for staff members.
- Training has focused on two top Managers. This is a good approach given the lack of specific microfinance expertise within UKS. However, KEDEP has only done a limited analysis of training needs of its remaining staff, with no formalized training program.
- There is currently no written HR policy for KEDEP. The General Manager relies on the UKS personnel

policy for general HR procedures including salaries, but specific policies such as incentive schemes for loan officers are not in place.

Areas for improvement

- * Ensure adequate strategic oversight of management through a specific Board of Directors with relevant skills and experience.
- * Ensure that critical management skills (accounting and financial analysis) are strengthened to improve overall management capacity.
- * Formalize HR policy, including specific procedures for evaluation of staff and management team.

Information

Information and equipment is rated “d”

Description of the MIS	
Equipment	<ul style="list-style-type: none"> ▪ 4 desktop PC's at HO, 2 printers. 2 desktop PCs and printer at Mityana Branch. ▪ No internal network or internet access in HO or Branch
Accounting	<ul style="list-style-type: none"> ▪ Accounting integrated in Finance Solutions v. 8.33 software since September 2005, developed by Sigma D&C Ltd. of Kampala. ▪ Monthly IS generated automatically since September 2005. BS not generated regularly before year end. ▪ Yearly consolidation of branch data using excel, monthly reconciliation of bank statements.
Portfolio and savings information	<ul style="list-style-type: none"> ▪ Finance Solutions used since September 2005. ▪ Information on loan disbursement, repayment and portfolio performance is recorded manually by LOs and entered into MIS at a later date. ▪ Cash operations are immediately recorded manually by cashier and later entered in the system. ▪ Consolidation with branch data not done until year end, using excel.

Management Information System (MIS) and equipment

- MIS software is quite capable, but KEDEP is not taking advantage of full capabilities, and continues to rely on time consuming and redundant manual processes.
- Adequate security against data manipulation within MIS with different access levels through password security.
- However, no backup procedures leave KEDEP exposed to a serious risk of data loss. Both electronic and hard copy data are vulnerable: loan contracts and other key documents are stored outside the safe where they are exposed to fire and theft.

Information on activities

- Basic information necessary, such as portfolio outstanding and number of active clients is available at the end of each month from each office since September 2005 when the MIS was installed.

- However, consolidated data is not generated until year end, making overall portfolio management extremely difficult. Only limited portfolio information (client data and applications) are entered directly into the MIS system, meaning that day to day information is not generally up to date.
- Other information (repayment schedules, disbursements/repayments) are entered using a duplicate manual process that creates delays, meaning that information in the MIS is not always up to date.
- The Management team does not fully understand the calculation and analysis of key indicators (e.g. PAR) and only limited indicators are generated and analyzed. Breakdown per product has been available since September 2005 but is not yet analyzed.

Financial and accounting information

- Only monthly income statement generated (since 2006). Accounting information continues to be extremely poor due to severely lacking accounting skills and inconsistent/irregular accounting practices. This poor quality makes accurate financial analysis for management difficult.
- Loan loss provision principles are not understood or applied consistently by KEDEP.

Areas for improvement

- * Increase data security: safe storage and back up of paper data, back-up of data in Excel and Finance Solutions.
- * Increase understanding of management of main performance indicators to deepen institutional analysis.
- * Clarify loan loss provision and write off policies so that they abide by the generally accepted accounting standards.

Risk

Risk Management is rated “e”

Procedures and internal controls

- Overall weak risk management culture, with poor understanding of operational risks, and inadequate segregation of duties for cash handling and loan approvals in the branch (and sometimes at HO resulting during key staff absences).
- Inadequate segregation of duties was identified as a major operational risk in the 2005 audit report but has not yet been fully addressed, although the addition of a loan committee consisting of the Manger and loan officers has addressed part of the risk.
- Most procedures not yet formalized and existing policies (credit policy) are outdated and need revision. Even existing policies are not yet approved by BoD of UKS. Procedures for loan appraisal and approval are not

consistent between branch and HO, leading to inconsistent client appraisal.

- KEDEP actively encourages disbursements/repayments to client bank accounts instead of cash at the HO and branch, or disbursement by check or cash disbursement at the bank branch for groups, which reduces cash handling risks. Cash in safe well protected but no policy on maximum cash amounts or cash insurance.

Internal audit

- No internal audit function exists, and thus internal control is reliant on vigilance of General Manager, who does not conduct formal audits. There is no formal supervision of the Mityana branch aside from visits by the Manger. Although UKS has recently directed its Deputy Finance Coordinator to conduct internal audits, no such audit has yet taken place.
- The external audit is weak. No real support to the accountant is given towards improvement of accounting policies, and improper accounting practices (particularly incorrect loan loss provisioning) persist. The audit for 2005 has not yet been finalized at March 2007.

Areas for improvement

- * Formalize key policies including: accounting manual, credit manual, HR manual and Internal Audit manual.
- * Formalize internal audit process, with specific staff assigned to undertake audit missions of both HO and branch.

Activities

Activities: products and services is rated “e”

	Dec. 03	Dec. 04	Dec. 05
Loan portfolio (USD)	75,706	126,231	150,042
Loan portfolio (K UGX)	146,642	218,127	273,227
Evolution (%)	115.1%	48.7%	25.3%
Avg. outs. gross LP (USD)	55,449	105,546	134,913
Nb of active borrowers	190	444	617
Evolution (%)	NA	133.7%	39.0%
Avg. outs. loan per client (USD)	371	270	231
Avg. amt disbursed (USD)	407	431	368
PAR 31-365 (%)	NA	NA	16.9%
PAR > 365 (%)	NA	NA	NA
Write-off ratio (%)	NA	1.1%	5.2%

Note: Data not reliable; complete/audited 2006 data not available and thus not included in analysis.

Marketing and competition

KEDEP competes with a diverse spectrum of institutions within both Hoima and Mityana district, including much larger and more sophisticated Tier I, II and III regulated institutions. These include PRIDE and FINCA MDIs and both Centenary and Stanbic commercial banks, as well as numerous SACCOs. This prevailing environment is likely to become even more competitive. Moreover, KEDEP

lacks even basic marketing tools such as clear signage at the offices.

- KEDEP's main advantage in the market is the existing reputation of UKS for fair treatment of the poor that draws clients to KEDEP. However, UKS charity activities, and previous grants programs administered by KEDEP may have contaminated the credit culture of clientele.
- KEDEP will face increasing challenges in mobilizing and retaining clients, particularly given the undifferentiated its products and pricing relative to main competitors.

Credit methodology/Portfolio Management

- KEDEP's credit methodology is weak and poorly formalized. Loan decisions rely mostly on client character assessment, supplemented by income assessment through savings records, and collateral. This methodology is insufficient, particularly as KEDEP's continuing expansion reduces its direct knowledge of clients.
- Client appraisal is shallow, with inadequate analysis of clients' business activities. Although the loan application form contains data on client income and expenditure, repayment capacity analysis is extremely limited. Loan Committee members tend to rely on the LOs decision with limited additional scrutiny.
- Although the LOs are motivated and committed, their skills are extremely uneven. Monitoring and follow up of clients is overall very weak, but particularly for individual clients and at the Mityana branch.

Quality of the portfolio

- Portfolio ageing was not done correctly until the middle of 2006, which combined with incorrect calculation of PAR (taking only payments in arrears rather than outstanding balance of loans with late payments), has led to an overstatement of portfolio quality. Even so, a rough estimate at Dec. 2005 shows PAR > 31 days at 17%, and is likely much higher. This level of portfolio risk is very high, even among comparable institutions.
- Part of this poor portfolio likely comes from the absorption of AFOS clients with repayment problems, although this cannot be accurately analyzed with the available information.
- Risk is concentrated in the individual loans, and these represent the largest proportion of the total portfolio. Additionally, risk is highest in the Mityana branch, where the appraisal and follow-up of loans is weakest.
- Factors contributing to KEDEP's high level of PAR, include the weak credit methodology (see above) but particularly the limited client monitoring/follow up done, even for late clients.

Portfolio composition and evolution

- KEDEP's portfolio has grown since 2003, but there has been an ongoing decline in the rate of growth that is partly explained by extremely limited client mobilization and marketing. The faster growth (100%) between 2002 and 2003 is largely due to the absorption of AFOS clients into the portfolio.
- The overall slowing growth can additionally be attributed to the heavy workload of LOs, including the need for constant follow up of late clients (limiting their ability to mobilize new clients), the increasingly competitive environment, and erratic fluctuations in liquidity that make managing portfolio growth difficult (see Financing and Liquidity below).

Portfolio diversification

- KEDEP does not follow any specific portfolio diversification or concentration risk policy. While three separate products are offered, the majority of the portfolio is in Commercial loans to individual borrowers.

Credit risk coverage

	Dec. 03	Dec. 04	Dec. 05
Risk coverage ratio (%)	NA	NA	29.6%
PAR 31 net of loan loss provision / Equity (%)	NA	NA	9.5%

Note: data not reliable.

- Due to the nonstandard method of loan loss provisioning, a reserve does not appear in the balance sheet: until the end of 2005 loan loss provisioning was done using a method of 5% (portfolio ageing not done) deducted from the outstanding loan portfolio each year. Based on estimated PAR for 2005, risk coverage is inadequate at just 29.6%.
- + Appropriate collateral and personal guarantees are taken as security, including relevant legal documents (titles, log books) and some defaulters have successfully been taken to court.
- However, there are no clear policies as to the maximum number of loans that an individual may guarantee, and in some cases a guarantor may also have experienced repayment problems, weakening the guarantee.

Write off ratio

- There is currently no standard write off policy for KEDEP. As a result, some loans that are over two years overdue remain in the loan portfolio, inflating its size.
- Because there is no loan loss reserve in the balance sheet, it is difficult to analyze the actual level of loan write offs. However, an estimate of the loan loss reserve was calculated taking 5% of the gross portfolio as the reserve based on KEDEP's provisioning policy (see above).

- Taking the difference between this estimated reserve and the provisioning expenses as the loans written off yields a write off ratio of 5.2% for 2005. This ratio is high by international standards and would be even higher if KEDEP properly cleaned out the loans overdue by more than one year in the portfolio.

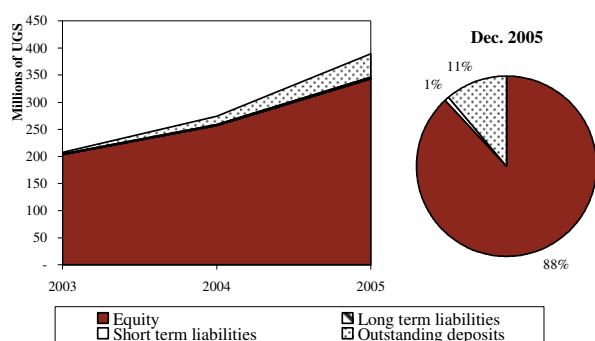
Area for improvement

- * Improve risk coverage by applying new provisioning method to correctly calculated PAR.
- * Improve credit methodology to include more in depth analysis of client repayment capacity, as well as proper procedures for client monitoring and follow up.

Financing and liquidity

Financing and liquidity is rated “d”

Capital Structure



	Dec. 03	Dec. 04	Dec. 05
Liabilities / Equity (%)	.019x	.067x	.14x

KEDEP's capital structure is typical of an unsustainable donor-funded NGO: each year KEDEP is reliant on donor capital to fund its losses from operations. Outstanding liabilities are entirely made of up of compulsory deposits (a small amount are accrued accounts payable). Leverage is thus extremely low. However, it is unlikely that management will be able to increase leverage in the near future as KEDEP is not in a financial position to borrow on a commercial basis.

Asset and liability management

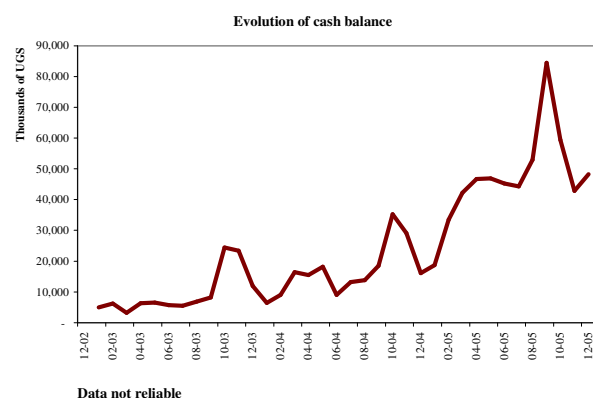
KEDEP does not currently face significant Asset and liability risks:

- + No interest rate risk: KEDEP currently does not have external borrowings.
- + No Foreign Exchange (FX) risk: KEDEP does not borrow or issue loans in foreign currencies.
- + No maturity risk: the LP is funded exclusively by donated equity, as savings are exclusively mandatory.

Financing strategy

- The financing strategy relies entirely on donations from Uganda Kolping Society, although Management recognizes the need for future borrowing.

- KEDEP cannot yet borrow as an independent entity and even if this were legally possible, it is unlikely that an external lender would work with KEDEP due to its poor financial performance.



Liquidity management

- Liquidity management is a major challenge due to the unpredictable nature of transfers of funds from UKS. There is no formal commitment of a specific amount or date of payment of these subsidies.
- A percentage of donations each year are earmarked for on-lending to clients and may not be used to fund operating costs. However, this amount changes based on annual directives from IKS, making planning for portfolio growth extremely difficult. No active monitoring of liquidity position or projections of liquidity needs is done.

Efficiency and Profitability

Efficiency and Profitability is rated “e”

Profitability analysis	Dec. 03	Dec. 04	Dec. 05
ROE (%)	(19.0%)	(16.2%)	(22.6%)
Liabilities / Equity	1.9%	6.7%	13.5%
ROA (%)	(18.6%)	(15.4%)	(20.4%)
Profit generation			
OSS (%)	64.8%	62.3%	58.5%
Portfolio Yield (%)	44.6%	33.7%	38.9%
Operating expense ratio (%)	68.8%	47.1%	60.1%
Staff productivity	63	111	123
Loan officer productivity	190	222	309
Av. outstanding loan per client (USD)	398	284	243
Funding expense ratio (%)	0.0%	0.0%	0.0%
Cost of savings	0.0%	0.0%	0.0%
Cost of liabilities (%)	NA	NA	NA
Loan Loss Provision expense ratio (%)	0.0%	7.0%	6.4%
PAR 31-365 (%)	NA	NA	16.9%
Write-off ratio (%)	NA	1.1%	5.2%
Asset management			
Outstanding Loan Portfolio / Assets (%)	66.2%	75.5%	66.7%
Non-portfolio income as a % of financial revenues (%)	0.0%	0.0%	0.0%

Note: Data not reliable; complete/audited 2006 data not available.

Special Note: Data used for this analysis is not reliable, and considers data through 2005 only, as complete/audited information was not available for 2006. Some analysis is based on rough estimates.

Overview of the profitability

KEDEP was unprofitable before donations for all three years under analysis, and even this data is likely inflated due to improper application of loan loss provisioning and the lack of an operational write-off policy.

- Operational Self Sufficiency (OSS) levels have dropped from 65% in 2003 to 59% in 2005, reflecting KEDEP's ongoing dependence on grant funds to support its operations. This is partly due to continuing increases in operational costs, which grew by more than 70% between 2004 and 2005.
- Despite an increase in financial revenue between 2003 and 2005 due to overall portfolio growth, and a relatively stable portfolio yield, ROA and ROE remained at approximately -20%. This can also be linked to the ever increasing level of operational expenditures relative to the growth of financial revenues (operational expenses more than 1.5x financial revenues at 2005).
- Adjusted ROE (AROE) gives an even more negative picture of KEDEP's profitability at -25.6%. This is, primarily due to incorrect provisioning (based on rough estimate of ageing for 2005) as well as adjustments for inflation.

Portfolio yield and effective interest rate

- Portfolio yield levels have remained near the 40% level since 2003, although a dip was registered in 2004, possibly due to higher levels of delinquency at the Mityana branch.
- There is a continuing gap between the estimated APR of approximately 51% and the current portfolio yield of 41%. This is almost certainly due to the poor portfolio quality, which erodes yields despite high effective interest rates.

Operating expense ratio

- Operating costs are following a strong upward (negative) trend. Part of these costs can be attributed to the purchase of significant fixed assets in 2005, including the private house which now houses the branch at Mityana.
- However, another major source of costs are the increasing travel costs associated with monitoring widely dispersed clients and conducting loan recoveries. This category of expenses grew 100% between 2004 and 2005 and is likely to continue to increase.

- The cost of depreciation of fixed assets has not been properly expensed to date, meaning that expenses are underestimated in KEDEP's audited accounts.

Funding expense ratio

Because KEDEP relies entirely on donated funds, the funding expense ratio is not relevant – however, the need for more reliable funds for growth in the future will cause this ratio to rise depending on the negotiated rate of future external borrowings.

Loan loss provision expense ratio

KEDEP's loan loss provisioning expense ratio for 2005 was 6.4%, which is low given the likely poor quality of the institution's portfolio. This figure is due to the non-standard provisioning methodology, which is not related to the quality of the portfolio. Correct application of a proper provisioning policy would likely result in a higher provisioning expense, impacting profitability.

Asset management

Portfolio over assets of 67% at 2005 is low for an institution that does not mobilize savings. However this ratio is difficult to analyze as actual net portfolio is not reflected accurately on the balance sheet. Also, some assets used by KEDEP are not reflected on the balance sheet.

Profitability outlook

KEDEP faces a negative profitability outlook in the near to medium term and will likely remain dependent on donor subsidy. Major challenges for the management team include better credit administration using correct monitoring of portfolio risk to improve portfolio quality, while simultaneously improving cost controls to achieve increased profitability.

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+ A A-	Excellent 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.
3 to 4	b	B+ B B-	Good 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.
2 to 3	c	C+ C C-	Minimum required 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.
1 to 2	d	D+ D D-	Insufficient 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	Immediate risk of default or very insufficient There are immediate or underlying risks for operations or an unacceptable under performance.

■ Annexes

KEDEP Income Statement	Notes	UGX			USD			Evolution	
		Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2003	Dec. 2004	Dec. 2005	2004/2003	2005/2004
Financial Revenue (a)		41,893,442	49,020,481	84,038,414	24,741	35,564	52,525	28.2%	55.6%
Financial Revenue from Loan Portfolio		6,029,500	12,396,220	11,378,200	21,628	28,368	46,150	17.0%	71.4%
Interest on Loan Portfolio		-	37,400	232,084	3,113	7,174	6,248	105.6%	(8.2%)
Fees and Commissions on Loan Portfolio		-	-	-	-	22	127	-	520.5%
Penalty Revenue on Loan Portfolio		-	135,000	-	-	-	-	-	-
Financial Revenue from Investments		-	-	-	-	78	-	-	(100.0%)
Other Operating Revenue		-	-	-	-	-	-	-	-
Financial Expense (b)		-	-	-	-	-	-	-	-
Interest paid on borrowings		-	-	-	-	-	-	-	-
Interest paid on deposits		-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		47,922,942	61,589,101	95,648,698	-	-	-	-	-
Other Financial Expenses		41,893,442	49,020,481	84,038,414	24,741	35,642	52,525	28.5%	55.3%
Financial income [c=a-b]		6,029,500	12,396,220	11,378,200	24,741	35,564	52,525	28.2%	55.6%
Net Loan Loss provision expense (d)		-	12,829,201	15,638,261	-	7,424	8,588	-	21.9%
Loan loss provision expense and write-off		-	12,829,201	15,638,261	-	7,424	8,588	-	21.9%
Recovery from Loans written off		-	-	-	-	-	-	-	-
Operating expense (e)		73,910,674	85,975,250	147,738,267	38,157	49,754	81,130	16.3%	71.8%
Personnel Expense (includes fringe)		12,067,000	16,597,500	21,340,600	6,230	9,605	11,719	37.5%	28.6%
Administrative Expense (non-staff operating expenses)		61,843,674	69,377,750	126,397,667	31,928	40,149	69,411	12.2%	82.2%
Depreciation and amortization		-	-	-	-	-	-	-	-
Consulting fees		-	1,790,500	1,000,000	-	1,036	549	-	(44.1%)
Transfer to Revolving Fund	1	51,055,282	37,333,600	51,139,150	26,358	21,605	28,083	(26.9%)	37.0%
Transfer to Capital Fund	2	1,439,000	3,640,000	41,380,000	743	2,106	22,724	153.0%	1,036.8%
Staff training		683,700	5,501,750	1,978,000	353	3,184	1,086	704.7%	(64.0%)
Office costs		3,722,950	5,734,900	8,386,317	1,922	3,319	4,605	54.0%	46.2%
Transportation		3,669,300	4,893,800	9,795,800	1,894	2,832	5,379	33.4%	100.2%
Audit fees		1,000,000	2,000,000	3,000,000	516	1,157	1,647	100.0%	50.0%
VIP Construction	3	-	6,221,900	3,178,000	-	-	-	-	(48.9%)
Insurance and bank charges		273,442	391,600	917,500	141	227	504	43.2%	134.3%
Others		-	1,869,700	5,622,900	-	1,082	3,088	-	200.7%
Net Operating Income Before Taxes and Donations [f=c-d-e]		(25,987,732)	(37,215,350)	(67,727,830)	(13,416)	(21,537)	(37,193)	43.2%	82.0%
Income Taxes (g)		-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		(25,987,732)	(37,215,350)	(67,727,830)	(13,416)	(21,537)	(37,193)	43.2%	82.0%
Non Operating Revenue (i)		-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		(25,987,732)	(37,215,350)	(67,727,830)	(13,416)	(21,537)	(37,193)	43.2%	82.0%
Donations (l)		51,055,282	50,099,500	74,870,150	26,358	28,993	41,115	(1.9%)	49.4%
Net Income (after Taxes and Donations) [m=k+l]		25,067,550	12,884,150	7,142,320	12,941	7,456	3,922	(48.6%)	(44.6%)

Notes: 1. Donations expensed and transferred to revolving loan funds (BS line 34) 2. Amounts expended on fixed assets during the year 3. Grants given for construction of improved sanitary pit latrines

Planet Rating – KEDEP, Uganda – March 2007

KEDEP Balance sheet	Notes	UGX				USD			Evolution	
		Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2003	Dec. 2004	Dec. 2005	2004/2003	2005/2004
ASSETS		69,705,483	210,311,158	274,297,242	389,365,808	108,576	158,737	213,820	30.4%	42.0%
Short Term Assets			204,443,836	265,220,429	353,272,099	105,547	153,484	193,999	29.7%	33.2%
Cash and Due from Banks			18,673,081	21,465,613	56,145,116	9,640	12,422	30,832	15.0%	161.6%
Short Term Investments			-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio		68,168,264	139,309,894	207,220,197	259,565,206	71,920	119,919	142,540	48.7%	25.3%
Short Term Gross Loan Portfolio		68,168,264	146,641,994	218,126,523	273,226,532	75,706	126,231	150,042	48.7%	25.3%
(Loan Loss Reserve)	1	-	7,332,100	10,906,326	13,661,326	3,785	6,312	7,502	48.7%	25.3%
Interest Receivable			24,460,861	36,534,619	37,561,777	12,628	21,143	20,627	49.4%	2.8%
On loan portfolio			24,460,861	36,534,619	37,561,777	12,628	21,143	20,627	49.4%	2.8%
On investments			-	-	-	-	-	-	-	-
Accounts receivable and other assets	2		22,000,000	-	-	11,358	-	-	(100.0%)	-
Long term assets			5,867,322	9,076,813	36,093,709	3,029	5,253	19,821	54.7%	297.6%
Long Term Net Investments			-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio			-	-	-	-	-	-	-	-
Net Fixed Assets			5,867,322	9,076,813	36,093,709	3,029	5,253	19,821	54.7%	297.6%
Other Long Term Assets			-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY			207,600,501	274,297,242	389,368,808	107,176	158,737	213,821	32.1%	42.0%
Liabilities			3,929,700	17,199,200	46,199,850	2,029	9,953	25,371	337.7%	168.6%
Short term liabilities			3,929,700	17,199,200	46,199,850	2,029	9,953	25,371	337.7%	168.6%
Demand Deposits			-	-	-	-	-	-	-	-
Compulsory Deposits			-	2,929,700	15,199,200	1,512	8,796	23,723	418.8%	184.2%
Short Term Time Deposits			-	-	-	-	-	-	-	-
Short Term Borrowings			-	-	-	-	-	-	-	-
Interest payable			-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities	3		1,000,000	2,000,000	3,000,000	516	1,157	1,647	100.0%	50.0%
Long term liabilities			-	-	-	-	-	-	-	-
Long Term Time Deposits			-	-	-	-	-	-	-	-
Long Term Borrowings			-	-	-	-	-	-	-	-
Other Long Term Liabilities			-	-	-	-	-	-	-	-
Equity		69,705,483	203,670,801	257,098,042	343,168,958	105,148	148,784	188,451	26.2%	33.5%
Paid-In Capital			-	-	-	-	-	-	-	-
Donated equity		114,905,483	165,960,765	203,294,365	254,433,515	85,679	117,647	139,722	22.5%	25.2%
Retained earnings without donations and reserves			31,842,714	44,726,864	52,641,734	16,439	25,884	28,908	40.5%	17.7%
Current year			(25,987,732)	(37,215,350)	(67,727,830)	(13,416)	(21,537)	(37,193)	43.2%	82.0%
Other equity accounts			5,867,322	9,076,813	36,093,709	3,029	5,253	19,821	54.7%	297.6%

Notes: 1. Loan loss reserve is estimated as 5% of gross portfolio. 2. amounts due from UKS 3. Audit fees