



**3<sup>RD</sup>**  
**EDITION**

**THE CHAMA**  
**HANDBOOK**



# M-PESA



## THE CONVENIENT WAY TO COLLECT MEMBER CONTRIBUTIONS

To register for this pay bill service send an SMS with the word **Chama** to **21366**, email [chama@safaricom.co.ke](mailto:chama@safaricom.co.ke) or visit your nearest Safaricom shop.





**3<sup>RD</sup> EDITION**

**THE CHAMA**

**HANDBOOK 2016**



# AMINIKA NA BENKI YAKO

Crystobol is an innovative solution that enables you to register directly with Metropol CRB (MCRB) and access a range of services via convenience of your mobile phone including:

- Listing status (Check whether you're on the gold list or the black list)
- Metro score
- Credit Report
- Certificate of clearance
- Who has listed me
- Borrow money

**SIGN UP TO SEE WHAT LENDERS SEE ABOUT YOU  
AND USE TO EVALUATE YOUR CREDIT WORTHINESS.**



 **METROPOL**  
reach new heights

## **Aknowledgement goes to experts and contributors who provided input for current and previous edition of Chama Handbook:**

---

### **A Publication of**

Kenya Association of Investment Groups (K.A.I.G)  
1st Floor, Room 103  
Mercantile House (next to Cianda House)  
Koinange Street

### **P.O. Box 48525 -00100, Nairobi**

**Mobile:** +254 737 773106 / 707 180 565

The Chama Handbook Content Development and Copy Editing was done by Joseph Mathenge. The design and lay out was done by Pixad Creative Studios on behalf of Kenya Association of Investment Groups (K.A.I.G).

Addition Pictures by Pixabay.com

Scope of work involved concept development for design and layout, photo editing and printing.

### **Pixad Creative Studios**

**Cell:** +254-726-213227

**Email:** info@pixads.com

**P.O. Box** 57854-00200, City Square.

NAIROBI, KENYA

# TABLE OF CONTENTS

---

FOREWORD.....	8
CHAIRMAN'S MESSAGE.....	10
INTRODUCTION.....	11
What is a Chama	
Benefits of Being A Chama Member	
Rules for Chama Success	
Social Aspects of A Chama	
GETTING STARTED.....	18
How to start a Chama	
Legal Structure	
Common Reasons For Investment Groups Failure	
Do's and Dont's	
Management of the Chama	
Governance	
Taxation	
Is Your Chama a Trust or Partnership	
Designing and Executing a Successful Investment Strategy	
Capital Mobilization Plan and its Importance	
Risk Profile	
Meetings	
INVESTMENT POLICY.....	44
Making the Investment Decision as a Chama	
What is an Investment policy Statement	
Asset Allocation	
Selection of Service providers	
Asset Valuation	
Monitoring Your Investments	
Arbitration	
ASSET CLASSES IN KENYA.....	52
Shares - Private and Quoted	
Fixed Interest	
Cash and Cash Equivalents	
Real Estate	
Offshore Products	
GOVERNEMENT INVOLVEMENT.....	66
INSURANCE.....	68
ADDRESSING UNEMPLOYMENT.....	70
NATURING BY ACL.....	72
WEALTH IN AGROFORESTRY.....	75
WEALTH CREATION.....	80
SAVING FOR THE FUTURE.....	83
EDITORIAL.....	85
CHAMAS AND BANKING BILL.....	91
CHAMAS FUTURE.....	94
E-COMMERCE.....	96



**KENYA ASSOCIATION OF STOCKBROKERS  
AND INVESTMENT BANKS**

---

## **Are you interested in learning more about the Kenya Stock Market?**

Visit any of the following KASIB members and get an investor education handbook, distributed free of charge.

### **CURRENT LIST OF KASIB MEMBERS**

ABC Capital Ltd	KCB Capital Ltd
African Alliance (Kenya) Securities Ltd	Kestrel Capital (EA) Limited
AIB Capital Ltd	Kingdom Securities Ltd
ApexAfrica Capital Ltd	NIC Securities Limited
Barclays Financial Services Ltd	Old Mutual Securities (K) Ltd
CBA Capital Ltd	Renaissance Capital (Kenya) Ltd
Dyer & Blair Investment Bank Ltd	SBG Securities Ltd
Equity Investment Bank Ltd	Standard Investment Bank Ltd
Faida Investment Bank Ltd	Sterling Capital Ltd
Francis Drummond & Co. Ltd	Suntra Investments Ltd
Genghis Capital Ltd	

---

**KASIB AND KAIG SHALL SOON BE REACHING OUT TO YOU TO  
HELP YOU LEARN MORE ABOUT THE KENYAN STOCK MARKET**

# | FOREWORD



**Bob Collymore CEO, Safaricom**

As Kenya embraces its lower-middle income status, the desire for diversified investment opportunities is increasingly becoming a key focal point for the financial sector.

Over the years, Kenyans have used both formal and informal platforms for investment.

One of the most popular is the community-driven merry-go-rounds or Chamas, which have now emerged as trusted informal investment platforms for small groups – especially women – to advance themselves economically.

Originally, Chamas were formed as a result of a need for women to access funds that they would otherwise not access from banks due to lack of collateral. They have now grown to become the main drivers behind a growing number of large-scale investments that transact in millions of Kenya shillings.

It is estimated that there are over 300,000 Chamas in the country controlling about Kshs.300billion worth of assets. This indicates the rapid progression that has made Chamas very powerful investment vehicles.



# | FOREWORD

With the right direction and nurturing, these institutions can aspire to become as well recognized as Old Mutual, which once started as a small investment group and has now grown to become one of the key global players in its field.

## FYI

There are no charges to the M-PESA Chama Account. The members are however charged a small fee based on the amount they send.

With the right direction and nurturing, these institutions can aspire to become well recognized as Old Mutual, which once started as a small investment group and has now grown to become one of the key global players in its field.

Started by John Fairbairn with no capital and the belief that together, people can achieve more than they can alone, Old Mutual has grown to become one of the largest investment groups in the world.

I firmly believe that if we continue to identify opportunities to deepen financial inclusion solutions for Chamas today, we can expect a similar narrative for Kenyan groups in the near future. At Safaricom, we work closely with industry partners to promote financial inclusion amongst all Kenyans as we strive to realize our vision to Transform Lives.

It is for this reason that we continuously come up with simple innovative products and services that meet our consumers' needs. Leveraging the power of technology, our products are designed to extend access to services that may not have been available to certain parts of the country or population.

For example, in 2012, jointly with CBA, we introduced M-Shwari, a product that allows people to save money through their M-Pesa account and eventually access loans.

We believe that this is one way in which we will enable our people to thrive locally as they become part of a more global economy.

To specifically address the needs of investment groups, we introduced the M-PESA Chama Account that can hold up to Kshs. 100million. It allows investment groups to enjoy perks that enable them run Chamas effectively. The service is offered to groups to allow them to collect funds conveniently and increase accountability.

Once money is collected, it is transferred by the group representatives to the bank account. We allow the group or its representatives to initiate a request for the funds to be transferred to the bank account by logging into a portal access. There are no charges to the M-PESA Chama Account. The members are however charged a small fee based on the amount they send.

These products demonstrate the level of determination we have to deliver financially inclusive products to all Kenyans.

In conclusion, we are particularly pleased to be able to partner with members of the Kenya Association of Investment Groups (KAIG) as we work together to achieve a more financially inclusive Kenya.

**Bob Collymore**

*CEO, Safaricom*

# CHAIRMAN'S MESSAGE



The Kenya Association of Investment Groups (KAIG) Chairman Patrick Kariuki

Fellow Chama Members,

I take this invaluable opportunity to hereby present to you the 3rd edition of the Chama Handbook. This Handbook is meant to be a step-by-step guide to formation, formalization, planning, investing and capacity building of an investment group.

Kenya Association of Investment Groups (KAIG) continues to deliver on its mandate as the legal entity put in place to promote formation, existence, growth and investment in and through Chamas. The Association continuously strive to ensure thousands of Chamas in Kenya have proper guidelines for their day-to-day referencing. This handbook seeks to give our members, non-members as well as important stake holders this important platform as an avenue

channel to stay informed.

In ensuring that KAIG facilitates you with a proper foundation for you Chama formation and development, we have included information on how to start your Chama and went a step further to give you insights on how to prepare yourselves for investments, do's and don'ts and lastly frontiers to observe as you plan to do your investment.

This edition has built on the 2nd edition by including important topics such as Designing and Executing a Successful Strategy, The Changing Investment Landscape in Kenya, Taxation, E-Commerce and Building Wealth through Agroforestry. These topics among others will open up your mind into the great potential you have and vast opportunities around you.

A great depth of gratitude is owed to Amalgamated Chama Limited (ACL), the umbrella investment group made up of and owned by KAIG Chama members, for its continued support of the Association in undertaking to foot the cost of production of this important information tool for Chamas. Your support has been immense.

Our Corporate partners and advertisers have equally and importantly supported us financially in the course of production to ensure the handbook has a wide reach of people. We appreciate all the support you have accorded the Association.

My gratitudes also go to the KAIG board members, secretariat and the production team for diligently giving their time to ensure the quality of this production is of utmost value to the readers.

Lastly, I wish you all the value you can derive from this edition as you plan to start or continue building the economy by amassing wealth through your Chama. Enjoy your reading.

**Patrick Kariuki**

*Chairman*

/ grow. protect. invest.

# INTRODUCTION

# What is a Chama?

The Kenya Association of Investment Groups (KAIG) defines an investment group as *“Any collection of individuals or legal persons in any form whatsoever including but not limited to: societies registered under the Societies Act, Partnerships and Limited Liability Companies, whose objective is the pooling together of capital or other resources with the aim of using the collected resources for investment purposes.”* The more widely used word for ‘Investment Group or Club’ is Chama (Kiswahili for group).

Usually, individuals who come together to form a Chama are bound by a common factor i.e. attend the same church, socialize together, live in the same neighborhood, go to the same school etc. These activities enable members to meet regularly which helps them have a common goal.

The focus of KAIG and this Handbook is those Chamas that come together specifically for investment purposes.

By aggregating the funds of a large number of small investors into specific investments (in line with the objectives of the investors), an investment group gives individual investors access to a wider range of opportunities than the investors themselves would have been able to access individually. Also, individual investors should be able to save on costs since the investment group is able to gain economies of scale in operations.

# BENEFITS OF BEING A CHAMA MEMBER

The success of investment groups is not just in money. Make an effort to know each other by organizing team building or bonding sessions. You will find that the skills, talents and connections of each member can be exploited to boost your Chama's fortunes.

1

## IT LOWERS THE RISK LEVEL

The risk of personal loss for any one individual is minimized because the Chama makes the investment as a group. If profits don't appear as projected the loss is minimal. A Chama as a Limited Liability Company ensures minimal legal risks to you and your family. Any distress (even personal) is shared through the different share ownership.

3

## IT ALLOWS MEMBERS TO LEARN

You benefit from shared ideas and experiences. An investment club is a more effective way to learn about investing, as opposed to a classroom situation since it exposes the member to real investment situations. A good Chama offers its members the opportunity to interact, research, analyze and spot the most viable opportunities. With enough eyes and ears within the group, an informed and rational decision can be formed thus providing a learning environment.

5

## IT CREATES LASTING FRIENDSHIPS

Chamas are a terrific way to learn, make valuable contacts, and meet people with similar interests. Lasting friendships can be forged. It is crucial to maintain a friendly and fun atmosphere in the Chama, so as to encourage healthy interpersonal relationships. In successful Chamas, you can attain 'real' friendship and commitment to each other.

2

## IT PROVIDES DISCIPLINE AND STRUCTURE

It forces you to acquire a discipline of saving. Saving on an individual level proves difficult for many. Participating in a group on the other hand ensures mandatory saving in the form of regular contributions. As an individual, it is easier to break your commitment especially when emergencies crop up.

4

## IT DIMINISHES OR ELIMINATES FEAR OF INVESTING

Most budding investors are terrified at the thought of investing on their own, probably due to the risk of failure and a feeling of inadequacy. A group therefore offers a solution transferring the pressure from the individual and spreading it to the group.

6

## IT CREATES A SOURCE OF WEALTH

You can save the level of capital you require for a project much faster than you would as an individual. You also benefit from the power of compounding your larger pool of savings. Compounding works through re-investing all your profits on investments to generate more. This creates a long-term return on wealth. It is also possible for your Chama to outlive you and benefit the next generation especially if it's a limited company.

# RULES FOR CHAMA SUCCESS

1

**INVEST REGULARLY:** Build up your capital first before beginning your investments. Once you begin the investment process, don't stop. Try to avoid holding your contributions for more than three months before investing in opportunities.

2

**REINVEST DIVIDENDS/EARNINGS:** Take a long-term view to your investment and re-invest back all your profits for the first couple of years. This will have tremendous impact on your overall return in the future.

3

**INVEST IN GROWTH OPPORTUNITIES:** The purpose of the Chama is to grow your capital, and the investments should reflect that. This isn't for cash that you may need in a medical emergency or to cover monthly expenses.

4

**DIVERSIFY YOUR INVESTMENT PORTFOLIO:** Diversify your assets and portfolio in terms of investment type, sector and level of risk.

.....  
The purpose of the Chama is to grow capital.  
.....

## WATER & ENERGY Solutions for Africa

**Improving People's Lives!**

Davis & Shirliff is the region's largest water equipment supplier with an unmatched product range, a wide network of branches and stockists, extensive stocks, full service support and ISO 9001:2008 certification.

Call the Professionals for the best water and energy management solutions available!



**DAVIS & SHIRTLIFF**

know **H<sub>2</sub>O** through experience

**Water Pumps • Water Treatment • Solar Equipment  
Borehole Services • Swimming Pools • Generators**



Kenya



Uganda



Rwanda



Ethiopia



Zambia



Tanzania

[www.davisandshirliff.com](http://www.davisandshirliff.com)

## SOCIAL ASPECT

Chamas are usually founded on two basic reasons:

- The common bond between the members.
- The financial goal of the group.

As most groups begin with trusted friends or family, it is important to have clear objectives in the beginning about the group's purpose otherwise, the Chama can end up only as a perfect excuse to get together once a month to socialize. However, note that having social activities cements the group's relationship dynamics by strengthening them.

It is important for Chamas to work towards enhancing their bond outside their financial and investment aspects. Some activities that can improve the relationship between members are:

- Taking up group insurance covers for members, their families or their businesses.
- Setting up a benevolent fund that caters for any eventualities or calamities a member may suffer.
- Having a party or a 'Goat-eating' get-together where member's families, friends and business associates might also get invited.
- Having training sessions to increase knowledge in any agreed area for the members done by outsourced professionals.
- Doing or exchanging business services with the members as opposed to sourcing from outside the group.
- Having group visits to members' life events like weddings, anniversaries, birthday parties and contributing towards these occasions.
- Engaging in a socially responsible activity like visiting a children's home, donating books to a local library or school, offering investment skills at a local prison etc.



Many Chamas are either transitioning from welfare clubs to investment groups or are clearly beginning with a goal of pooling their resources together to seriously invest and grow their portfolios.

A popular form of Chamas has been the "Merry Go Round" otherwise known as a Welfare Club. Members contribute a pre-determined amount of money each month and the total amount is given to one member until everyone benefits. The member will pursue a personal activity with this money i.e. pay school fees, invest in shares or real-estate, upgrade their home. Some groups are able to retain a proportion of the contribution for investment purposes but many remain in this state for years with no additional benefits. However, many Chamas are increasingly either transitioning from welfare clubs to investment groups or are clearly beginning with a goal of pooling their resources together to seriously invest and grow their portfolios.

The world's first investment club on record was founded in 1898 in Texas, United States where individual's came together to spread the risk away from their cattle business<sup>1</sup>. Since then, there are hundreds of thousands of investment groups around the world that have generated millions for their members. If properly founded and maintained, a Chama can give it's members great returns every year whilst providing valuable knowledge and experience that lasts a lifetime.

<sup>1</sup>Introduction- Social Aspect of Chamas: "Investors are slowly joining the club". The Independent (London). June 3, 1995.



## OUR SERVICES

- ✓ Property Valuation Services
- ✓ Feasibility Appraisal Services
- ✓ Due Diligence Services
- ✓ Property Management Services



**Rubyland Limited**  
**Valuers & Real Estate Consultants**



## Your Partner in Real Estate Solutions

- ✓ **PROPERTY VALUATION:** Enables you to know the worth of your properties for purposes such as Insurance, Sale, Purchase, Book Keeping or even for Legal services as sureties for Court purposes
- ✓ **FEASIBILITY STUDIES:-** Helps make decisions on how to maximize real estate return on investment. Do you develop or do you sell as it is? Do you develop Bungalows, Maisonettes, Townhouses, Apartments or offices? What is the estimated development cost? What are the anticipated cash flows and what is the estimated return?
- ✓ **DUE DILIGENCE SURVEYS:-** We carry out Official Searches, Land Rates and Land Rents surveys and payments, Survey maps, etc
- ✓ **PROFESSIONAL PROPERTY MANAGEMENT:-** The function that ensures that anticipated cash flows and returns are realized through letting out the properties, collection of rent and service charge as well as administering leases and tenancy



Charles Peter: CEO, Rubyland Ltd.

**11<sup>th</sup> Floor, View park Towers, Utalii Lane**

P.O. Box 104441, 00101 Nairobi Kenya,

[www.rubyland.co.ke](http://www.rubyland.co.ke)



/ grow. protect. invest.

# GETTING STARTED

# How to start a Chama?

## Overview

The Chama usually begins with one individual, founder or promoter who looks for like-minded people. One can ask family, friends, neighbours or work colleagues if they are interested in joining a Chama through personal invitations, phone-calls, emails or letters.

It is important for the members coming together to have the same level of interest, goals and objectives of their reasons for wanting to be part of the Chama. Questions that can be asked amongst the prospective members are:

**What is the purpose of the group?** Investment for long-term purposes or is it a short-term saving and investment goal.

**How much risk is everyone prepared to take?** Some members might be interested in high risk investments; others want a much more cautious approach to their investments; whereas others will want a combination of speculative, cautious, medium and long term portfolios.

**How much work / time is everyone prepared to commit each month?** The time each individual member will dedicate to the Chama each month is crucial. Will they be committed to monthly meetings and give the extra time required?

**What is each person hoping to gain from being part of the Chama?** Are they hoping to learn, share knowledge or save, or are they really only interested in the social aspect? With the above few questions, the founders can agree to come together for their first meeting to discuss preliminaries and set up the Chama.

## INAUGURAL MEETING

The members meet and agree on the mode of operation for the group. One person should volunteer to take down the minutes on what is agreed. This meeting is crucial as everyone will get to air their opinion. Realize that not everyone will always agree. It may make sense to sometimes vote on the issues by secret ballot. This reduces the risk of bad feelings and also of calling in favours or pressurizing someone to change their vote. Items to be discussed are:

- The vision and objectives of the Chama
- The number of members
- Membership diversity
- Group name
- Contributions amounts and joining fee
- Venue and frequency of meetings
- Legal structure
- Governance

## LEGAL STRUCTURE

There are two types of structure in which ownership of a group can be organized:

### THE EQUAL OWNERSHIP SYSTEM

Each member contributes equally towards the group's capital, through equal monthly contributions. The subsequent returns are also divided equally among the members. This has the advantage of maintaining simplicity, accounting for the group's capital and future returns. It also gives members that comforting feeling that they are equal investors, sharing in losses and profits. However, this structure has the disadvantage of holding back those members who can afford higher contributions. It also has challenges when a member:

- Misses a monthly payment.
- Makes a late payment.
- Needs to withdraw money.
- Wishes to increase or decrease their monthly contribution.
- Is new and can't afford to pay the historical monthly contributions that have been paid by the older Chama members.

### UNIT VALUATION SYSTEM

This is a flexible system, where ownership of the group is calculated according to the proportion of a member's contribution that makes up the group's total capital. A member can therefore make contributions or withdrawals at any time, according to his desired target percentage ownership and equity policy of the group. While this system has the advantage of addressing the shortcomings of the equal share ownership system, it can be tedious to track each member's individual contribution and continually having to calculate percentage ownership of each member, whenever profits are to be shared. For the stability and risk management of the Chama, it is also advisable to cap the ownership by an individual or family. This means agreeing on the maximum individual or family ownership and putting it in the agreement.

Chamas can be registered in the following forms:

### A LIMITED LIABILITY COMPANY

This is a business entity incorporated under the Companies Act, which has a separate legal existence from management and its members (the shareholders).

Most investment groups usually take this option to allow for separation of ownership and risks between owners of the company and the company itself.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• The member's liability is restricted to their shareholding. This means they can only be liable for the company's debts up to the amount of the shares they own.</li> <li>• The limited liability company is a legal entity on its own. It can transact and get into contracts, own property, sue or be sued as a legal person.</li> <li>• Tax benefits, wider range of allowances and tax-deductible costs can be offset against a company's profits.</li> <li>• New Shareholders and Investors can be easily introduced. Transfer or sale of shares is a relatively straightforward process.</li> <li>• It is easier to get funding or loans as the bank may be able to secure its loan against certain assets of the business or against the business as a whole.</li> <li>• Continuity - Once formed, a company has everlasting life. It can only be terminated by winding up, liquidation or other order of the courts or Registrar of Companies.</li> </ul>	<ul style="list-style-type: none"> <li>• Decisions may not favor all members of the group as vote is by shareholding.</li> <li>• Being a private limited company its membership is restricted to 50 members.</li> <li>• Tax burden-These corporations usually attract a corporation tax rate of 30 % in Kenya. This may be too high for a small Chama.</li> <li>• There are rigorous rules to abide by. This includes holding of an Annual General Meeting, preparation of audited accounts and filing of tax returns. This may seem like too much work for a Chama that is beginning.</li> </ul>

## GENERAL PARTNERSHIP

This is a type of business relationship that has a minimum of 2 members, and a maximum of 30. It is recommended that the members register a business name for the group. This will allow them to legally engage in any business activities, with minimal legal requirements.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• The terms of this type of business relationship are clearly stipulated in the partnership deed. This includes duties of members, profit sharing ratios etc. It helps in averting future disputes.</li> <li>• This type of legal business relationship is well known and well defined. It reduces uncertainty in its operation and gives clear steps in dealing with specific issues that may arise.</li> <li>• A partnership does not attract a separate tax rate, and member's earnings are taxed on an individual level.</li> </ul>	<ul style="list-style-type: none"> <li>• The members have no limited liability, and the members are jointly and severally, responsible for liabilities such as debts, taxes etc., of the partnership.</li> <li>• The partnership has no separate legal existence from its members. This means that death or withdrawal of a partner will mean an end to the partnership. This can be time wasting and inconveniencing as it will stall activities of the group.</li> </ul>

## SELF-HELP GROUP

This is where members with a common goal come together and form a self-help group that is aimed at improving their personal welfare. Run by and for their members, self-help groups can also be described as 'mutual help' or the commonly known 'merry-go rounds'. They are registered under the Ministry of Gender, Children and Social Services.

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Members are from a common background i.e. school, work hence the common bond is easily sustained.</li><li>• Has an easy governing structure. All members sign a declaration deed, appoint the three main officials- Chairperson, Treasurer and Vice Chairperson who hold office and are mandated to act on behalf of the rest of the members.</li><li>• The risk is shared among members according to their level of contribution hence reducing the risk per member.</li><li>• In addition to the investment goal, a common goal of self-development of the group is simultaneously achieved i.e. in a merry-go round, members get to save and at one point give the contribution to one member who is expected to improve their welfare from this contribution.</li><li>• Default by members is prevented by members being their brother's keepers.</li></ul>	<ul style="list-style-type: none"><li>• Due to their small scale of operational level, the members are not able to take advantage of large scale investments and are hence unable to achieve maximum benefits.</li><li>• The nature of the group is delicate as there are no binding structures and any dispute not resolved can easily kill the initiative.</li><li>• Decisions take longer to be reached given that a democratic way of arriving at a consensus leaves the group open to loss in opportunity time.</li></ul>

### **CO-OPERATIVE SOCIETY ( SACCO )**

This is where individuals come together with a common goal to pull resources together and bound by a common bond i.e. working from the same institution, are in similar careers or are in a similar locality. They opt to include members who are not in their inner circle and give life to a legal entity that can carry out large investment including lending to members. As financial intermediaries, Sacco's finance their loan portfolio by mobilising members savings and shares rather than using outside capital. The main investment carried out by Sacco's is lending to its members.



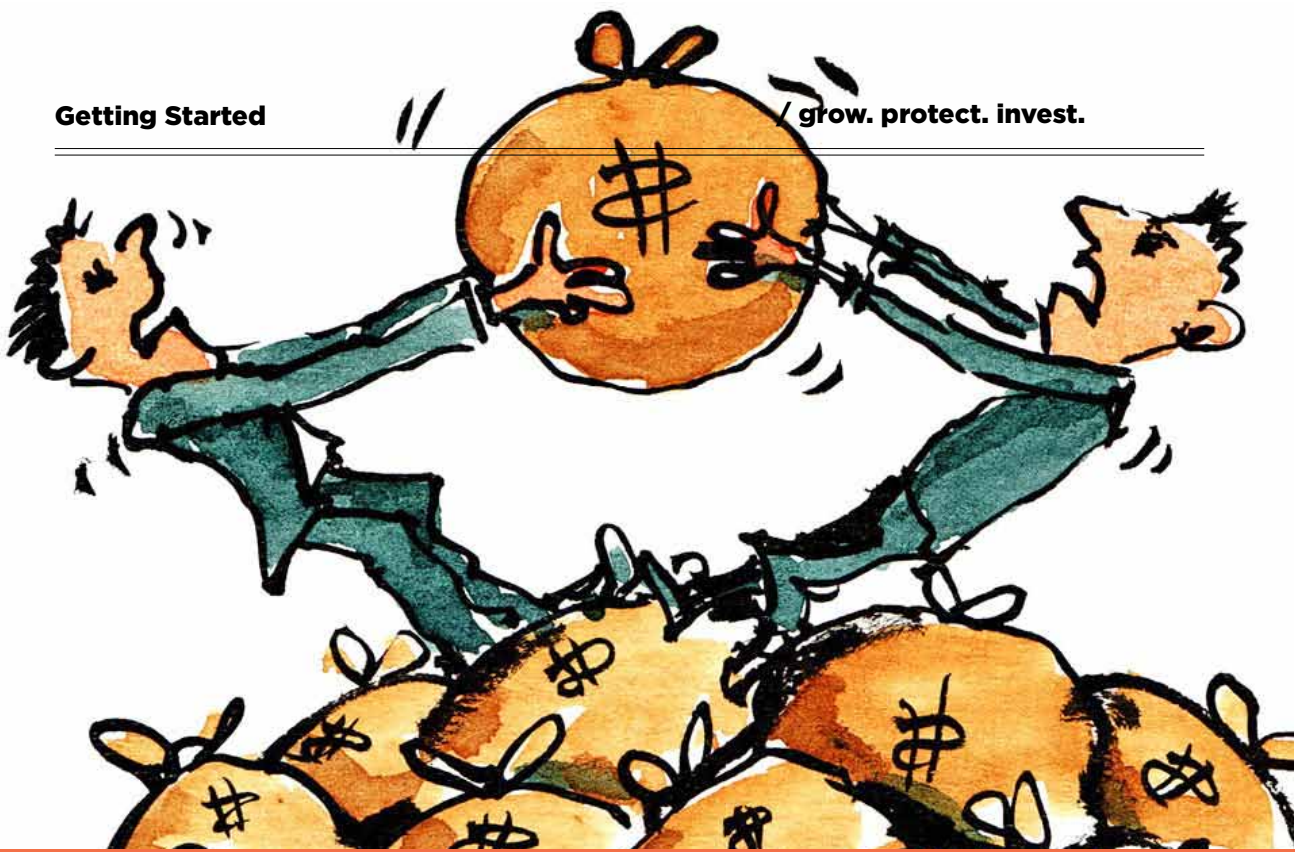
**Advantages**

- The organization is perpetual and outlives the specific member’s life period as it is a legal entity.
- Shares are held on equity basis thus giving those members with more money a bigger investment opportunity.
- They give loans to members at affordable rates hence enhancing personal development of individual members.
- They are democratic, member owned financial cooperatives. Each member regardless of the account size in the Sacco, may run for the board and cast a vote in the elections.
- They cut across all economic grouping of members and provide an opportunity even for the disenfranchised members of the society.
- They are safe convenient places to access affordable financial services, giving members greater flexibility to meet their needs
- As a non-profit making cooperative institution, Saccos use excess earnings to offer members more affordable loans, a higher return on savings, lower fees or new products or services.
- Sacco’s are generally highly regulated.

**Disadvantages**

- Sacco’s are run by elected officials. The views of the elected officials may not always agree with those of the members yet they are entrusted with the resources of the group.
- Sacco’s regulatory compliance is cumbersome and requires a lot of regulations to be complied with. This can prove quite a task to members.
- Saccos grow way too fast and need a lot of planning and resources to set up including an office and management structure given that it caters for members from all walks of life.
- Members have only one chance to air their views on investments and general running of the Sacco, the AGM. This may not always go well with the members.





## COMMON REASONS FOR INVESTMENT GROUPS FAILURE

BY JOSEPH MATHENGE

In 2014 a group of young and ambitious men came up with an idea of starting a welfare group. Initially, it was decided that the group would be social where members would contribute money for use during social meetings. The main activities during a gathering were exchange of ideas on career and business, seeking synergies at individual level and linking each other with business opportunities. The ultimate goal was member capacity building to enable them grow in career and business.

Two months after initial meeting, the vision was changed. The members and its leadership opted for a more structured formal investment group incorporated as a company. A group constitution, meeting rules and monthly contribution were put in place. For a few months the group was on an upward trajectory in structures and contribution. Investment ideas were brought forward, proposals presented and even visit to sites done. One year later the group was still planning and unplanning, doing contributions and walking back and forth on discussions. Two years later following what the group leadership considered as lack of commitment, vision and big divisions, led them to the decision of dismantling the group. Members are now embroiled in fights to dissolve the company and have their money back.

The big question is where did such a motivated group go wrong. With analysis of events leading to its break up the following are some of the reasons:

**A weak/lack of a club champion.** A Chama or investment group always has someone who envisioned its existence and had a dream of what goals it will achieve. A Champion is a person who has the most vivid interpretation or understanding of the dream of the investment group, and is committed to this course such that his passion blinds him from the sacrifices he has to make or costs he has to incur in the process. His biggest

Decisions on where to commit members' money is always a sensitive matter. Every member wants to be assured of value for his money when an investment decision is being made. However, it is even worse when a group is not guided by a set of rules on which assets classes to invest and in what percentage of total capital for what rate of return.

reward is the growth and success of the Investment group and the pride its members will take in being associated with it.

Constant shifting or changing of goals and the vision of an investment group communicates a weak champion or visionary(s).

**Incompatibility of members.** It is critical for the leader and initial members to carefully profile the kind of members needed in the group. Outlining what kind of people are suitable for membership has a bearing on future effective decision making by the group. Often, disagreements will occur where members have a high level of incompatibility.

**Procrastination.** It is widely advised that objectives should follow the SMART rule. Within this controls, an investment group is able to develop objectives that are within its capability and attainable within a given timeframe. Postponing objectives is the start of a dying process. Members are motivated by an achievement regardless of how small it is.

**Disagreements on Asset Classes to invest in.** Decisions on where to commit members' money is always a sensitive matter. Every member wants to be assured of value for his money. Furthermore, it is riskier when a group is not guided by a set of rules directing what percentage of capital to invest in what assets classes for what rate of return. Investment Policy Statement is a vital tool that can essentially protect an investment group from breaking up.

**Unproductive Group Dynamics.** It is rarely advisable to start an investment group with a large number of people. A small number ensures smooth decision making when the group is still young. This is a critical element for growth and longevity. With an initial growth and success, more people can be invited to buy shares.

**Absenteeism and Contribution Default.** Money and Time are some of the most critical resources an investment group needs in its formative stage. Denying the investment group time (Regular meetings) and money slowly but surely strangles and suffocates it to death. An investment group should set a contribution amount that is affordable and a meeting schedule that is agreeable to members. Members who cannot observe these rules should be allowed to opt out. Any one person is not greater than the group and its vision.

**Overburdening a few Members with Responsibilities.** The completeness of the investment group is promoted by all members giving their input. Too much responsibility on one head leaves room for mistakes, fraud, carelessness and self centered decision making. Conflict may arise when members want to share the profits equally yet one or a few got involved in the actual work. A group should ensure responsibilities are shared out, talents available are exploited, good performance is rewarded and active members are utilized.

**Poor Leadership.** An investment group should critically analyze a proposed leader on the basis of set objectives of the group. A leader should understand the vision, where the group is coming from and where it wants to go. The member should also be willingly ready to take up this challenge rather than have it imposed on him/her.

Other factors that will lead to falling of an investment group include

1. Only planning for short term
2. Being greedy rather than reinvesting
3. Falling into the emotional trap
4. Responding to mob psychology



### Do's and Don'ts

- Be clear on your objectives and set a vision for the Chama.
- Keep your membership when beginning to a maximum of 20 members. Then grow and evolve from this point. A Chama could be short-lived if there are too few people involved whilst a large group might lead to decision-making problems at meetings.
- Agree on the same monthly contribution at an affordable level for everyone and start with a fixed joining fee. You can review this annually as financial circumstances change.
- Meet at least once a month which generally suits most people with busy lifestyles and other commitments.
- Set a fixed time, date and venue of your monthly meetings. Meetings often take place at someone's house, office, a local restaurant or at a mutually convenient location.
- When arranging a meeting point, make sure you find a quiet spot with enough room for everyone.
- Getting the right mix of people at the beginning is key to the longevity of the Chama. Start with people you know and trust, such as friends and work colleagues, and avoid advertising membership to strangers. New members can be introduced through the social or professional circles of the founder members.
- Diversity is very important in your group. Having different skilled professionals with different experience and opinion leads to informed and rational decisions on investment opportunities.
- Be creative with your group name as it can grow to be an asset especially if it reflects your vision and objectives.
- Discuss the type of projects or investment vehicles the group will focus on. If there is no consensus from everyone then a vote on this can be done.
- During the first meeting, ensure everyone is heard out. All members should be open and put all their concerns on the table for discussion and agreement.

### Meetings

An ideal meeting should take place between one to two hours. Minutes should always be recorded and distributed to Chama members as soon as possible after the meeting, while everything is still fresh in everyone's mind.

It is important for the Chama to work out and set an agenda for each meeting in the initial formation stages. By the time the Chama undergoes a transition of leadership, the agenda is ingrained in the Chamas operations.

Below is a Sample Agenda that can be modified for your group needs

1. *Member Roll Call and Call to Order.*
2. *Approval of Previous Month's Minutes. (This is not the time to debate any decisions made at the last meeting.)*
3. *Treasurer's Report. Collect the monthly contribution and distribute the valuation statement.*
4. *Economic Report. A brief description of what is going on in the economy, given by one of the members.*
5. *Old Business. (Unresolved items).*
6. *New Business. Both new business and old business usually deal with administrative issues.*
7. *Investment Committee Reports. A report on the industry, type of investments and companies being studied.*

8. *Portfolio Update. News and changes to companies the Chama owns or that are on the Chama watch list.*
9. *Buy/Sell discussions. The Chama should discuss any portfolio changes that it is going to make. Votes can be taken for the decisions taken.*
10. *Assign Industry & Economic Report. Determine who will be responsible for presentations at the next meeting.*
11. *Education. This is the most important part of any Chama meeting, where all can learn more about investing.*
12. *Set next month's meeting place and venue.*
13. *Any Other Business (AOB).*
14. *Adjourn.*

Your Chama might consider having a Sergeant at Arms in addition to all the other usual elected officers. This person can be chosen at the beginning of each meeting. Their task is to assist the executive officer running the meeting by ensuring that the meeting and decision making follows general etiquette rules. Small fines monetary or otherwise, can be imposed on those who don't observe the rules. Examples are:

- Meetings start and end on time.
- All digital devices banned as they cause distractions.
- Mobile phones are switched off or on silent.
- Personal criticism is not allowed.
- No interrupting others even if you strongly disagree with their comments.
- Listen to all contributions.
- Keep the meeting focused on the agenda and discussion on the topic.

Do remember that:

- Besides being educational, the Chama is a business. You may have fun, but you should consider it as seriously as you would a business.
- You can save a great deal of time if everyone is prepared. Each member should have a folder containing all the important documents. For any presentations, copies of the documents should be made for each member.
- Use of emails to send agenda or any other information prior to the meeting is useful.

If you follow these guidelines, your Chama meetings will soon be running smoothly and profitably.

## 2. TASKS AFTER FIRST MEETING

### Register as a legal entity

Based on what you agreed at your first meeting, registration of your group should be done immediately. Ensure you have a choice of at least three names in case one of them is already taken up.

### Opening of the Chama Account

It is paramount that an investment group opens a bank account, to safely keep regular contributions and future cash inflows. This account should be opened by the group's treasurer and have at least two other group members as signatories. This acts as a measure to ensure the treasurer always acts in the best interest of the group, since the other two signatories must authorize any account activity.

You will need to take along your Chamas Articles of Association if a Limited Company or other business registration document. Know beforehand what other documentation is required so as to have an efficient fast process.

As with opening any bank account, check out the fee structure and it's accessibility. Can you transact online and is it easy to make payments and draw out money? Is it connected to Mpesa? Are cheque books provided?

Ask members to pay their contributions directly into the Chamas bank account by setting up standing orders for a given date. This will make it much easier for the treasurer to keep track of the money. You can then transfer the funds to your Chama's dealing account in one transaction.

## Funding the group

Most groups generate capital from the monthly contributions. Members can agree to give themselves a three or six month period to build up capital. Others agree to have a target figure to kick start the investments and members are all required to put in this amount as a sign of the commitment while starting the Chama. Some Chamas might also choose to get capital through borrowing from:

- Financial institutions like banks, Sacco's, Micro-credit etc. and giving personal guarantees.
- Getting angel capital from friends and family.
- Government initiatives like women and youth funds

## 2. MANAGEMENT OF THE CHAMA

### Governance

Every Chama needs officials who act as facilitators of the group's activities. As the Chama grows and evolves there will be a board of directors, investment, strategic or financial committees as per the needs of the group. Some Chamas also end up hiring outside administrative staff to manage their organization as their portfolio, members and responsibilities grow.

#### a. Board of Directors

This usually consists of a Chairperson, Vice-Chairperson, Treasurer and Secretary. Some Chamas create additional roles like assistants, a researcher, co-ordinator etc. as per their needs to the above positions.

**Chairman:** Takes on the leadership role in the group by presiding over meetings and acts as the chief planner of the Chamas activities.

**Vice-Chairperson:** Gives support and sits on behalf of the chairperson when not available.

**Treasurer:** Keeps records of all financial transactions of the group, which includes monthly member contributions, cash inflows from various projects, payment of expenses. They also manage the accounting and auditing process of the Chama.

**Secretary:** Does general Chama administration which includes sending out notices for group meetings, taking minutes during the meeting, filing and recording the minutes and all other important documents.

It is important for these officials to be elected democratically. During the inaugural meeting, the above officers can be selected temporarily as members discuss on how the group will operate. When members sign up and officially begin the Chama at the 2nd or 3rd meeting, elections must be held. Interested members should put up their names for elections and all the members have opportunity to cast their vote way preferably by secret ballot.

These roles should be reviewed annually and the Executive Officers re-elected on an annual basis, usually at the Annual General Meeting.

### b. Committees

These are set up by the Board of Directors according to the growing responsibilities of the Chama. The first one usually set is the investment committee since the purpose of a Chama is to invest. Their mandate is to look into specific deals, analyse the Chamas portfolio, set prudent guidelines on investing and oversee the transactions. Other committees that can be formed as the group evolves are audit, compensation, real-estate etc. which are tailored to specific needs.

### c. Administration

The Chama should consider hiring a full-time investment and administrative team to manage the daily operations of the Chama. Usual duties include taking and posting of meeting minutes, calling for meetings, accounting and knowing members share value, keeping documents and records. Initially these tasks are handled by the executive officers but as the Chama goes through its growth and maturity stages especially in cases where it evolves to a public limited company or lists on the securities exchange an administrative and management team can be brought in to better manage the process. Well known and successful investment groups who have eventually hired professional in-house teams are Trans Century<sup>1</sup> and Home Afrika<sup>2</sup>.

## Group Constitution or Agreement

The constitution lays down the principles and procedures that govern the Chama. It should touch on the following items:

- Membership
- Contributions & Joining Fee
- Voting Rights and Systems
- Method of Sharing Profits
- Conduct of Chama meetings
- Dispute Resolution



## BELOW IS A BASIC SAMPLE OF AN AGREEMENT. YOU CAN ADD MORE FINER DETAILS OR OMIT AS PER YOUR CHAMA NEEDS.

CONSTITUTION AND RULES of the \_\_\_\_\_(Name of Chama )  
 This agreement is made \_\_\_\_\_this \_\_\_\_\_day of \_\_\_\_\_in the year of \_\_\_\_\_  
 between the undersigned people as members for the purpose of joint investment in  
 stocks, mutual funds, real-estate, private equity and any other investments.

### 1. Mission and Vision

- The purpose of the group is to \_\_\_\_\_
- The Chamas Goals are as follows: \_\_\_\_\_

### 2. Membership

- The number of people in a Chama shall be limited to a minimum of 4 to a maximum of 20 members.
- Acceptance of new members into the Chama shall be proposed & seconded by two existing members and adopted only if no other member objects.
- The Chama reserves the right to refuse admission to any person without giving a reason.
- On admission to the Chama, a new member will sign an agreement. The new member shall pay the initial joining fee and the first month contribution. This amount of money will buy the member the no. \_\_\_\_\_of shares as calculated at the time of joining.
- Chama members shall make regular contributions of \_\_\_\_\_(Amounts) and \_\_\_\_\_at (Name the intervals) as agreed.
- One member equals one vote regardless of shareholding.
- Each member's stake shall be limited to 20% of the portfolio's total value.
- Members are responsible for providing up to date personal or professional information that may affect the Chama to enable effective and efficient running.
- No member may assign, transfer or pledge his or her membership or interest in the Chama without prior notice and approval at the discretion of the majority of members. Any attempt to do so shall be construed as such member's election to withdraw from the Chama.

### 3. Meetings

- Meetings will be held monthly \_\_\_\_\_at (Venue) \_\_\_\_\_from \_\_\_\_\_(Time)
- Purpose of the meeting is to discuss and agree forthcoming investments; review performance of prior investments; review accounts; bring any other issues to the attention of the Chama .
- Members are required to attend at least 8 meetings in any one calendar year.
- Missing any three consecutive meetings in any one quarter shall put a member in poor standing and they will receive a warning.
- Minutes of the Chama meetings shall be kept and issued promptly to members at least two weeks or as soon as practical eiortyprior to the next meeting.
- An AGM shall be held annually and it's objective is to:
  - \* Review the year's activities against goals and objectives.
  - \* Elect New Executive Office.
  - \* Present the accounts and audits on the portfolio.
  - \* Review Objectives and Goals and make adjustments as required.

#### 4. Executive Office

- The Chama Matters shall be handled by the following executive officials (List the titles and duties).
- All officials will serve one term equal to one calendar year.
- All positions will be open for elections to be held at the Annual AGM.
- All members are eligible for election and should state their candidacy at least one month before the AGM.

#### 5. Finances

The Chama shall open a bank account in the group's name. The Chama shall appoint three signatories (normally nominated are, Chairperson, Treasurer and Secretary).

- All cheques drawn on the Chama account shall require any two authorised signatures.
- All income will be paid directly into the Chamas bank account.

Each month's contributions will be kept in the Chamas bank account, until the Chamas monthly meeting when investment decisions will be taken. Uninvested contributions for any given month shall be added to the Chama's value and apportioned appropriately. The Chama shall open a stock broker account in the Chama's name with a reputable nominee stockbroker. Appoint between 2 to 4 traders (normally not Chairperson, Treasurer or secretary. It could be members of the investment committee).

- Only the named traders are authorised to buy and sell investments on behalf of the Chama.
- No member is authorised to commit the Chama beyond the cash held by the Chama broker.
- All cheques due to the Chama are to be drawn in the Chama's name.

The Chama may, at its discretion, allow individual members to purchase additional units but it is implicitly understood that every member shall have equal voting powers on all matters.

Dividends shall be allotted on the basis of member's share or equity. The Chama will only deal with the Chama investment and for the benefit of the Chama only. It will neither advice nor deal on behalf of any person/group. No member shall make any commitment particularly financial on behalf of the Chama without the agreement of a properly constituted meeting.

#### 6. Leaving the Chama/Removal of Members

- Resignations of membership must be submitted in writing to the chairperson, treasurer or secretary not less than seven days before the monthly meeting at which the resignation is to take effect.
- When a member resigns they will receive their share of the Chama holdings (minus legal & other statutory fees) in full payment within 90 days of resignation.
- Upon the death of a Chama member, their share value of the Chama holdings will be paid to their executor (minus legal & other statutory fees) in full payment within 90 days of the Chama meeting where the death was reported and payment discussed.
- Member considered in poor standing with the Chama will meet with the officers to discuss their actions, in hopes of reconciling any differences.
- If a resolution does not occur, the voting members will hold a vote to determine if the member should be removed.
- A majority of the vote is required to remove a member from the Chama.



### 7. Dispute Resolution

All affairs (conduct, behaviour, attendance of members, monetary etc.) affecting the Chama shall be agreed by the members at a constituted meeting. The meeting must have a quorum of at least 50% plus one. Any member who breaks these rules & conditions will be expelled after a warning has been issued and when two thirds of members at a constituted meeting support the decision. The expelled member will be notified in writing and have their shares returned (minus legal & other statutory fees) in full payment within 90 days of expulsion. Any disputes to the interpretation of constitution and rules will be decided by the chairperson or at the AGM or if requested at a special general meeting.

This constitution may be amended by a two-thirds vote of the Chama members.

- Any proposals must be submitted to an executive officer.
- Officers must be given a minimum of two weeks to present the proposal to members.

Disputes relating to the valuation of members' share shall be decided by a chartered accountant (appointed by the board of directors), whose decision will be final.

#### Signed

Name of Member \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_  
 Name of Member \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_  
 Name of Member \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

# Taxation

Tax Expert Patrick Kaara provides us with the following tax guidelines<sup>3</sup>

<p><i>What is the tax treatment of the various revenue streams available to Chamas?</i></p>	<ul style="list-style-type: none"> <li>• Withholding tax of 15% on interest income</li> <li>• Withholding tax of 5 % on dividend.</li> <li>• 30% on capital gains, if the Chama is deemed to be trading as a Limited Liability Company.</li> </ul> <p>Please note that the onus to account for withholding tax normally lies with the payer but in the event that a person does not comply with this requirement, it shifts to the Chama.</p> <p>The distinction between capital and trading gain is not always clear and you may have to consult with a tax professional to determine this based on your unique circumstances.</p>	<p><b>Infrastructure bonds, provided they meet certain conditions, are currently exempt from tax and hence are an attractive investment vehicle.</b></p> <p><b>Similarly, Unit Trusts are exempt from capital gains tax on sale of shares and other investments.</b></p> <p><b>Foreign earned interest and foreign dividend income are not subject to Kenyan taxation.</b></p>
<p><i>Do Chamas have to file tax returns?</i></p>	<p>Kenya operates under a self assessment tax regime system which means that the onus to determine the tax liability and pay any tax lies with the taxpayer.</p> <p>Accordingly, if the Chama carries on business under a legal vehicle, that legal vehicle is under obligation to declare its income and pay tax thereon in its own right. However, if the Chama does not have a legal existence of its own, each member is required to account for their share of income and pay tax under their own name.</p>	<p><b>Tax returns are due for filing with the Kenya Revenue Authority by the end of the 6 month following the year of income and in the case of an individual this is June 30th.</b></p>
<p><i>When do Chamas have to pay their tax obligation?</i></p>	<p>Chamas are required to discharge their tax obligation on a pay as you go system referred to as instalment tax. Under the instalment tax system a Chama is required to pay instalment tax in 4 instalments at the following intervals</p> <ul style="list-style-type: none"> <li>• The 1st installment, by the 20th day of the 4th month, following the financial year-end</li> <li>• The 2nd installment by the 20th day of the 6th month, following the financial year end</li> <li>• The 3rd installment, by the 20th day of the 9th month, following the financial year end</li> <li>• The 4th installment, by the 20th day of the 12th month following the financial year end</li> </ul> <p>Each installment tax payment is computed as the lower of:</p> <ul style="list-style-type: none"> <li>• Current year basis – 25% of the estimated tax payable for the current year</li> <li>OR</li> <li>• Preceding year basis – 25% of 110% of the total tax liability for the previous year.</li> </ul>	<p><b>If required, please consult with a tax expert to help you understand your Chamas instalment tax obligations.</b></p>



Do the other statutory obligations such as National Social Security (NSSF) and National Hospital Insurance Fund (NHIF), apply to Chamas

If the Chama has an employee it will be required to account for all the statutory obligations including Pay As You Earn (PAYE), NSSF, NHIF and Higher Education Loans Board (HELB) in the normal way.

**Statutory payroll obligations are understood by most accountants and do not present any peculiar difficulties to Chamas.**

# Is your chama a trust or partnership?



Trust property consists of principal, which is the property held by the trust and income earned by the trust, usually from investments. A trust is considered by tax law to be a pass through entity, because usually only some of the income and deductions pass through to the beneficiaries.

**BY JOSEPH THOGO**

While borrowing from a presentation I made in early January, recently I tried to highlight the different tax red flags that prudent chamas should be aware of. I should start by saying that each chama is at a different stage of its evolution process and they engage in different activities.

One would need to demystify the chama and first figure out how it would be characterised in the eyes of the law, which is important because it helps determine its tax treatment. The next thing would be to examine the activities that it engages in and determine whether they are subject to tax. A chama to a great extent determines how it is characterised. Most chamas will have a rudimentary written document acquiesced to by all its members and it is this document that determines how the members relate to each other.

It is this document that indicates why the chama is being set up in the first place, the activities that it will engage in and it also indicates whether the chama is a partnership, a Sacco, a trust or an incorporated entity. Let me point out that the creation of some of these entities often calls for an additional step, which involves registration with the relevant government agencies.

For example, you may have all the necessary paperwork with all the i's dotted and t's crossed, but you will be required to adhere to statutory requirements requiring registration



with the Registrar of Companies, Sacco Societies Regulatory Authority etc. Does failure to comply with this last step impact the chama's treatment for tax purposes?

Well, it depends. If the intention of the chama was to convert and become an incorporated entity, then such an arrangement triggers double taxation. The income will be subject to 30 per cent tax in the hands of the corporate entity and it will be subject to further tax in the hands of the shareholders the effective tax rate is about 37 per cent. If the chama is a partnership, the tax will not apply at the entity level since the partnership is regarded as a pass through entity that means that after a few adjustments to the partnership income, the income should passthrough to the individual partners and it will be allocated based on their profit sharing ratio or partnership agreement. On the other hand, a Sacco is considered to be a body corporate having its own existence separate from that of its members and just like an incorporated entity it has its own income even though some of the income is from transactions with its members.

A trust is a fiduciary entity whose objective is to hold and invest money or property held in the trust for the benefit of the beneficiaries. Trust property consists of principal, which is the property held by the trust and income earned by the trust, usually from investments. A trust is considered by tax law to be a pass through entity, because usually only some of the income and deductions pass through to the beneficiaries.

During my talk I realised that my friend Cynthia's chama had diversified their investments and had invested in real estate in and around Nairobi, shares in a couple of Nairobi Securities Exchange listed companies, government securities and they had also some amount in a fixed deposit account. They also earn interest from the loans they advanced to their members. After considering how they had structured, I came to the conclusion that their chama was a trust. For example, the real estate and shares had been registered in the name of two members who held it in trust for the other members in the group. Even though this arrangement looked like a partnership (for the two members), it leaned more towards a trust with the registered members being trustees holding the property in trust for the members who are beneficiaries.

This means that taxation of the income from the property should be taxed like income earned by a trust. The trust itself often retains some income, especially capital gains, which are usually allocated to the beneficiaries. However, distributions from the trust usually have both taxable and tax free portions. The taxfree portion of the distribution may result from tax exempt income, such as the tax exempt interest earned from some securities or from retained earnings of the trust on which it has already paid taxes in previous years or from trust principal that is generally not taxable because of the recovery of capital doctrine.

*Mr Thogo works with Deloitte EastAfrica  
jthogo@deloitte.com,*



# Designing and executing a successful investment strategy

BY KARUMBA KINYUA

**“In investing, what is comfortable is rarely profitable.”  
- Robert Arnott**

It is commonly said, ideas are cheap. This is because everyone has ideas about how he/she can get rich, even those with little or no wealth.

While the forte in many investment groups has been investing in land, shares and bank term deposits the changing economic times has left investors worried not just about ‘return on their money but also return of their money.’ Recent reports by Real Estate agents Knight Frank and another by Hass Property indicate a relative cooling of property markets is underway with potential for negative investment growth going forward in the property asset class. The reduced growth property investments has been attributed to a steady growth in supply that increased options for tenants which has made landlords discount rents to attract occupiers. Further, in the property sector the traditional strategy land banking by acquiring ‘cheap’ land in strategic areas is becoming harder to execute with land values even in periphery areas steeply rising. Fixed income securities have showed a downward trajectory underpinned by reduction in treasury bills rate and bonds which have reduced from over 20% to current sub 10%. Further jitters have been caused by the recent closure of two banks namely, Dubai Bank and Imperial Bank.

Presently, the stock market is in a bear market with the index currently in sub 3,750 range from a high of over 5,000 just two years ago. This new scenario demands an innovative investment strategy and even a better implementation strategy.

Fascinatingly, investment strategic thinkers have been unable to answer one simple question “Where does a winning strategy come from?” Finding winning strategies requires “creativity and insight” which becomes a challenging feat if the same people entrusted with “business as usual” activities which are becoming ever more extracting are the same ones entrusted with the task of generating creative investment strategies.

Directing attention where it needs to go is a critical task of investment strategy. The original meaning of Strategy was from battle field; it meant “the art of the leader”- back then generals. Strategy was how you deployed your resources; tactics were how battles were fought. Today, leaders need to

**CONT. NEXT PAGE >>**

generate strategies that make sense in whatever larger systems they operate in – tasks for outer focus as opposed to inward focus.

A new strategy means reorienting from what's now business as usual to a fresh focus. Coming up with a radically innovative strategy demands perceiving a novel position, one your competitors and in our case, current investment market players do not see. Winning tactics are available to everyone, these are overlooked by all but a few who end up with outsized returns.

So, what options are left which an Investment Group that wants to seek viable investment alternatives to beneficially utilize member's contribution in order to grow wealth?

Firstly, an Investment Group needs an investment strategic plan. This goes beyond the usual Investment Policy Statement (IPS) which is a statement that provides the general investment goals and objectives of an investor and describes the strategies that should be employed to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements would also be included in an IPS. While very important, an IPS tends to answer the question “what” but a strategic investment plan would then answer the question of “how”. Akin to a strategic plan which is a systematic documentation envisioning a desired future, and translating this vision into broadly defined goals or objectives and a sequence of steps to achieve them, an investment organization needs an investment strategic plan which formally delineate the investment future of an Investment Group. The strategic investment plan answers important questions in regard to investment plans as follows:

- **Mission statement:** The mission statement is an overarching, timeless expression of your purpose and aspiration, addressing both what you seek to accomplish and the manner in which the organization seeks to accomplish it. It's a declaration of why you exist as an organization.
- **Vision statement:** This short, concise statement of the organization's future answers the question of what the company will look like in five or more years.
- **Values statement or guiding principles:** These statements are enduring, passionate, and distinctive core beliefs. They're guiding principles that never change and are part of your strategic foundation.
- **Investment SWOT:** A SWOT is a summarized view of your current position, specifically your Strengths, Weaknesses, Opportunities, and Threats. During the development of an investment strategic plan, the focus should be the investment environment in relation to opportunities available since the subject of the SWOT is an investment group.
- **Investment Competitive advantage:** Your competitive advantage involves what you're best at compared to the competition. The key question is where are we as an Investment Group, in what areas are we competitive from investment point of view? To achieve this, one would need to consider the current assets for the Investment Group e.g. land, stocks, cash, experiences or skills of members in which is compared to the universe of opportunities available. When these two are synthesized, an Investment Group stands in a position to proceed from its point of strength.
- **Investment Long-term strategic objectives:** These long-term strategic focus areas span a three-year (or more) time horizon. They answer the question of what you must focus on to achieve your vision. Our experience in working with investment groups shows that 3-year strategic plans for investment groups to be optimal, given the dynamic investment environment and the every changing personal and financial circumstances of members. After 3-years, the investment strategic plan is refreshed taking into account new investment canvas.
- **Investment Strategies:** Strategies are the general, umbrella methods you intend to use to reach your vision. These are a set of rules, behaviors or procedures, designed to guide an investor's selection of an investment portfolio.
- **Short-term goals/priorities/initiatives:** These items convert the investment strategic objectives into specific performance targets that fall within the one to two-year time horizon. They state what, when, who and measurables. An Investment Group can adopt a benchmark with which to monitor the success of its goals. However, due to cyclical nature of investment markets, a 3-5 year is considered more appropriate.
- **Investment Action items/plans:** These specific statements explain how the investment goals designed at strategic goal level will be accomplished. They are the areas that move the strategy to operations and are generally executed by teams or individuals. The action items/plans should state clearly expected costs and revenues, start and completion dates and who is responsible. The costs and revenues are usually presented in form of a budget, which should appropriate allocation of direct overhead costs. Care should be taken not to overburden an

investment project with excess overheads or costs that are not attributable to the project.

- **Investment Scorecard:** You use an investment scorecard to report the data of your key Investment indicators (KIIs) and track your performance against the quarterly or yearly targets.
- **Investment Financial assessment:** Based on historical record and future investment returns projections, this assessment helps plan and predict the future returns, allowing you to gain much better understanding over your Investment Group's investment performance.

However, given that many members of investment groups are usually busy with other engagements, an excellent investment plan alone is never sufficient.

### Think Different

Any business school course on strategy will tell you about two approaches: exploitation and exploration. Some businesses succeed through a strategy of exploitation, where they refine and learn how to improve an existing capacity, either through technology or business model. Others find their road to success through exploration or by experimenting with innovative alternatives to what they do now.

As Daniel Goleman notes in fascinating book Focus, companies with winning strategies tend to refine their current operations and offerings, not explore radical shifts in what they offer. A mental balancing act-exploring the new while exploiting what's working -does not come naturally. There lies the need to involve an external eye, either through the independent investment committee system or external investment professionals.

Forward looking investment groups have now realized the need for investment strategy support services. This is underpinned also by the fact that apart from investment group members lacking sufficient time to execute investments, they may lack appropriate skills or financial strength to hire experienced staff on a full time basis to execute their strategy. This scenario, resulted to some progressive investment groups considering emerging investment options like private equity, crowd funding, Small and Medium Sized Enterprises (SME) financing, preferred debt, real estate consortiums, angel investing, venture capital, and joint ventures with local and foreign investors which require appropriate skills to establish the return/risk profile of such investment ventures. Other alternatives although with a higher degree of complexity are equity, convertible debt and derivatives.

### Strategy Implementation Support Services

For Investment Groups to execute on their new investment options, it is important they access the right level of investment execution support and professionals with appropriate experience can offer this. Unless this happens, given the current volatile investment markets, it may lead to the club abandoning its long term strategy due to weakness in execution. When goals are inconsistent, members are likely to be disillusioned leading to some members falling behind in contribution while other opt to leave the investment club. Usually, much of these problems can be traced to problems in the execution of agreed strategy.

An investment strategy support consultant provides help to refine and execute those plans and helps you learn quickly from new experiences. They provide an investment group with well researched information on emerging investments, work on initial filtering of investment opportunities while also possibly providing details on important seminars and conference that will boost member's investment knowledge and confidence. Critically, they provide investment implementation updates so that group members can keep abreast with progress on their investment action plans. Furthermore, they provide important introductions to new key contacts given their networks in the investment community but above all provide important technical support in executing investments.

Many Investment Groups that have opted for implementation support find customized recommendations for action, reports highlighting investment progress, and links to key resources and opportunities especially useful because these are the factors that separate a great strategic plan with one that is excellently executed. This at the end of the day is what matters, eventually leading to satisfied investment club membership.

Happy investing!

*Karumba Kinyua is the Managing Partner of PineHill Consulting a Nairobi based investments advisory boutique. He can be reached on [info@pinehillconsulting.co.ke](mailto:info@pinehillconsulting.co.ke).*



# CAPITAL MOBILIZATION PLAN AND ITS IMPORTANCE

BY JOSEPH MATHENGE

Raising capital is among the most challenging tasks for an investment group. New and young Chamas are the most affected due to low level or an entire lack of prior experience in this area. More often than not, the element of mobilizing capital in a Chama is downplayed or overlooked. Members will meet and haphazardly agree on an amount and time to be remitting. For such an investment group, careful consideration, calculation and planning; some of the most important initial elements for a Chama to succeed, are non-essentials. Such an Investment Group end up mobilizing capital without working out the right formula.

While time is of essence, it is equally imperative to have a plan for capital contribution by asking yourselves the following questions;

***What is our purpose?***

***What is our target/objective?***

***What is our timeline?***

***What is the cost?***

***What is our capacity?***

With the above questions, a Chama is able to come up with a yard stick with which to determine capital mobilization and be able to measure the progress. During planning, it is important to bear in mind that an investment continuously require capital injection. This will help factor in a strategy that provides for continuous capital replenishment of the entity. Based on the above questions, the answers will guide an investment group on the mode of capital mobilization to adopt and consequently how to treat such contributions. More importantly having an ever flowing stream of contributions is not a sure sign of good capital mobilization strategy.

*A Welfare Group once existed whose members made monthly contributions which on a rotating basis was given to members while part of it was used by the executive to invest. The Welfare Group's first investment was a small piece of land that was meant to be paid for on instalments as the land appreciated in value. Meanwhile, rules provided for exit of members willingly or through expulsion. These rules required that a member should be given a proportion of the money he/she has contributed as at the time of exit. However, they never had a strategy highlighting for what purpose their money was being contributed, how much was required, where it was to be invested, for how long and how to share the rewards. All this was at the discretion of the executive. After a period of time, internal wrangles ensued when it occurred that the land debt was taking long to be paid. One member opted out. She was guaranteed her share of contributions. The problem arose when she asked for her share of the partially paid for piece of land based on its accrued value. Since no record was kept on each member's share of the land, it was extremely challenging to amicably release her at the time without external intervention.*



More importantly, having an ever flowing stream of contributions is not a sure sign of good capital mobilization strategy

From the above illustration, there was no specific plan initially put down describing the purpose of contributions and treatment of the money. The Investment Group's first task ought to have been spelling out the purpose of its existence and reason for doing what they want to do.

Secondly, the members found themselves still struggling to pay for the land at a time when one needed her share pointing to a lack of investment targets in the plan. As a result the Welfare group was in the dark as to the cost of property being bought, and time required to pay it off.

Additionally, they did not measure their capacity to mobilize the amount required for buying the piece of land over the time required. As a result, they found themselves fatigued by purchase of the property.

A proper financial plan of where the Investment Group is coming from and where it is headed enables it to choose a proper plan of raising capital for its projects. A welfare group may fall into the following problems due to lack of a proper capital mobilization plan.

1. Internal discontent among members
2. Prolonged fights during exit of members
3. Possible losses after failure to complete payment
4. Possible law suits for failure of loan repayment
5. Overpayment while making purchase due to lack of estimations and targets

## Risk Profile

It is very important that you determine the risk profile of your Chama just as you would determine your own individual risk profile before beginning your portfolio. The risk profile will outline the number of risks, type of risk and potential effects of risks. Already by coming together as a group you are diversifying the risk on your investment.

Questions you might want to ask yourselves are:

- Do we want to avoid any short-term losses?
- Do we want to receive regular income from investments?
- Do we want a long-term growth in the value of investments?
- Do we want our portfolio to be protected against inflation?

Remember that risk and return are positively correlated. The higher the risk of an investment, the higher a return it must offer in order to compensate for the risk. Risk comes in many forms such as the volatility of the market, inflation, interest rate and business risk. You must determine the degree of risk the Chama is willing to tolerate. An investment adviser can assist you in this process.

Risk Profile	Description
Aggressive	<p>You who can utilise capital in an effort to maximise long term capital growth investment. You may have an understanding and some experience with investment markets.</p> <p><b>Priority:</b> Capital Growth. In anticipation of the highest possible return, you are prepared to invest over a period of 10 years or more.</p>
Moderately Aggressive	<p>Profile indicates willingness to utilise capital in an effort to maximise long term capital growth investment. You may have an understanding of investment markets, but take care to make balanced decisions.</p> <p><b>Priority:</b> Capital Growth. You don't require an income and you are prepared to invest for 5 to 10 years.</p>
Moderate	<p>Some understanding of investment markets.</p> <p><b>Priority:</b> Capital growth in the long term. You can tolerate some fluctuations in the value of your investment in the anticipation of a higher return. You don't require an income and you are prepared to invest for 5 years or more.</p>
Cautious	<p>Can bear small investment risk.</p> <p><b>Priority:</b> Capital preservation in the long term as you aren't able to take chances with your capital or initial investment. Your investment term is 3 years or more.</p>
Conservative	<p>Overall profile indicates a lower tolerance to investment risk.</p> <p><b>Priority:</b> Capital preservation and safeguarding the already acquired investments. You value a peace of mind in safe investments as opposed to riskier ones offering higher returns. You require stable growth and access to your investment within 3 years.</p>



## Risk Profile

Just like with any other investment, it is good to insure the Chama as an entity, its assets and members. Chamas will usually consider insurance for their investments in land, developed property, vehicle/fleet purchase or equity in business start-ups.

Benefits of insurance for the Chama are:

- Protection of personal assets and those of the Chama.
- Peace of mind on the investments made.
- Economies of scale when buying insurance as a group.
- Increased negotiation power in case of losses/claims.
- Preferential terms offered as group discount.
- Products can be designed to provide solution to the unique needs of a Chama.

Here are a few types of insurance that a Chama should consider:

**All Risks Office Equipment:** Compensation against loss of or damage to the specified property as a result of any cause not excluded by the policy. The property insured is covered while inside or outside the building.

**Bankers Blanket Bond:** Indemnity against fidelity guarantee risks; property damage resulting from theft, larceny, burglary, robbery or hold-up whilst on the premises; property in transit and loss of or damage to the premises, furnishings, fixtures, equipment (other than computers) and other contents caused by burglary, robbery, hold-up, theft, larceny or attempted theft. The standard cover is extended to cover counterfeit currency, loss of subscription rights, extortion (threat to both property and persons) and computer fraud.

**Burglary:** Compensation against loss of or damage to property insured resulting from theft accompanied by entry into or exit from the premises by forcible and violent means. **Directors' and Officers' Liability:** Compensation against amounts which the insured shall become legally liable to pay as compensation, including agreed defense costs and expenses resulting from any wrongful act by the insured in their capacities as directors, officers or employees of the Insured Company.

**Health Insurance:** This is the most critical insurance members can take up as a group.

**Electronic Equipment:** Indemnity against any unforeseen physical loss of or damage other than by specifically excluded perils. Cover is meant for various items of computer equipment and accessories. **Fire and Special Perils:** Loss of or Damage to Property resulting from Fire, Lightning, Explosion, Earthquake Fire & Shock and Volcanic Eruption, Bush Fire, Riot, Strike, Malicious Damage, Special Perils (A to H) and Spontaneous Combustion.

**Group Personal Accident:** Compensation for death or disability, and medical expenses incurred in connection with an accident occurring at any time (24 hours cover duty or pleasure) caused by accidental, violent, external and visible means. This insurance is taken out for a group of people with a common purpose.

**Money:** Indemnity against loss of money and damage to safe or strong room damaged in the course of theft of money.

**Property Terrorism and Sabotage:** Indemnity against physical loss of or physical damage to the property insured belonging to the Insured or for which the Insured is legally responsible, directly caused by act of Terrorism; Sabotage; Riots, Strikes and/or Civil Commotion; Malicious Damage; Insurrection, Revolution or Rebellion; Mutiny and/or Coup d'état.

**Public Liability:** Indemnity against legal liability to third parties for accidental death, bodily injury and/or illness and/or loss of or damage to property incurred in the course of the Insured's business.

<sup>1</sup> More details on the evolution of Trans Century as the most successful investment group in East and Central Africa are in the book "From Chama to Conglomerate" by Tony Wanaina

<sup>2</sup> Read more on Home Afrika, a real estate investment group in the Case Study section of the handbook

<sup>3</sup> Guidelines provided by Tax Expert Patrick Karara

<sup>4</sup> Information provided by Sammy Kanyi, Alexander Forbes

<sup>5</sup> Information compiled by Financial Expert Zephania Weru

*Marvelous Living*



# Longonot Haven Maai Mahiu

## FEATURES:

- SIZES: 1/4 or 1/8 Acre plots
- Located near the scenic beauty of Mount Longonot in Maai Mahiu
- Proximity to proposed government SGR project
- Proximity to proposed Inland Container Depot and a Business Hub
- Touching tarmacked Ngong-Maai Mahiu road

## AMENITIES:

- Electricity and water available for connection
- Social facilities like schools, churches and shops.

## PAYMENT OPTIONS:

**1/8 ACRE PLOT. CASH: KSHS. 295,000**

**INSTALMENTS:** Kshs. 330,000

**DEPOSIT** Kshs. 150,000.

**6 INSTALMENTS** of Kshs. 30,000

**1/4 ACRE PLOT. CASH: KSHS. 560,000**

**INSTALMENTS:** Kshs. 630,000

**DEPOSIT** Kshs. 300,000.

**6 INSTALMENTS** of Kshs. 55,000

\*Terms and Conditions apply

## VIEWING ON

**WEDNESDAYS & SATURDAYS**



**Valley Ranch Ltd.**

Jitegemea PCEA Flats, D1,

Jabavu Road, Kilimani

P.O. Box 101442 - 00101

Nairobi, Kenya

Tel: +254 723 330 111 / 731 334 111

email: [info@valleyranch.co.ke](mailto:info@valleyranch.co.ke)

web: [www.valleyranch.co.ke](http://www.valleyranch.co.ke)

*Secure, Prime, Affordable Properties*



# CHAMA INSURANCE

AGENCY LIMITED

*"Mobilizing insurance for Chama's"*

## About us:

- Chama Insurance Agency Ltd is a Limited liability Company incorporated in Kenya on 30th July, 2015 under the auspices of Amalgamated Chama Ltd (ACL) and Kenya Association of Investment Groups (KAIG)
- We are an independent Intermediary (not tied to any particular Insurance Company), the advice given is very objective and offered at arm's length.

## Vision:

To be the world class provider of professional, reliable and unequalled insurance services in the region & beyond.

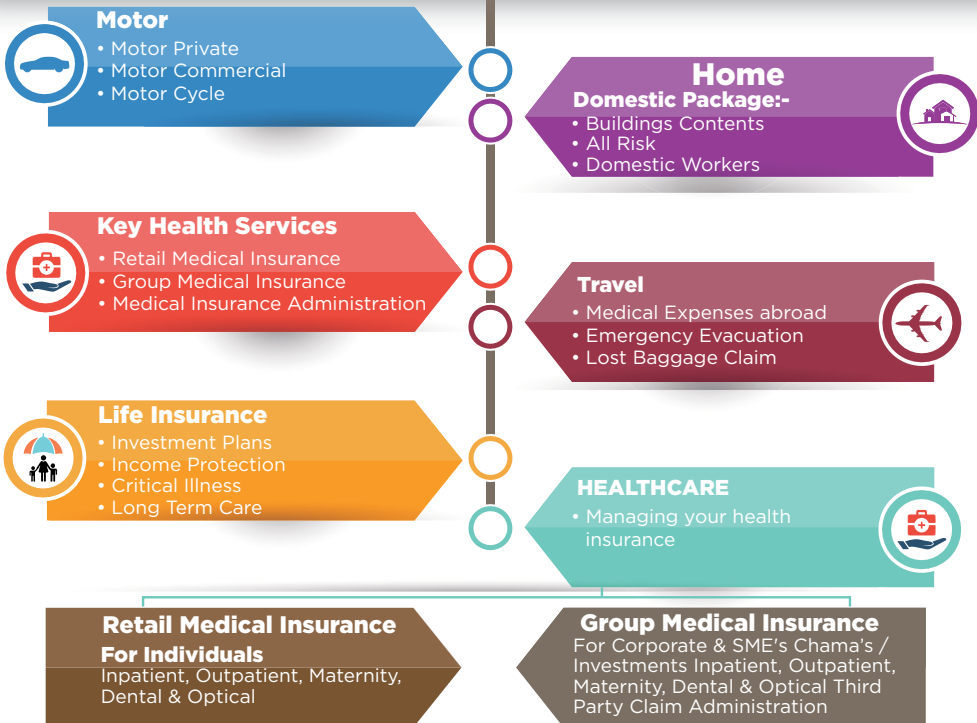
## Mission:

To deliver quality, services and superior Insurance solutions to Chamas and individuals at large.

## Values:

- Integrity
- Creativity & Innovation
- Teamwork & Loyalty
- Interpersonal Relations

## Key General Services



## Contact us:

[info@chamainsurance.co.ke](mailto:info@chamainsurance.co.ke)

**Cell: +254 728 931 765 / +254 722 609 251/ +254 788 110 270**

**1st Floor, Room 103 Mercantile House Koinange Street**

[www.chamainsurance.co.ke](http://www.chamainsurance.co.ke)

Chama Insurance Agency Ltd .....*"Mobilizing Insurance for Chama's"*

# **INVESTMENT POLICY**

# MAKING THE INVESTMENT DECISION

BY JOSEPH MATHENGE

For most investment groups, the main reason why they come into existence today is to build wealth through investment. How they do it, and the duration of time it takes for this objective to be achieved varies from one investment group to another. There are groups that die soon after formation, others stagnate for many years and some find their way through challenges to achieve objectives, build wealth and progress. For an investment group to successfully achieve its objectives, the following five factors are important to consider as outlined by Mr. Tony Wainaina in his book *Chama Conglomerate: Reinventing Your Investment Group (2013)*.

1. The riskiness of the investments: Investing in high risk portfolios often attracts high returns. While the vice-versa is true; investing in low risk portfolios attract low return. Nonetheless a group has to weigh its risk appetite which is an aggregate of each members risk appetite. Understanding the risk appetite helps to determine the long term financial security of your investment group.
2. The tenure of Investment: This is the length of time before your investment starts to realize returns. How long you put your money in an investment depends on target returns, age of the company (Start up or mature company) and age profile of the Chama (Average age of members: affects how long they are willing to wait to enjoy benefits). Putting all these into consideration a Chama should invest where there is high potential for growth within the set timeframe.
3. Attractiveness of the sector the investment belongs to: This looks at the sector-wide performance which in turn helps to predict how a specific investment would perform. For instance growing and packaging vegetables for sale is in agribusiness sector while producing soap is in manufacturing sector. The prevailing rate of return and transferability (How easy it is to exit) also determines how attractive an investment is.
4. Attractiveness of the location of investment. Your investment group should ask itself whether the investment is in an economically and politically stable location. Areas with poor political stability, underdeveloped economic infrastructure or poor economic policy are rarely good for investment.
5. Liquidity of the investment: An investment group should evaluate how easy it is to convert the investment into cash. It should go for an investment with high liquidity level enough to help meet its financial obligations when need be.

*The following action points are also important when choosing where to invest.*

1. Where does the investment group stand today: An evaluation of the current financial status is important in informing where the group will invest. First it is wise to put goals into the overall perspective of any investment and review how many of the goals have been achieved. An account of the debts outstanding and the cashflow should be determined as well.
2. Draw an Investment and financial plan. Having an Investment Portfolio Strategy gives a Chama the pillars by which its asset mix will be determined. It is important to have a balance of asset classes to mitigate against risks inherent in any single class. A financial plan will inform the group where capital for investment will come from and how it will be distributed among the various functions of the investment group.
3. Evaluate the investment to ensure it has clear legal ownership. Vague or unclear information on ownership risks the invested money.
4. Ensure members' views are put into consideration. Despite the difficulties in group dynamics, a Chama should strive to ensure views of members are considered before a decision is made.
5. Choose Investment activity that a group enjoys working in.. The golden rule is - Choose an investment activity that you like, in it there is a high chance of excelling. Members often will embrace an investment they enjoy having.

# Investment Policy

## What is an Investment Policy Statement<sup>1</sup>?

This is the process of deciding how to distribute wealth among asset classes, sectors, and countries for investment purposes. It specifies investment goals and acceptable risk levels. It is a “road map” that guides all investment decisions.

Benefits of having a written investment policy are:

- It provides the foundation of managing the Chamas investments and for all future investment decisions.
- It provides structured process for making investment decisions.
- It keeps the Chama focused on its objectives including desired returns, time horizon and the risk-return equation.
- It serves as a guideline with identified goals and a systematic review process that provides a baseline from which to monitor performance.
- It provides ground rules for all stakeholders i.e. the Chama Members, the advisers, management team etc.
- It clearly shows the planned way to achieve stated goals and objectives.

Absence of a written investment policy results in:

- Decision making that is based on separate dealings as they occur.
- Chasing short term opportunities that may detract from reaching long term goals.
- Falling into an emotional decision making trap especially during turbulent or highly profitable times.
- Creates misunderstandings and some members can become disgruntled or dissatisfied.
- Can lead to outright mutiny and collapse of a Chama.

Key objectives of an investment policy statement:

- To document the investment policy and the investment strategy established in accordance with the policy.
- Clearly set out the decision-making responsibilities.
- Provide a framework for the effective implementation and review of the investment strategy.
- Assist all Chama members (existing and potential) in understanding the investment objectives and strategy of the Chama.

## Tips on forming one<sup>2</sup>

The investment process is comprised of several steps that enable you to select a portfolio appropriate to your risk tolerance and desired return. The primary steps in this process are:

- Determine your investment objectives in line with your desired return and risk tolerance.
- Develop an asset allocation plan.
- Construct your portfolio by selecting diversified investments within your chosen asset classes.
- Monitor your investments.

Remember that investing involves managing risk rather than managing return. The four basic risk management strategies are:

**Risk Avoidance:** This is where one avoids any real chances of loss. It is generally a poor strategy for your entire portfolio but is useful for parts of it.

**Risk Anticipation:** Position your portfolio to protect against anticipated risk factors i.e. by maintaining a cash reserve.

**Risk Transfer:** Insurance and other investment vehicles can allow for the transfer of risk, often at a price, to another investor who is willing to bear the risk.

**Risk Reduction:** Effective diversification and asset allocation strategies can reduce risk, sometimes without sacrificing expected return.

Some examples of goals that can form your investment objectives are:

**Capital preservation:** To maintain purchasing power and minimize the risk of loss.

**Capital appreciation:** To achieve portfolio growth through capital gains and accept greater risk.

**Current Income:** Look to generate income rather than capital gains. It can be referred to as the “spending phase”. There is relatively low risk.

**Total return:** Combine the income returns and re-invest with capital gains. It has moderate risk.

**INVESTMENT CONSTRAINTS**

Factors that may limit or impact your investment choices:

**Liquidity:** How soon is money needed? How fast can we raise it?

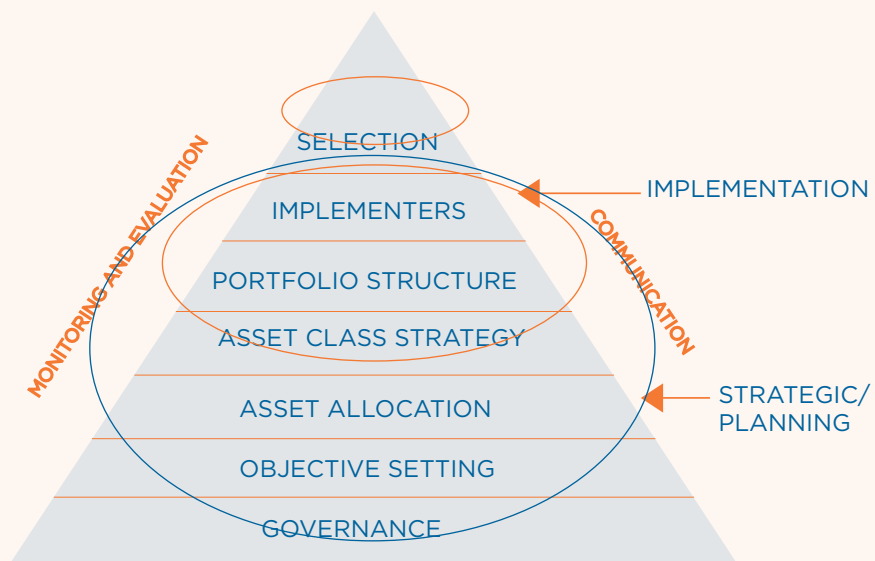
**Time frame:** What is the group’s ability to ride out several bad years? When do you expect to access all or part of your investments?

- Less than 1 year (immediate access)
- Less than 2 years (short term)
- 2 to 5 years (short to mid-term)
- 6 to 10 Years (mid to long term)
- Over 10 Years (long term)

**Age:** The Chama members will probably be in one age group. Chamas with young people means they are able to undertake riskier investments. Those composed of middle age with families would choose more stable investments.

**Legal and Regulatory Factors:** What legal restrictions will affect your investment choice?

**INVESTMENT RISK MANAGEMENT PLAN**



- **Tax Concerns:** Realized capital gains vs. Ordinary income; Taxable vs. Tax-exempt bonds?
- **Unique needs and preferences:** The Chama may wish to avoid types of investments for ethical or religious reasons i.e. a Christian group will avoid investing in companies that deal with tobacco or alcohol or another Chama may only be interested in companies that comply with Fair Trade practices.

### Asset Allocation<sup>3</sup>

This refers to how the Chama distributes their investments among various asset classes. Asset classes are types of investments, the main being cash, fixed interest, property and shares. There are typically differing levels of risk and return associated with the asset classes, and different minimum suggested investment timeframes. Everyone needs to understand the characteristics of all the asset classes in order to make sound investment choices. Your initial strategies to make choice may be quite broad in nature, and they can be refined over time as members become more comfortable and experienced. Tips to consider:

- Look at the historical correlations of returns.
- Diversify the portfolio.
- Have a selection criteria i.e. type of industry and risk, good governance, capable management team, clear dividend policy.
- Designate Chama member or investment committee to do further research.
- Consider appointing specialists if needed.

### Selection of Service Providers

As your group evolves, you will reach a point where the need to appoint professionals will be key to transforming your group to the next level. Also some Chama's simply become too big.

- **Accountants:** Prepares the books and keeps a record of all financial transactions.
- **Auditors:** Audits the final finance statements to ensure accuracy and transparency of the Chama's books.
- **Company Secretary:** Maintains the Chama shareholder register, provides secretarial services for your meetings.
- **Stockbroker:** Makes transactions in the Capital Markets on behalf of the Chama.
- **Lawyer/Law Firm:** Drafts your shareholder agreements, other legal documents i.e. contracts and conducts legal due diligence on your investment choices.
- **Finance Consultants:** Provide financial, investment, tax advice and due diligence in regards to all your investment decisions.
- **Review of Investment Policy**

It should be reviewed every 3 years, referred to annually and more frequently if required due to (but not limited to) any of the following:

- Significant changes in the investment environment
- The availability of new opportunities
- The introduction of new financial instruments
- As the size of the Chama increases and changes

### Asset Valuation

This is the method of assessing the worth of a company, real estate, securities, or other items of worth. Asset valuation is commonly performed prior to the sale of an asset or prior to purchasing insurance for an asset. A professional financial advisor will be needed to do an analysis.



## Monitoring Your Investments

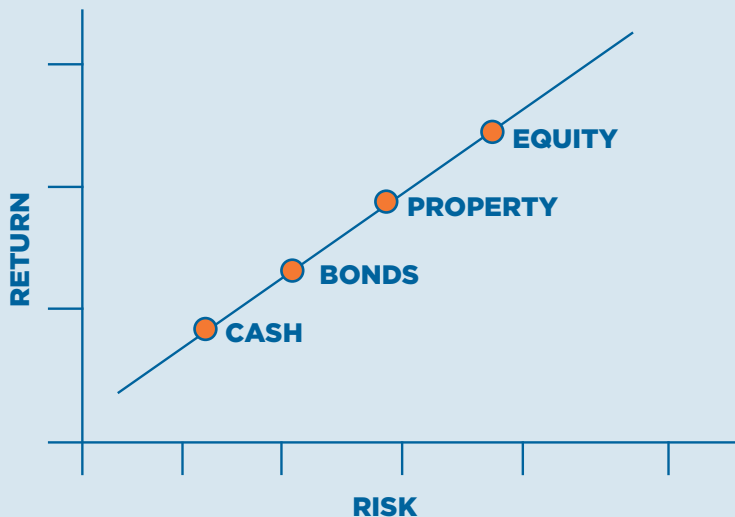
When monitoring, don't focus only on returns. Make sure the reasons you chose these investments in the first place still apply. To do that, check the status of each investment against your investment selection criteria.

- Set the key benchmark for evaluating your portfolio performance.
- Monitor changing financial and economic conditions i.e. inflation, currency fluctuations etc.
- Evaluate portfolio performance not only by returns but other performance indicators.
- Modify portfolio investments accordingly.
- Revise policy statement as needed.

Periodically, ask yourself the following questions about your investment portfolio:

- Is this investment performing as we planned?
- How much money will we get if we sell it today?
- How much are we paying in commissions or fees?
- Has our investment goal changed? If so, is the investment still suitable?
- Have we decided what contingencies need to happen for us to sell the investment i.e. if it falls in value by certain percentage?

## NORMAL 'RISK-RETURN' RELATIONSHIP OF MAJOR ASSET CLASSES



## Arbitration

This is often overlooked, but is vital as it will allow for easier determination of your Investment policy, which ideally should guide all investment decisions made by the group. Set out the clear process should the Chama get into dispute over its investments with its stock broker, law firm or even internally amongst its members. Ensure there are arbitration clauses in the contracts done with the professional service providers to the club.

<sup>1</sup> Article compiled from information supplied by Sundeep Raichaura

<sup>2</sup> Article compiled from information supplied by Financial Expert Patrick Wameyo

<sup>3</sup> Article compiled from information supplied by Michael Gichohi, Financial Expert, Uwezo DTM





# Amalgamated Chama Limited

The '**Chama of Chama's**', is a Limited Company, formed under the auspices of the **Kenya Association of Investment Groups (KAIG)** to provide an avenue for investment groups / Chamas and individuals to pool their resources and realize superior long term returns under a serious, dynamic and best-practice run investment group.

We venture into investment areas where individual investment groups do not/cannot easily or economically venture into; including but not limited to:-

- Private equity and venture capital
- Real Estate, Mezzanine or bridging Finance & Syndication
- Large holdings in listed superior growth potential companies
- Opportunities outside Kenya
- Co-investing with chama shareholders

## **CONTACT US ON**

**Tel: 0728 982 025**

**Email: [info@achamalimited.com](mailto:info@achamalimited.com) Website: [www.achamalimited.com](http://www.achamalimited.com)**

**Physical Address: Mercantile Hse, Suite 103, Koinange Street, Nairobi**

/ grow. protect. invest.

# **ASSET CLASSES IN KENYA**

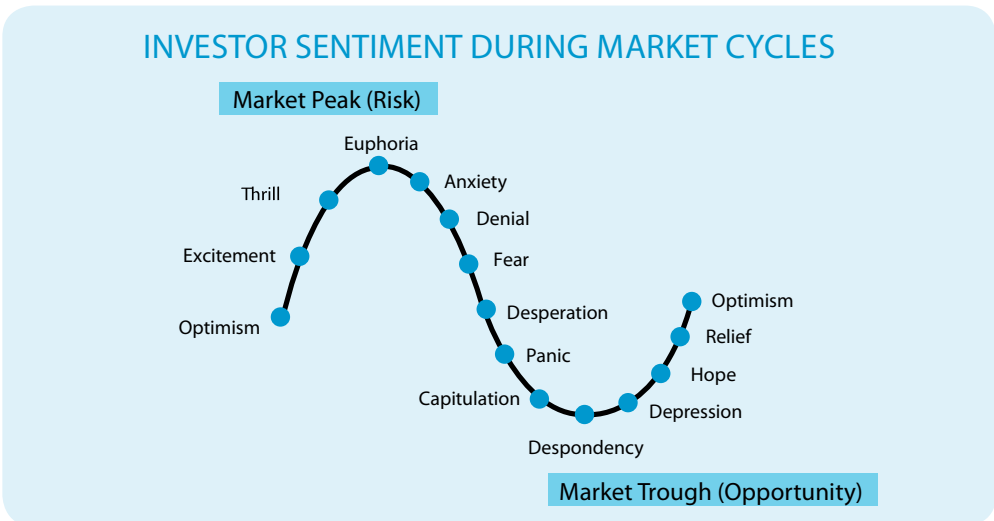
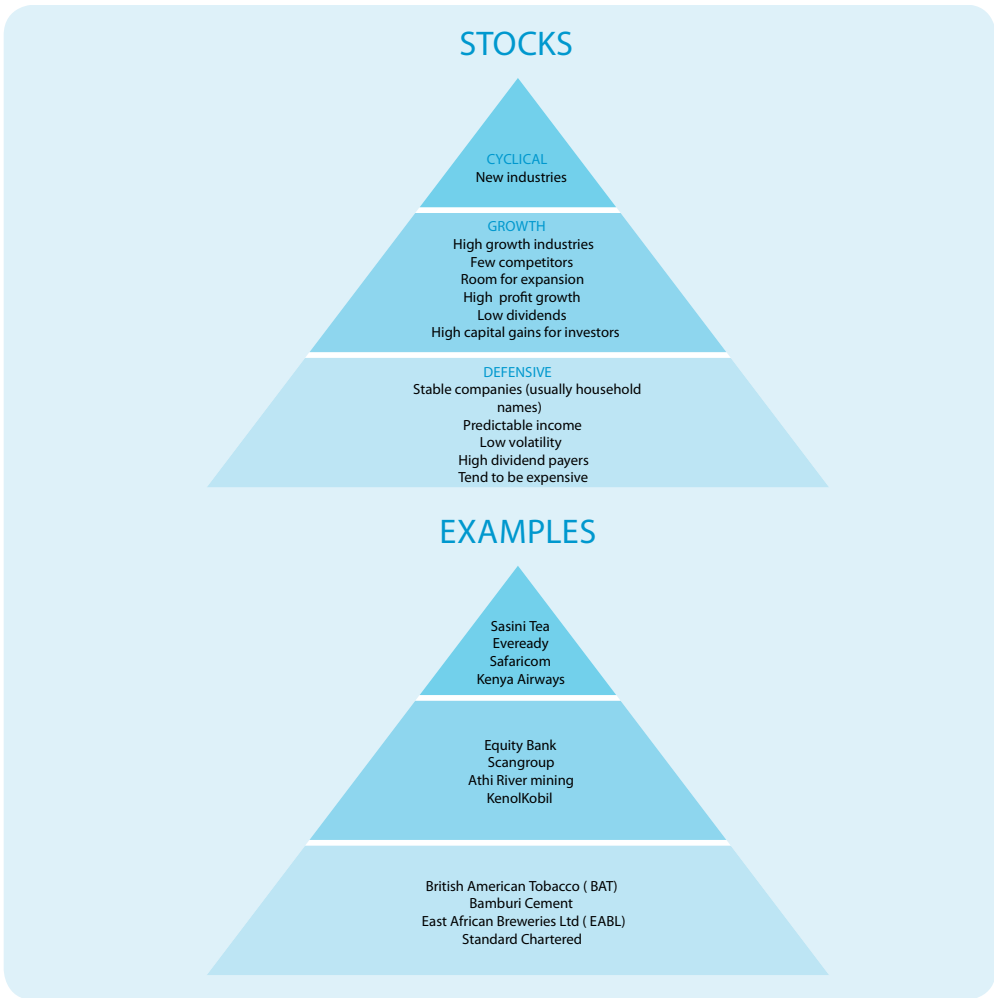
## 1. SHARES - PRIVATE AND QUOTED

**Def.** A share is a piece of ownership of a company or enterprise. When you buy a share, you become an investor and thereby an owner of a piece of the company's profit or losses.

Companies sell shares to raise (borrow) money from members of the public to expand their business activities in order to make more profits. They invite members of the public to buy shares and by so doing have a say in the running of the company as lenders of money and owners. Shareholders expect a profit as a reward from lending their money to expand the business of the company.

Shares are bundled in minimum lots of 100 shares and above on the NSE.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Buying a share enables you to share the benefits of a professionally managed company instead of investing in your own enterprise, which you may not manage as well.</li> <li>• It's a good return on your investment if the shares are purchased intelligently with higher returns than you would get from a deposit or a savings account.</li> <li>• When a company issues bonus shares, the value of your original purchase is enhanced. It is a better way of hedging against inflation as you re-invest your profits.</li> <li>• Can result in immense capital gains, if a company registers a spectacular achievement, makes a new discovery or is bought out.</li> <li>• Shares are fairly liquid and if needed, you can ordinarily realize cash within two weeks.</li> <li>• Buying and selling of shares can be a profitable business in itself that one can engage in without interfering with one's employment or other engagements.</li> <li>• Shares are acceptable collateral by most financiers especially when you need an urgent advance or loan.</li> <li>• You can diversify your portfolio, thereby minimizing your risk, by buying various types of shares in different sectors.</li> <li>• Through purchase of shares you can invest outside your national economy (offshore investment) for better returns and/or lower risk.</li> </ul>	<ul style="list-style-type: none"> <li>• There is no guaranteed return to the investor as the company may perform well or not.</li> <li>• The possibility for high returns is greater with stocks but so is the possibility of losing money should the company collapse or become insolvent as shares become worthless. If the company goes into liquidation, shareholders are the last to be paid after all other creditors.</li> <li>• There is unpredictability as external factors like government policies, political pressures, economy, demand and supply factors etc. can change the price of the shares. The only outcomes are profit or loss.</li> </ul>



**Advantages**

- You contribute to the overall development of the economy when you buy shares, by channeling funds to those who are in a position to invest in profitable projects and thus create wealth and employment faster.
- Wealth held in shares is less visible than other investments and hence more private. You can quietly hold many shares in blue chips worth the equivalent of tracts of land or streets of shops and bars.

Protecting your Investment in shares

The stock market is an unpredictable market but here are some ways to protect your investment:

1. Review stocks from companies that have bottomed out following poor performance or a retooling process. These stocks are extremely cheap, and there is minimal risk of losing on this investment because these companies can only move up in market value.
2. Study major companies in the stock market that possess large liquid assets and products that are necessities for the general consumer. Natural-resources companies, utilities and medicaltechnology firms typically have assets available to starve off market declines. These stocks should form the backbone of your general-investment portfolio because of their stability.
3. Track market indexes in the United States, Europe and Asia to determine the potential for a stock market crash. These indexes track the top-performing companies in each market to determine the general performance of the global economy. You should trade stocks away only if all three indexes are down or a particular industry experiences a decline.
4. Shift some of your investment funds into a money market account to avoid consequences of a crash or recession. A money market account allows you to gain a small return on your investment if you keep your balance high over the long term.



## TERMS USED IN BONDS

The price of a bond is determined by the time to maturity, the coupon rate and the quoted yield to maturity.

**Maturity:** Date when payment is due.

**Coupon Rate:** The amount of interest paid per year as a percentage of the face value or principal.

**Issuer:** The company or government selling the security.

**Yield:** Amount in cash that returns to the owners of a security.

**Par value:** The stated value or amount of money a holder will get back once a bond matures; a bond can be sold at par, at premium, or discount.

**Par price:** This is when the offer price equals the face value. In this case, the quoted yield equals the coupon rate.

**Capital gain/loss:** Since Treasury bonds trade at the NSE, investors may sell/buy them when prices become favorable. A capital gain is realized when the selling price at secondary market is higher than the buying price at primary market. The reverse is true for capital loss.

## 2. FIXED INTEREST

### a) Bonds

**Def.** Medium to long term debt instruments, usually longer than one year, issued by the Government or Companies to raise money in local currency. It is a loan between a borrower and a lender. The borrower promises to pay the lender some interest quarterly or semi-annually at some date in the future. The borrower also promises to repay the initial money (principal) invested by the lender according to the terms and conditions of the bond.

The lender lends and expects to make a profit. The profit from a bond is gained in the form of an interest. Bonds that have been in the Kenyan market have had interest rates ranging from 8%-14%, depending on the type and date of issue.

**Treasury Bonds<sup>1</sup>:** Issued by the government promising to pay a certain amount (the face value) on a certain date as well as periodic interest payments. So far, the Government of Kenya has issued

- Fixed Coupon/Rate Bonds
- Zero Coupon
- Floating Rate
- Infrastructure (project specific)
- Restructuring/ Special bonds
- Amortized and Savings Development bonds

The most commonly issued bonds are fixed coupon bonds which have huge investor demand. Treasury bonds are issued monthly and are sold in minimum bundles of KES 50,000 except for infrastructure bonds which go for minimum KES 100,000. Maturities of Treasury Bonds that have been issued so far range from 1-30 years.



**Corporate Bonds:** A debt security issued by a company and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds. Many corporates favour the floating rate bond. Zero coupon bonds are favoured by Commercial Banks.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• A bond is a very convenient asset to own and a sure source of income.</li> <li>• It is accepted as a guarantee for loans by Cooperative Societies and Banks.</li> <li>• It is a good money planner to meet specific needs. For example an investor can buy a bond whose interest matches payment of school fees, car or medical insurance, rent, pension allowance.</li> <li>• Easy and quick to sell in the market in times of need; the interest on a bond grows on a daily basis and so a bond has new value and price every day. An investor can therefore buy or sell a bond on any day of their choice.</li> <li>• A way of saving money for the future.</li> <li>• Convenient and confidential.</li> <li>• There are no penalties for selling a bond before the maturity date.</li> <li>• There are also a variety of bonds to fit different needs of investors.</li> <li>• Corporate bonds are considered higher risk than government bonds. As a result, interest rates are almost always higher.</li> <li>• Government bonds are usually referred to as risk-free bonds because the government can raise taxes or create additional currency in order to redeem the bond at maturity.</li> </ul>	<ul style="list-style-type: none"> <li>• Long term bonds are more risky because the bond principle itself is only as safe as the company holding it. Meaning if the company becomes unstable or goes bankrupt the possibility of default on the bond payment increases.</li> <li>• Fixed rate bonds are subject to interest rate risk, meaning that their market prices will decrease in value when the general prevailing interest rates rise.</li> <li>• Bonds can be affected by inflation, exchange rates, market volatility and credit risk (the credit rating of the issuer).</li> <li>• Some bonds are callable, meaning that even though the company has agreed to make payments plus interest towards the debt for a certain period of time, the company can choose to pay off the bond early. This creates reinvestment risk, meaning the investor is forced to find a new place for their money. As a consequence, the investor might not be able to find as good a deal, especially because this usually happens when interest rates are falling.</li> </ul>

## b) Unit Trusts (Mutual Funds)

**Def.** A unit trust is a professionally managed investment scheme that pools savings of the public who share the same financial interests. The pooled savings are then invested in securities such as shares, bonds and other authorised securities.

They are managed by specialist companies, banks & insurance companies. There is always a second company playing the role of trustee in a unit trust who holds the assets (investments) on behalf of the unit holders.

Unit trusts are open ended funds i.e. the managers can always create more units and buy more assets if and when investors intend to increase their investment by buying more units. In case investors sell back their units, the managers have to repay the sellers from their cash balances, cancel the units and possibly sell more of the trust's long-term assets to top up their short-term assets.

The Trust Managers play an active role in selling units to investors, investing the proceeds and obtaining cash to be paid to investors who wish to sell their units. Some unit trusts are quoted on the NSE.

The buying and selling price of units are calculated on the basis of the market values of the assets held by the trust. Hence, the rise or fall on the value of a unit is due to the rise or fall in the price of the shares and other assets owned by the trust. Unit trusts hold substantial amounts of liquid assets especially bank deposits, underlining their commitment to buying back units on demand and readiness to invest in new assets if and when available at attractive prices. If you are a beginner to investing, you will most likely do better by putting your money into mutual funds than in single stocks.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• The investor has the ability to withdraw from the fund at any time.</li> <li>• While there is still fluctuation in a group of shares, they are less likely to experience the extreme up-and-downs that single stocks can.</li> <li>• They provide investors with a convenient means to obtain a share in a usually diversified and large portfolio of assets.</li> <li>• The investors' risks are pooled together and specialist managers are able to enhance investor returns.</li> <li>• You get the benefits of greater economies of scale, such as reduced transaction costs.</li> <li>• You have experts doing the hard work for you.</li> <li>• It's far easier and quicker to liquidate a portfolio or a portion of a portfolio held via a fund than directly in the market.</li> </ul>	<ul style="list-style-type: none"> <li>• Risks due to ownership of the underlying assets</li> <li>• There are costs over and above those you would pay if you were investing directly.</li> <li>• Unit trusts may not be as liquid as some other investments.</li> <li>• Dilution possibilities. In the event of a large cash inflow or outflow, all investors' percentages of the underlying assets will change.</li> </ul>

### c) Investment Trusts

**Def.** These are companies which undertake investment mainly in financial assets. They do not operate within the confines of a trust deed as unit trusts do. Shares in quoted companies form the bulk of their investments. They are closed end funds. Investors wishing to purchase investment trust shares must either wait until a new trust is launched, when a rights issue is made or find another investor holding such shares who is willing to sell.

The companies obtain funds by issuing shares, borrowing, retaining profits and capital gains realized from assets held previously. Shares in quoted investment trust companies may be bought and sold on the securities exchange. Centum Investments and Transcentury are some of the best known investment trusts in Kenya.

## Differences between a Bondholder and a Shareholder

One can be both a bond and a shareholder as it gives an investor the opportunity to diversify and enjoy a balance between reasonable and very high profits.

### Bondholder

- A bondholder is only a lender to a company.
- Expects a profit in form of an interest at a specific agreed date in future.
- Does not vote or participate in the management of the company.
- Invests to earn a reasonable return at a low risk.
- A watchdog of the borrowers' activities.

### Shareholder

- A shareholder is a lender and an owner.
- Expects a profit in form of a dividend, gain in share price, bonuses and cheaper shares (rights issues).
- Attends Annual General Meetings, gives personal opinions about the company and votes thereby participating in the running of the company.
- Invests expecting the highest return possible.
- Accepts risk as part of any business.
- A watchdog of the management and company's activities.
- An influencer of the company's performance.

### Advantages

- Unlike a unit trust, an investor who buys investment trust shares buys shares in the company itself and not a share of the underlying assets held by the company.
- They have lower annual operating expenses (since they are not buying and selling shares);

### Disadvantages

- The market price of the shares in an investment trust company will be determined by the demand and supply for the company's shares, which will in turn be influenced by the value of the assets held by the company, its past and present performance and market perceptions.

## d) Real Estate Investment Trusts (REITs)

**Def.** A security that sells stocks in the capital market and invests in real estate directly, either through properties or mortgages.

It is an investment instrument that sources funds to build or acquire real estate assets for sale, rent or to generate income. Investors can buy and sell shares and are regulated by the Capital Market Authority (CMA). The income generated is distributed to the shareholders at the end of a financial year.

REITs will enable mobilizations of savings from individuals and groups. This means that Chamas will be able to invest in the market.

**Advantages**

- They offer investors high yields, and highly liquid ways and means of investing in real estate.
- They give opportunity for small investors to have a stake in real estate with investments of minimal amounts.
- They are exempt from 30% Corporate tax and Income tax.

**e) Commercial Paper**

**Def.** This is an unsecured promissory note with a fixed maturity of 1 to 270 days. Commercial paper is a money-market security issued (sold) by large corporations to raise money to meet short term debt obligations and is only backed by the issuing corporation’s promise to pay the face amount on the maturity date specified on the note.

Since it is not backed by collateral, only firms with excellent credit ratings from a recognized rating agency will be able to sell their commercial paper at a reasonable price. Typically, the longer the maturity on a note, the higher the interest rate the issuing institution must pay.

Advantages	Disdvantages
<ul style="list-style-type: none"> <li>• Commercial paper is usually sold at a discount from face value and carries higher interest repayment rates than bonds.</li> </ul>	<ul style="list-style-type: none"> <li>• Interest rates fluctuate with market conditions, but are typically lower than banks’ rates.</li> </ul>

**3. CASH AND CASH EQUIVALENTS**

**a) Savings Accounts**

Savings accounts are targeted towards customers who intend to save their earnings and/or those who do not require transacting frequently. Interest is earned and paid periodically on daily, monthly and half yearly balances or any other criteria based on bank policy.

Advantages	Disdvantages
<ul style="list-style-type: none"> <li>• Safe vehicle for short-term savings of any amount</li> <li>• High liquidity (easy to cash)</li> </ul>	<ul style="list-style-type: none"> <li>• The credit balances earn interest. However, most banks set a minimum balance below which the amount may not qualify for interest payment.</li> <li>• Balances below the interest earning minimum balance may attract a monthly charge in some banks.</li> <li>• Over-the-counter cash withdrawals are subject to payment of stamp duty.</li> </ul>

## b) Term Deposit Accounts

**Def.** These are contract accounts where the amount deposited is held in the account for a pre-arranged period in order to earn the agreed interest. Interest rate earned is fixed for the period of the deposit. Any withdrawals before the contract period will nullify the right to earn interest. The principal deposit plus interest earned is either withdrawn or renewed at the end of the contract period depending on the customer's instructions.

**Call Deposit:** The account runs for a minimum period (i.e. Seven days) after which the contract period is open ended. A pre-agreed notice may be required before the deposit plus interest can be withdrawn.

Interest is paid when the deposit is 'called' or withdrawn.

**Fixed Deposit:** They run like the Call Deposit accounts but for a longer period i.e. a minimum period of one month to a maximum of one year.

Advantages	Disdvantages
<ul style="list-style-type: none"> <li>• There are no charges on the account</li> <li>• Attractive interest rates calculated daily for the Call Deposits</li> <li>• Interest paid is higher than a savings account</li> </ul>	<ul style="list-style-type: none"> <li>• No additional deposits are allowed on the account before expiry of the contract period. Withdrawals before the term may attract penalties and loss of interest,</li> <li>• Interest is accrued daily but paid at the end of the contract period.</li> <li>• The amount deposited ceases to earn interest at the end of the contract period unless the account holder issues instructions for a renewal.</li> </ul>

## c) Treasury Bills<sup>2</sup>

**Def.** A paperless short-term borrowing instrument issued with a term of one year or less. They are sold at a discounted price to reflect investor's return and redeemed at face (par) value thus they do not pay interest before maturity.

Treasury bills are issued by the Government through the Central Bank of Kenya with maturities of 91, 182 and 364 days.

Advantages	Disdvantages
<ul style="list-style-type: none"> <li>• Short-term investment as they have terms of one month to one year.</li> <li>• Safe as they are government-backed.</li> <li>• Non-Competitive (average) bids are based on price-taker of market outcome (successful weighted average rate/price) so their placement is guaranteed</li> </ul>	<ul style="list-style-type: none"> <li>• They have lower returns as compared to term deposits and even bonds as they are very safe.</li> <li>• As it is a short- term investment, investors have to turn them over into new investments since they mature so quickly.</li> <li>• Competitive bidders MUST indicate the desired price/yield and usually monitor and understand the movements in interest rates and market conditions. However, such bids may either be accepted or rejected depending on interest rates and liquidity levels.</li> </ul>

## 4. REAL ESTATE

**Def. Property bought with the intention of making a profit through rental income or resale. Real estate investors typically purchase apartment buildings, commercial buildings and homes to rent out to tenants.**

One of the main differences between investing in a piece of real estate as compared to stocks or bonds is that real estate is an investment in the ‘bricks and mortar’ of a building and the land it is built upon.

Key things to consider when investing in real estate

- Whether to invest in vacant land and speculate on price appreciation.
- Whether to invest in residential or commercial property.
- Type of ownership.

A Limited Liability Company is recommended in order to avoid legal complications that may arise under other forms of ownership. Before arriving at the decisions above, the group members will need to consider the following:

- Return on investment.
- Liquidity preference-It is not advisable to invest in land where the funds need to be liquidated within a short time.
- It is also important to ensure that all legal and registration requirements are adhered to while investing in land or property.

Advantages	Disdvantages
<ul style="list-style-type: none"> <li>• Has high returns and can average 15-20% annual returns of the investment.</li> <li>• It appreciates in value over time because of the limited supply of land. It also appreciates at roughly the same rate as inflation.</li> <li>• It can give significant high profits when carefully planned</li> <li>• It is highly tangible because unlike most stocks you can see and touch your property thus creates substantial pride of ownership.</li> <li>• Gives investors passive income (income that you don't have to work for) and you have full control i.e. you can increase the rent or improve the property to increase the rent etc.</li> </ul>	<ul style="list-style-type: none"> <li>• It requires a high amount of capital Securing financing for property investment presents a formidable task.</li> <li>• Tangibility also has its downside because real estate requires hands-on management either by the Chama directly or through a contracted property management company.</li> <li>• It has on-going costs like timely repairs, renovation and property taxes.</li> <li>• Has low liquidity as it can take months to complete a sale.</li> </ul>

## 5. OFFSHORE PRODUCTS

**Def.** Investments that are housed in a country other than the investor’s country of residence. Most investors consider this in order to capitalize on advantages offered outside of an investor’s home country. Popular offshore centers are Switzerland, Isle of Man, Cayman Island, Bermuda, Mauritius and Belize.

Off-shore products could form part of the investment portfolio. A Chama can have access through international fund managers like Franklin Templeton, Generali, HSBC, etc. All a Chama needs to do is approach CMA-licensed fund managers or investment advisers who are agents of the international fund managers.

Advantages	Disdvantages
<ul style="list-style-type: none"> <li>• You gain access to a great variety of currencies and markets, giving you a high degree of flexibility and potentially increasing gains and reducing risk.</li> <li>• Ability to participate in economies that are doing better than your own country.</li> <li>• Ability to generate more profit due to no or greatly reduced taxes. Jurisdictions known as tax havens offer tax incentives to foreign investors. The favourable tax rates in an offshore country are designed to promote a healthy investment environment that attracts outside wealth.</li> <li>• Confidentiality as many offshore jurisdictions offer the complimentary benefit of secrecy legislation. These countries have enacted laws establishing strict corporate and banking confidentiality.</li> </ul>	<ul style="list-style-type: none"> <li>• Offshore Accounts are not cheap to set up. Depending on the Chama investment goals and the jurisdiction chosen, an offshore corporation may need to be started. If the group decides to use a fund manager, the minimum capital required to start the investment would also be higher.</li> </ul>



## INVESTING IN YOUR FUTURE TODAY

!!! the most practical solution to owning a home easily!!!



**Own a home / apartment in strategic locations with high returns on investment at affordable prices.**



**We are located at Hurlingham,  
Devson Court suite 5  
Argwings Kodhek Close**

**Contact us on**

**0716 014924, 0712 214385**

**!!!DON'T BE LEFT OUT!!!**





# GOVERNMENT SUPPORT OF INVESTMENT AND INVESTMENT GROUPS

Various ministries have been given the mandate to support welfare and investment groups through registration, capacity building and financing. All welfare groups in Kenya are required to register with the ministry of Labour, Social Security and Services. Even though this does not formerly legalize them for business, existence of the group is recognized by the government.



BY JOSEPH MATHENGE

The government of Kenya has made significant strides in providing a platform where investment groups would thrive. Through policies, legislation and structures, the government has increasingly created a conducive environment for investment groups to be formed and grow. Being a top nation in cooperative movement, its accumulated experience has helped in further improving affairs for organized investment groups. In this regard, investment groups ought to understand the role played by the government through its organs which helps them stay within required frameworks and allow them to take advantage of the resources. Through the following initiatives and organs Kenyan government has greatly bettered the investment environment for investment groups.

## a. Information Dissemination and Capacity Building

As can be read elsewhere in this book, we are living in an information and technology age. These have made it easier for Chama formation and existence by drastically reducing the cost of information dissemination. Today all government ministries and parastatals have websites where new opportunities for investment, relevant information for investors and legislation are found.

Unlike before, welfare groups can now easily download forms from websites for registration. In taxation, returns to Kenya Revenue Authority can now be easily done through the internet. Through devolved governance, welfare groups and SME's are able to get training through institutions such as Uwezo fund, KNCCI, CMA and county based initiatives.

## b. Government Organs

The government has put in place organs which protect investors' interest and help them with information regarding investment in Kenya.

### 1. *Savings and Credit Cooperatives*

The earliest efforts by the government in supporting investment and/or empower economically organized groups is seen in set up and strengthening of the savings and credit cooperatives before and after independence. Today savings and credit cooperatives allow members to save and borrow money as well as lobby and market their products. Through SACCOs, Chamas can now even acquire property. In order to protect members of SACCOs, the government formed the ministry of cooperatives and Sacco Societies Regulatory Authority(SASRA) put in place through the Sacco Societies Act (Cap 490B) ([www.sasra.go.ke](http://www.sasra.go.ke)). Chamas that want to register as SACCOs have go through the ministry of cooperatives. Through SASRA, Chamas providing Front Office Service Activities (FOSA) are now more regulated and protected.

### 2. *Government Ministries*

Various ministries have been given the mandate to support welfare groups through registration, capacity building and financing. All welfare groups in Kenya are required to register with the ministry of *Labour, Social Security and Services*. Even though this does not formerly legalize them for business, existence of the group is recognized by the government. Hence such groups can easily access capacity building training and financing through Uwezo fund, Youth Enterprise Development Fund and/or Women Enterprise Development Fund.

### 3. *Government Institutions*

Institutions such as Capital Markets Authority(CMA), Kenya National Chamber of Commerce and Industry(KNCCI), Nairobi Securities Exchange (NSE) and Kenya Investment Authority (KENINVEST) provide valuable information for investment.

- I. CMA holds open days for investors interested in the capital markets on a yearly basis in Nairobi and in the counties as well.
- II. KNCCI is well devolved and is found in major cities and towns in Kenya where it registers, trains, promotes and even helps in design of products for SMEs.
- III. NSE has in recent times automated its operations and also put in place a GEMS segment where companies with smaller capital base can list. Hence large investment groups can now easily grow their capital through listing at NSE on this segment. More information is on [www.nse.co.ke/media-center](http://www.nse.co.ke/media-center).
- IV. KENINVEST gets information on behalf of investors and breaks it down for understanding. Issues such as regulations, investment climate, financing and areas of investment are elaborated. Through its forums, this authority reaches out to investors in Kenya and abroad. The authority further helps organizations in the process of registration and legalization in Kenya.

## c. Regulations

In order to protect investors and ensure conducive environment for investment the government has enacted various laws through the constitution and acts of parliament. Chamas that do business for profitability are required to legally register their entity. This can be a partnership (Partnership Act), Company (Companies Act) or a SACCO (Societies Act).

Just like any other business entity, all Chamas that have registered as legal entities and engage in investment or business activities are required to file returns whether they make profit or not.

# Micro-insurance - A Financial Inclusion for Chamas/Investment Groups.



BY EDWIN O. ABUNGU

Microinsurance is widely recognized as an important tool for economic development. As many low-income people can't access necessary risk management tools, they are vulnerable to fall into deep poverty in times of hardship. For example, if the breadwinner of the family passes on, Chama members contribute for funeral costs or when there are high hospital bills, families may be forced to take loans at high interest rates. Microinsurance also enables people to take more risks.

Microinsurance is a term increasingly used to refer to insurance characterized by low premium, sold as part of a typical risk-pooling and marketing arrangements. It is designed to service low-income people and businesses not

Insurance functions on the concept of risk pooling, and likewise, regardless of its small unit size and its activities at the level of single communities/ Chamas, so does microinsurance. Such an insurance links multiple small units into larger structures, creating networks that enhance both insurance functions and support structures for improved governance.



served by typical social or commercial insurance schemes.

The growth has just begun. Case in point is Africa: Microinsurance policies have risen in this impoverished continent by 80 per cent between 2010 and 2015, although penetration is still very low.

Insurance functions on the concept of risk pooling, and likewise, regardless of its small unit size and its activities at the level of single communities/ Chamas, so does microinsurance. Such an insurance links multiple small units into larger structures, creating networks that enhance both insurance functions and support structures for improved governance. This mechanism is therefore an autonomous enterprise, independent of external financial lifelines (of a permanent nature) and it aims to pool both risks and resources of large groups for the purpose of providing protection to its members against the financial setbacks accruing from mutually determined risks.

For Chamas/Investment groups, Insurance covers are a very important financial aspect especially when it entures into Investments. For instance a building owned by a Chama can be covered under Fire & Perils Insurance, Consequential Loss Insurance. A Chama can also take a Funeral Cover for its members, pay a reasonable premium say USD. 25 / Kes. 2,500 for a family (Principal member, Spouse and maximum of Four Children) for a Sum Assured of USD. 1000 /Kes. 100,000. This kind of cover is available in the Kenyan market and can be tailor made for a Chama.

Other Insurance products that a Chama/ Investment group can take are: Group Medical covers, Group Motor Insurance, Domestic package, Money Insurance, Group personal accident, life Insurance, Agriculture Insurance for the Chamas who have ventured into Agribusiness e.t.c

# ADDRESSING UNEMPLOYMENT THROUGH GOVERNMENT PROCUREMENT OPPORTUNITIES



**BY ESTHER KAMAU**

Unemployment in Kenya has increased to 40% currently according to Kenya Bureau of statistics due to the struggling economy and lack of job creation.

To try and reduce this gap, the government of Kenya under the presidential directive has earmarked and awarded 30% of all Government contracts to the youth, women and persons with disability.

This process has been a challenge to many youth's, women and persons with disability since they are less informed on qualifications required and how to apply for the YAGPO certificate.

Here is the process of registering for and accessing the government opportunities

The government of Kenya under the presidential directive has earmarked and awarded 30% of all Government contracts to the youth, women and persons with disability to curb the increased unemployment that is currently upto 40% according to the Kenya Bureau of statistics

- Register a business enterprise at the Attorney General's Office in the form of a sole proprietorship business, partnership business, limited company or a co-operative this should have at least seventy percent membership of youth, women or persons with disabilities.
- If the business is a partnership, get a partnership deed from a lawyer, if it is a limited company a CR12 from the registrar of business names and for a co-operative, its constitution and membership.
- Acquire a PIN and tax compliance/ tax exemption certificate from the Kenya Revenue Authority website or offices. Apply for tax compliance on [www.kra.go.ke](http://www.kra.go.ke) or [itax.kra.go.ke](http://itax.kra.go.ke). If there are any issues, go to your nearest KRA branch.
- Acquire all required certifications from professional bodies and authorities such as National Construction Authority, Insurance Regulatory Authority, ICPAK, LSK, National Council for Persons with Disability, NEMA, ERC and all other authorized bodies.
- Open a bank account for the business and acquire a bank reference from the bank.
- Access the website [www.agpo.go.ke](http://www.agpo.go.ke) and register online or visit your county government headquarters and register there.

For many who may want to understand the steps of how to apply for AGPO certificate, the following are simple steps:

- Log into [www.agpo.go.ke](http://www.agpo.go.ke) and click on register.
- Create account by filling in personal details, email address and by setting password. Once this is complete, an activation link is sent to your email account.
- Open your email and check for the activation email in the inbox or spam. Activate your AGPO account by clicking on the link sent to your email address.
- Log into the AGPO system under returning user Page using email address and the password you had set in step 2 above
- Register business by providing information in the required fields and attach the required scanned documents.

#### **Required Documents for registration of YAGPO**

For you to qualify, you will need the following documents:

- Identity Card(s)/Passport(s).
- Business Registration Certificate/ Certificate of Incorporation.
- PIN/VAT Certificate.
- Tax Compliance Certificate.
- Partnership Deed for Partnership Business.
- Memorandum/Articles of Association and CR12 mandatory for Registered Companies.
- For Construction Category - Letter/Certificate from the National Construction Authority, Energy Regulatory Commission or any other Authorized Public Technical Body

Once you are done the certificate is processed within 2-3 days of government working days.

Do not be left out of these opportunities. Government contracts are highly budgeted for and the youth can access 30%.



# Investments Club of Uganda Appreciating ACL for Continued Support

## SUMMARY

ACL has a total of 87 members out of which 32 are investment Groups and others are Corporate, Hondari members and youth groups. The Chama holds monthly training meetings, and discussion of other matters like member expectation management.

Our partnership with ACL dates back to 2011 when Mr. Tony Wanaina then our consultant on establishing and promoting investment clubs in Uganda, introduced us to KAIG and later to ACL.

This friendship has continued strengthening all through. In 2013 we hosted Mr. Mwai Wa Kihu (chairman ACL) as chief guest at the launch of the Investment Clubs Association of Uganda (ICAU) that was officiated by the then prime Minister.

In June 2016, CICS Secretariat,

the promoters of Investment Clubs in Uganda decided to visit ACL to appreciate progress made so far, and pick some lessons on what can be done in Uganda.

The visiting Team was composed of Dr. Peter Ngategize, the National Coordinator of CICS secretariat as the team leader, Mr. Mubiru Richard (Investment expert) and Mr. Kalebi Rogers from Uganda's BPO association. At ACL the team met with Mr. Mwai Wa Kihu the chairman and John Mark Rukungu, the administrator of ACL. The two gave a brief history of Chama movement in Kenya and why





Above, a Bamboo farming venture.  
Below, CICS Secretariat study team headed by Dr. Peter Ngategize (3rd from right) with NSE Team headed by CEO, Mr. Odundo Geoffrey (3rd from Left).



The team learnt that given its resilience, Bamboo can be grown almost every place on earth. Some of the key uses of Bamboo that we learnt included; processing bamboo leaves into herbal tea, used for making charcoal and activated carbon, poles for several uses, food, furniture and many more.

ACL was established. The team learnt that ACL was established as an investment arm of the Kenya Association of Investment Groups (KAIG). Its main function was to scout investment opportunities for KAIG member groups. This is one of the lessons that Uganda picked

and following up on to ensure that the Investment Clubs association of Uganda (ICAU) establishes its investment arm.

ACL has a total of 84 members out of which 32 are investment Groups and others are Corporate, Hodari members and youth groups. The Chama holds monthly training meetings, and discussions of other matters like member expectation management. ICAU however still has few members around (30 Investment clubs) but we expect membership to grow with the planned establishment of a Chama of chamas in Uganda.

At NSE the team was received by NSE CEO Mr. Geoffrey O. Odundo, accompanied by Ms, Lina A. Nga'inja head of Cash markets, and Mr. Fenon Mwenda, GEMS & Data Services Manager.

The team was more interested in successes achieved such as being the first fully automated and self-listed exchange in East Africa,





The team from Uganda with Mr. Mwai (2nd left) and Bamboo farm owner (in the middle)

successful listings on GEMS platform, among others. While there we also learnt that NSE plans to expand into securities especially in REITS targeting Real estate and rentals, Derivatives among others.

At ACL's Ethical Fashion in the EPZ, we got a warm welcome from the ladies who knit and sew beautiful high end products. The level of creativity and ability to fuse modern fashion with local art and artisan work was simply exhilarating experience, no wonder the company is able to win contracts with leading global fashion lines.

At the Incinerator located in the EPZ, we learnt that there are great opportunities for waste management services in both countries. The initial capital requirements would be high for an individual investor but can easily be pooled together by either an investment club or a chama of chamas.

### Bamboo farm

The bamboo farm was simply a mindset teaching to appreciate bamboo with its more than 150 uses. The farm sells bamboo seedlings and trains their customers on the best bamboo farming practices. The team learnt that given its resilience, Bamboo can be grown at almost every place on earth. Some of the key uses of Bamboo that we learnt included; processing bamboo leaves into herbal tea, used for making charcoal and activated carbon, poles for several uses, food, furniture, art works, etc.



One of the bamboo species grown at the farm, this type can be used for harvesting poles.

We appreciate the friendship CICS Secretariat and ICAU have with KAIG and ACL and hope to have this partnership grow into big, better and strategic in nature.



# **Large Scale Agroforestry Projects; The best way to create sustainable wealth**

---

**Africa Plantation Capital's plans are to grow bamboo, process it into fiber and export it via its global existing network to Asia, following a vertical production line model.**

---

# Creating Sustainable Wealth Through Agroforestry

In the last decade, investing in property has been dominating the investment interest of most Kenyan families as huge profits have been made in several cases. Real estate is good but Agriculture has been supporting the country's growth for centuries. One of the benefits of agriculture business, when done properly, is that it is combining the two stronger sectors of the economy. The property sector and the agriculture sector. A well planned agriculture business will produce capital growth together with remarkable high annual income and very low risk. This is an opportunity that every family should check out and why not include in their portfolio.

Kenya is the center of the East Africa Region, and has the largest, most diversified economy in East Africa. Agriculture is the backbone of Kenya's economy and central to the Government of Kenya's development strategy. More than 75% of Kenyans make some part of their living from agriculture. The sector accounts for more than 30% of Kenya's gross domestic product (GDP) according to World Bank.

While other sectors of the economy like the Real estate are growing fast, the agricultural productivity is stagnating. Investors prefer to invest more to the "easy" ways of making money like the property market or the stock market than to invest in farming and agriculture. With low investment in infrastructure, Kenya's agriculture is mainly rain-fed and is entirely dependent on the bimodal rainfall in most parts of the country. There are very few large scale agriculture projects in the country and most of them are very successful. Kenya's agriculture is predominantly small-scale farming mainly in the high-potential areas.

Production is carried out on farms averaging 0.2–3 HA, mostly on a commercial basis. This small-scale production accounts for 75% of the total agricultural output and 70% of marketed agricultural produce. This sector of the economy has great potential that is waiting to be explored.

In the meantime, these facts about Kenyan agriculture sector poses a number of challenges to the sector. There is a huge opportunity to create sustainable wealth via agriculture and farming projects but first we need to identify the challenges and find ways to face them.

Kenya is the center of the East Africa Region, and has the largest, most diversified economy in East Africa. Agriculture is the backbone of Kenya's economy and central to the Government of Kenya's development strategy. More than 75% of Kenyans make some part of their living from agriculture. The sector accounts for more than 30% of Kenya's gross domestic product (GDP) according to World Bank.





A Mature agarwood Tree

1. **Climate change;** most farmers blame it for poor production and a reason why many people avoid getting involved with farming. The effects of climate change has been felt by the farmers due to dependence on rain-fed agriculture. The changing and unpredictable raining seasons has greatly affected productivity from farming activities. In reality, what is needed is a properly planned investment in infrastructure that will provide a fully weather independent irrigation system. It is estimated that intensified irrigation can increase agricultural productivity fourfold and, depending on the crops, yields and income can be multiplied 10 times. Irrigation though requires a considerable investment that most of small scale farmers are not willing or cannot afford to take.
2. **Integrated agricultural extension services;** Knowledge is the key to success and agricultural extension service plays a key role in disseminating knowledge, technologies and agricultural information, and in linking farmers with other actors in the economy. It is required in order to transform subsistence farming to a modern and commercial one that will increase productivity and sustainability of the sector. However, there is limited access to extension services in most parts of the country and this has hindered most farmers from keeping pace with changing technological advances. Small scale farmers also cannot afford to pay for consultancy or other advisory from experts. This lack of information and knowledge is minimizing the possible returns.
3. **Use of outdated technology;** although Kenya has a well-developed agricultural research system, use of modern science and technology in agricultural production is still limited. Inadequate research-extension-farmer linkages to facilitate demand-driven research and increased use of improved technologies continue to constrain efforts to increase agricultural productivity as farmers continue to use outdated and ineffective technologies. Using modern technologies, apart from knowledge, requires also investment and funds that small scale farmers cannot afford to pay.
4. **Pest, Diseases and Use of inputs;** Pests and diseases have continued to cause a lot of losses to farmers. This is caused by lack of information by the farmers on how to control these diseases. Post-harvest losses is caused by poor handling and storage facilities. Most farmers lack information on the right type of farm inputs to use and the appropriate time of application of the same. The cost of key inputs such as seed, pesticides, fertilizer, drugs and vaccines is high for resource-poor farmers. Most farmers therefore do not use them. This greatly reduces the yield that the farmers get and in some cases can even be catastrophic. Large scale projects have onsite agronomists and experts who monitor the plants-crops, using the correct pesticides, fertilizers and other farm inputs minimizing any possible damage and maximizing the returns.
5. **Soil nutrient deterioration, economy of scale;** Running a farm properly requires a lot of direct and indirect costs. Small scale farming attracts small margins and does not allow farmers to take proper care of their farm. The small size units, reduction of fallow periods and continuous cultivation have led to rapid depletion of soil nutrients, declining yields and environmental degradation. Large scale projects are



A mature Sandlewood tree

following the right farming practices restoring the soil nutrient, giving time to the soil to recover and maximizing their returns.

- 6. Nonintegrated farming production;** Small scale farmers are obliged to “share” their production returns with several other people since they need to hire others to harvest and definitely cannot process their production to a final product. That causes the actual farmer to receive only a small fraction of the total yield of his farm as others have to make a profit too. This causes high losses to farmers. Large scale projects follow what is known in the industry as a “vertical production line”. The project is fully managed from A to Z until a final product is produced and distributed via a sales network for sale. For example, imagine if a farmer instead of only growing maize, had the sources to harvest, process in his own mills, pack and distribute a final product, how much money would he/she make... But of course that is not possible for a small farmer.

This list of challenges facing small scale agriculture and farmers is not exhaustive. While the challenges are great, so are the opportunities.

The way to go is clear. In business size matters and big projects are the solution. Taking advantage of the economy of scale that large projects offer as buying big parcels of land will minimize the cost of farmland per acre and choosing the right crop to grow will provide the necessary ingredients for a profitable business. In the world today, there are big corporations managing farms and creating huge returns year after year. They have the size and the capacity to invest in technology, market analysis, innovation and research in order to maximize the returns they produce from their agro forestry projects. Some of these firms like Africa Plantation Capital believe in partnerships and they are giving the opportunity to individual investors to partner with them in different ways.

One of the best ways to do so is the option they give to investors to purchase a ready arable fully organized farm or plantation which is 100% taken care of and managed by the corporation and insured against any possible natural disaster. Obviously, they will charge you a management fee but the benefits you get overcome any cost you might have as in most cases you only pay their fee upon production.

The size of the corporation and its structure will determine the way you can make money. In several cases, they have a vertical production line and they will almost guarantee you a minimum price for the crop they will produce on your behalf. The possibilities are unlimited and like the saying, partnering with a big player is more cost effective than trying

to run a farm on your own.

Africa Plantation Capital, a member of Plantation Capital Group, is investing in Kenya's most promising sector. The company's plans are to grow bamboo, process it into fiber and export it via its global existing network to Asia, following a vertical production line model.

Africa Plantation's capital first investment in Kenya is projected to have a total size of 5000 acres in 5 years' time in the Coastal Region . Phase one is ready to take off and the company's target is to establish its Africa Headquarters in Kenya.The Plantation Capital group is going to finance extensive research, working together with the experienced Kenyan authorities such as KEFRI as well as private laboratories to bring in several other types of agroforestry species that are not native to the African continent, such as Agarwood and Indian Sandalwood as it expands further its operations.

Currently the group has over 120 plantations under management in four continents offering plantation management services for more than 8 different type of crops. Africa Plantation Capital's plan is to offer the opportunity to individuals as well as companies or investment groups to partner with the company in its Kenyan projects offering fully managed income creating farms. It is the group's policy to only offer a fraction of the available acreage of its operations to third parties so only a limited number of partners will have this opportunity.

Large scale agroforestry is the way to produce wealth all around the world. All you have to do is to choose the right way to do it. Doing it alone or partnering with an agricultural corporation is the way to go. Africa Plantation Capital's experienced team is always available to advise as well as to welcome you as a partner to our projects in Kenya or around the world.

**Kosta Kioleoglou**

*REValuer by Tegova*

*Civil Engineer Msc/DBM*

*R.M.D for Africa Plantation Capital*

Below,  
Agarwood  
seedlings ready  
for planting.





# Wealth creation is risky business

## IN SUMMARY

Neither you nor your broker has control over what is going to happen in the future of that company.

That is the risk you take in the process of growing your wealth. It could be shares, property, businesses or any other investment ... whatever channel you use, wealth creation comes at a price.

That price is risk. You can either lose money or make money; it is not automatic that investments will yield dividends. And apart from monetary risk (losing money), there are other risks associated with wealth creation.

## WACEKE NDUATI OMANGA

Everybody wants to make money, but if there is one truth about creating wealth you need to know, it is that you have to be willing to lose money if you want to make money.

You can't create wealth in a comfort zone, yet that is what a lot of people want to do. They are afraid of the risk that comes with wealth creation, and nowhere is this more evident than in the stock market, as I learnt in my other life when I worked as a stockbroker.

I would often be at the receiving end of clients who got upset at me when a share they had bought went down in value. What they didn't understand is that your financial advisor can show you the research to help you make decisions.

She can tell you why she thinks a particular share is a good buy, but she cannot control the forces that make the share price fluctuate. The research an advisor gives you (or you even do for yourself) is to the best of his knowledge at that particular point in time.



Neither you nor your broker has control over what is going to happen in the future of that company. That is the risk you take in the process of growing your wealth. It could be shares, property, businesses or any other investment ... whatever channel you use, wealth creation comes at a price.

That price is risk. You can either lose money or make money; it is not automatic that investments will yield dividends. And apart from monetary risk (losing money), there are other risks associated with wealth creation. The first one is responsibility. You are going to have to take the risk of making decisions and being responsible for the outcomes. You can't blame the stockbroker for losing your money. You made the decision to invest in that particular share. Whether your decision was informed or uninformed, you need to take responsibility for it. Nobody held a gun to your head and told you to put your money in a particular investment.

Nobody forced you to take that loan or to spend beyond your means. Responsibility is painful because it means that you accept the part you played. At the same time, it is very necessary because you finally get your head out of the sand. Even if you did your best to make a good decision and it did not work out, you get to understand and acknowledge that loss is part of the process. Loss doesn't mean you don't try again. That's back to playing the very popular role of the victim.

### **FAILURE IS INEVITABLE**

To put it bluntly, you are going to risk failure in order to create wealth. The people who have "made it" have failed in some way. Not everything has been smooth-sailing.

Have an honest conversation with them about their journey and you will see that. What matters is how you look at failure. It doesn't mean that you shouldn't try again; it means that you now know what to do and what not to do in your next attempt.

You are also going to run the risk of conflict with people as you do something different. How many times do we doubt or stop ourselves because we are afraid of what other people will think? Not everybody is going to be happy about what you want to do. I have a friend who has scaled significant heights in her career. To get where she is she had to make strategic moves that left some people in her life upset.

At the same time she knew who she needed in her corner and made an effort to cultivate those relationships. I learnt a great deal from her example. We need people, but not everybody needs to be in your corner at all times. Let us stop seeking affirmation from the wrong people. Are people who have never done that particular investment or run that business advising you?

Are you hinging your career moves on what your colleagues say? Are you worried about how society will look at you if you leave that high-flying job to start farming?

Are you worried about what your friends will say if you can no longer afford to drive that car, so instead of creating wealth you are doing everything you can to keep driving the car?

You need people because wealth is not also created in isolation, but get the right people you can have sober, honest and respectful discussions with about what you want to do. This could be your spouse, immediate supervisor, business partners, etc. However, don't get caught up in trying to please everybody before you make moves.

Lastly, I have come to understand that wealth creation is beyond what shows up in your bank account. Money is good, but that's not all there is to it. You need to allow for your character to be stretched.

That is what is happening when you learn to deal with failure and conflict, to speak up for yourself and manage money in a disciplined way, etc. The real value is in the process not just the destination.

That's why people who make money overnight tend to lose it. They don't have the character to sustain it. On the other hand, whilst those who have engaged in the process lose, they still manage to get back on their feet. Wealth is risky business. Are you bold enough to give it a try?

*WACEKE NDUATI IS A TEACHER / COACH ON PERSONAL FINANCIAL MANAGEMENT AND WEALTH CREATION. SHE IS THE FOUNDER AND DIRECTOR OF CENTONOMY LIMITED.  
talkcents@centonomy.com*



**Providing efficient, value added services in the promotion of formal organization, best practice and profitable investments for investment groups.**

[www.kaig.org](http://www.kaig.org)

The Kenya Association of Investment Groups (K.A.I.G) is a non-profit making organization registered under the Societies Act and is the umbrella association for all investment groups in Kenya and in the Kenyan diasporas. We provide a unique forum for the hundreds of investment groups all over Kenya to network and work together to achieve their objectives.

## What We Do

- Promoting the interests of investment Groups before policy makers and players in the financial and capital markets.
  - Dissemination of information on investment opportunities available to your groups.
  - Representation at and reports from investor briefings: an essential source of information from any investor.
  - Organising local and International Tours.
- Providing members with a forum to network and synergize their activities for their mutual benefits.
- Providing access to the latest industry research and valuable insight from experts with years of experience.



+254737 773106  
+254707 180565



admin@kaig.org



1st Floor, Room 103  
Mercantile House (next to Cianda House)  
Koinange Street

**THE CHAMA HANDBOOK**



Group Name:  
Amalgamated Chama Ltd  
Founded: 2010  
Members: 84 (32 CHAMAS)  
Type: Incorporated (LLC)  
Portfolio Value:  
KES 200 Million

**We started** this Chama of Chamas as a request from the KAIG members after they were asked for feedback on services provided. They noted that they still had disagreements when investing in their groups and asked us whether we could do it on their behalf. The board of KAIG decided to form a vehicle where Chama's could outsource their investment making process.

**Our members** now include 84 Chamas and Hodari-A Special Investment Vehicle that was created as a Pan-African fund that would recruit members from the rest of the continent and those in the diaspora. These individuals are not required to be part of a Chama but allowed to have direct shareholding. It was originally meant for those outside Kenya, but many of our friends who didn't care for Chama's asked to join as well. It is now open for any individual.

**Our Seed capital** came from a core group of individuals who formed a founder's Chama. Their role was to recruit and market to Chamas and individuals. Each founder was required to put in KES 1 million including the four directors on the board. We ended up raising KES 25 Million to begin the fund. Meetings for the board occur bi-monthly. The promoters and task force committees meet monthly whilst the shareholders meet quarterly.

**We manage** our fund through the board, task forces or committees and a secretariat. We rely heavily on in-house expertise and skills and utilize them to our advantage. The taskforces are skilled based i.e. if we have a real estate taskforce of 20 experts in that field and a private equity taskforce. Once, in a while we engage investment advisors.

**“Until a nation is saving a minimum 25% of its GDP it will not achieve 10% annual rate growth”.**

**Our contributions** are a minimum of KES 10,000 monthly. A registration fee of KES 20,000 for Chamas and KES 50,000 for Hodari Individuals is levied. Also each member must buy a minimum share capital of KES 100,000. The more money you put in, the more shares you acquire.

**Our Portfolio** is in several companies including EnviroSafe Ltd (Incineration Business), Chama Insurance Agency, Metropol East Africa, Ethical Fashion EPZA Ltd (Fashion Accessories Business). The portfolio size is more than Ksh. 200 Million.

**Our Best Investment decision:** The purchase of 600 acres in Kimana near Amboseli where we intend to develop an eco-lodge – ACL Holiday Resort, Amboseli.

**Our Worst Investment decision:** We are in the initial stage of investing so we haven't made any missteps.

**To Join ACL** one needs to incorporate, join KAIG, register with ACL, buy shares and do continuous investment to increase their stake. Hodari Individuals have to be vetted by the Chairman for entry.

**Our main challenge** has been capital mobilization as it hasn't been as fast as our target goals. Once you put in Ksh. 120,000, you still need to do continuous investment and it doesn't have to be the minimum KES 10,000. We need to get our members to contribute more.

**Advise To Chama's Setting Up:** Be serious about saving and investing. As a general rule, 30% of all your income should be set aside as savings. Of that 30%, put most of it into a Chama or an incorporated company that has a perpetual life. If you leave yourself totally in charge of your 30% savings, there are high chances that you won't succeed in multiplying it. Money needs to work for you whether you are asleep or awake.

**Our Socio-Economic Objective** is to promote saving and investing in our society. Until a nation is saving a minimum 25% of its GDP it will not achieve 10% annual rate of growth. It's only human beings that develop a nation. We also intend to impact the communities where we do business. We started ACL Kimana Community Library where we bought land and the students in the area are very happy.

## In ten years

ACL intends to be listed on the securities exchange. Our shares will be on demand on several securities exchanges in Africa and we envision ourselves as a household name in the investing community.

# KAIG AS THE CURRENT AND FUTURE ENTITY FOR CHAMPIONING INVESTMENT GROUPS PLIGHT



Investment Group members attending a Chama training session.

KAIG has been at the forefront in ensuring legislation takes into consideration the impact on Chamas.

## BY KAIG TEAM

Since its inception in 2007, Kenya Association of Investment Groups has been at the forefront in championing the plight of investment and welfare groups in Kenya. Before its inception, there was a big information gap among Chamas. There existed no entity advocating for Chamas or bringing them to a consensus on essential matters. So far the Association has grown in leaps and bounds. Over the years the organization has established presence around Kenya and also grown its membership as well as helping in formation of an umbrella company for Chamas called Amalgamated Chama Limited, ACL, ‘Chama of Chamas’.

Currently the Association is in the process of forging strategic partnerships with entities that provide products and services as well as capacity building for Investment Groups. Over time these partnerships have transformed the way the Association relates to Investment Groups. Every year, thousands of



Investment Group members attending a Chama training session.

people in Investment Groups get trained or gain access to information. Individuals Chamas are being given individualized attention as each faces specific challenges during Chama clinics. In collaboration with Chama Coaches, the Association consults for Chamas and SMEs.

Following an increased appetite for information and the need for growing of investment together, the Association helped to form ACL in 2009. KAIG identified the need for expertise in fund management by analyzing Chama queries and resolved to step in with a solution. Members agreed to pool their funds together for reinvestment through expertise in ACL. Over the years, the company has pooled together millions and invested the shareholder's money. ACL has interests in the Financial, Insurance, Property, Agribusiness, Waste Management and High End Beauty product that has a combined value running into hundreds of millions of Kenya Shillings.

KAIG has been at the forefront in ensuring legislation takes into consideration the impact on Chamas. Previously, the association has been consulted by authorities to ensure regulations being put in place are not retrogressive to development being realized within this segment of economy. Currently the Association regularly contributes input on the state of Chamas, challenges and trends.

KAIG's immediate and long term future plan is to have an established presence in all forty seven counties in Kenya. At the moment the Association manages its members in the counties using its agents. Through its partnerships, it is able to spread its support into the county. Besides its presence, there are more efforts to have contacts with new groups on the ground to ensure its goal of bringing them together is achieved. By taking part in county forums for business and investment, the Association ensures members stay informed. The goal is to help these Chamas unlock their potential and realize their vision. In the process of bringing groups together, KAIG also plans to be involved in helping Chamas diversify their knowledge on investment avenues to not only include merry-go-round and land buying but also investment in stock, money markets, government papers and agribusiness.

In recent years there has been a growing interest in pooling funds from Chamas by foreign investors. The Association has been at the forefront in creating the gateway to linking these two parties. Additionally, there are plans to diversify this avenue to ensure KAIG is the preferred first point of contact for foreign investors and foreign based investment groups. Due to an ever increasing foreign remittance into the country, the Association seeks to help investment groups repatriating their money back into the country to find suitable portfolios for investment.

In the long run the Association's mission is to ensure provision of well-tailored value added services to the ever increasing investment groups and promoting best practice that will ensure Chamas grow their investment to realize their own vision. Through devoted involvement of all stakeholders, KAIG will strive to ensure its mission is achieved.



**Plan Smart**  
PROPERTIES

**189,500/=**



**INVEST IN YOUR  
DREAMS**

## **Lotikoshi Plains**

50 x 100 ft plots in Tinga on Magadi Road, 33km from Kiserian

Ready title deeds

Amenities including water, electricity, fast-growing town centre

**Flexible payment plans**

For more information:

SMS '**SMART**' to **22384**

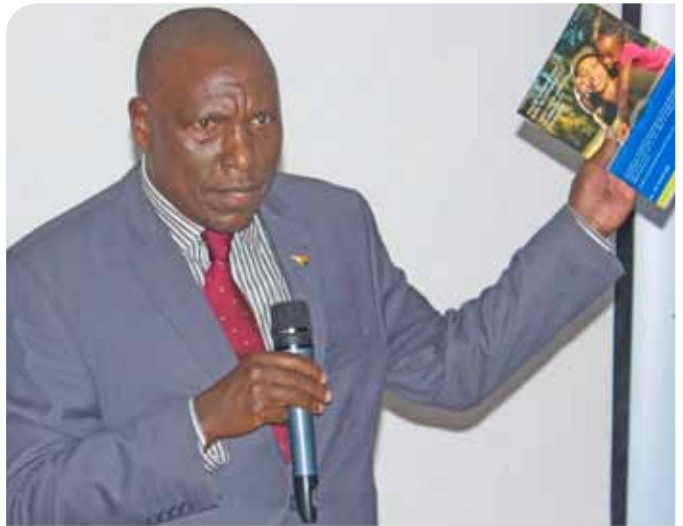
Call **0700 518 843, 0705 188 433**

EMAIL: [INFO@PLANSMARTPROPERTIES.COM](mailto:INFO@PLANSMARTPROPERTIES.COM)



**Clockwise From Top Left:** Mr. Tom Kinyua Head of Sales at PRC giving investment tips. Mr. Samuel Chasia Director Associate NIC Capital speaking to Chamas Real Estate Investment. Chamas listening to speaker's presentations. Mr. Tom Kinyua answering questions from the audience. Mr. David Luwigi Property Manager GenAfrica Investment addressing audience





**Clockwise From Top Left:**  
 KAIG Vice Chairman Mr. Vincent Abwao appreciating attendees during KAIG Handbook 2nd Edition. KAIG Chairman Mr. Patrick Kariuki exchanging agreement documents with OLX Country Manager Mr. Peter Ndiang'ui. ACL Chairman Mr. Mwai Kihu presenting Chama handbook to the audience. Formerly launching the KAIG Handbook from left KAIG Chairman Mr. Patrick Kariuki, ACL Chairman Mr. Mwai Kihu and former Britam CEO Edwin Dande. CEO of Raspberry Haven Ms. Hope Mwinzi giving her note.



**Clockwise From Top Left:** KAIG Director Mr. Patrick Wameyo giving investment tips during a training forum. Chama members listening during a forum. Attendees in an interactive session during a forum. Chama Members register to be members of KAIG. Members of in investment group go through presentation material while they listen to speaker.



# INTEREST RATE CAPPING LAW; WHAT CHAMAS MAY EXPECT

BY JOSEPH MATHENGE

In August 2016, MP's passed into law a bill capping the cost of lending by banks. Following suit, the president appended his signature approving the law. Among other things, the law requires that all banks charge an interest of 4% above Central Bank's benchmark rate. Following the announcement, banks announced in tow their commitment to observe this new regulation while on the other hand the Central Bank of Kenya gave all banks fourteen days to adhere failure to which there would be penalties and related jail terms to the executives as stipulated in the law.



As a result of the high level of control on the interest rates, investment groups, SME's and individuals will be viewed as high risk entities. Most of these entities will hence be frozen out of the lending room regardless of the availability of liquidity.

As a result, passing of this law will have a bearing on the ability of Investment groups to start investing or grow their investments. It may also become a signal to alternative sources of funding available though previously ignored. Through reactions and analysis from various quarters in Kenya and around the world, the following are some of the eventualities to befall Investment Groups in the wake of these changes.

***A reprieve on the cost of existing loans;*** Following the announcement, some of the lenders have already announced observing the new law for both existing and new loans. This may well be the first benefit enjoyed by investment groups since interest rate payable will be lower. Increased competition among lenders; assuming that all banks will observe the new law while simultaneously holding onto the now perceived high risk market of Investment Groups and SMEs, most lenders will be forced back to the drawing board in order to find new ways of marketing and selling loan products. This cheap availability of loans will increase supply of the previously expensive loan products into the market. If this comes to light of day, then investment groups and SME's will be spoilt for financing choice.

***High Excitement and Rush by less informed Investment Groups;*** On signing of the law, the public has been basking in excitement applauding the president for this popular move. His Excellency the President seems to have struck the right chords with Kenyans and rightly so by raising expectations of many. Such a level of excitement will influence some of the groups into making hasty borrowing without seeking counsel on the law's implication. Additionally, some Chamas will end up borrowing without making an informed prior plan on the use of money. As a result, the level of risk will be higher while the probability of defaulting or losing the capital increase as well.

***Lenders introduce other Charges;***

One of the first impacts of interest rate capping will be an almost immediate effect on lenders' profitability. As a matter of urgency most lender will have strategies to cushion this effect. Investment Groups may get introduced to new fixed charges on loans and financing being borrowed. Charges that were previously not part of borrowing, may now be footed by borrowers. In the end such charges will have done little in lowering the cost of borrowing.

***Increased security requirements by lenders;*** In recent years, most lenders have been reducing their high demands for collateral on borrowing. This may possibly change to cover for the increase in the perceived risk of borrowers. Borrowers may start experiencing higher and stricter requirements for collateral.

***Low lending to SME's and Individuals by Banks;*** As a result of the high level of control on the interest rates, investment groups, SME's and individuals will be riskier entities. Most of these entities will hence be frozen out of the credit section in preference of less risky options. Lenders will be seeking alternatives such as treasury bills, government papers and large corporates.

***Slump in Innovation of Chama products by commercial banks;*** In case of the above scenario, the efforts of most lenders will be redirected from designing exciting products for Investment groups and SMEs to jostling for the limited treasury bills and bonds and enticing big corporates to ensure they stay afloat on profitability. The effect will most negatively be felt by groups who need large loans only available in large lending institutions.

***Remain of Status Quo in Borrowing by Investment Groups;*** In Kenya most Investment Groups and a few SME's rely on Microfinance Institutions (MFIs) and Savings and Credit Cooperatives (SACCOs) for borrowing. It is likely that the recent gains by banks in introducing products targeting Investment Groups may stagnate or even recede due to the new risk profiling. If this happens, it is likely that Investment Groups and some SMEs will still use MFIs and SACCOs as their primary source of financing. Also, those that will be turned away by banks may have to borrow from these institutions.

***Reduced earnings for shareholders of listed lenders;*** There exists a big number of Investment Groups who have invested in public listed lenders such as KCB, Housing Finance, NIC or CIC. Due to the changes in interest rates, the profitability of some of these institutions will be lower than previously projected. In effect, earnings per share and hence the dividends will be lower.



# CHANGING INVESTEMENT LANDSCAPE FOR CHAMAS

BY KAIG TEAM

More than 50 years ago, Chamas amorphously existed in Kenya albeit in small scattered numbers and for varied reasons. Speaking to the experienced Amalgamated Chama Limited Chairman, Mr. Mwai wa Kihu, the existence of Chamas was mostly informal and their objectives communal and short term.

Women in neighborhoods organized themselves in groups meant to assist its members in times of need. Some groups would fetch grass and special soil meant for thatching and building houses. They thatched or repaired the roofs and artistically marked the walls of each member's house in turns until all were done. Back then, this was a woman's responsibility. Some groups would help each other during harvesting season.

A few years into the independent Kenya, the model gained attention and existing groups grew to include more involving objectives. Organized groups geared towards serving the collective and individual welfare of members were formed. Money started playing part and rules and regulations were formed to govern contributions, management and expenditure. During this time a concept that is commonly known as *merry-go-round* came up. Members would equally contribute money on a regular basis (monthly, weekly) which was given to one or a few members till everyone benefited.

Also farmers *Cooperatives* gained popularity and helped strengthen formation of groups. Groups of farmers would join hands and join a farmers' cooperative. The sole purpose being production and sale of cash crops. Despite a low risk

appetite and lack of knowledge on investment, some groups started buying assets or opening businesses.

Fechim Investment Limited, an investment company in which Mr. Mwai wa Kihu also serves as a director started as a welfare group in the early 90s. It wasn't until 1994 when it was formally registered as a company. During this time other groups had also started taking shape and moving away from the welfare model to formalized investment groups registered as companies. Additionally members could now contribute capital unequally according to one's ability which accelerated growth. Around this time, companies like Transcentury, Centum and most recently Amalgamated Chama Limited came up. Investment groups now embraced risks and could now engage in capital intensive ventures.

From the early informal existence of Chamas to the now continuously improving and formalized ones, the following five factors have helped change the landscape and still aids in its evolution. Additionally these factors are critical for people wanting to form and accelerate an investment group to its success.

1. **Information Availability** - Over time information has become more and more available for investment groups regarding formation, formalization, growth, structuring, investment and case studies on what has previously worked or not worked. On the other hand, the work place, neighborhoods, religious centers and education institutions are continuously serving as places of information gathering and points of origin for investment groups.
2. **Government Involvement** - Initially, the government started by promoting groups of farmers through its ministry of co-operatives and its parastatals. Currently the government has set up structures meant to help groups in investment, funding and mentorship.
3. **Technology** - Over the years, it has always been a challenge to find or pass information since the current technology was non-existent. In the current technology and information age more solutions to aid Investment groups in formation, management and financing are in place. Courtesy of IT, information is now available on the internet, application tools (including mobile applications) are now available to help in management and financiers are now more than ever using technology to reach out to this market niche. Secondly members of a group can now easily communicate, meetings can now be held on skype and minutes instantly shared, groups can now gather on whatsapp and ad hoc meetings done there without physically meeting. In the same breath, groups can now manage contributions and funds easily thorough internet banking and mobile solutions. Members deposit money to a common account and get statements on a monthly basis improving accountability. On trading platforms, it is now conveniently possible to buy and sell stocks via the internet. This previously involved a lot of paper work and took a long period of time to be effected. The future looks bright for groups as technology is providing more and more solutions.
4. **Increased Sources of Finance** - Unlike before when the financial sector was more conservative and Chamas were viewed as a risky market, several financial sector players are scrambling for this growing market niche. Chamas are increasingly seen as high prospective clients. SACCOs, Banks, Microfinance Banks and now telecommunication companies are coming up with numerous products of loans, savings and communication to entice Chamas. Of Importance to note is that insurance companies are joining in the fray. Chamas are now spoilt for choice.
5. **Diverse Investment Options** - Now more than ever before, investment groups have a wide range of portfolios to choose from courtesy of economic expansion, increased availability of capital, expanding infrastructure and information availability. Today Investment groups are open to invest in securities, money markets, real estate, agribusiness, IT, manufacturing and many others in and out of the country.



## Credit Cards driving E-commerce adoption across market channels

### BY EQUITY GROUP

The introduction of the American Express Cards in the market by Equity Bank has brought a new dawn in the graphic design industry since it's made it easier to purchase images online using a globally recognized credit card.

American Express card holders get rewarded for using their cards - for every Ksh100 spent you earn a point which you can later redeem into different amazing prices.

This comes as credit card use gains a foothold in Kenya, particularly on the fast growing E-commerce platforms.

Through the use of E-commerce, which is defined as the use of technology to conduct financial transactions online, E-commerce has not only fueled the



**/ grow. protect. invest.**



From Left, Equity Bank CEO James Mwangi, Treasury Cabinet Secretary Henry Rotich and American Express Vice President and General Manager for Turkey, Middle East, and Africa Mr. Andrew Stewart having a light moment.

Below, From Left, Equity Bank CEO James Mwangi and American Express Vice President and General Manager for Turkey, Middle East, and Africa Mr. Andrew Stewart during the Equity Bank Express card Launch.

growth of the number of people that access the Internet, but spawned the emergence of web-based retail.

The use of E-commerce in Kenya has meant that not only are businesses able to now participate in international value chains, increasing market access and reach but also able to improve efficiency both internally and in the market as a whole, ultimately lowering transaction costs. Belief in such benefits, like lower communication costs which enable people to reach wider markets, as well as the fact that 13 million Kenyans routinely access the internet has led to the adoption of E-commerce for online shopping.

The American Express Cards have brought an evolution of the credit cards use in Kenya as they are loaded with additional insurance cover benefits to the card holders like, travel accident cover, travel inconvenience cover and personal belongings theft cover.

Credit card payments are quick, easy to use and cheaper as you can make a purchase or any other transaction from your preferred location.

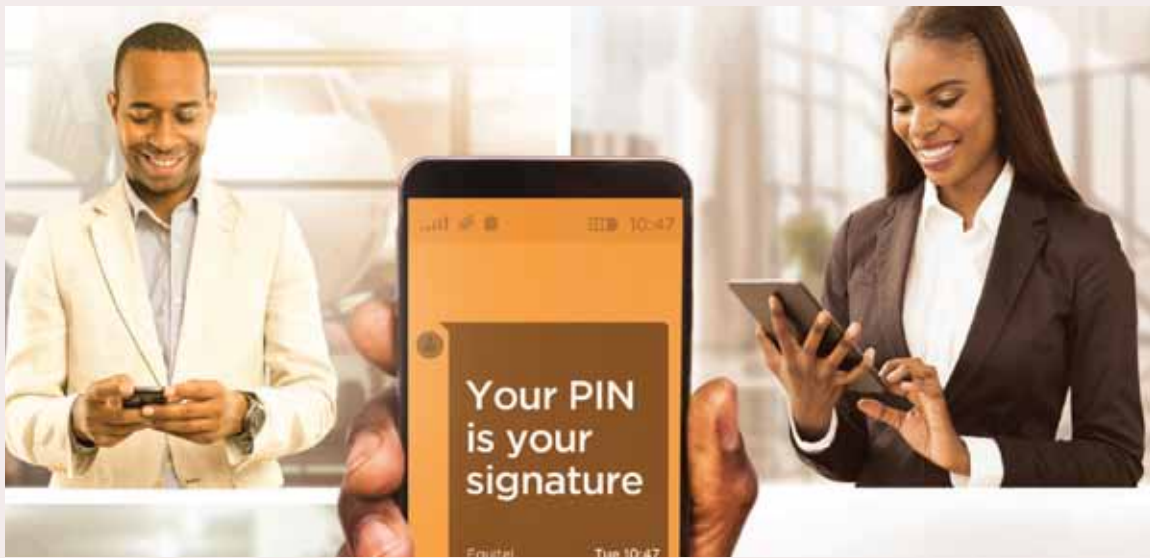
Transactions can be carried out at any time from any place, simplifying the customer-retailer process by ultimately phasing out the middleman.

With the aim of tapping into the American Express globally known brand, different merchants have signed up to accept the cards in their point of sale terminals so as to attract both international and local clientele.

It is time to get an American Express card and enjoy online shopping with ease.



# Equitel enhances convenience and security with new multiple user feature targeting groups & chamas



Through the Multiple Approval feature, the group can perform transactions such as, Sending money to an Equity Bank account for FREE or any other bank account, sending money to any mobile money (e.g. MPESA, Airtel money & Orange money), Paying bills for FREE, withdrawing cash and checking the group account's balance.

Do you find that whenever you need to make a payment or withdrawal from your joint or group account, you have to look for one another and physically meet, leading to major delays and inconveniences?

What if you could operate your joint or group account on your phone? What if the officials or signatories could 'sign' for transactions right on their phone? Wonder no more because now they can!

Equitel has introduced the innovative "Multiple Approval" feature that eliminates the need for account signatories to physically meet at the bank to withdraw cash or co-signing of cheques by signatories. No matter where you are, you can now use your Equitel line to approve group account transactions using your PIN.

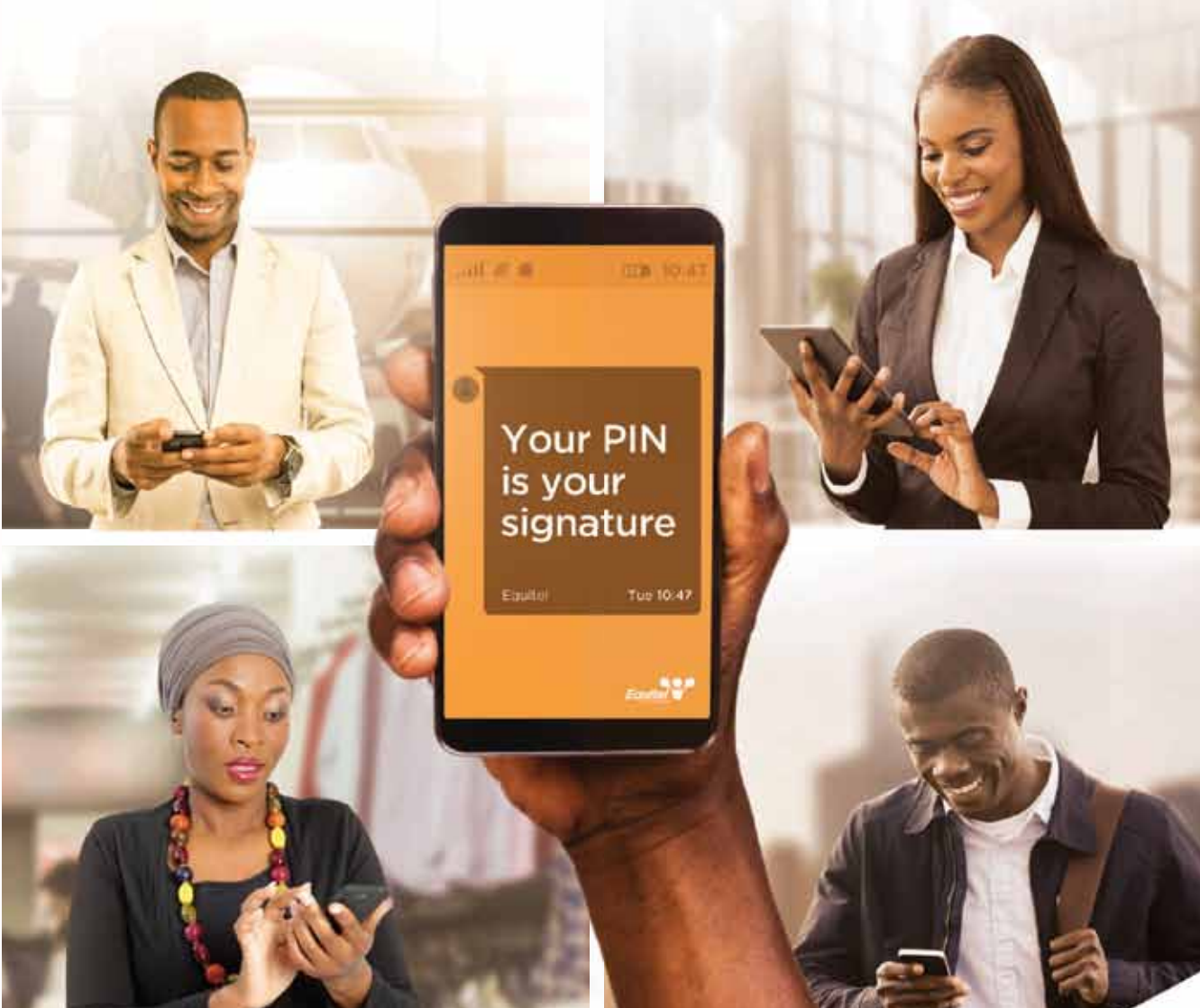
Through the Multiple Approval feature, the group can perform transactions such as, Sending money to an Equity Bank account for FREE or any other bank account, sending money to any mobile money (e.g. MPESA, Airtel money & Orange money), Paying bills for FREE, withdrawing cash and checking the group account's balance.

The "Multiple Approval" feature allows account holders to use their PINs as their account signatures.

For Groups/ Chamas to enjoy this service, they need to have an active joint or group account and each official or signatory must have his/ her own Equitel Line.

Pick your Equitel line (Normal SIM, Nano SIM, Micro SIM and Thin SIM) today for FREE from your nearest Equity Bank branch & learn how you can link your group to Equitel to enjoy this service. The Equitel Thin SIM, which is also free, is especially great for those who have a single SIM phone and wish to enjoy Equitel services without the hassle of carrying two phones or always interchanging SIM cards.

# Operate your Joint, Group or Chama account right on your phone



No matter where you are, you can now use your Equitel line to approve group account transactions using your PIN. You can send money to Equity Bank accounts or any other bank account, send cash to mobile money accounts (e.g. MPESA, Airtel money or Orange money), pay bills, withdraw cash and check balances, all on your phone. Save time and money with Equitel.

**Get your Equitel line today and link your Joint, Chama or Group account.**

+254 763 000 100

@KeEquityBank

KeEquityBank

www.equitel.com

**Equitel**  
My money. My phone. My life.



# Grow your wealth



## Invest with Equity Investment Bank

Are you an individual looking to invest at the stock exchange or in unit trusts? Or, are you a business seeking advisory or corporate finance solutions? Equity Investment Bank is the right investment partner for you.

With years of financial expertise, our team of skilled investment advisors will assess your investment needs and offer insights towards achieving your financial goals.

Talk to us today on **+254 763 063 000** or email: [awm@equityinvestmentbank.co.ke](mailto:awm@equityinvestmentbank.co.ke)  
[www.equitygroup Holdings.com](http://www.equitygroup Holdings.com)  [KeEquityBank](#)  [KeEquityBank](#)

Equity Investment Bank is regulated by Capital Markets Authority