Kenya Association of Investment Groups

The Chama Hand Book

KAIG
Kenya Association of Investment Groups
The Chama People

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Foreword

One sad reality in Africa is that we have a very poor saving and investment culture as individuals. As I dream of what great things I could do with one million shillings, you are probably having a similar dream next door. We could do very well if we 'shared' our dreams and assigned each other a half-a-million 'dream' and combined both money and brains.

But one of the problems we have is that we mistakenly think we can do better as individuals, so we selfishly keep business ideas to ourselves. More often than not they remain secret ideas that we die with – unrealized – filling our cemeteries with great ideas locked in coffins.

So rather than try to go it alone, why not set up, or join, an investment group? Investment groups/clubs are a viable option for any individual who wants to have first-hand experience in investing. Coming together in such a group brings in the desired discipline and ability to put aside a portion of one's earnings as a 'surplus' for investment. However having a surplus does not mean having so much money that you don't know what to do with; it's simply an amount you declare unavailable for current consumption but for tomorrow's, so it's there to be saved, invested and grown.

A chama should not be looked at as an opportunity to catch up with your friends over food and drinks, but rather as a chance to create Africa's big businesses of tomorrow. Today's small investment groups must be seen as the incubation for the big homegrown corporations that must emerge from Africa.

It is however prudent to note that this entity is not for those who want to 'get rich quick', but for those who want to reap returns in future, advisedly beyond ten years' time. Chamas encourage you acquire investment skills, to invest regularly and knowledgeably, and to understand the risks associated with investing, with the aim of achieving financial freedom.
You can only be financially free when the income from what you own (assets) exceeds your expenses, meaning that you no longer have to work for a living, you could readily retire.

And while you might think that the idea of chamas or investment groups is unique to Kenya, research has shown that these groups can be found all over the world. It seems that people hungry for financial freedom are waking up to the growing realization that these chamas are the beginning of many successful investment ventures. This in itself has created a need for organisations that will educate, advice and represent investment

groups.

In the United States for example, investors have the National Association of Investors Corporation (NAIC), which provides numerous services to investors, including useful guides tailor-made for investment clubs, on how to successfully start and run one.
Here at home we have something similar, called the Kenya Association of Investment Groups (KAIG). This is a club for investment groups, whose main purpose is to cater for the needs of chamas by offering services ranging from advice to investors, investor education and technical support to budding investment groups. In addition to this, KAIG has assumed the responsibility of lobbying on behalf of investment clubs, addressing issues such as enactment of laws that recognize and favour them, and partnering with banks to develop chama-oriented packages that offer special terms and conditions to young chamas, to allow them access to finance with more lenient terms.

Potential members of a chama should beware of the many attractive features, and the numerous pitfalls that come with it. A chama needs great dedication and commitment to be successful; therefore you need to be truly prepared to give it your all so as to reap maximum benefit.

From the Chairman

My fellow Chama – Mates,
It gives me great pleasure to present the Chama Handbook, which is the ABC Guide to the proper formation, management and growth of your investment group.
The Kenya Association of Investment Groups (KAIG) is the legally recognized nonprofit organization training and advocating for the interests of the thousand of Chama's in Kenya. One key pressing membership need over the years has been for a one stop reference manual for our membership.
It is on this premise the Chama Handbook has been published, to offer Chama members the basic but often overlooked information which can make the difference between the ultimate success and demise of a group.
Amalgamated Chama Limited, the "Chama of Chama's" the umbrella investment group for KAIG members has underwritten the cost of the handbook and a great debt of gratitude is owed to them.
My sincere appreciation to the KAIG Board , the secretariat headed by Kennedy Musyoka, Woof Marketing and the editorial team chaired by Mwai wa Kihu for their tireless effort not only in the production of the handbook but in all the Association's activities over the years.
Happy reading and remember by saving into your Chama, investing and managing it well you are playing a critical role in Kenya's Capital Formation which is a key ingredient in the realization of Vision 2030 for our beloved country.

Patrick Kariuki
Chairman

Sponsors Message

The formation of the Kenya Association of Investment Groups (KAIG) on April 24, 2007, was a big moment for small savers and investors who come together in this country to invest together.

For a nation to achieve economic growth, it must be a nation of hard workers (earners), savers and investors. That cycle of earning, putting something aside for tomorrow where it will earn a return, is what propels the individual - hence the nation – on the economic development ladder.

This is never easy. That is why Kenyans have chosen the chama solution. The chamas in Kenya have been rightly defined as the key to driving the growth of the Kenyan economy. This is where most Kenyans save their money as a group and invest in a bigger way than an individual would. It is going to be an extremely important vehicle to economic empowerment and financial independence for Kenyans in future.

Amalgamated Chama Limited (ACL), also referred to as 'The Chama of Chama's', was formed to provide an avenue for investment groups to pool their resources and realize superior long term returns under a serious, dynamic and best-practice governance. It is a limited company, formed under the auspices of KAIG in which groups buy shares.

It was also meant to provide the Kenya Association of Investment Groups with a long term, sustainable financial base.

So, when KAIG decided to publish the Chama Handbook to provide better knowledge on how to form and sustain high-growth chamas which will continuously create more wealth for the members, it was an easy decision for the ACL Board to support the project with the necessary funding.

We have no doubt that chamas of all sizes and age will benefit from this initial edition of the hand book and make it truly a worthwhile investment for us at Amalgamated Chama Limited.

We thank you.

Mwai wa Kihu
ACL Chairman

From Left: Tabitha Mwathi (KAIG Board Member), with a delegation of KAIG friends from Uganda

1. INTRODUCTION

The Kenya Association of Investment Groups 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 and/ or other resources with the aim of using the collated resources for investment purposes*". The more widely used word for 'investment group' is *chama* (Kiswahili for group).

Investment groups have been around for over one hundred years. The first investment group on record dates back to over 200 years ago in Western America. Generally, chamas are formed by a group of people who share similar social interests and a desire to learn more about investing, who come together and pool funds that are used to invest in projects that yield a profit to be distributed among the members.

What constitutes a chama?

Usually, when one talks of a chama, many often think of it as group of friends who have come together for both social and economic/investment reasons. Before the beginning of this century the word was commonly understood to mean a small group of people (mainly women) who have come together to jointly address their social/economic issues. Some are referred to as merry-go-rounds since all they do is take contributions each month from each member and give the total to one member on a rotational basis. In most cases, the recipient uses this money to buy household consumer goods.

The merry-go-rounds are not investment chamas. The investment chamas – the subject of this handbook – are those that have either been transformed into saving and investment chamas are formed for that purpose right from inception. Most of these have been formed in the last decade, principally motivated by the high returns, first experienced in the capital markets and later in the real estate. Some have invested in single asset classes (e.g. quoted equities or land) while others have diversified their investments across various asset classes.

Why join a chama?

There are numerous advantages of being in a chama. These include:

1. You can save the level of capital you require for a project much faster than you would as an individual.
2. Your contribution is relatively small, therefore sharing or lowering risk to the individual member.
3. You benefit from shared ideas and experiences, which can save you from walking a path with pitfalls that your partners may very well be aware of.
4. It forces you to acquire business discipline. 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. This instills discipline in an individual to save, a commitment he would have broken if he were to save on his own.

5. Your savings are out of easy reach, therefore safer from you than they would be in an account run by you.
6. In successful chamas, you can attain 'real' friendship and commitment to each other. A chama offers a very good opportunity to meet and interact with new people. Lasting friendships can be forged. These friends later become vital business allies later in life. This is why it is crucial to maintain a friendly and fun atmosphere in the chama, so as to encourage healthy interpersonal relationships.
7. You learn to think long term. You are operating in a corporate atmosphere and culture where decisions are made in the long-term interest of the organisation.
8. It is a life-long learning experience, since investment deliberations provide a learning environment. 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 a new investor the opportunity to interact with seasoned investors, thereby learning the art of investing. The debutant can pick up tips on how to spot investment opportunities and research on their viability.
9. The chama will diminish or eliminate your 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, as participating in a group transfers the pressure from the individual, to the group. In addition, it minimizes the risk of failure, by diversifying it to the group.
10. The chama, being a limited liability company, ensures minimal legal risks to you and your family. Any distress (even personal, sometimes) is shared through the different share ownership.
11. Eventually 'maturing' into a wealthy, comfortable, senior citizen, through ownership of the company. The corporation will (ideally) outlive you and be part of the rich legacy you bequeath your family and society.

Types of Chamas

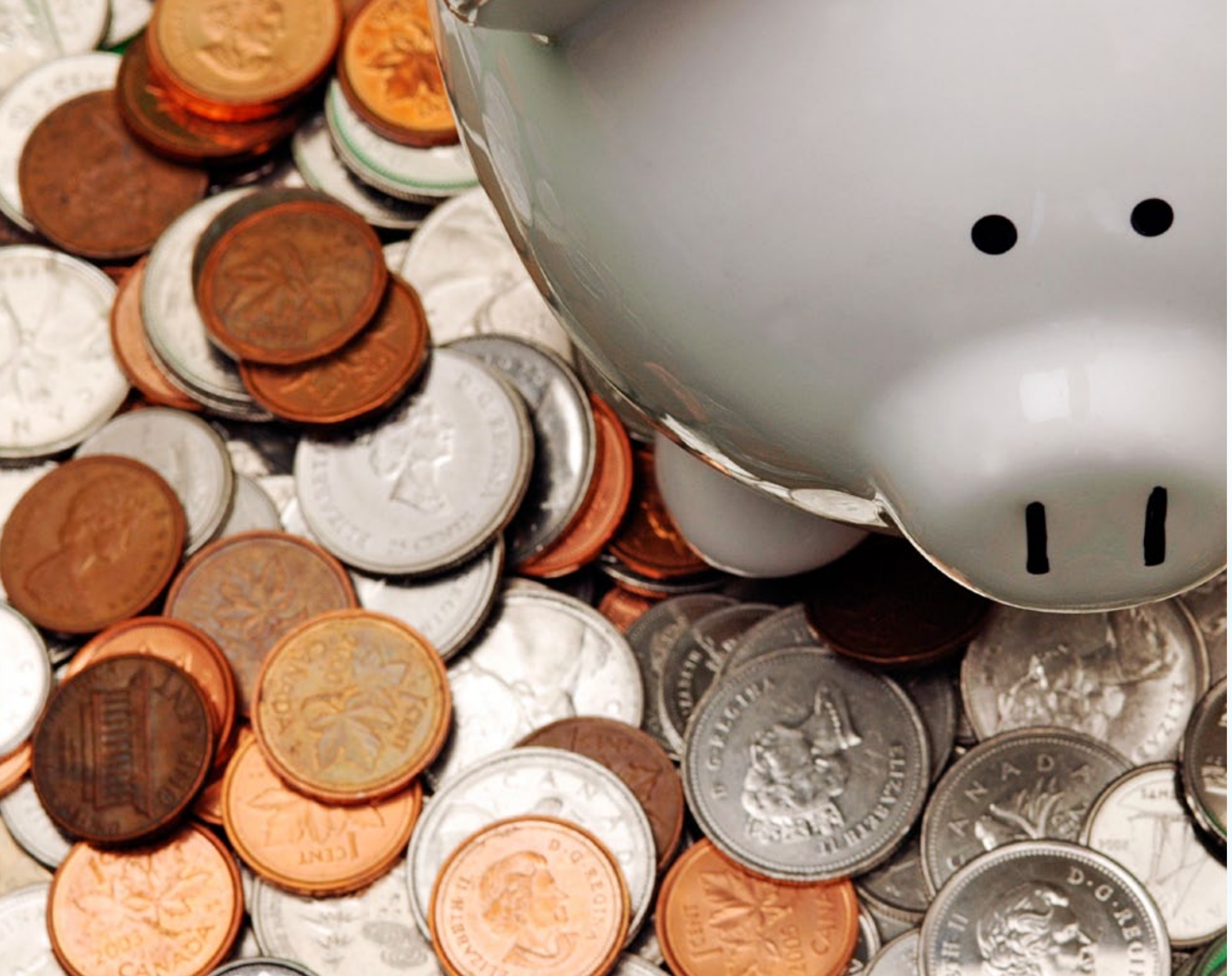
There are two types of investment chamas, i.e. group-directed chamas and self-directed ones.

Group - directed chama

In these chamas, members contribute money into a common pool, and invest these funds jointly in a common investment, or portfolio of investments. The returns from these investments are subsequently shared among the group members according to a pre-determined sharing or dividend policy.

Self- Directed chamas

These are chamas that meet and learn about investing, but members invest independently. There are no financial contributions towards investing, and the primary objective of this type of chama is to get together and share ideas and experiences about investing, so as to gain tips on how one can invest his own funds. These are not very common; an example is where a group of farmers attend a field day to learn together.



2.
GETTING STARTED

How to start a chama

The inception of a chama can be broken down into three:

- The preliminaries
- The first meeting
- Tasks after the first meeting

Forming the chama

The Preliminaries

Here, the founder/promoter comes up with the idea of starting a chama. S/he then confides in a few of his trusted friends. Together with these friends, s/he embarks on the task of recruiting members for the new group. This can be done by contacting other friends, or sending personal letters to persons they feel would be interested in joining their chama.

This is an extremely critical stage because one wrong step or decision here may result in later weaknesses or failure of the business. It the first step of the thousand-mile journey.

In choosing people to include in the group, the promoter's selection criteria should include:

a. Level of interest

Choose only those with a genuine and lasting interest in investing through joining a chama. This is extremely important so as to ensure sustained interest in the group and avoid sub-optimization by some group members in the future. Keep away from those who only want to experiment.

b. Goal similarity

You must state in no uncertain terms why you are coming together and for how long. It is obvious that all the members in the group will have been brought together by the desire to make money. However, how to do this is usually the point of disparity. While some members would desire to invest in stocks, others prefer real estate, or risk free securities such as treasury bonds. This is as a result of the differences in the individual group members' attitude towards risk, expected rate of return, and expected pay back period. This is why it is imperative that the founder of the group clearly articulates the group's mission and vision, and discusses ***how*** these two will be realized. A general objective such as, "to make money by any means possible" can avert group confrontations in the future.

c. Variety in the group

The group should have a variety of people with varied interests, experiences and perspectives on investing. The importance of this is to ensure quality discussions, covering all angles of investing. The danger of having a chama of like-minded individuals is having a rigid, narrow-minded group. In addition, boring meetings will be inevitable, as all the members will always agree or disagree on the same points. A good group is one that diversifies its membership across gender and professions, attitudes, skills, experiences and ages.

d. Composition

Having a group of interested dedicated people is not a guarantee that your chama will be successful. Your chama needs a variety of people who will bring in unique, differentiated individual skills to the group. These skills include leadership, innovation, implementation of ideas and scrutiny of accountability and profitability of projects.

e. Number of chama members

Many who have contributed on the subject of chamas have come up with various numbers, which they think are the ideal size for an investment club. The number ranges from as low as 3 to as high as 25. Others even insist on an odd number so as to ensure no stalemates when voting in meetings. But while the ideal number of members in an investment groups remains subject to debate, these contributors all agree that the number should not be so low as to make accumulation of capital a challenge, or so high as to jeopardize the management of the group and the quality of discussions.

After completing all the preliminaries successfully, the promoter should send out an invitation to the first meeting. Therein, he should specify the date, time, and venue of the meeting. In addition to that, he can include an agenda for the meeting.

The first meeting

In this meeting, the members discuss and agree on issues such as:

a. General objectives of the group

Members discuss what they would like out of the chama. This ranges from what type of investment group they want, i.e. whether a group-directed or self-directed investment group, types of projects to invest in, required pay back period, rate of return, and so on. The promoter should be clear in pointing out that an investment chama is not a get rich quick vehicle, and should caution the members that returns may take time to be realized, and sometimes losses will be made.

b. Venue and frequency of meetings

The group should find a time that is convenient for everyone, since attendance of group meetings is key to attaining group objectives. The venue should be accessible to all

members, and offer privacy and comfort, at a minimal charge. Some clubs adopt a system, whereby meetings are rotated around the member's homes.
Most chamas usually agree on monthly meetings as the most convenient frequency of their meetings.

c. Monthly contributions

The members should decide on an amount that is both affordable and sufficient to cater for the investing needs of the club. This amount, from clubs interviewed ranged from Ksh 500 per month for students to Ksh 20,000 per month for salaried persons. It is important that there is a consensus on the amount among members. It is also recommended that the amount is reviewed regularly e.g. every year because to address changed chama demands and members' financial situations.

d. Group Name

The members should be creative with this. However, a good name usually reflects aspects such as the group's purpose, location or names of the members. A good example is from a group interviewed called 'Synergia Investments,' which is a creative way to allude to the member's wish to obtain synergy from the group. An appealing name, one that is, short and easy to pronounce, should be seen as an asset.

e. Investment Opportunities

For a group-directed chama, the first meeting offers an opportunity to discuss the types of projects the chama will put money into. This will include securities such as shares and bonds, investments in assets such as real estate, or starting up general businesses.

Forms of registration

It is important that members decide how the chama is to be recognized before the law, since the law has not made any special provision for these types of entities. There are two common options; a Limited liability company or a partnership.

a. Limited Liability Company

This is a business entity incorporated under the Companies Act, which has a separate legal personality from its owners. In addition, its members have limited liability, meaning they can only be liable for the company's debts up to the amount of capital that they have contributed.

Advantages

- Limited liability – the members cannot loose more than they have contributed, when paying for liabilities incurred by the company.

- The company is a separate legal entity from the members, and therefore can own property and sue or be sued in its own name.

Disadvantages

- Tax burden. – These corporations usually attract a corporation tax rate of 30 % in Kenya. This may be too high for a small chama, but it is a citizen's obligation and in a way a sign of health because it is only applied on profits made.
- Rigorous rules to abide by – Examples include holding of an Annual General Meeting, preparation of audited accounts and filing of tax returns. This may seem like too much of as hassle for a small chama.

b. General Partnership

This is a type of business relationship that has a minimum of 2 members, and a maximum of 30.

Advantages

- The terms of this type of business relationship are clearly stipulated in the partnership deed. These terms include duties of members, profit sharing ratios, among others. This is advantageous in averting future disputes.
- This type of legal business relationship is well known and well defined. This reduces uncertainty in its operation and gives clear steps in dealing with specific issues that may arise.
- A partnership does not attract a separate tax rate, and member's earnings are taxed on an individual level.

Disadvantages

- The members have no limited liability, and the members are jointly and severally, responsible for liabilities such as debts, taxes etc., of the partnership.
- 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.

It is therefore upon the group to evaluate the options available, and find one that is most suitable for them. It is however recommended to register a business name for the group. This will allow them to legally engage in any business activities, with minimal legal requirements.

The Kenya Association of Investment Groups strongly recommends the limited liability option.

Ownership of the company/chama

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

The Equal Ownership system

This is a system where each member contributes equally towards the group's capital, through equal monthly contributions. The subsequent returns are thereafter divided equally among the members. This has the advantage of maintaining simplicity in accounting for the group's capital and future returns and also the comfort of members feeling equal. However, this system has the disadvantage of holding back those members who can afford higher contributions.

Unit Valuation System

This is a flexible system, where ownership of the group is calculated according to the amount a member's total contribution 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 tends to be tedious in tracking 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 in the chama policy.

Group agreement

This is basically the group's constitution, and it outlines basic rules and regulations that govern the club. It usually depends on how the group decides to form. If a Partnership is adopted, the agreement will be contained in the partnership deed; but if a group forms as a limited liability company, its constitution will be contained in its Articles of Association. Generally, a club's constitution will contain clauses that touch on areas such as:

- Amount and regularity of contributions
- Method of sharing profits
- Conduct of club meetings
- Means of dispute resolution
- Procedure to guide the removal of a chama member, or induction of a new one.
- Procedure to guide the dissolution of the group.

Office bearers

They are the heart of the group as they act as facilitators to group activities. The number and roles of the office bearers vary from chama to chama, and will depend on the activities of the club, and the group agreement or constitution. However, in essence, a typical group will have the following office bearers:

- **Chairperson** – S/he calls and presides over meetings, and acts as the chief planner of the club's activities.
- **Vice Chairperson** – Her/His work is to sit in for the chairperson whenever s/he is not available. In addition, s/he may assist her/him in carrying out some of her/his duties as may be set out in the group constitution.
- **Treasurer** - S/he keeps records of all financial transactions of the group, which may include receipt of monthly subscriptions, cash inflows from various projects and payment of expenses.
- **Secretary** - main duty is to send out notices for group meetings and take minutes at such meetings. In addition, s/he can be charged with the task of keeping custody of all-important documents of the group.
- **Educational Coordinator** – This is a member who will plan for brief educational sessions on investing etc., for the chama members. In addition, he can be in charge of research of potential investments. This role can be assigned to a member, or be added to the Vice Chair's list of responsibilities.

For the first meeting, these officials can be appointed on an interim basis, pending an election in future.

Tasks after the First Group Meeting

a. Opening of the Chama Account

It is paramount that an investment group opens a bank account, to safely keep regular subscriptions 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.

Currently, the cheapest and most convenient bank saving accounts available are chama accounts, for as low as an opening balance of Kshs 400, and no monthly charges. These are easy to open with the only requirement being a minimum balance and copies of identity cards of all the signatories. Current accounts are also available - with cheque books to ease payment of cash in bulk.

b. Funding the group

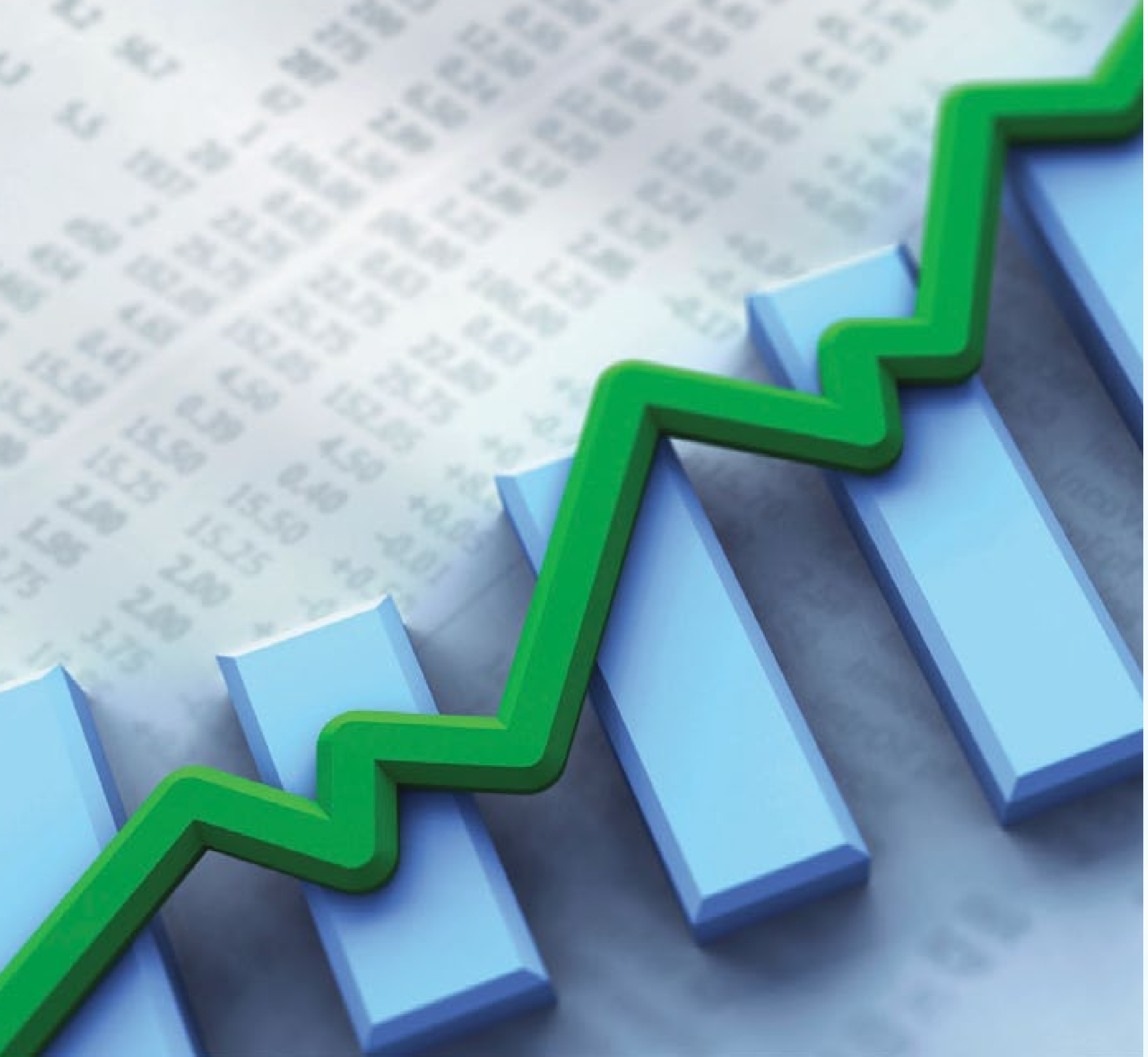
Most groups generate capital from the monthly contributions. However, other sources of funds include loans from sources such as:

- **Financial institutions** like banks, micro finance institutions, Saccos, etc. As we will expound on later, these sources have stringent terms and are only open to well organized groups that have been in existence for a relatively long time and can raise sufficient collateral. This limitation may lock out deserving groups that are just starting out.
- **The Government**, through the Youth and Women Funds initiatives. These are aimed at individuals aged between 18 and 35 and women of all ages respectively, who have organized themselves into groups. It is limited to groups that have been in existence for at least 3 months as indicated by the date of registration of the group. Again, this locks out a majority of groups that are either just starting out, or are operating without being registered.
- **Family members**. This is a very common source since it is readily available, very flexible, and has no stringent terms of repayment. While this is an easy source, it is important that the borrowing terms are clearly understood by the borrower and lender to avoid misunderstandings.
- **Business angels**. These are individuals or companies in the society that are well off, and come in to lend a helping hand to individuals who are starting up businesses. They do so by providing finances, and in some cases technical and/or business guidance, to the group. This is a scarce source which cannot be relied upon.

Accounting for the group's money

It is paramount that the group keeps financial accounts of its activities. This enhances accountability, and knowledge of whether the group is making profits or losses. The type of accounts kept depends on the general business of the group, but in general, books should be kept to record the following:

- **Members' monthly subscription.** This is done to keep track of how much has been collected, the amount in arrears, refunds and over payments
- **Portfolio Performance.** This records the net worth of all investments of the group, their cost, and current market value. This account is kept for assets such as shares and real estate.
- **Investment Transactions.** This records income and expenditure in investing in various projects. An example is in the purchase and sale of shares, or other investments held by the group.
- **Performance reports.** These summarize activities of the group within a certain period, and report on the group's profitability. Such summaries include the group's profit and loss account and balance sheet. While some groups may use manual accounts, most have embraced computerized accounting. Here, groups use applications such as Microsoft Excel and Microsoft Access to keep track of their funds. However, computer companies have come up with software specifically designed for accounting for investment groups.



Below are some of the key considerations and activities as you get started:

- Organize and recruit only **decided and committed people** who will observe the discipline that investors worldwide must have. Have a clear criteria focused on **chama's purpose.**
- Target a membership of **4 to 10 members**. Within that range, the lower the better for focus and dream-owning at the beginning.
- Go for a **gender mix** if you can. This has been known to be good for stability.
- Agree on a **monthly contribution.** This can be as low as kshs. 1,000.00 for those living in Kenya while for the Kenyans living in developed economies, a minimum starting point of USD 100.00 is recommended. It is critically important that you achieve a consensus on the level of contribution. Every member must be comfortable with the amount agreed upon, though you must challenge yourselves. Aim at 25% of your monthly income. Borrow to enhance growth when you can. Although equal shareholding is easier to manage, it does not have to be the case. Contributions can vary, especially after you achieve stability. This means the chama can grow faster, only requiring more involvement in keeping track of who controls how many shares at each stage.
- Incorporate a **limited liability company.**
- Agree and fix a **(constant) time, date and venue** where you meet each month. Each member should bring their monthly contribution. There should be no excuse for coming empty-handed! Although monthly meetings are best, they can also be held bi-monthly or even quarterly, but let the contributions be monthly.
- Have very clear one, three, five, ten, year **targets** that you "take an oath to achieve".
- Invest monthly, bi-monthly or quarterly, depending on the level of your contributions and what asset you are purchasing at that time. Diversify among asset classes!
- **Update your portfolio** performance at the end of each quarter.
- **Think big, start small** i.e. where you are. Enjoy investing and watch your wealth grow!

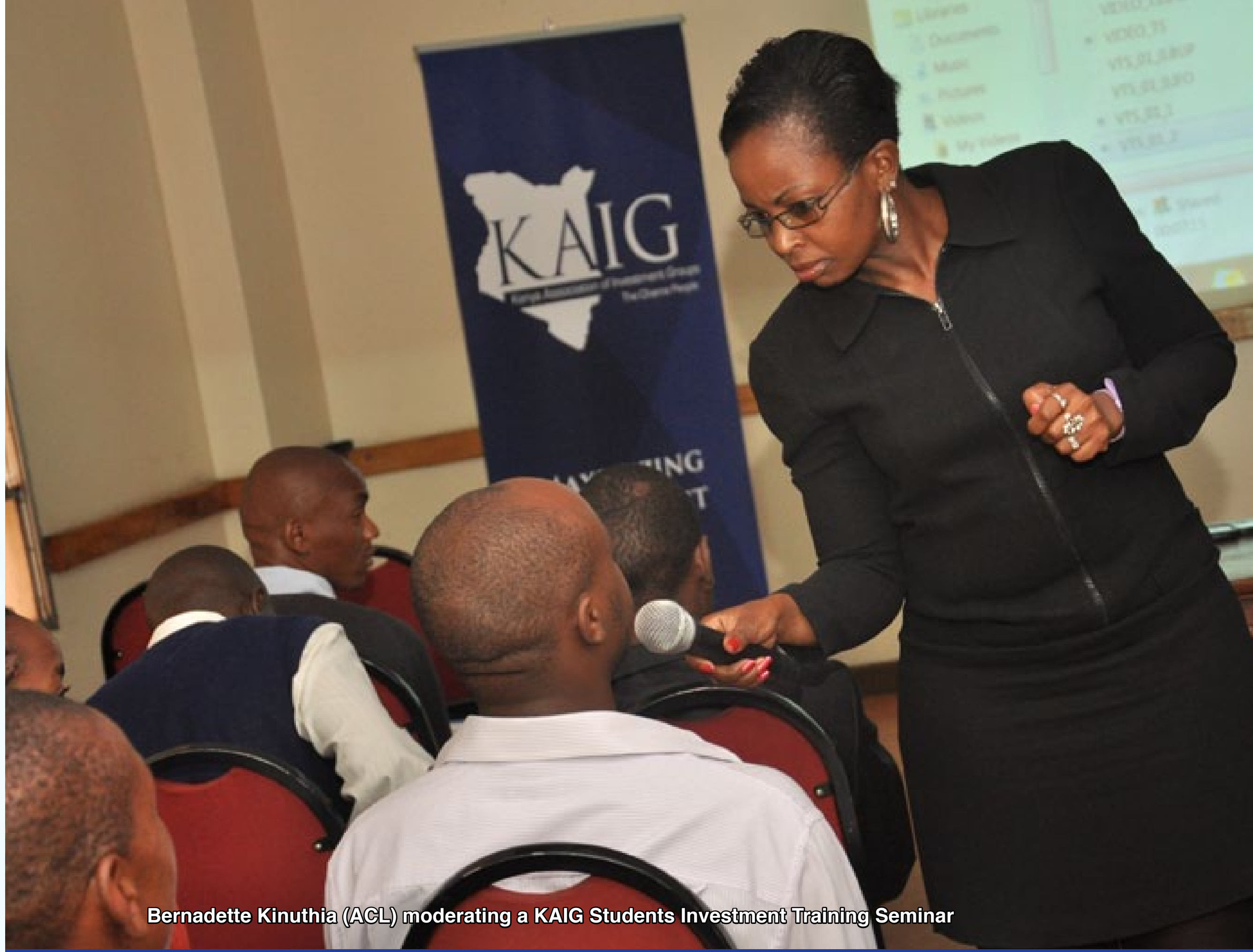
Other key considerations include:

It is very important that you determine the **risk profile** of your chama just as you would determine your own individual risk profile before undertaking allocation to various items in your portfolio. Engage the services of an investment adviser if need be. 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.

Always remember that continuous, steady improvement (what the Japanese call "KAIZEN") is the better way to go and avoid get-rich quick schemes.

The table below shows the relationship between Return on Investment, ROI (= rate of annual growth) and the number of years in which you would double wealth. This is calculated using what is called the 'Rule 72' which says: if you divide 72 by the rate of annual growth, you get the number of years you need to double your wealth or value of your assets.

NO	%AGE ANNUAL GROWTH IN WEALTH	No. of YEARS TO DOUBLE YOUR WEALTH
1	5	14.4
2	10	7.2
3	15	4.8
4	20	3.6
5	25	2.9
6	30	2.4
7	35	2.1
8	40	1.8
9	45	1.6
10	50	1.4



Bernadette Kinuthia (ACL) moderating a KAIG Students Investment Training Seminar

3. CHALLENGES

Challenges facing chamas and suggested solutions

a. Stringent sources of finance

It is very difficult to obtain funds if one is just starting out in business. In addition to stringent conditions such as production of financial statements for the past one year, or proof of asset ownership like land title deeds or log books, borrowers' interest rates tend to be too high for a start-up. It is therefore easier to get a loan as an individual, as long as one is salaried. To overcome this pitfall, groups can use one of the salaried members to obtain a loan on their behalf, but this too high a risk for carrier of the burden. Alternatively, groups without salaried members may opt for more lenient sources such as family, or business angels.

b. Limited investment opportunities

This has been a common complaint among the groups we spoke to while conducting research for this handbook. They felt that most of the projects they wanted to invest in required a high capital outlay, which was not within the group's means. On the flip side, some groups felt that they had an adequate sum of money, but had no investment opportunity that met their requirements. They felt tied to investing in the 'easy assets', such as the stock exchange. It can be argued that this can be attributed to the lack of exposure to the many investment opportunities available in Kenya, or the lack of innovation on the part of the group members. This can be overcome by attendance of investment and entrepreneurial workshops, which always have an abundance of new ideas to adopt.

c. Lack of guidance in investing.

Most stock brokerage firms in Kenya offer free financial advice. However this advice is limited, and focuses on investing in shares, and not other viable options like real estate or even general business. In addition, this advice is usually non-committal, and shallow in most cases, for the obvious reason that it is for free and brokers are not necessarily competent in investment advising. The onus is therefore left to other quarters, which may not have adequate knowledge and experience to offer quality investment advice either. A suggested way of overcoming this problem is to have a chama mentor. This person should have a proven record of being a competent, knowledgeable, and experienced businessperson. A good personality should also be a pre-requisite; since group members will learn best from a person they respect and have a cordial relationship with. Chamas in need of mentors are lucky they can get these from the Kenya Association of Investment Groups, which can link them up with seasoned investors.

d. Trust

This is a major concern in many investment clubs, since some members are unscrupulous

and carry out group activities with the sole aim of benefiting themselves. This is not only dishonest, but also demoralizing to the group members. This can be overcome by setting up checks and balances to ensure that no underhand tactics go unnoticed. It includes having more than one signatory to the club's accounts, or having group agreements prepared and signed by all members, clearly outlining matters such as consequences of dishonest behavior, and setting up a clear system of dispute resolution.

e. Commitment

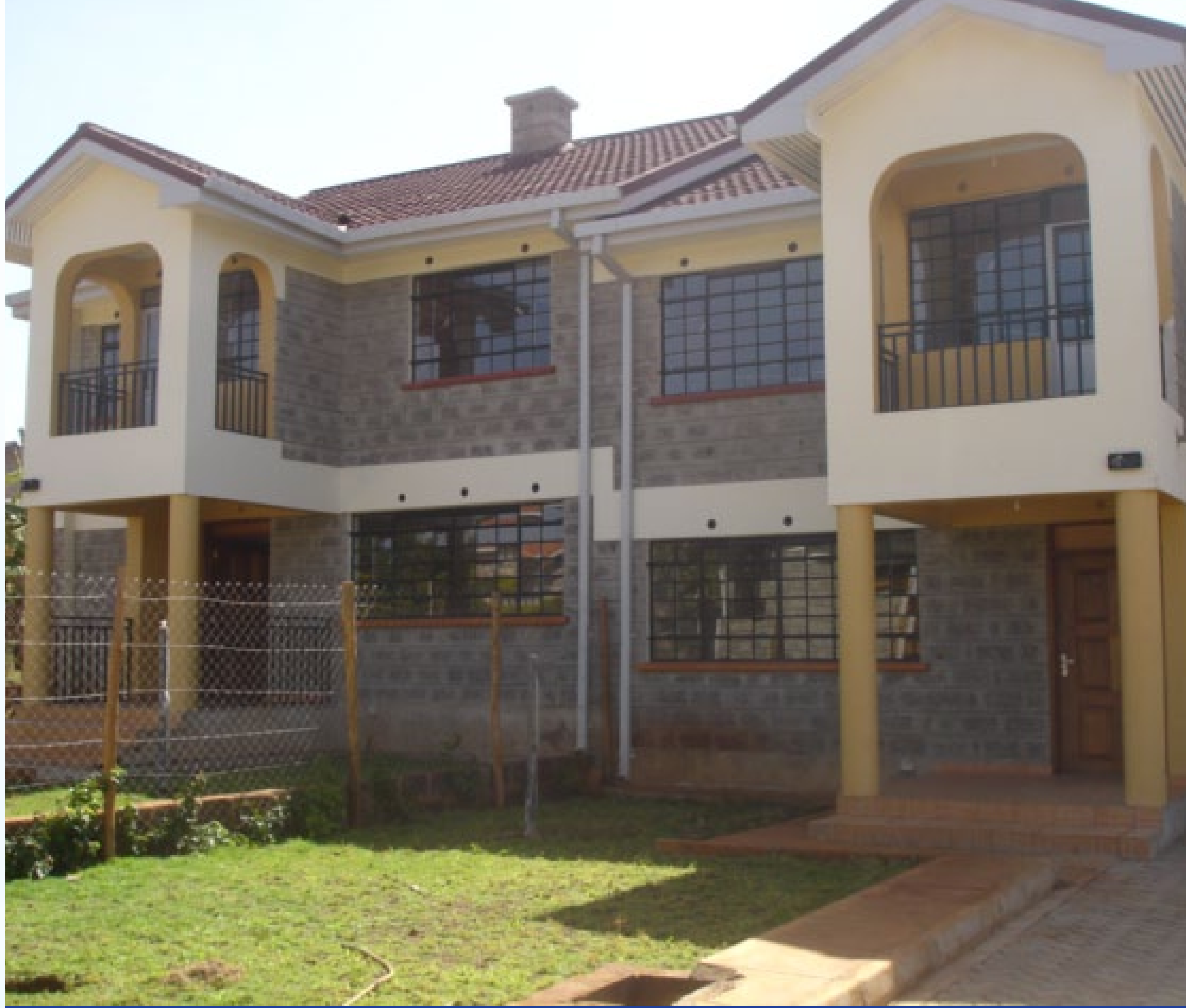
Another major challenge that plagues investment groups is the lack of commitment from some members, especially after the excitement of starting the group fizzles out. On many occasions most of the work is left to the few members who remain committed to the cause, leading to frustration and ultimately group disintegration. This may be resolved by keeping the group dynamic, which will help retain members' interest over a longer period of time. This can be achieved by organizing activities for the club such as attendance of investment workshops, or visits to the trading floor of the Nairobi Stock Exchange.

Summary of Pitfalls and Countermeasures

PITFALLS	COUNTERMEASURES
Incompatible (non-cohesive) membership	• Adhere faithfully to a well thought-out selection criteria to get like-minded people who • share a clear vision.
Members dishonouring monthly contributions.	• Get commitment at the formation stage. • Keep contributions at an affordable level. • Review contribution level annually • (If you have to), allow a member to leave.
Absenteeism at meetings	Get a consensus on meeting times, dates, and place.
'Overburdening' a member with responsibilities	• Share out responsibilities as evenly as possible among members. • Exploit talents within team. • Let the most committed lead • Reward good performance

Ownership anomalies/risks.	The Club must be incorporated at the beginning as the legal body that will own all the assets.
Disagreement on asset categories/ classes to invest in.	• Refer to Investment Policy Statement (ISP) and Strategic Plan • Review your portfolio performance and determine the category with the superior returns. In time you will all be sophisticated investors. • Consult a fund manager or an investment consultant/ adviser.
Procrastination	Have SMART objectives
Poor Leadership	When allocating responsibilities, think only of the good of the company. Go for the highest integrity and competence – Your guide: Chapter 6 of Kenya's Constitution
Lack of seriousness/ commitment	Right from the onset, let all members agree; take an 'oath' that the chama is your most serious business. Separate business from friendship.
Unproductive group dynamics	See (1) above. Let the group be small at the beginning (3-10) and let the business growth objectives determine the future populations of shareholders.

Teaming up with only committed people cannot be overemphasized. Do not carry along negative people just to make numbers or to grow quickly. There is usually a need for a *Chama Champion* who identifies with the vision of the group very closely and hence is willing to sacrifice, lead and work for it with a passion undeterred by the actual costs (especially in time) to him/her.



4. INVESTMENT OPPORTUNITIES

INVESTMENT OPPORTUNITIES

ASSET CLASSES IN KENYA

a. Shares - Private and Quoted

Investing in shares in listed companies is recommended because:

- 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.
- If the company whose shares you purchase makes profits you are assured of a good return on your investment, which will most likely be higher than you would get from a deposit or a savings account.
- 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 reinvest your profits.
- If a company registers a spectacular achievement or makes a new discovery, the market price of its share may rise very sharply, resulting in hefty capital gains.
- Shares are fairly liquid and you can ordinarily realize cash within two weeks if a project requiring cash comes up.
- 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.
- Shares are acceptable collateral by most financiers especially when you need an urgent advance or loan.
- You can diversify your portfolio, thereby minimizing your risk, by buying various types of shares in different sectors.
- Through purchase of shares you can invest outside your national economy, (offshore investment) for better returns and/or lower risk.
- 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.

Key stock market myths

Many investors have either burnt their fingers while investing within the stock market, because of doing it from an uninformed point of view. Others have chosen to avoid the capital markets all together. This is primarily due to some myths that have held currency with most Kenyans to date. Here are some of the myths, and why they should be dispelled.

1. The stock market is a place to make quick short-term gains (speculate)

This is a total misconception. Speculators will only effectively thrive in an inefficient

market. In the short run the stock market is highly volatile, so its performance cannot be predicted. Stock markets do not therefore have their strength in short term intermediation but rather in their ability to: mobilize long-term savings for financing long term ventures, provide risk capital (equity to entrepreneurs), encourage broader ownership of firms and improve efficiency of resource allocation through competitive pricing mechanism.

One needs a lot of expertise and close tracking of the market to make any gains by speculating. Moreover the more efficient a market becomes, the less the opportunities for short-term gains. Proper investment in the market and especially in shares must be guided by the research findings that equities out-perform all the other investments in the long-run.

2. Investing in shares is just like gambling.

Nothing could be further from the truth than this myth, yet it is a big reason why many people shy away from the stock market. To understand why investing in shares is inherently different from gambling, we need to review what it means to buy a share.

A share is ownership in a company. It entitles the holder to a claim on assets as well as a fraction of the profits that the company generates. Too often, people think of shares as a way to test their luck, and they forget that stock represents the ownership of a company.

In the stock market, investors are constantly trying to assess the profit that will be left over for the shareholders. This is why stock prices fluctuate. The outlook for business conditions is always changing, and so are the future earnings of a company. Assessing the value of a company isn't an easy practice. There are so many variables involved that the short-term price movements appear to be random; however, over the long-term, a company is only worth the present value of the profits it will make. In the short term a company can survive without profits because of the expectations of future earnings, but no company can fool investors forever. Eventually a company's stock price will show the true value of the firm.

Gambling, unlike investing, is a zero-sum game. It merely takes money from a loser and gives it to a winner. No value is ever created. In contrast, by investing we increase the potential to increase the overall wealth of society. As companies compete, they increase productivity and develop products that make our lives better. Don't confuse investing for wealth creation with gambling's zero-sum game. In investing the seller could be selling because s/he has made substantial returns with the share; this does not stop the buyer from making additional returns if it is a share from a well-grounded company. The cardinal rule then becomes ascertaining the solidity of the company before investing in it as opposed to trying out one's luck.

3. The stock market is an exclusive club in which only brokers and rich people make money

Many market advisors claim to be able to call the markets' every turn. The fact is that almost every study done on this topic has proven that these claims are false. Most market forecasts are notoriously inaccurate; furthermore, the advent of the Internet has made the market much more open to the public than ever before. All the data and research tools previously available only to financial intermediaries are now there for individuals to use.

Actually, individuals have an advantage over institutional investors because they can afford to be long-term oriented. The big money managers are under extreme pressure to get high returns every other quarter. Their performance is often so scrutinized that they can't invest in opportunities that take some time to develop. Individuals have the ability to look beyond temporary downturns in favour of a long-term outlook. Again the stock market by its very nature provides opportunities for investing very small amounts of money. In Kenya, the Capital Markets Authority (CMA) has licensed collective investment schemes that require as little as Kshs. 2,000 per month to invest.

Moreover buying shares is relatively inexpensive compared to other investments. In July 2012, a number of shares were retailing at prices in the region of Kshs. 10.00, and some below Kshs. 5.00, with the lowest selling at Kshs. 1.70. The most expensive share was retailing at Kshs. 450.00. Given that the minimum number of shares that one can buy from the stock exchange is 100, it would then require as little as Kshs. 200 to start investing in shares of companies listed at the Nairobi Securities exchange. Any Kenyan with some form of income can therefore participate effectively.

4. Fallen shares eventually go up

Whatever the reason for this myth's appeal, it is very destructive to amateur investors to think that a share trading near an annual low is a good buy. Suppose you are looking at two stocks: XYZ made an all time high last year around Kshs. 50 but has since fallen to Kshs. 10 per share. On the other hand ABC is a smaller company but has recently gone from Kshs. 5 to Kshs. 10 per share. Which share would you buy? It's interesting to note that all things being equal, a majority of investors will choose the share that has fallen from Kshs.50 because they believe that it will eventually make it back up to those levels again. Thinking this way is a cardinal mistake in investing.

A cardinal principal while tracking share prices is to note that there is no known bottom for falling share prices. When you are tempted to think that a share can only rise, the fundamentals may be so bad that it will fall further; examples abound in our market. If you are an investor, price should only be one part of the investing equation. The goal is to buy good companies at a reasonable price. Don't confuse value investing with buying companies solely because their market price has fallen; value investing is about buying high quality companies that are undervalued by the market.

5. Stocks that go up must come down.

The laws of physics do not apply in the stock market. There is no gravitational force that pulls stocks down. The message here is not that stocks never correct, the point is that the stock price is a reflection of the company. If a good company is run by excellent managers, there is no reason as to why its shares won't keep on going up.

6. Having just a little knowledge, because it is better than none, is enough to invest in the stock market.

Knowing something is generally better than nothing, but it is crucial in the stock market that individual investors have a clear understanding of what they are doing with their money. It's those investors who really do their homework that succeed. Don't worry if you realize that you don't know what to do with your money, all you have to do is enlist the services of an advisor. The cost of investing in something that you do not fully understand far outweighs the cost of using an investment advisor.

7. Dividend should be evaluated in absolute terms

Nothing could be further from the truth. Dividend should never be evaluated in absolute terms. Suppose you are looking at two stocks: XYZ whose price is Kshs. 200 which gives a dividend of Kshs. 10 per share; ABC whose price is Kshs. 20 which gives a dividend of Kshs. 2 per share.

Which share would you buy? It's interesting to note that those investors whose interest focus is dividend will 'obviously' choose XYZ. On the contrary the share to choose is ABC. Let's say you had Kshs. 100, 000; you would have either bought 500 shares of XYZ or 5, 000 share of ABC. It then follows that you would have gotten a dividend of Kshs. 5, 000 (500 * 10) from XYZ or Kshs.10, 000 (5, 000 * 2) from ABC. It is therefore the case that ABC is the better company in dividend paying. The cardinal principle while evaluating dividend therefore is that, it must be done as a percentage of the share price. It would then appear that XYZ was offering 5% while ABC was offering a superior dividend of 10%.

In conclusion, "what is obvious is obviously wrong." This means that knowing a little bit will only have you following the crowd. Successful investing takes information, hard work and effort. Partially informed investors investing without counsel will only hurt themselves and those around them.

b. Unit Trusts

These are funds in which individuals and companies may invest in order to share in the income and capital gains generated by the trust's assets. 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.

They provide investors with a convenient means to obtain a share in a usually diversified and large portfolio of assets. They also provide a wide choice of investment opportunities. The investors' risks are pooled and specialist managers are able to enhance investor returns.

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.

c. Investment Trusts

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.

Unlike in 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. 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. Centum Investments and Transcentury are some of the best known investment trusts in Kenya.

d. Bank Accounts

Banks offer various types of accounts to both personal and business customers, depending on the purpose for which the account is required. A customer may have several different types of accounts and more than one of each kind. Only savings and deposit accounts are relevant for investment purposes

Savings Accounts

Savings accounts are targeted towards customers who intend to save their earnings and/or those who do not require transacting frequently.

Features of a Savings Account

A minimum book balance is required to maintain the account.
No cheque book is issued
Withdrawals are made by use of an ATM debit card or special withdrawal slips available in the bank.
The credit balances earn interest. However, most banks set a minimum balance below which the amount may not qualify for interest payment.
Balances below the interest earning minimum balance may attract a monthly charge in some banks
Interest is earned and paid periodically on daily, monthly and half yearly balances or any other criteria based on bank policy.
Over-the-counter cash withdrawals are subject to payment of stamp duty.
Banks may charge transaction fees based on bank policy.
Overdrafts are not allowed on the accounts.

Deposit Accounts

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. Deposit accounts can be either fixed term or call deposit accounts.

Features of a fixed term Deposit Account

No additional deposits or withdrawals are allowed on the account before expiry of the contract period.
Interest is accrued daily but paid at the end of the contract period.
A certificate of deposit is usually issued on the account.
There are no charges on the account.
The amount deposited ceases to earn interest at the end of the contract period unless the account holder issues instructions for a renewal.
The principal deposit plus interest earned is either withdrawn or renewed at the end of the contract period depending on the customer's instructions.

Features of a Call Deposit Account
Call deposit accounts operate the same way as fixed deposit accounts except for the following.
Account runs for a minimum period (e.g. 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.

e. Treasury Bills

A treasury bill is a paperless short-term borrowing instrument issued by the Government through the Central Bank of Kenya to raise money on short term basis – for a period of up to 1 year. Treasury bills are issued in maturities of 91, 182 and 364 days. Treasury bills are sold at a discounted price to reflect investor's return and redeemed at face (par) value.

How and when do I Invest in Treasury Bills?

Any potential investor must have an active and updated CDS account at Central Bank of Kenya.
With exception of the 364-days paper which is on offer once every month, 91- and 182 -days Treasury bills are sold weekly. Each new offer is advertised in the Daily Nation Newspaper on Fridays and is available on http://www.centralbank.go.ke/securities/bills/manualresults.aspx
Investors MUST correctly and appropriately complete Treasury Bills application form available at the Central Bank of Kenya head office Nairobi or any of its branches in Eldoret, Kisumu and Mombasa or currency centres in Meru, Nyeri and Nakuru or can be downloaded on http://www.centralbank.go.ke/securities/ApplicationForms.aspx. The duly completed application form must be submitted to Central Bank (or branches) on or before 2.00pm on Thursdays for 91-days and on Wednesdays for the 182- and 364-days papers.

Investors may place their application either as competitive or non-competitive (average) bids. 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. Non-competitive bidders on the other hand only indicate '**Average**' or '**Non-Competitive**' in the place of offer price per Ksh. 100 in the application forms. Since this category is a price-taker of market outcome (successful weighted average rate/price), their placement is guaranteed. However, maximum amount one can invest per CDS account per issue/ tenor is Ksh. 20,000,000.

Application forms should be deposited in the blue tender boxes marked "Treasury bills" at any branch (or currency centre) of Central Bank by 2.00p.m on Wednesday for 182- and 364-days papers and on Thursday for the 91-days paper.

More information on treasury bills is available on the Central Bank of Kenya Website www.centralbank.go.ke.

f. Treasury Bonds

Treasury Bonds are medium to long term debt instruments, usually longer than one year, issued by the Government to raise money in local currency. Maturities of Treasury Bonds that have been issued so far range from 1-30 years.

What types of Treasury Bonds are issued by the Government of Kenya?

The types of Treasury bonds may be defined by the purpose, interest rate structure, maturity structure, or even by issuer. So far, the Government has issued Fixed Coupon/ Rate Bonds, Zero Coupon, Floating Rate, Infrastructure (project specific), Restructuring/ Special bonds, and Amortized and Savings Development bonds. Most commonly issued bonds are fixed coupon bonds which have huge investor demand. Treasury bonds are issued monthly.

Fixed coupon Treasury bonds – Bear predetermined or market derived fixed coupon (interest) which is paid semi-annually on the face value held during the life of the bond. When bought at a discount (required yield higher than coupon), the investor benefits from discount (capital gain) which is critical for secondary market trading and regular interest payment.

Infrastructure bonds – Proceeds are used to fund specific infrastructure/projects specified in the prospectus.

Floating Rate Bonds – Pay semi-annual interest based on a benchmark rate, for example average rate of 91-days or 182-days Treasury bill plus some margin. They are on high demand in high inflationary environment. They are no longer issued by the Government since 2001, most corporate bodies issue them.

Zero Coupon Bonds – Do not have fixed interest and investor's return is only the discount amount equivalent to the yield quoted. Mostly short term and most taken up by commercial banks.

How Can an Investor Determine the Price Payable and Return on Treasury bonds?

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

Discount price- This is when the offer price falls below face/par value. In this case, the quoted yield is higher than the coupon rate.

Premium – This is when the offer price is above the face/par value. In this case, the quoted yield is lower than the coupon rate. Investors paying premium price pay more at initial investment.

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 Nairobi Securities Exchange (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 (secondary) market. The reverse is true for capital loss.

Reinvestment income - Assuming semi-annual coupons are re-invested at same or better yields than the coupon rate; the return generated from reinvestment at the favorable yield is the reinvestment income.

More information on treasury bonds is available on the Central Bank of Kenya Website www.centralbank.go.ke.

g. Commercial Paper

C**ommercial paper** refers to 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 an 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. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds. Typically, the longer the maturity on a note, the higher the interest rate the issuing institution must pay. Interest rates fluctuate with market conditions, but are typically lower than banks' rates.

h. Real Estate

Investment groups may also decide to venture into real estate. The main considerations may include:

Whether to invest in vacant land and speculate on price appreciation.

Whether to invest in residential or commercial property.

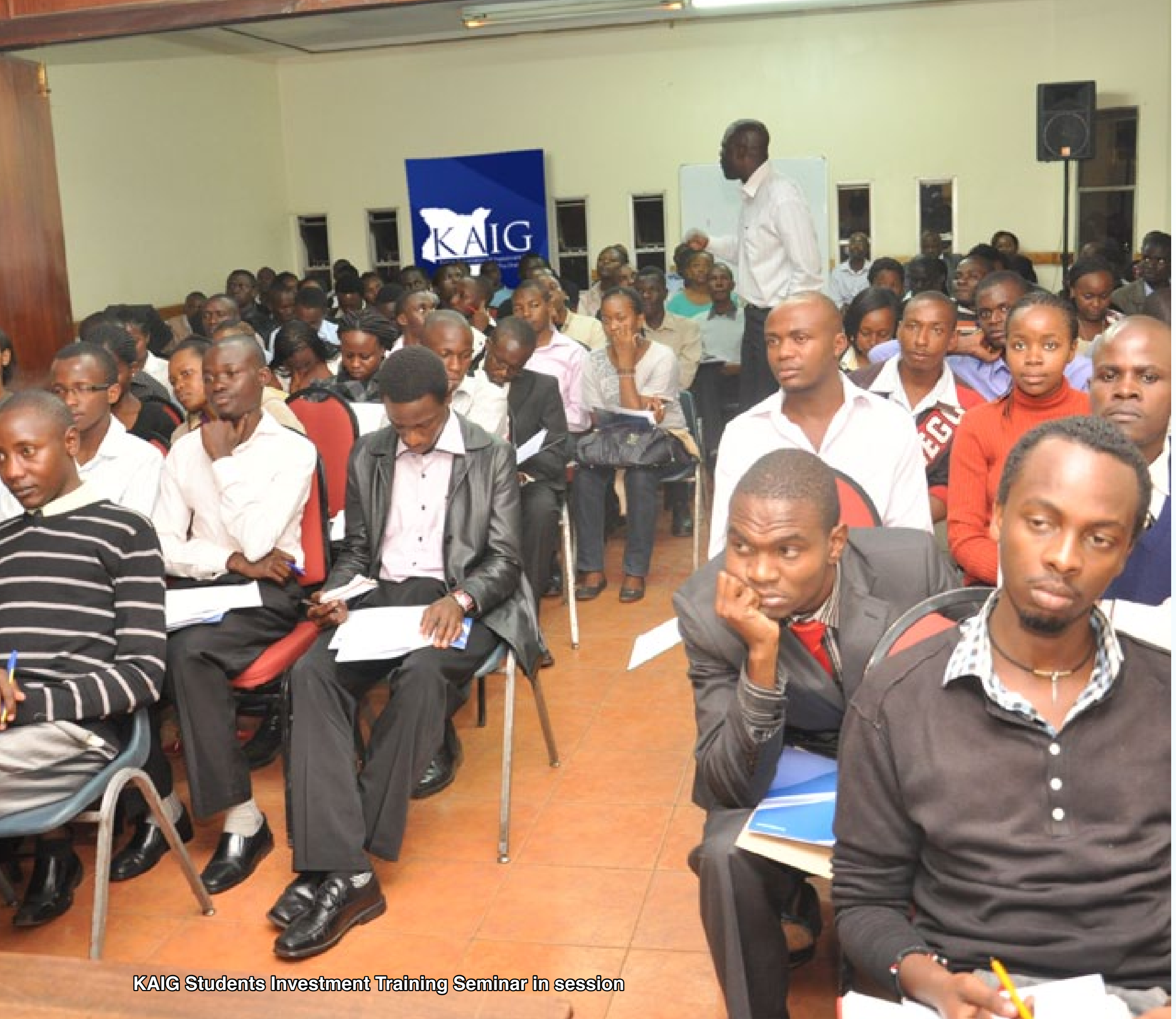
Type of ownership. A Limited Liability Company is recommended in order to avoid legal complications that may arise under other forms of ownership.

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.

i. Offshore Products

Off-shore products could form part of the investment portfolio. They are usually accessed through international fund managers like Franklin Templeton, Generali, HSBC, etc. All a chama needs to do is to approach CMA-licensed fund managers or investment advisers who are agents of the international fund managers. The advantage of investing off-shore is the ability to participate in other economies which at times may be doing better than the local economy and businesses there may be making higher returns. Let a chama decide, taking into account mainly expected ROI and the members' understanding of the business and their ability to manage the assets.



KAIG Students Investment Training Seminar in session

5. INVESTMENT POLICY

The investment policy refers to a formal description of the investment philosophy that will be utilized by the chama. The policy must, of necessity, be long-term oriented – beyond the life of the founders. Investment is a long term engagement. At the beginning, if the club has 3-7 members, ALL should be the Board and also the Investment Committee, but task the Champion to manage the company for free or at a token fee at the beginning. Until you are able to employ a non-shareholder to manage, the club must concentrate on those assets that have good returns and require minimum time of the shareholder/ manager/champion.

Selection of service providers

(Stockbrokers, Custodians, Investment Advisors, Accountants, Legal Advisors etc)

When selecting a service provider, the chama needs to know:

- Roles and responsibilities of various service providers.
- Regulatory compliance issues to check.
- Business references to be requested.
- Basic competence assessment criteria for each type of advisor.

Asset Valuation and monitoring of Investment Strategy

a. Guide to valuation of members individual assets.

As much as possible, at the beginning, start with equal share holding and agree on monthly contributions each member can afford. COMMITMENT is very critical here. Later, when the club has acquired a life of its own (so to speak) meaning it can withstand any strains that can come with disparity, new members can/should be invited and shareholding can vary.

b. Arbitration in case of disagreements

The ideal investment chama should never need outside arbitration. We must, however, accept that we are not living in an ideal world. Before any disagreements threaten the life the chama, ask a person you all trust to arbitrate your differences.

6. TIPS FOR INVESTMENT GROUPS

Learning from Successful Groups

- Have a "Champion" and encourage that "Champion."
- Consider a specific project to focus on, e.g. Holiday home for a start.
- Consider profitable investments members cannot easily do on their own.
- Show the Money - Let everyone come with evidence of money availability, e.g. a Fixed Deposit receipt from their bank. Only those who show the money should be allowed to talk in meetings.
- Have a committee of three to come up with the rules which can be drafted into a Shareholders' Agreement.
- Future club members should sign the Shareholders' Agreement and pay a premium or membership to reward the early birds.
- Make contributions permanent so the company lasts forever and one can opt out by selling their shareholding only. With this in consideration, the limited liability company is the best way to go.
- Consider large bullet payments to kick off e.g. 500K then 10K a month this brings maximum commitment.
- Consider fines to punish lateness and missing meetings.
- Incentivize/remunerate the main drivers.
- Be long-term in horizon but you can be short-term in realizing your investment gains.
- Have the concept of scarcity – Invite 30 to join, only take the first 10 in.
- Don't forget the social side, this is very important. For example, you can treat yourselves to a crate of beer every month from the central kitty.
- Have set meeting times e.g. the first Tuesday of every month at 7a.m. The earlier the better.
- Appreciate risk - this is why you invest in a group, so you can manage it.
- When discussing investment, let friendship take a back seat. This is business. There should be no instances of, for example, let's give X time to pay up or let's lend Y's business some money since he is hard up.
- Get moving move from "Yes we can" to "Yes we have formed the group."

Given your skills-set and contact base, your group can be very progressive and successful with potential members lining up to join it at a premium in future

A Model Chama - Fechim Investments

The Beginning

Fechim Investments Limited began as a chama of four members, all friends who attended the same high school and all men. The chama was born in February 1991 when they came together to save money, but with no written investment plan then.

It was a very informal arrangement, with the chama members agreeing to contribute Kes. 500 each every month, which was then handed over to the Treasurer for safe-keeping. They met at 5.30 pm on the last Wednesday of the month. They only thought of giving the entity a name, and opening a bank account, after they had saved Kes. 32,000.

On October 13th 1992, Fechim Investments was registered as a partnership, and started investing in the stock market. On February 2, 1994 it was registered as Fechim Investments Limited, under the Companies Act (Cap 486).

The Journey to-date

Fechim's growth has been a steady one, surviving the exit of one founder member in 1996 and a tough economic environment between then and 2002, and acquiring its first plot of land in 1997. From 2003 the Company started to enjoy faster growth, in tandem with the Kenyan economy, and as the capital markets experienced a positive turnaround.

As the members' appetite for faster growth rose, the three shareholders/directors had a strategic planning retreat and formulated the first written plan - Strategic Plan, 2005 to 2007. The main thrust was to step up the growth of the company through capital injection from new shareholders through their first private placement of shares, inviting 3 other shareholders in January 2006.

After a second private placement of shares the number of shareholders increased to 12 in January 2007. To maintain a fully shared company vision and focus, new members were thoroughly vetted. In selecting members the company designed a shareholder selection criteria matrix that they applied to every proposed potential shareholder, and invited only the superior scorers.

Today (after a 3rd private placement of shares) Fechim Investments Ltd. has 26 shareholders (of both gender) drawn from different ethnicities and professions and with a wider age spectrum. The company is ran by a board of seven directors, a third of whom retire at every AGM to allow the shareholders to utilize the diverse skills more effectively. It has invested in diverse asset classes, with an investment portfolio that gives it potential

for faster future growth.

Beyond Fechim – Associating with all chamas

Fechim shareholders have always believed that they have a role 'beyond the company gate,' as a good company is measured a lot by what society feels it gains from its existence.

So when the Kenya Association of Investment Groups (KAIG) was formed on April 24th 2007, Fechim Investments Limited became the first paid-up member and began to share experiences and to network with other like-minded chamas.
Three years later, when KAIG formed Amalgamated Chama Ltd. (ACL), Fechim played the important role of a promoter.

Fechim shareholders are confident that Kenya and other African economies are poised for sustained (and higher) economic growth. So, as investors fly in from all corners of the globe to exploit the opportunities that abound in our continent, they should meet Africans in the trenches, with their sleeves rolled up and realizing the African Dream themselves – using the chama vehicle.

KAIG support to Chamas

- Invitations to our investment seminars.
- Monthly newsletters.
- Introduction to other groups for networking and mentoring purposes.
- Preferential rates negotiated with service providers.
- Referrals to individuals who can take your minutes, do the accounting, follow up action points and track contributions.
- CSR support via Undugu Society.
- Free mbuzi at Cellar upon joining.

APPENDIX 1

The Central Depository System

Kenya's Central Depository and Settlement Corporation (CDSC) shareholding is distributed as shown below:

No.	Shareholder	%Age Share	Comment Or Explanation
1	Capital Market Challenge Fund	50%	10% - EABL 5% - EADB 5% - KCB 5% - CENTUM 5% - CBA 5% - JBLEE 5% - OMAM 5% - Apollo 5% - CFCFS
2	Nairobi Securities Exchange (NSE)	20%	NSE is owned by brokers
3	Stock brokers	18%	1% each
4	CMA Investor Compensation Fund	7%	
5	Dar es salaam Stock Exchange (DSE)	2.5%	
6	Uganda Securities Exchange (USE)	2.5%	
	TOTAL	100%	

APPENDIX 2

List of useful contacts

A glossary of the institutions an investor must know

- Capital Markets Authority (CMA)
- National (governmental) investment agencies
- Key Security exchanges in the various jurisdictions
- All investment advisers and their core competencies
- All brokers and their corporate governance standing
- All investment banks and their corporate governance standing
- All fund managers
- All custodians
- All Collective Investment Schemes (CIS) and their core competencies.
- Banks and their contact information.
- All mortgage companies and their specializations.
- Model investment groups – for case studies and value-adding networking
- Purposes. Let a group choose their role model club, keeping in mind similarity of circumstances
- Recommended readings on investment, motivation and management
- Recommended websites
- The technology used and security/risks by various capital markets intermediaries.
- Central Depository and Settlement Systems (See Appendix 1)

Notes:

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