

TEST MISSION / RATING NOT ASSIGNED

Rating

Minimum required

Procedures are functional but with certain failings. There are minor risks in the medium term for operations

Transparency and client friendliness

Medium

Although efforts could be made to provide clearer information on the cost of the loans, good procedures are in place to ensure secure and transparent transactions as well as an efficient service delivery. Initiatives are currently underway to better adapt the loans to the members's needs.

Performance indicators

(K UGS, unless otherwise stated)

| ACTIVITY | Oct. 2002 | Oct. 2003 | Oct. 2004 |
|------------------------------------|-----------|-----------|-----------|
| Total number of staff | 7 | 9 | 8 |
| Total assets (USD) | 126,757 | 177,496 | 328,283 |
| (K UGS) | 220,304 | 352,711 | 566,455 |
| Loan portfolio (USD) | 79,559 | 131,456 | 235,510 |
| Deposits (USD) | 79,885 | 85,801 | 201,413 |
| Nb. of active borrowers | 350 | 380 | 540 |
| Nb. of savers | 2,078 | 2,484 | 3,275 |
| APR | -- | -- | 73% |
| PAR 31 estimates | N/A | >25%* | >25%* |
| Write-off ratio | 5.3%* | 3.5%* | 8.0% |
| Risk coverage ratio | N/A | <10%* | <10%* |
| PERFORMANCE | | | |
| ROE | 10.4% | 61.6% | 55.7% |
| Liabilities / Equity | 324.1% | 376.2% | 284.3% |
| ROA | 2.7% | 13.6% | 13.4% |
| Operational self-sufficiency | 107.6% | 146.3% | 143.9% |
| Financial self-sufficiency | 104.5% | 101.5% | 121.9% |
| Portfolio Yield | 63.7% | 56.5% | 59.8% |
| Operating expense ratio | 56.7% | 34.7% | 33.6% |
| Staff productivity | 50 | 42 | 68 |
| Funding expense ratio | 0.8% | 2.7% | 3.8% |
| GROWTH | | | |
| Loan portfolio growth | 73.5% | 88.9% | 55.6% |
| Savings portfolio growth | 113.7% | 22.8% | 103.8% |
| Assets growth | 104.1% | 60.1% | 60.6% |
| Exchange rate 1 USD= xx UGS | 1,738 | 1,987 | 1,726 |

* estimates.

MAMIDECOT, Masaka

August, 2005

Description of the institution

Masaka Microfinance and Development Cooperative Trust (MAMIDECOT) started under the initiative and with the technical support of UNDP through its local Private Sector Promotion Center. MAMIDECOT is headquartered in Nyendo, in the outskirts of Masaka Town and has one branch located in Lukaya. As of June 2005, MAMIDECOT has more than 5,000 members, 3,866 of which have active savings accounts with deposits totaling 463 M UGS. The institution currently has approximately 860 borrowers and a portfolio of 509 M UGS.

Evaluation summary

MAMIDECOT has significant strengths with a dedicated and well informed Board, an experienced manager, well defined procedures and healthy separation of tasks as well as good relationships with its current partners. These good features are however undermined by a poor portfolio quality and weaknesses in the information system that significantly reduce the efficiency of internal controls. Staff would especially need additional training in computer use and loan evaluation. These weaknesses need to be addressed soon, especially since the institution is planning to increase its outreach through branch opening.

Improvements needed to reach minimum requirements on specific evaluation areas

- Finalize computerization of operations to ensure the permanent availability and reliability of key indicators, and minimize the risks of fraud.
- Improve loan portfolio quality.
- Improve the evaluation of member's repayment capacity and strengthen recovery actions
- Initiate an internal audit system as the institution prepares to open a third branch.

Strategic goals

The institution's main objective is to increase its outreach, especially in underserved rural areas, by opening new branches and developing agriculture loan products. Feasibility studies and pilot testing are currently underway.



Planet Rating

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■ Institutional presentation

Networks

MAMIDECOT is a member of AMFIU, the association of Microfinance Institutions of Uganda. The institution is also registered with the Microcredit Summit.

Legal form, supervision and audit

Masaka Microfinance and Development Co-operative Trust (MAMIDECOT) was registered under the Cooperative Act in August 1999. It started its operations on Nov. 1st 1999, which date has been kept as the beginning of the MFI's fiscal year.

B.S. Kasujja and D. Mugambe C. have been the external auditors for the past two years (ending 31st Oct. 2003 and 31st Oct. 2004). The auditor only performed annual checks on the accounts and provided unqualified opinions both times. The institution was previously audited by Ben Semakula and Co. that performed quarterly reviews of the accounts as well as a yearly audit and provided a report on the organization of internal controls.

Ownership

As a Cooperative, MAMIDECOT is owned by its members. As of Oct. 2004 (last Annual General Meeting, AGM), MAMIDECOT had a total of 4,017 members for 14,460 shares. Members holding more than 10 shares¹ elect Board Members for terms of two years. Former directors can be re-elected but cannot stay in office for more than three successive terms. Six of the current seven Board members have been in office for five years. The AGM also elects an Audit Committee composed of three members. The Board is organized in sub-committees (Finance and Administration, Loan, Human Resources).

Management team

The General Manager, who has long experience as Branch Manager and Internal Auditor at CERUDEB, leads a team of 11 staff composed of a Branch manager for Lukaya Branch, an accountant with 2 assistant accountants, a chief loan officer (LO) and one assistant LO, 2 cashiers (one for each branch), and 3 bank assistants who assist with savings operations.

Donations

The institution has received a total of 14 M UGS in donations, provided by the President of Uganda (5 M UGS), Private Sector Promotion Center UNDP (2,3 M UGS) and SUFFICE (7 M UGS).

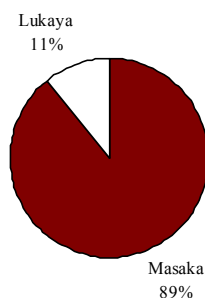
Funding

| Loan provider | Interest rate | Duration | Initial amount | Initial amount (USD) | Out. as of Oct 04 (USD) |
|---------------|---------------|----------|----------------|----------------------|-------------------------|
| SUFFICE | 14% | 1 year | 20 M UGS | 11,402 | 11,402 |
| MSCL | 14% | 2 years | 43 M UGS | 24,514 | 2,090 |
| RABOBANK | 6% | 4 years | 30 K EUR | 36,600 | Disb. in 2005 |

Organization

Operations in Nyendo and Lukaya branches are fully separated. Lukaya branch has its own accounting and reporting system that is not consolidated with that of the main branch. A portion of the funds provided by RABOBANK will be allocated to the new branch, which will service its share of the loan. Lukaya branch manager however reports on a monthly basis to the general manager. The two

Portfolio outstanding per branch



¹ A share costs 5,000 UGS

branches have been consolidated for the purpose of this report.

Market penetration

MAMIDECOT conducts its operations through two offices located in Nyendo (commercial center in Masaka town outskirts) and Lukaya (20km away from Masaka on Kampala road). Members come from several commercial centers around Masaka town (Bukulala, Bukomansimbi, Bukoto, Kalungu). One member represents each commercial center during Board meetings.

Products and services

Most savers are using the regular savings account offered by MAMIDECOT that does not provide any interest nor bear any management fees. Savers only have to pay for the stationery used to maintain their account (ledger card and passbook).

MAMIDECOT has four loan products (commercial, salaried, school fees and special). Amounts range from 100,000 UGS to 5,000,000 UGS and terms from one to nine months, with a possible grace period of 2 months for commercial loans. Commercial and salaried loans bear a 3% interest rate per month calculated on the initial balance. Special loans, that are used for cases considered to be more risky, bear a 5% flat interest rate per month. Members are charged application fees, insurance fees and also have to cover the cost of the stationery used for the loan application and contract.

In 2005, MAMIDECOT started testing an agriculture loan product with the support of MSCL (lower interest rate of 2% per month, potential grace period up to 6 months).

■ Governance

Governance and Decision Making is rated « c »

Decision-making

- + Strongly committed Board that has been in place since inception and presents an appropriate mix of skills in order to analyze the institution's operations.
- + Well organized and documented monthly Board meetings (minutes, systematic review of previous meetings decisions) with a good level of attendance.
 - All strategic decisions and most operational ones (including loan decisions via the loan committee, recruitment via the HR committee, all purchases) are taken by the Board based on reports and updates on current issues provided by the Manager. The involvement of the Board in day-to-day decisions does not slow operations, thanks to great availability of Board members.
 - As in many cases in cooperatives, the Board has a bias towards very strict limitation of operating expenses in order to maximize the net profit (with goals to increase the capital base and distribute dividends to members). This might sometimes come at the expense of necessary investments (in staff capacity building and improvement of work conditions for example).
- According to current by-laws, all members of the Board, except for one, shall be leaving the Board at the next AGM as they will all reach the maximum of three successive two-year terms. Board and management are aware of the risks of such a disruption in the governance. Plans are to propose a modification of the by-laws whereby only two to three Board members would be renewed at each AGM. It would however have been desirable to anticipate this and propose these amendments at the previous AGM.

Planning

- + Planning process led by the Chairman that provides a very thorough analysis of the present situation of the institution, with a related action plan and budget.
- Some internal weaknesses well identified in the SWOT analysis are not fully addressed by the action plan (MIS, loan methodology).

- The plan for opening new branches could be more detailed with specific targets in terms of membership, borrowers, financial performance for the new branch and detailed budget for the first years of existence.

Management team

- + Experienced and dedicated manager who has been with the institution since inception and has sufficient technical skills to manage the daily operations.
- Support is needed when it comes to managing changes (new procedures or processes, growth).
- Key person risk on the Manager and Accountant if they were to be sick for a while or leave.

Human resource management

- + Recruitment handled transparently by the Board, through an ad hoc HR committee (composition of the HR committee may vary according to the type of profile that is being recruited).
- + On-the-job training provides staff with sufficient knowledge to perform their duties; the training includes an orientation on all existing positions within the cooperative.
- + Board intends to perform annual evaluation of staff which will also be an opportunity to collect staff feedback.
- Few additional trainings for the staff (except for the Manager), which does not allow them to broaden their skill set.
- Staff turnover has so far been relatively low but could be a problem in the future given:
 - Low staff salary (one half or one third of salaries usually offered in financial institutions; even if in the range of salaries observed in Tier 4 MFI of the size as MAMIDECOT).
 - Overloaded staff work long hours on week days and on Saturdays. Work load essentially due to maintenance of the manual information system (Saturdays are used for reconciliation of savings ledger cards with the accounting system).
- Excessive work load and relatively narrow skill set of staff currently leave the institution vulnerable in case one staff quits or is absent (it is difficult for staff to take on the job of their colleagues).

Improvements needed to reach minimum requirements

- △ MAMIDECOT should limit the risk related to staff turnover (either more staff, higher salaries, development of staff skills).

Information

Information and equipment is rated « d »

Description of the MIS

| | |
|-----------------------------------|--|
| Equipment | <ul style="list-style-type: none"> ▪ Three computers linked by an internal network, UPS for only two computers. No internet connection. |
| Accounting | <ul style="list-style-type: none"> ▪ Manual system ▪ Separate financial statements for Nyendo and Lukaya. ▪ Daily reconciliation of cash balance. Weekly verification of savings balance. Monthly verification of loan portfolio balances. ▪ Monthly financial statements presented to the Board. |
| Portfolio and savings information | <ul style="list-style-type: none"> ▪ “Financial Solutions”, in parallel with manual system (loan tracking only performed via the software). ▪ Cash operations are immediately recorded in the system with the “teller module” as well as in the paper savings ledger cards; disbursements and repayments of loans are input by LOs in the MIS after verifying that they had been input on members savings cards. ▪ Good reporting tools available in the system. Update on portfolio performance given to Board on a monthly basis but does not follow a standard format. |

Management Information System (MIS) and equipment

- + Relatively good level of computer equipment. Good backup procedures using a zip drive.
- + The use of Financial Solutions, integrated software developed by Sigma D&C, a Ugandan software development firm, helped reduce the paperwork and reconciliation duties for the cashier.
- + Well designed manual system for accounting and savings data, with all necessary checks to ensure that data are reliable.
- Paper documents (among which loan contracts, accounting books and vouchers) are not sufficiently protected against fire or theft.
- The information created with the software has not always been reliable and the institution continues to run the two accounting systems (manual and computerized) in parallel for more safety. This creates substantial additional work for staff.
- The reasons for this are yet to be determined precisely but could either be (a) an instability of the software that is still under development and experiences some bugs, (b) low level of computer literacy and insufficient training of staff to the use of the system that induces errors or misuses and, what is most probable (c) a combination of the two reasons.

Improvements needed to reach the minimum required

- △ Staff computer skills to be increased for better management of the information system. The recruitment of a person with computer background is already planned.
- △ Finalize the computerization of the operations in order to allow for improvement in staff productivity.
- △ Key paper documents to be kept in a safer place.

Information on activities

- + Financial Solutions includes all necessary reports to follow up on loans and analyze the portfolio performance and quality.
- The software however currently produces inflated data on loans outstanding and late loans, apparently due to a misuse/problem with the rescheduling module. This leaves the institution without reliable information on its loan portfolio since the manual loan tracking system has been abandoned.

Improvements needed to reach minimum requirements

- △ Reliable information on essential data such a portfolio outstanding, repayments due, late repayments and portfolio at risk should be available at least on a monthly basis.
- △ Reasons for software miscalculation need to be found and a simple but reliable loan tracking system has to be put in place if the problem with the software is to last after the end of August.

Financial and accounting information

- + Monthly financial statements are available within a reasonable time after the end of the month (usually one month), and is clear and reliable.
- The accounting however currently has a backlog of two to three months due to the maternity leave of the accountant during which she could not be properly replaced. Measures have now been taken and the team should catch up within a month.
- Financial statements are not presented according to international accounting standards which does not allow for an easy comparison with other institution’s performance.
- A better analysis of the institution’s financial performance could be performed if standard ratios were calculated each month. The PMT is not currently filled in every month and is not used to monitor the performance of the institution.

Risk

Risk Management is rated « c »

Procedures and internal controls

- + Healthy separation of tasks between decision makers, cash management and data recording.
- + Good control procedures when dealing with savings accounts (ID checking, transactions systematically recorded in the member's passbook, savings ledger cards balances checked on a weekly basis).
- + Clear procedures that are well known by all staff.
- + Cash security ensured to the maximum of the institution's possibility (safe kept in a strong room, double key system, armed security guards, insurance). The level of cash in the safe however sometimes exceeds the amounts insured.
- The case of one LO bribing clients has recently been discovered thanks to reports from clients. It has been appropriately dealt with (warnings, and eventually dismissal since the staff did not change his behaviour).
- The efficiency of the control system is however lowered by the weaknesses in the information system; this does not allow for an optimal control of the risk of frauds or errors.
- No limits are set to the level of risk that can be taken by the institution on one loan (the Loan Committee can only approve loans up to 5 M UGS but the Board has no such limit). There has been only one occurrence of excessive risk taking (one loan of 70 M UGS representing at the time almost 20% of the loan portfolio).

Area for improvement

- * Clearer policies on systematic disclosure of insider loans to the AGM should be put in place, as this remains one of the major risks in Cooperatives. For instance, two Board members currently have loans in arrears for a total outstanding of 6 M UGS.

Internal audit

- There are no systematic spot checks by the Board or Internal Audit Committee. The latter only perform sporadic checks that do not follow a well-defined methodology.
- External auditor for 2002-2003 and 2003-2004 did not perform a very thorough audit of the accounting books. The MFI's first external auditors who had given better results have however been hired for the current fiscal year (2004-2005).

Improvements needed to reach the minimum required

- △ Internal audit procedures need to be put in place (spot checks using a standard methodology to cover the major areas of risk), especially with the development of a branch network: risks are indeed higher in new branches that initially only employ two staff which does not allow for a healthy separation of tasks.

Activities

Activities: products and services is rated « e »

| | MAMIDECOT | Finca | Faulu | CMFL |
|---------------------------|----------------|-----------------------------------|--------------------|--------------------------|
| Average loan outstanding | 592,105 | 225,093 | 228,743 | 415,986 |
| Min. loan size | 100,000 | 400,000 | 50,000 | - |
| Max. loan size | 5,000,000 | 15,000,000 | 14,000,000 | 4,000,000 |
| Repayment schedule | Monthly | ? | ? | Monthly and weekly |
| Interest rate (per month) | 3% or 5% flat* | 3.5% flat 3% decl. 2% flat* | 2% to 3% flat * | 2.5% flat 2.9% decl.* |
| Loan terms | 4 to 9 m. | 4 to 24 m. | 4 to 12 m. | 1 to 12 m. |
| Portfolio yield | 60.0% | 77.7% | 54.9% | 66.0% |

Data in UGS; Source : Microrate reports (data for Aug. 04 for Finca, and Dec 03 for other institutions); * depending on the loan product

Marketing and competition

Many major microfinance institutions are operating in Masaka town (Finca, UFT, Faulu, Pride, Centenary Bank, FSA), one also operating in Lukaya on a part time basis (Finca). None are however operating precisely in Nyendo where MAMIDECOT's main branch is located.

MAMIDECOT's loan product range can stand the competition of larger MFIs regarding interest rates and average loans disbursed. The maximum loan terms are however shorter than that of other major players. The loan process is reasonably fast with a loan being disbursed usually within two weeks after application for a first loan and within one week for a repeat loan.

Credit methodology

- + Clear procedures for loan processing including all necessary steps (interview with the client to clarify the loan conditions, on-site evaluation of the business, identification and registration of guarantees, morality check thanks to validation by Loan Committee).²
- + LO adequately trained to internal procedures.
- Adequate procedures regarding collection of late loans (gradual intensification from written reminder to cases being filed in court) that could however be applied with more reactivity.
- Weak evaluation of the repayment capacity that is illustrated by the high PAR ratios and relatively high occurrence of rescheduling.

Improvements needed to reach minimum requirements

- △ Further training of LO on business evaluation and repayment capacity calculation; revision of loan evaluation forms

Quality of the portfolio

| USD , unless otherwise stated | Oct. 2002 | Oct. 2003 | Oct. 2004 | May. 2005 |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Loan portfolio | 79,559 | 131,456 | 235,510 | 290,292 |
| Loan portfolio(K UGS) | 138,273 | 261,223 | 406,376 | 509,211 |
| Change | 73.5% | 88.9% | 55.6% | 25.3% |
| Average outstanding loan | 49,010 | 101,041 | 182,775 | 280,272 |
| Number of active borrowers | 350 | 380 | 540 | 860 |
| Change | 75.0% | 8.6% | 42.1% | 59.3% |
| Average outstanding loan per client | 227 | 346 | 436 | 338 |
| PAR 31 estimates | N/A | >25% | >25% | >25% |
| Write-off ratio | 5.3%* | 3.5%* | 8.0% | |

- + MAMIDECOT has a sound policy of writing-off loans that are late by more than one year. Writing-off of loans remains an accounting policy and does not stop the institution from trying to recover the loans.
- Due to current problems with the loan tracking system, PAR could not be calculated at the time of the rating; only estimates could be provided. Data on loans written-off for 2003-2004 are however accurate.
- MAMIDECOT's portfolio is of poor quality:
 - PAR¹ ratio is estimated at 15% in Oct. 2004 and at least in the same range for May 2005, whilst this figure does not include rescheduled loans. The PAR31, that is a more significant figure, could be estimated at around 10%.

² One condition for accessing loans at MAMIDECOT is to have a savings account with significant activity, which is being by-passed by members who deposit and withdraw amounts in the same day (or hour). This creates an additional load of work for the staff in charge of savings and LOs should educate members to avoid that practice.

³ PAR X : Total amount outstanding for loans late by more than X days / total amount outstanding

- The write-off ratio reached a peak in 2004 at 8.0% of the portfolio (37 loans, 25 M UGS) and the trend is not expected to improve during this year, since 20 M UGS of loans are late by more than one year and might be written-off at the end of this year.
- Loan rescheduling is a pretty common policy (loans worth 108 M UGS have been rescheduled since the inception of the fiscal year). Rescheduled loans can be followed separately in the LTS (the current figure is however not accurate).

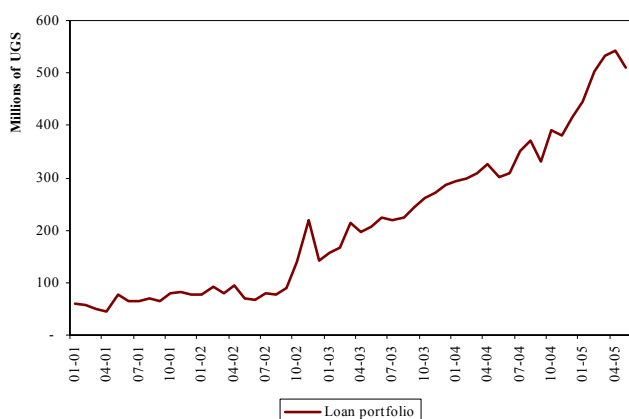
Improvements needed to reach minimum requirements

- △ Drive PAR31 under 5% through more effective loan evaluation and follow-up.
- △ Keep write-off ratio under 2.5%.

Portfolio diversification

- There are no clear policies regarding loan portfolio diversification by sector but the institution has members with diverse activities (salaried workers, civil servants, petty traders and micro-entrepreneurs of all kinds).
- There has been one case of a loan representing more than 20% at the time of its disbursement⁴. This is however not a common policy and the maximum amount usually disbursed with Board approval⁵ is 15 M UGS, which currently means that the maximum risk taken on one member is 3% of the loan portfolio.
- It is however to be noted that some members are registered both under their name and that of their company and thus receive multiple loans.

Loan Portfolio Evolution



Credit risk coverage

| ESTIMATES | Oct. 2002 | Oct. 2003 | Oct. 2004 |
|--|-----------|-----------|-----------|
| Risk coverage ratio | N/A | <10% | <10% |
| PAR 31 net of loan loss provision / Equity | N/A | >80% | >50% |

- +
- The provision is however calculated as a percentage of the amount in arrears and not of the amount of the PAR, which does not provide a sufficient level of provisioning (the risk coverage ratios provided above is only an estimate since the PAR figures are fully reliable).
- The institution requires a personal guarantee from another member for all loans and appropriately tracks the number of loans being guaranteed by one member.
- Physical collateral is also required and mostly used to increase pressure on the member to repay but are seldom used directly to repay the missing instalments.

⁴ The loan was granted to UTODA PUT SAFE a company for which more than 200 of MAMIDECOT’s members work.

⁵ Loan Committee decisions are limited to 5 M UGS. Loans above that limit have to be approved by the Board.

Savings Activities

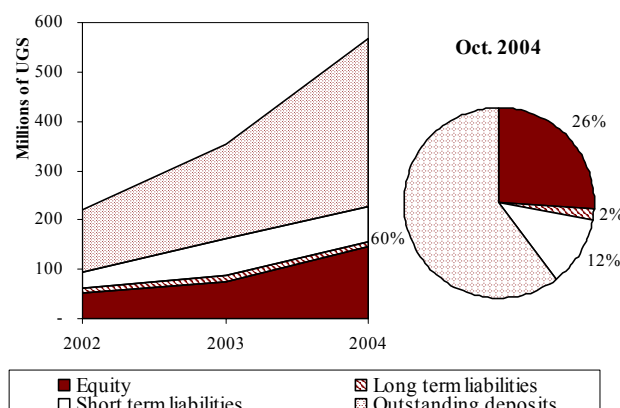
| USD , unless otherwise stated | Oct. 2002 | Oct. 2003 | Oct. 2004 |
|---------------------------------------|-------------|-------------|-------------|
| Outstanding deposits | 79,885 | 85,801 | 201,413 |
| Outst. deposits (UGS) | 138,840,554 | 170,498,681 | 347,539,352 |
| Change | 113.7% | 22.8% | 103.8% |
| Number of savers | 2,078 | 2,484 | 3,275 |
| Change | 144.5% | 19.5% | 31.8% |
| Average outstanding deposit per saver | 38 | 35 | 62 |

- +
- +
- +
- The term deposit product remunerated at 12% p.a. does not yet have a great demand with only 5 savers.

Financing and liquidity

Financing and liquidity is rated « c »

Funding structure



Being a Savings and Credit Cooperative, MAMIDECOT funds its activities essentially with savings (60%) and equity (26%). Equity capital is made up of retained earnings (56 M UGS) and member shares (78 M UGS). The institution also has been able to access loans from Ugandan wholesale lenders specialized in microfinance (SUFFICE, MSCL) bearing interest rates of approximately 14% p.a. that are revised every six months. As of Oct. 2004 the loans represented 12% of the total funding structure. In 2005, RABOBANK approved a long term loan (4 years) in hard currency (30,000 EUR, equivalent to 60 M UGS) at a rate of 6% p.a.

| | Oct. 2002 | Oct. 2003 | Oct. 2004 |
|----------------------|-----------|-----------|-----------|
| Liabilities / Equity | 324.1% | 376.2% | 284.3% |

Asset and liability management

Asset and liability management (ALM) risks are identified and currently limited, except for the FX risk:

- +
- +

rescheduling of loans, a portion of the portfolio that is difficult to determine is in fact lent for more than 12 months.

- + **Low interest rate risk:** some of the loans accessed by MAMIDECOT bear a variable interest but the magnitude of the variations are limited and does not have an major impact on MAMIDECOT P&L given their limited share in the funding structure.
- **FX risk:** A FX risk exists with the loan contracted in EUR with RABOBANK. The relatively low interest rate only partly compensates for this risk

Financing strategy

- + The institution is actively looking for funds to finance the growth of its operations and has developed good relationships with most development partners in Uganda. The fact that MAMIDECOT is located at a two-hour drive from Kampala and that the Chairman frequently travels to the capital city eases this process.
- + The institution is strongly aware of the fact that it needs to increase its capital base in order to strengthen its funding structure and has taken several measures: at least 50% of the profits have been capitalized each year since inception and the institution requires its members to purchase one additional share for each loan disbursed.
- A business plan including more detailed financial projections would however be needed to strengthen the MFIs requests and to help identify the appropriate amount of funds really needed.

Liquidity management

- The institution follows a pretty conservative prudential norm of keeping 30% of its savings available in cash or near cash at all times which allows members to have quick access their deposits at any time.

Efficiency and Profitability

Efficiency and Profitability is rated « b »

| Profitability analysis | Oct. 2002 | Oct. 2003 | Oct. 2004 |
|---|-----------|-----------|------------------|
| ROE | 10.4% | 61.6% | 55.7% |
| Liabilities / Equity | 324.1% | 376.2% | 284.3% |
| ROA | 2.7% | 13.6% | 13.4% |
| Profit generation | | | |
| Operational self-sufficiency | 107.6% | 146.3% | 143.9% |
| Portfolio Yield | 63.7% | 56.5% | 59.8% |
| Operating expense ratio | 56.7% | 34.7% | 33.6% |
| Staff productivity | 50 | 42 | 68 |
| Loan officer productivity | 175 | 190 | 270 |
| Average outstanding loan per client (USD) | 227 | 346 | 436 |
| Funding expense ratio | 0.8% | 2.7% | 3.8% |
| Cost of savings | 0.0% | 0.1% | 2.2% |
| Cost of liabilities | 5.1% | 13.7% | 16.1% |
| Loan Loss Provision expense ratio | 9.9% | 4.4% | 7.1% |
| PAR 31 estimates | N/A | >25% | >25% |
| Write-off ratio | 5.3%* | 3.5%* | 8.0% |
| Asset management | | | |
| Outstanding Loan Portfolio / Assets | 59.4% | 71.1% | 70.0% |
| Non-portfolio income as a % of financial revenues | 0.0% | 0.0% | 0.0% |
| Adjusted ratios | | | |
| Financial self-sufficiency | 104.5% | 100.5% | 121.9% 101.5% |
| AROE | 6.3% | 2.9% | 32.7% |
| AROA | 1.6% | 0.6% | 7.9% |

Overview of the profitability

MAMIDECOT is a profitable institution with a comfortable ROA of more than 13% for two successive years.

Portfolio yield and effective interest rate

The portfolio yield fluctuates around 60% which is somewhat lower than the 70% effective interest rate charged on its loans. This could be explained by the low quality of the institution's portfolio.

Operating expense ratio

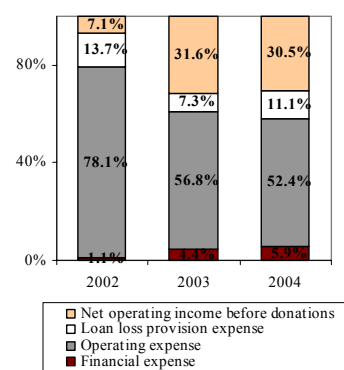
The operating expense ratio follows a steep downward trend going from 56% in 2002 to 33% in 2004, thanks to economies of scale brought by the increase in savings and loan portfolio combined with a great attention given to cost reduction. Given the general growth of the institution, the opening of Lukaya branch did not have a negative impact operating expense ratio.

- The productivity of staff is relatively low (68) when computed on the total number of borrowers since a significant number of staff are in charge of savings management. The ratio savers / staff would be more relevant in this case and follows an upward trend from 300 in 2002 to 400 in 2004.
- Operating expenses could even be further improved if the computerization of operations was completed.

Funding expense ratio

The funding expense ratio increased over the period but however remains at a relatively low 3.8% given the fact that the institution mostly finances its operations with its members savings.

Cost structure in % of financial income



Loan loss provision expense ratio

In accordance with the high level of PAR, the loan loss provision expense reaches quite high level of 4% to 9%, which should be even higher in order to provide for a sufficient coverage of risk.

Asset management

70% of assets are invested in the loan portfolio which is within the range of commonly accepted norms.

Adjustments

| Data in UGS | Oct. 2002 | Oct. 2003 | Oct. 2004 |
|---|------------------|-------------------|-------------------|
| Adjustment for the cost of funds = (a*b)-c | 1,741,000 | 1,632,804 | 691,402 |
| Average amount of borrowings (a) | 13,500,000 | 38,166,668 | 36,500,005 |
| Shadow price of borrowings (b) | 18.0% | 18.0% | 18.0% |
| Interest expense on borrowings (c) | 689,000 | 5,237,196 | 5,878,599 |
| Adjustment for inflation = (d-e)*f | - | 5,107,945 | 4,513,667 |
| Avg. Equity (d) | 42,106,000 | 63,009,821 | 110,732,017 |
| Average fixed assets (e) | 9,213,772 | 12,931,932 | 22,228,739 |
| Inflation rate (f) | 0.0% | 10.2% | 5.1% |
| Adjustment for in-kind donations* | - | - | - |
| Staff and technical assistance | | | |
| Other | | | |
| Adjustments for provisions | - | 30,293,731 | 20,201,983 |
| Loan losses | | 30,293,731 | 20,201,983 |
| Total adjustments | 1,741,000 | 37,034,480 | 25,407,052 |
| Net income before donations | 4,379,000 | 38,837,638 | 61,669,484 |
| Adjusted net income before donations | 2,638,000 | 1,803,158 | 36,262,432 |
| Adjusted net income before donations (USD) | 1,518 | 907 | 21,015 |

*Adjustments for UNDP technical assistance should have been input here, but the data gathered was insufficient.

■ Client friendliness

Transparency

- + All transactions are recorded in the member's passbook.
- + Loan application forms are available both in English and in Luganda and clients sign a "commitment form" summarizing the loan conditions that is also available in the local language and is explained in detail at each loan disbursement. Contracts are, by law, required to be in English.
- + Repayment schedule indicating the amount of capital and interest of each repayment is provided to the borrowers.
- + Standard loan policies are equally applied to all members.
 - There is no formal procedure for clients to file in complaints, but Board members have proved to be listening to their members' concerns in the case of bribes being asked by one LO.
- There is no official document available to the members (brochure, poster, loan policy) that would specify the loan conditions: interest rates and details on the various fees that are charged.
- Interest on loan is computed on the initial balance and the total cost of the loan / average loan balance (effective interest rate) is not provided.

Total cost of the loan

| | |
|-------------------|--|
| Interest rate | 3% per month on the initial loan balance |
| Application form, | 5,000 UGS |
| Commitment form | 2% of the amount of the loan |
| Insurance | 1% of the amount of the loan |

Effective interest rate* 73% per annum

* based on the average loan amount (1.5 M UGS) and average loan term (5 month)

Adaptation of services to client's needs

- + The loan committee performs quarterly field visits in order to collect feedback from members on the quality of the services.
- + MAMIDECOT offers the possibility to reschedule loans if the member can give good reasons for repayment difficulties. This policy, which can be risky if excessively used, is beneficial for the members when appropriately applied.
- + MAMIDECOT is currently testing an agricultural loan product, with a repayment schedule adaptable to the member's production cycle.
- + In addition to simple savings and loans operations, MAMIDECOT handles clearance of checks for its members and operates collection accounts for institutions such as schools hospitals, taxi operators,...

Efficiency

- + Efforts are being made to ensure that members will not need to wait in line for a long time before they can process their savings operations. The quality of service should further improve when the institution achieves full computerization of its operations.
- + MAMIDECOT keeps a high level of liquidity and members can withdraw any amount from their savings account without prior notice.
 - Loan applications are processed in one or two weeks.

Accountability

- + Board members and the management team present their reports to the AGM every year and are open to questions from the members.
- Financial statements are available for members upon request but are not distributed during AGMs despite members' inquiries.

■ Appendices

| MAMIDECOT Balance sheet | UGS | | USD | | | | Evolution | | | |
|---|-------|--------------------|--------------------|--------------------|--------------------|----------------|----------------|----------------|--------------|---------------|
| | Notes | Oct. 2001 | Oct. 2002 | Oct. 2003 | Oct. 2004 | Oct. 2002 | Oct. 2003 | Oct. 2004 | 2003/2002 | 2004/2003 |
| ASSETS | | 107,917,384 | 220,304,000 | 352,711,203 | 566,455,403 | 126,757 | 177,496 | 328,283 | 60.1% | 60.6% |
| Short Term Assets | | 207,515,000 | 339,636,339 | 535,072,789 | | 119,399 | 170,916 | 310,095 | 63.7% | 57.5% |
| Cash and Due from Banks | | 67,051,000 | 76,189,523 | 115,853,870 | | 38,579 | 38,341 | 67,142 | 13.6% | 52.1% |
| Short Term Investments | | - | - | - | - | - | - | - | - | - |
| Short Term Net Loan Portfolio | | 77,281,467 | 130,856,000 | 250,696,758 | 396,301,936 | 75,291 | 126,159 | 229,672 | 91.6% | 58.1% |
| Short Term Gross Loan Portfolio | | 79,701,122 | 138,273,000 | 261,222,952 | 406,375,694 | 79,559 | 131,456 | 235,510 | 88.9% | 55.6% |
| (Loan Loss Reserve) | | 2,419,655 | 7,417,000 | 10,526,194 | 10,073,758 | 4,268 | 5,297 | 5,838 | 41.9% | (4.3%) |
| Interest Receivable | | - | - | - | - | - | - | - | - | - |
| On loan portfolio | | - | - | - | - | - | - | - | - | - |
| On investments | | - | - | - | - | - | - | - | - | - |
| Accounts receivable and other assets | | 9,608,000 | 12,750,058 | 22,916,983 | | 5,528 | 6,416 | 13,281 | 32.7% | 79.7% |
| Long term assets | | 12,789,000 | 13,074,864 | 31,382,614 | | 7,358 | 6,580 | 18,187 | 2.2% | 140.0% |
| Long Term Net Investments | | - | - | - | - | - | - | - | - | - |
| Long Term Gross Loan Portfolio | | - | - | - | - | - | - | - | - | - |
| Net Fixed Assets | | 5,638,543 | 12,789,000 | 13,074,864 | 31,382,614 | 7,358 | 6,580 | 18,187 | 2.2% | 140.0% |
| Other Long Term Assets | | - | - | - | - | - | - | - | - | - |
| LIABILITIES AND EQUITY | | 220,304,000 | 352,711,203 | 566,455,403 | | 126,757 | 177,496 | 328,283 | 60.1% | 60.6% |
| Liabilities | | 168,353,000 | 278,642,562 | 419,060,010 | | 96,866 | 140,222 | 242,862 | 65.5% | 50.4% |
| Short term liabilities | | 159,262,000 | 266,168,595 | 409,669,979 | | 91,635 | 133,945 | 237,420 | 67.1% | 53.9% |
| Demand Deposits | | 127,722,000 | 161,397,181 | 300,718,241 | | 73,488 | 81,220 | 174,278 | 26.4% | 86.3% |
| Compulsory Deposits | | - | 9,101,500 | 9,101,500 | | - | 4,580 | 5,275 | - | 0.0% |
| Short Term Time Deposits | | - | 21,000,000 | 31,081,725 | | - | 10,568 | 18,013 | - | 48.0% |
| Short Term Borrowings | | - | 27,000,000 | 49,333,336 | 23,666,674 | 15,535 | 24,826 | 13,716 | 82.7% | (52.0%) |
| Interest payable | | - | - | 1,613,860 | 1,995,470 | - | 812 | 1,156 | - | 23.6% |
| Accounts Payable and Other Short Term Liabilities | | 4,540,000 | 23,722,718 | 43,106,369 | | 2,612 | 11,938 | 24,982 | 422.5% | 81.7% |
| Long term liabilities | | 9,091,000 | 12,473,967 | 9,390,031 | | 5,231 | 6,277 | 5,442 | 37.2% | (24.7%) |
| Long Term Time Deposits | | - | - | - | - | - | - | - | - | - |
| Long Term Borrowings | | - | - | - | - | - | - | - | - | - |
| Other Long Term Liabilities | | 9,091,000 | 12,473,967 | 9,390,031 | | 5,231 | 6,277 | 5,442 | 37.2% | (24.7%) |
| Equity | | 32,261,000 | 51,951,000 | 74,068,641 | 147,395,393 | 29,891 | 37,274 | 85,421 | 42.6% | 99.0% |
| Paid-In Capital | | 34,610,000 | 44,045,488 | 78,523,903 | | 19,914 | 22,165 | 45,508 | 27.3% | 78.3% |
| Donated equity | | 14,276,000 | 12,741,150 | 12,741,150 | | 8,214 | 6,412 | 7,384 | (10.8%) | 0.0% |
| Retained earnings without donations and reserves | | 3,065,000 | 17,282,003 | 56,130,340 | | 1,764 | 8,697 | 32,530 | 463.9% | 224.8% |
| Current year | | 4,379,000 | 38,837,638 | 61,669,484 | | 2,520 | 19,544 | 35,740 | 786.9% | 58.8% |
| Other equity accounts | | - | - | - | - | - | - | - | - | - |

Test mission – rating not assigned

| MAMIDECOT | | UGS | | | | Evolution | | |
|--|-------|-------------------|--------------------|--------------------|---------------|----------------|---------------|---------------|
| Income Statement | Notes | Oct. 2002 | Oct. 2003 | Oct. 2004 | Oct. 2003 | Oct. 2004 | 2003/2002 | 2004/2003 |
| Financial Revenue (a) | | 61,839,000 | 122,794,758 | 202,007,971 | 61,794 | 117,071 | 1 | 64.5% |
| Financial Revenue from Loan Portfolio | | 54,293,000 | 113,346,143 | 188,443,154 | 57,040 | 109,210 | 108.8% | 66.3% |
| Interest on Loan Portfolio | | 37,154,000 | 85,322,835 | 146,861,785 | 42,937 | 85,112 | 129.6% | 72.1% |
| Fees and Commissions on Loan Portfolio | | 15,175,000 | 26,503,124 | 34,953,761 | 8,731 | 20,257 | 74.6% | 31.9% |
| Penalty Revenue on Loan Portfolio | | 1,964,000 | 1,520,184 | 6,627,608 | 1,130 | 3,841 | (22.6%) | 336.0% |
| Financial Revenue from Investments | | 7,546,000 | 9,448,615 | 13,564,817 | 4,342 | 7,861 | 25.2% | 43.6% |
| Other Operating Revenue | | 689,000 | 5,353,696 | 11,920,004 | 396 | 6,908 | 677.0% | 122.6% |
| Financial Expense (b) | | 689,000 | 5,237,196 | 5,878,599 | 2,634 | 3,407 | 660.1% | 12.2% |
| Interest paid on borrowings | | - | 116,500 | 5,327,205 | 59 | 3,087 | - | 4,472.7% |
| Net Inflation Adjustment Expense | | - | - | - | - | - | - | - |
| Other Financial Expenses | | - | 714,200 | - | - | 414 | - | - |
| Financial income [c=a-b] | | 61,150,000 | 117,441,062 | 190,087,967 | 59,100 | 110,163 | 92.1% | 61.9% |
| Net Loan Loss provision expense (d) | | 8,466,000 | 8,904,771 | 22,512,166 | 4,481 | 13,047 | 0 | 2 |
| Loan loss provision expense and write-off | | 9,589,000 | 10,112,600 | 25,337,133 | 5,517 | 14,684 | 5.5% | 150.6% |
| Recovery from Loans written off | | 1,123,000 | 1,207,829 | 2,824,967 | 646 | 1,637 | 7.6% | 133.9% |
| Operating expense (e) | | 48,305,000 | 69,698,653 | 105,906,317 | 27,793 | 61,377 | 0 | 1 |
| Personnel Expense (includes fringe) | | 15,936,000 | 21,301,900 | 31,547,650 | 9,169 | 18,283 | 33.7% | 48.1% |
| Administrative Expense (non-staff operating expenses) | | 32,369,000 | 48,396,753 | 74,358,667 | 18,624 | 43,094 | 49.5% | 53.6% |
| Depreciation and amortization | | 200,000 | - | 3,160,304 | 115 | 1,832 | (100.0%) | - |
| Consulting fees | | 1,748,000 | - | 10,545,000 | 1,006 | 6,111 | (100.0%) | - |
| Establishment | | 4,717,000 | 7,547,030 | 5,860,600 | 2,714 | 3,396 | 60.0% | (22.3%) |
| Utilities | | - | - | 3,522,588 | - | 2,041 | - | - |
| Meetings | | - | 12,508,498 | - | 6,295 | 7,414 | - | 2.3% |
| Allowances | | - | - | 6,386,875 | - | 3,701 | - | - |
| Motor vehicle | | - | - | 5,728,300 | - | 3,320 | - | - |
| Administration | | 25,704,000 | 27,711,563 | 25,866,200 | 13,945 | 14,990 | 7.8% | (6.7%) |
| Forgeries and fraud | | - | 63,000 | 91,500 | 32 | 53 | - | 45.2% |
| Others | | - | 566,662 | 404,000 | 285 | 234 | - | (28.7%) |
| Net Operating Income Before Taxes and Donations [f=c-d-e] | | 4,379,000 | 38,837,638 | 61,669,484 | 2,520 | 35,740 | 786.9% | 58.8% |
| Income Taxes (g) | | - | - | - | - | - | - | - |
| Net Operating Income Before Donations [h=f-g] | | 4,379,000 | 38,837,638 | 61,669,484 | 2,520 | 35,740 | 786.9% | 58.8% |
| Non Operating Revenue (i) | | - | - | - | - | - | - | - |
| Non Operating Expense (including related taxes) (j) | | - | - | - | - | - | - | - |
| Net Income Before Donations [k=h+i-j] | | 4,379,000 | 38,837,638 | 61,669,484 | 2,520 | 35,740 | 786.9% | 58.8% |
| Donations (l) | | - | - | - | - | - | - | - |
| Net Income (after Taxes and Donations) [m=k+l] | | 4,379,000 | 38,837,638 | 61,669,484 | 2,520 | 35,740 | 786.9% | 58.8% |

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 | 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. |