



KUSCCO LTD.

Kenya Union of Savings & Credit Co-operatives Ltd.

-The SACCO Family Union-

KUSCCO PROFILE

2014-2018

1.0 CORPORATE INFORMATION

KUSCCO was established in 1973 as an umbrella organization for all SACCOs in Kenya. The Union has since remained the principal national organization responsible for representing and speaking on behalf of SACCOs.

Vision: To be a world class National Cooperative Organization

Mission: Promotion of SACCOs through advocacy and Provision of Quality, Diversified, Innovative and Market-Driven Products and Services for Sustainability.

1.1 Key Objectives

- To provide advocacy, lobby, advice and protect members against adverse legislation and/or restrictions.
- To act as the principal local and international representative and mouth-piece of all SACCOs.
- To promote the organization and development of viable SACCOs.
- To disseminate information concerning SACCOs and co-ordinate their operating methods and practices and foster Education and Training of members, officials and employees.
- To promote among SACCOs and their officials, employees and members a common code of ethics based on Co-operative principles.

1.2 Core Values

- Professionalism;
- Integrity;
- Teamwork;
- Customer focus;
- Innovation and Creativity.

2.0 BRIEF HISTORY

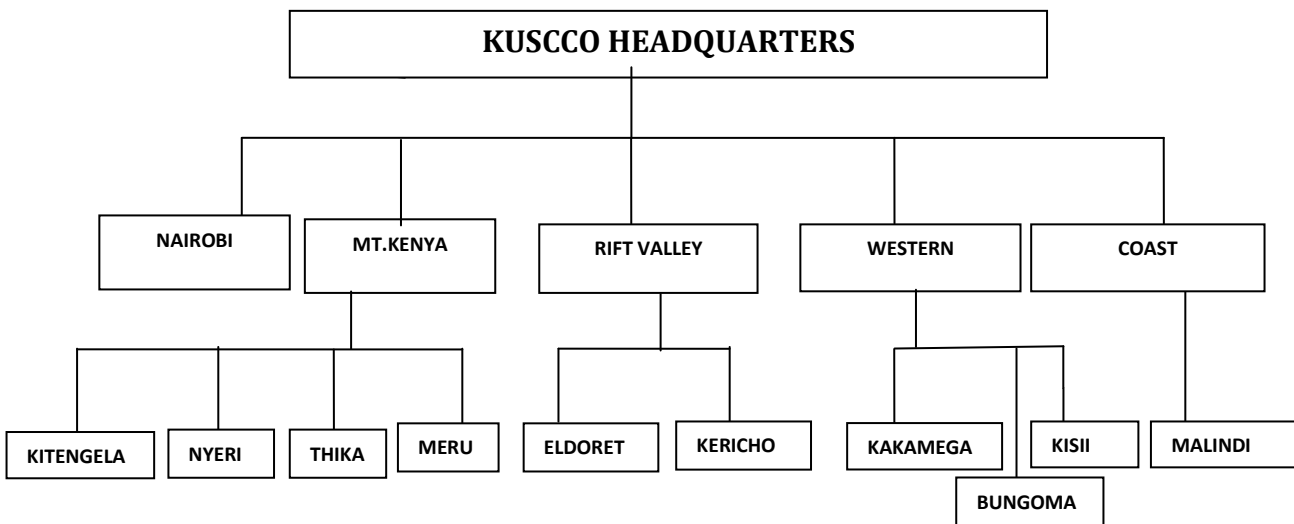
Following the introduction of SACCOs in the 60's, SACCO leaders felt there was need to have an association catering for the welfare of all Societies. To address this, a special

committee was set up in 1971 where a recommendation was made to form a National Association to cater for all SACCOs in the Country.

In 1972, the Kenya National Promotion Committee conducted a study to investigate and recommend the structure that the National Association would take and settled on the name, Kenya Union of Savings and Credit Co-operatives (KUSCCO). KUSCCO was registered on 27th September, 1973 and officially kicked off operations in 1974. The umbrella organization was registered to advocate for a level environment in which SACCOs can do business.

2.1 Current Structure

In order to carry out its various functions effectively, the Union has established 5 regional offices that are in turn supported by 9 branches countrywide.



2.2 Delegates

As a national organization, the supreme authority of the Union is vested in the delegates elected during Regional Council Meetings. Currently there are 160 delegates drawn from the whole country.

2.3 Board of Directors

The Union has a Board of 15 Directors who represent different regions as follows:-

1. Mr. George Magutu — National Chairman & Director, Central Region;
2. Mr. David Langat — National Vice Chairman & Director, Rift Valley Region;

3. Mr. David Mategwa – Nairobi ;
4. Mr. Benson Milai – Nairobi;
5. Mr. Wilfred Aima – Nairobi;
6. Mr. John Munyaka – Central;
7. Mr. Peter Karemanu – Eastern;
8. Mr. Peter Manga – Eastern;
9. Mr. Philip Rirei – Rift Valley;
10. Mr. Isaac Sheunda – Western;
11. Mr. David Moyia – Western;
12. Mr. John Mwangi – Represents Commissioner of Co-operatives;
13. Mr. Alfred Mlolwa – Coast;
14. Mr. John Sigei – Nairobi;
15. Mr. Philip Rirei – Rift Valley;

2.4 Regional and International Collaborations

KUSCCO promotes networking and collaboration of all SACCOs and other stakeholders at both local and international level. The Union is affiliated to the following organizations:-

- International Co-operative Alliance (The Alliance);
- World Council of Credit Unions (WOCCU);
- African Confederation of Co-operative Savings and Credit Associations (ACCOSCA);
- International Raiffeisen Union (IRU);
- Co-operative Alliance of Kenya (CAK).
- African Rural and Agricultural Credit Association (AFRACA);

KUSCCO holds two delegate positions in ICA and World Council of Credit Unions (WOCCU) respectively and represents Kenya at the WOCCU Group of 10 (G10). The WOCCU G10 comprises of the ten largest Credit Union systems in the world with members from Australia, Brazil, Canada, Caribbean Confederation, Poland, Ireland, United States, Kenya, Mexico and Costa Rica. The G10 brings together heads of the largest Co-operative Movements in WOCCU on an annual basis and affords them a platform to forge relationships, discuss issues affecting their movements and in turn seek

collaborative solutions. KUSCCO serves in the Board of WOCCU, ICA, IRU and ACCOSCA.

3.0 OWNERSHIP

KUSCCO is 100% owned by subscribed SACCO Societies. The top ten largest shareholders of KUSCCO Limited are listed below:

3.1 Top ten shareholders 2018

Name	Number of Shares	%
Invest And Grow Sacco Society Limited.	1,883,667	8.06%
Kenya Police Staff Sacco Society Ltd.	1,629,312	6.97%
Harambee Sacco Society Limited	1,416,896	6.07%
Nacico Sacco Society Limited.	1,244,969	5.33%
Newfortis Sacco Society Ltd.	830,529	3.56%
Gusii Mwalimu Sacco Society Limited.	807,406	3.46%
Kenya Medical Association Sacco Ltd.	757,600	3.24%
Imarisha Sacco Society Limited	713,342	3.05%
Magereza Staff Sacco Society Limited.	661,620	2.83%
The Noble Sacco Society Limited.	543,545	2.33%
TOTAL	10,488,886	

4.0 DEPARTMENTS AND SERVICES

In order for KUSCCO Ltd to remain financially independent and able to support the organization's core role of advocacy, six business units independent of each other have been formed as outlined below.

4.1 The Central Finance Fund

This is the inter-lending facility for all SACCOs affiliated to KUSCCO Ltd and operates on the same principles as the SACCO Societies. It mobilizes funds within the SACCO Movement, extends the credit boundaries and accelerates the lending capacities of SACCOs. The department partnered with USAID through Winrock International in growing the renewable energy sector, by financing purchase of clean and efficient cookstoves to SACCO members.

The department also launched an agri-business product for small scale farmers in SACCOs. The product provides credit to farmers, provides irrigation farm inputs and also insures their crops against adverse weather conditions. Through the 'KUZA MITI' program, SACCOs can access tree seedlings for planting within their communities, thus contribute to achieving 10% forest cover in the country.

4.2 Education and Training Services

This is the oldest program at KUSCCO having started in 1974. Through the program, SACCO officials, staff and members are educated on governance issues, financial management, human resources, taxation, asset and liability management, among others.

4.3 Research and Consultancy Services

It pioneered the first Front Office Service Activities (FOSA) for SACCOs in Kenya- Ollin SACCO, formerly Muhigia Teachers in 1995. The consultancy services provided include strategic planning, feasibility studies, salary and benefits survey, job evaluations, staff recruitment etc. The department also consults for other countries and currently has an assignment in Bostwana running a Capacity building programme and developing various policies and manuals.

4.4 Corporate Affairs and Marketing Department

This department handles Corporate Communications, Corporate Social Responsibility, Media Relations and Corporate Image. Other functions include Guest Relations, Brand Management, Marketing, Recruitment of New SACCOs and Affiliates and Sourcing for New Business Ventures. The department also handles advocacy issues on behalf of the Union. It publishes 'The SACCO Star' magazine on a quarterly basis as a medium for creating awareness and as an extension of advocacy.

5.0 KUSCCO Subsidiaries

5.1 KUSCCO Mutual Assurance Ltd

This company has grown out of the Risk Management Services department, and is licensed by the Insurance Regulatory Authority (IRA) to offer insurance services. Specifically, we offer Education plans, Endowment policies, Term Assurance Policy and

Investment policies. Diversification into a fully fledged insurance company will increase revenue streams and translate to more returns for our shareholders—the SACCOs.

5.2 IRNET Kenya Ltd

To support the Government transform the country into a knowledge-based economy, the Union offers a shared ICT platform on a pay as you transact basis, saving SACCOs the cost of installing expensive software. Through this subsidiary, KUSCCO also offers ICT System Audit and Cyber Security Awareness Training.

5.3 KUSCCO Housing Co-operative

KUSCCO Housing Fund which started in 1996 offers affordable mortgages to SACCO members. The department has since grown into KUSCCO Housing Co-operative. It has over 12,000 mortgage accounts and extends loans to individual SACCO members as well as SACCOs for plot purchase, house construction or outright purchase. The department engages in housing developments; the construction and sale of apartments in Kisumu in 2011 and 120 three bedroomed maisonettes in Kitengela, in 2016. The department also established an agency division which partners with credible real estate companies to sell land and houses to SACCO members.

6 BUSINESS SUPPORT UNITS

6.3 Finance Department

This is a key department charged with the responsibility of managing the Union's funds. It prepares the annual financial estimates in liaison with the respective departments and monitors their performance against budget estimates. The department is also the planning arm of the Union, which has enabled it to implement successfully the strategic objectives, resulting into growth in profitability and assets.

6.4 Credit Control Unit

Success of the Union is also hinged on its ability to manage the quality of its loan book and other debts arising out of the different services it provides. The credit control unit is mandated to ensure that the Union is conscious of credit risks inherent in its decisions.

6.5 Human Resources Department

The success of the institution has been as a result of its investment in human capital. The Union has embraced performance contracting with the Managing Director and departmental managers. They are expected to deliver on set targets.

7 FUTURE PROJECTIONS

7.3 Operationalization of the Strategic Plan

The Union implemented an ambitious Strategic Plan 2019-2023 that is based on its vision and mission. This strategy is being implemented by the use of tactical plans developed for the various departments whose attainment is reviewed quarterly.

8 KUSCCO: THE MOUTH PIECE OF SACCOs

Over the years KUSCCO has remained vigorous in the promotion and development of viable SACCOs. Some of the key achievements include:

8.1 Intervention on Inadequate legislation:

8.1.1 National Co-operative Development Policy: KUSCCO is currently advocating for an enabling legal framework that will protect SACCOs and their members from these threats and build cohesion in the sector. Towards this end, KUSCCO is lobbying for the adoption of the National Co-operative Development Policy 2017, into a Sessional Paper. Adoption of the policy will provide a basis for legislation review which will streamline the Co-operative movement's operations. The policy will align the aspirations of the Constitution with respect to devolution of the Co-operative function. The policy has been adopted by Cabinet Secretaries and is awaiting discussion at the National Assembly.

8.1.2 Regulations for non-deposit SACCOS: KUSCCO was part of the task force which drafted regulations for Non-deposit taking SACCOs. The regulations are aimed at protecting Kenyans against risks of poor investment decisions, inadequate transparency and information disclosure. Disregard for members' interests as well as self-preservation by Sacco officials.

8.1.3 Statute Law (Miscellaneous Amendments (No.2) Bill, 2018: The draft Bill proposed the introduction of Social Impact Members, (SIM) through a Special Fund and Investments. We were of the opinion that the proposed structure would put SACCO funds at risk and also pose a risk of losses and penalties related to other laws, for instance Proceeds of Crime and Money Laundering Act, 2009. Due to intense lobbying by the Union, the proposed amendments to the Cooperative Societies Act and the SACCO Societies

Act on the Statute Law were withdrawn through the Hansard report dated 12th March 2019.

8.2 Interventions in Corporate Governance: The Union has remained consistent in promoting the development of proficient SACCOs and in the process of doing so developed a Code of Best practice in Corporate Governance for SACCO Societies. The code is intended to set out standards of corporate governance that will provide guidance to SACCOs as they endeavor to meet their strategic goals.

8.3 Lobby on Taxation and amendment to the income Tax Act Sec.19A: The Union lobbied for the recognition of SACCOs as doing mutual business hence the need to allow dividends as expenses. KRA through a circular consented, leading to the amendment of the Income Tax Act Sec. 19A. KUSCCO also contested taxes levied on FOSAs, where they were treated as independent business entities separate from the SACCO. The Union managed to convince KRA that FOSAs should not be taxed independently.

8.3.1 Unfair taxation: The withholding tax rate on dividends was increased to 10% up from 5% through amendments to the Income Tax Act, through the Finance Act 2018. The doubling of withholding tax rate on dividends paid to members by SACCOs was discriminatory on the sector. Moreover, it would have negatively affected capitalization in SACCOs since members would have declined to save money in shares, due to a lower dividend rate. Thus SACCOs would have struggled to meet capital adequacy ratios required by the regulator. The Union lobbied the national treasury and the Cabinet Secretary, Ministry of Industry, Trade and Co-operatives, and the Withholding Tax rate on dividends was reduced to 5% for SACCOs and other Co-operatives.

8.4 Lobby on the amendment of the Banking Act on use of SACCOs as bank agents: The Union played a key role in highlighting the challenges likely to be faced in the use of SACCOs as Commercial Bank agencies and the need for consultations with the key stakeholders and SASRA before any engagements are made. This was amended as requested.

8.5 Lobby on single business permits: The Union contested the move by the City Council of Nairobi, Mombasa, Kisumu and Kisii to charge SACCOs for business licenses in court and won. It thus secured an Order of Stay that prohibits any harassment by the local authorities over payment of Single Business Permit Fees for our members across the country. SACCOs affiliated to KUSCCO should therefore not be subjected to this levy.

8.6 International study visits: On the International front, we continue to play a key role as a representative of the Kenya SACCO movement by organizing Local and International study tours. The tours are designed to not only equip our members with relevant skills, but also provide an exposure to the Credit Union operations at the International level. We have so far successfully organized education tours to USA, Sweden, Spain, Australia, Ireland, Poland, Israel, Scotland, India, Tanzania, Uganda, Gambia, Mauritius, Cameroon, Hong Kong, Seychelles and Canada, where KUSCCO was awarded for the Most Outstanding SACCO Membership Growth Rate during the World Council of Credit Unions Conference held in July 2013. Similarly in 2014, Kenya was awarded for being the country leading in SACCO growth in Africa, during the Savings and Credit Co-operatives Associations (SACCA) Congress, held in Lesotho. The award was given to KUSCCO Limited by The African Confederation of Co-operative Savings and Credit Associations (ACCOSCA).

8.7 Accounting Nomenclature: KUSCCO together with ICPA(K); Ministry of Industry, Trade and Co-operatives, SASRA and PKF auditors developed an accounting presentation format for use by SACCOs different from the previous one, where the classification was like that of manufacturing firms.

8.8 Information Communication Technology: The Union has been very vocal on the need for SACCOs to adopt Information technology so as to promote efficiency. This has so far seen many SACCOs moving away from manual accounting.

9. CHALLENGES IN THE SECTOR

Some of the major challenges faced in the sector include:

9.1 Devolution: This poses a major challenge as SACCOs now have to apply for payment deduction codes to facilitate the deductions of members' salaries and loans at the county level. This has caused challenges as SACCOs that are not licensed by SASRA cannot acquire the payment deduction code.

9.2 Taxation: SACCOs continue to face the challenge of taxation. This was underscored by the Finance Bill 2013, which proposed that amendments be made to the Customs and Excise Duty Act that saw SACCOs suffer a 10% levy on all transactions. This led to expensive credit as SACCOs transferred the indirect tax to consumers. Further, section 15(3) (b) of the Income Tax Act takes cognizance of Co-operative Societies as financial institutions but they have been omitted from provisions of Section 15 since they are listed 5th. This discriminates borrowers from Co-operative societies from accessing tax deductible allowance on mortgage interest.

9.3 Delayed or non-remittance of SACCO dues

Parent Companies, Universities, Parastatals and County Governments owe SACCOs millions of shillings in non-remittances. SACCOs thus face liquidity challenges, following the hefty amount of money owed to them.

9.4 Political Interference from Mainstream Political Parties: Politicians have occasionally tried to interfere with SACCO operations by using the institutions as political launch pads.

10. STRATEGIES TO GROW THE SECTOR

- Advocate for membership recruitment and increased savings;
- Sensitize members on production as opposed to consumption loans;
- Assist in the formation of new SACCOs where there are economic activities;
- Advocate for favorable legislation;
- Advocate for fair tax regimes by lobbying the government;
- Encourage SACCOs to ensure they have good corporate governance strategies;
- Encourage SACCOs to join Credit Reference Bureaus in order to reduce non-performing loans.

11. RISK FACTORS

As a result of the Union's operations, it is exposed to risks whose mitigation is paramount. Such risks are listed below:-

11.1 Financial Risk Management

The Union activities expose it to a variety of financial risks, credit risks and the effects of changes in property values, debt and equity market prices and interest rates. The Union's risk management policies are established to identify and analyze the risks faced by the Union, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The audit and budget Committee is responsible for monitoring compliance with the Union's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Union. The Union manages the following key risks:

11.2 Credit Risk

The Union faces credit risk which emanates principally from the Union's loans and advances to members. One way of mitigating this risk is by having deposits as collateral and also placing limits on amounts of risk acceptable in relation to borrowers. Credit approval process has also been established at several levels.

Risk is monitored monthly and is managed through:

- Analyzing the ability of borrowers and potential borrowers to meet interest and principal repayment obligations;
- Regular analysis of the borrowers to meet interest and capital repayment obligations and by proactively taking remedial action where appropriate;
- Partnership with a Credit Reference Bureau, which enables the Union to make inquiries about a borrower and see their credit history for the last five years. This allows the Union to price the risk taken in advancing the loan.

11.3 Liquidity Risk

Liquidity risk refers to the Union's ability to meet obligations and other commitments at all times at a reasonable price. KUSCCO strives to maintain sufficient funds all times to meet

its operational needs and maturing liabilities. The Union addresses liquidity risk through the following:

- Entering into lending contracts subject to availability of funds
- Maintaining an aggressive strategy aimed at increasing member deposit base, therefore increasing availability of funds.
- Borrowing from the market from financial institutions for short term liquidity requirements.

11.4 Political, Regulatory and Legislation Risk

The Union not only derives all its finances from Kenya but also has all its infrastructure and assets located in the country. Its operations, financial results and liquidity may be affected by Kenyan Government policy or taxation on earnings, political, social, ethnic, economic or other developments affecting the country.

Regulatory risk refers to non-compliance with regulatory requirements. It's the current and prospective risk to earnings or capital arising from violations of or non-compliance with laws, rules, and regulations prescribed practice or ethical standards issued by the regulator at any time.

11.5 Operational Risk

Operational risk refers to direct or indirect loss arising from a wide variety of causes associated with the Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity.

The Union's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

11.6 Inflation Risk

The Union is exposed to high levels of inflation which weaken the purchasing power of the shilling and consequently reduce the amount of savings. High inflation rate could increase costs and reduce the profit margins of the Union.

This problem can be mitigated through adjustment of lending rates to cover inflation costs.

11.7 Capital Management

The Co-operatives Act sets and monitors capital requirements for the Union as a whole. The requirements are outlined in the Union's by-laws which comply with the requirements

of the Co-operatives Act. The Union's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet are:

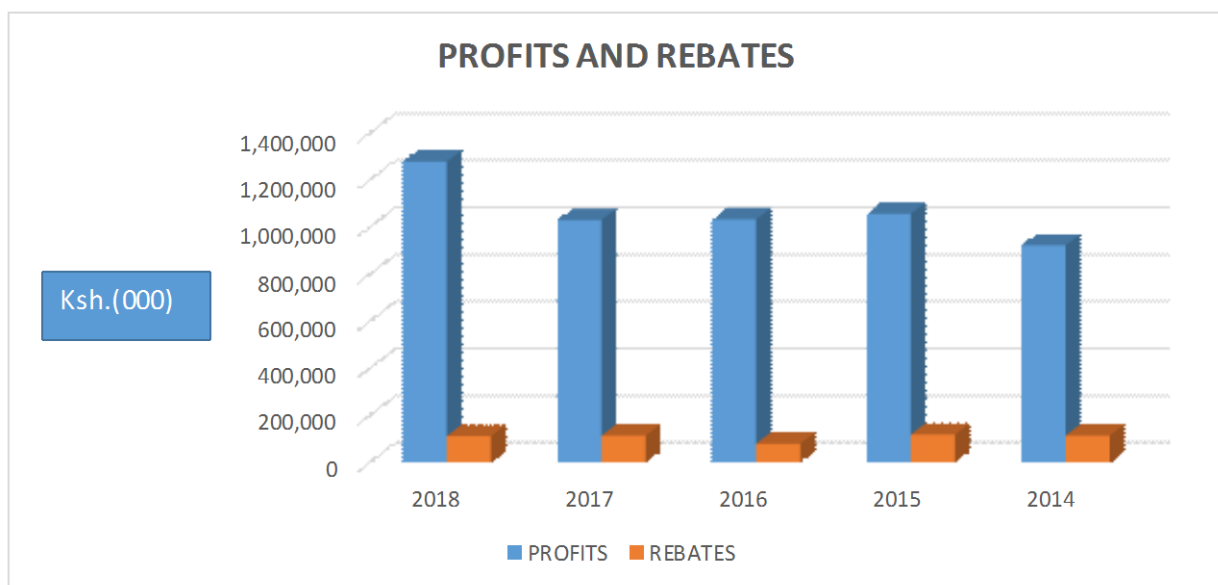
- To have sufficient capital to support its development mandate;
- To safeguard the Union's ability to continue as a going concern so that it can continue to provide returns for members and other stakeholders and;
- To maintain a strong capital base to support the development of the Union.

12 BUSINESS OVERVIEW

12.1 Profitability

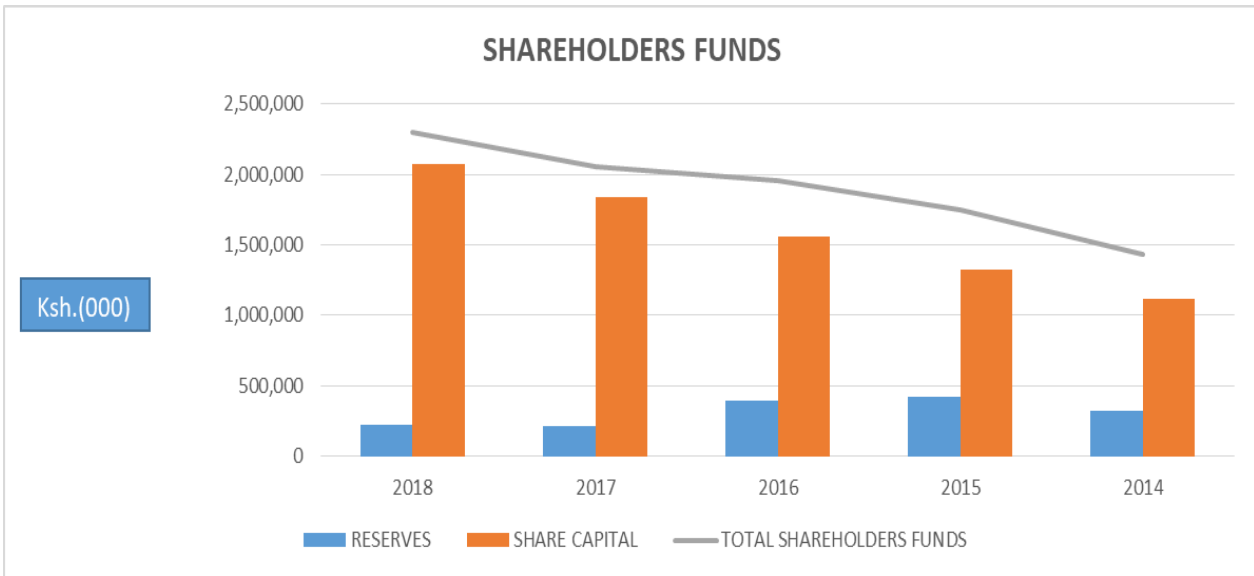
From the year 2014, profitability has increased every year due to determination and good governance by the board, dedication of staff and commitment of shareholders. The dividend payout has been constant at 9%.

Growth in profit before tax and dividend (Rebates)



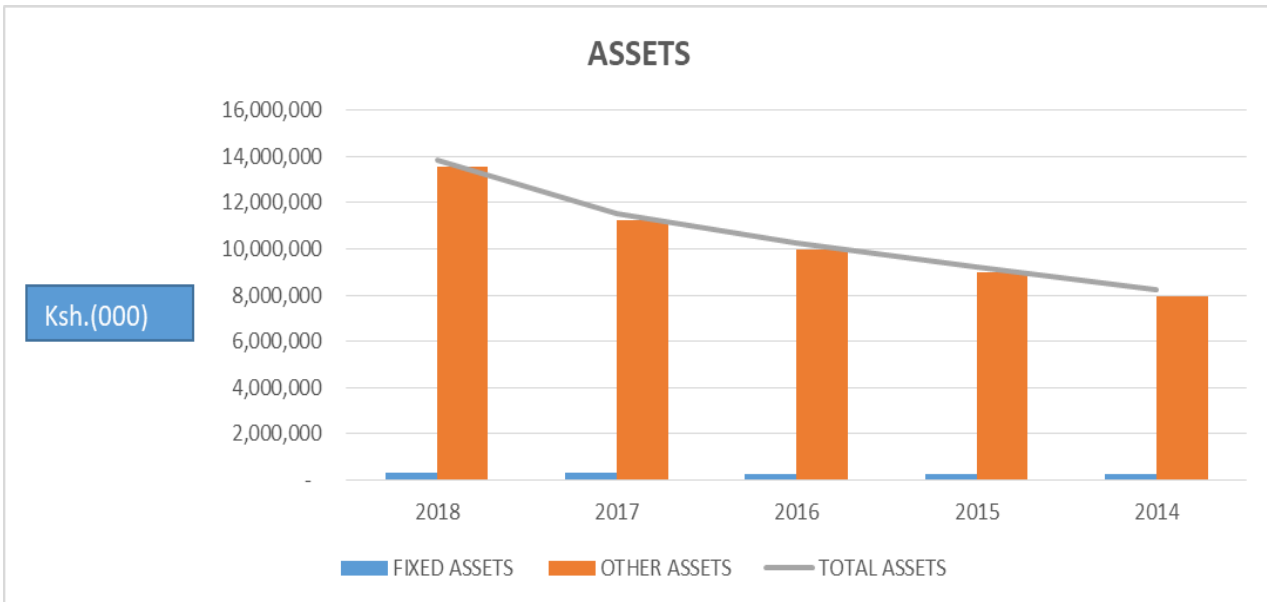
12.2 Shareholders' Funds

The Union's shareholders' funds have increased from Kshs. 1.4 billion in 2014 to Kshs. 2.3 billion as at December 2018. This was largely attributed to improved confidence in the Union and increased profitability. The sustained growth in shareholders' funds for the period to December 2018 is as shown below:



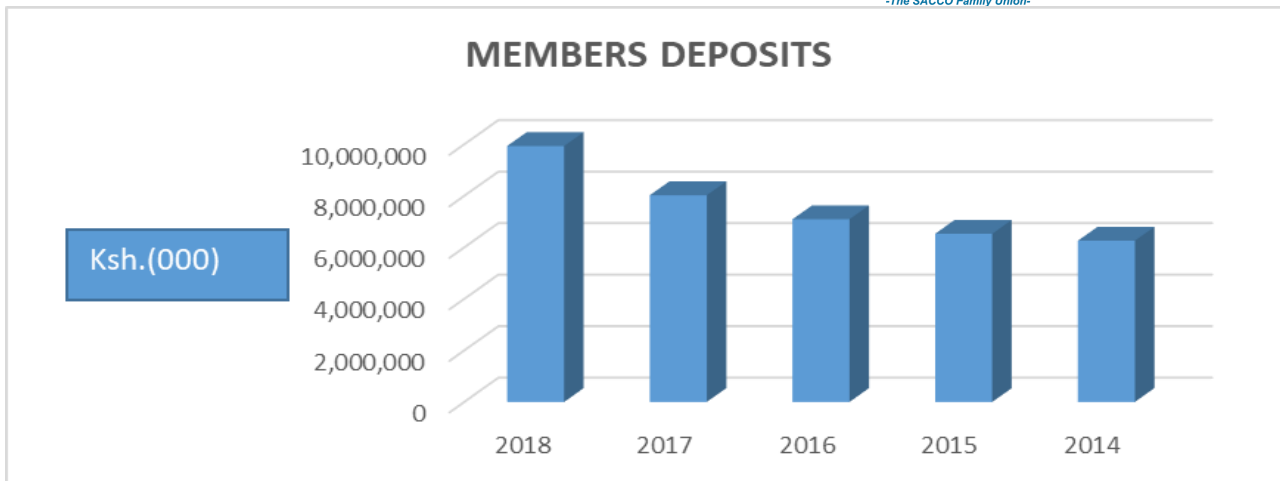
12.3 Total Assets

The Union has grown its asset book from Kshs. 8.2 billion in 2014 to Kshs. 13.8 billion by December 2018.



12.4 Member Deposits

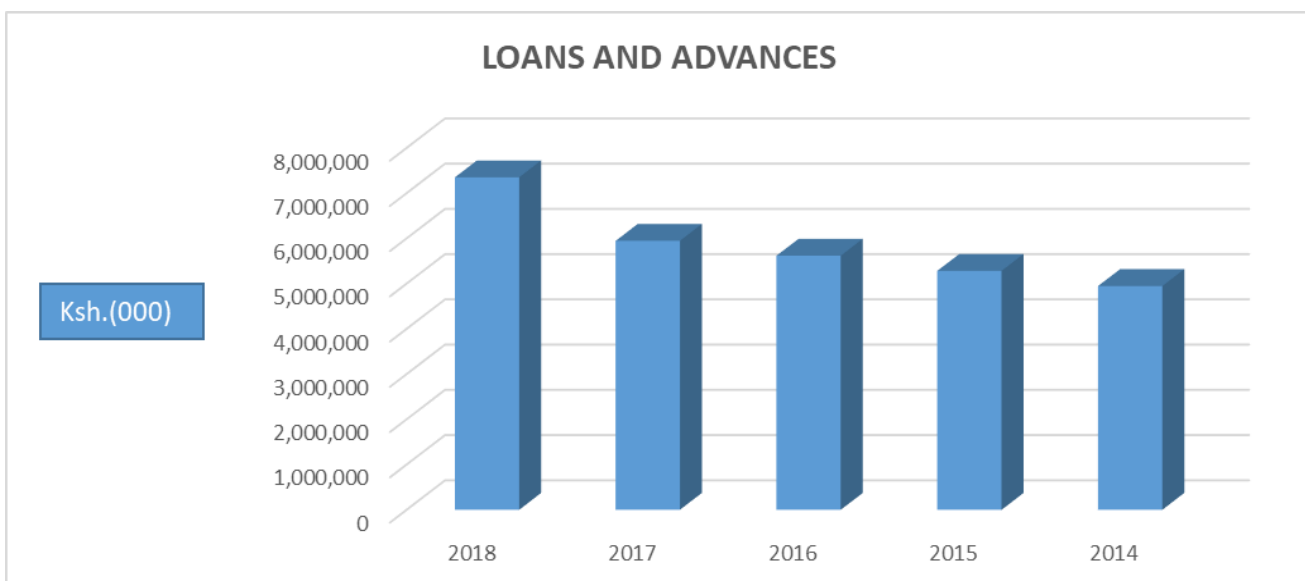
This grew on an annual basis to Kshs. 9.93 billion by December 2018. This is attributed to the confidence members have in the Union and the favorable interest paid on these deposits under Central Finance Fund. Deposits in the KUSCCO Housing Fund also grew from Kshs. 900.7million in 2014 to Kshs. 1.4 billion in 2018.



12.5 Loans and Advances

Loans and advances grew steadily in the last five years. However, the favorable interest rates in the liberalized financial markets posed more competition as SACCOs turf was properly raided by mainstream banks, leading to decline in loan demand as exhibited below.

The loans and advances emanate from our three products in Central Finance Fund, Housing Fund and KUSASA. The Union's combined loan book stood at Kshs. 7.3 Billion as at December 2018.



13.0SELECTED FINANCIAL DATA

The following data has been extracted from the Union's financials for each of the five years ended 31st December 2018, 2017, 2016, 2015, and 2014.

13.1 Balance Sheet

Balance Sheet as at 31st December	2018	2017	2016	2015	2014
	Kshs (000)	Kshs (000)	Kshs (000)	Kshs (000)	Kshs (000)
Cash & Equivalents	985,168	687,601	104,888	249,283	282,968
Accounts Receivable	487,021	440,267	775,744	882,476	664,843
Loans & Advances	7,349,672	5,946,059	5,617,090	5,282,382	4,947,369
Stocks	961	920	1,917	2,014	2,357
Investments	688,861	688,861	688,861	688,861	688,861
Property & Equipment	306,374	302,764	254,429	244,951	247,260
Other assets	4,028,332	3,458,614	2,804,489	1,896,130	1,383,543
TOTAL ASSETS	13,846,389	11,525,084	10,247,418	9,246,098	8,217,251
Total deposits	9,933,060	8,024,655	7,092,410	6,527,824	6,259,599
Other Liabilities	1,613,438	1,447,371	1,196,197	969,703	523,648
TOTAL LIABILITIES	11,546,498	9,472,026	8,288,606	7,497,527	6,783,246
Total shareholders' Equity	2,299,891	2,053,058	1,958,812	1,748,570	1,434,005

13.2 Profit and Loss

PROFIT (LOSS)	2018 Kshs (000)	2017 Kshs (000)	2016 Kshs (000)	2015 Kshs (000)	2014 Kshs (000)
Operating Income	1,279,711	1,031,212	1,035,083	1,058,540	923,962
Operating Expenses	1,146,516	992,084	1,027,465	1,039,127	900,666
Net Income Before Tax	133,195	39,128	7,618	19,413	23,296

14.0 CORPORATE GOVERNANCE

The Board of Directors at KUSCCO Limited is responsible for the development and implementation of policies that demonstrate best corporate governance practices in the Union. The board is responsible for the governance of the Union and is accountable to shareholders in ensuring that the Union complies with the highest standards of corporate governance and business ethics. The directors strive to ensure that the Union is committed to business integrity and professionalism in all its activities.

14.1 Board of Directors

The Board has fourteen members with the Managing Director as an ex-officio. The board maintains effective control over strategic, financial, operational, policy and compliance issues. Timely information is provided to enable the board fulfil this role. The board has delegated authority for day to day operations to the Managing Director but gives direction and guidance on general policy.

The board is assisted in the discharge of its responsibilities by three committees. The committees meet regularly as detailed by the board.

14.2 Executive Committee

The committee's functions include inter alia the recruitment of all senior staff, monitoring and appraisal of performance contracts of the managing director and reviewing all HR policies. The committee meets four times annually.

14.3 Business Committee

The committee considers and reviews the Union's budgets, disposal of disused capital assets, lines of new products, review of product costing and loan disbursements.

14.4 Audit & Budget Committee

The committee's key responsibility is the review of financial information, compliance with accounting standards, and the review of the internal control systems. The Internal Audit Manager reports to the committee.

15.0 INTERNAL CONTROLS

The Union has a well-defined organizational structure with appropriate segregation of responsibilities. This is complemented with detailed policy and procedures manual which provide a guiding framework to the management team.

16.0 BUSINESS ETHICS

The Union adheres to the best business practices of integrity, respect and ethics in dealing with all stakeholders. All employees sign a code of ethics upon employment.

THE END
