

Khasakh SACCO- Annual Treasurer's Report FY- 2022

FINANCE & INVESTMENT SUB-COMMITTEE REPORT

KHASAKH COOPERATIVE SOCIETY LIMITED – FY 2022 ANNUAL FINANCE & INVESTMENT REPORT



KHASAKH COOPERATIVE SOCIETY LIMITED

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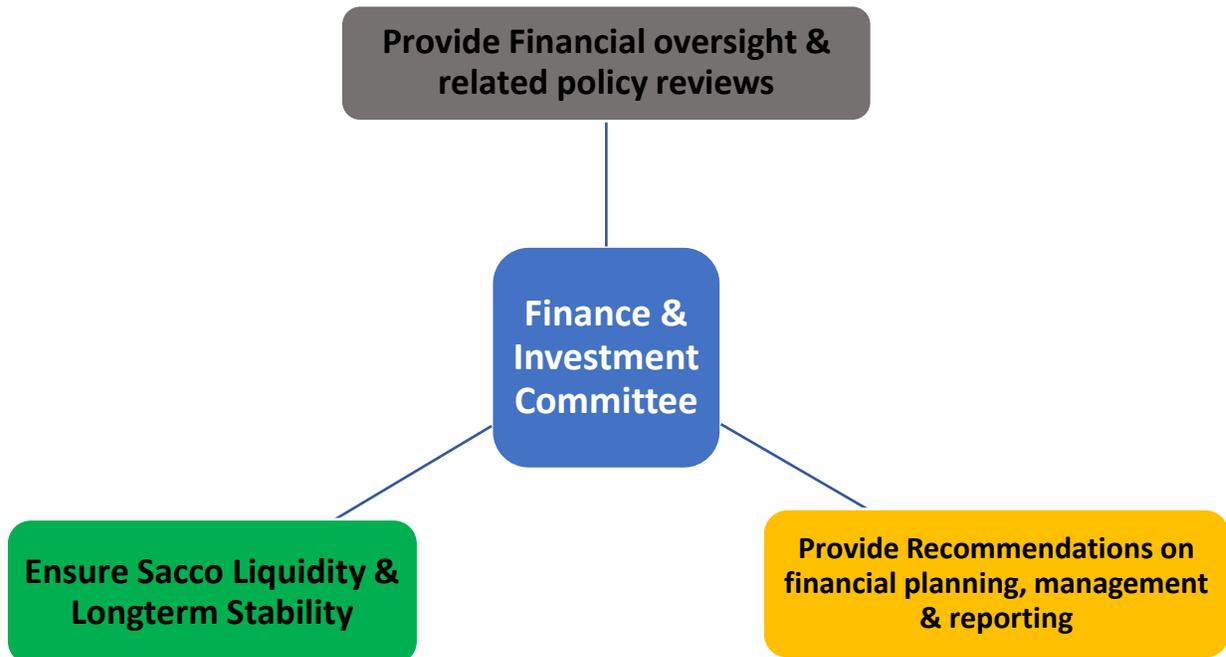
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INTRODUCTION

The Sacco Sub-Sector continues to contribute tremendously to the lives of many Ugandans through affordable loans & tailor-made saving products directed towards funding land acquisition, home construction, business startups, education and many more. At Khasakh Sacco, a total of 890 active members & 448 loan disbursements were registered in 2022. This represents an 8% increment in loans compared to the previous financial year. The Sacco continued to register increased productivity within the year through maintaining its turnaround time for processing loans within 3-4 days & 2 days for savings withdraw requests respectively.

In order to oversee these operational commitments, the Khasakh finance & Investment Sub-committee was formed to ensure reliable & effective financial services to Sacco members within the following mandate;

- Review and make recommendations to the board on the financial plans of the Sacco and ensure their adequacy and soundness in providing for the Sacco Society current operations and long-term stability.
- Review, discuss and make recommendations to the board concerning significant financial planning, management and reporting issues of the Sacco society.
- Oversee policies and issues related to Sacco financial affairs and the investment of Sacco funds.





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GENERAL PORTFOLIO PERFORMANCE

Khasakh's financial structure is mainly distributed among 3 elements namely Assets, Member's Equity & Liabilities. These comprise of Physical Assets, Loan Assets, Retained Earnings, Share Capital and Member's savings deposits among others. Its around these components that Khasakh business evolves. The table below shows the performance of these elements for the financial year 2022.

The table below shows the overall portfolio performance for the first 2 years against the strategic plan in UGX '000'

YEAR	2021	2022	Performance (%)	Strategic Plan Projections FY 2022
Assets	6,013,225	6,489,459	88%	7,394,000
Share Capital	1,435,075	1,682,375	93%	1,817,000
Savings Portfolio	3,525,736	3,545,288	78.3%	4,527,000
Loan Portfolio	4,747,069	4,720,338	84.3%	5,597,000

a) Assets

With introduction of the real-estate project, Khasakh's asset portfolio is expected to grow exponentially compared to the previous years. This will boost our cash inflows for the proceeding the months of financial year until the estate is fully taken up. This move is intended to enable our members acquire titled land at an affordable rate within manageable loan terms.

b) Share Capital

The growth in share capital has since seen a slow progress as opposed to our initial target of raising **2,971,000,000/=** in shares by 2025. This is due to limited knowledge among majority of our members regarding investment in shares as a long-term business venture and also the low return on shares over the years has been a source of discouragement for new potential shareholders looking to purchase more shares. Nevertheless, 2022 has seen an increase in share capital by **247,300,000/=** more compared to the previous year and this trend in growth is expected to increase over the coming years as we diversify our membership portfolio through mergers.



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c) Savings Portfolio

i) Savings Deposits

An average monthly deposit of 514,000,000/= is received with 350,000,000/= from WVU payroll as member contributions and 164,000,000/= as direct deposits from other non-wvu staff membership respectively.

Member deposits in 2022 slightly increased by 11% compared to the previous year 2021 due to slow growth in our membership and also a drop in the monthly savings amounts as more members took up credit facilities. This increment however is still short of the 5year strategic plan which projected a total of 4,527,000,000/= as savings deposits for the year 2022. With merci corps on board, we project 30% growth in savings given the number of staff expected on board.

ii) Savings Withdrawals

The slight increment in general savings portfolio for the year is attributed to more withdrawal of savings by members during the period compared to the last financial year. low growth in membership during the year also affected increase in savings portfolio. Members are encouraged to take on more of our target savings accounts in order to save for specific purposes longer which will attract more interest given the selected saving product

D) Loan Portfolio

i. Loan Disbursements

Despite the current sky rocketing inflation rate of 10.4%, high market lending rates ranging from 18- 24% coupled with stiff competition from commercial banks & other money lending institutions, we managed to disburse loans amounting to 3,883,066,012/=in 2022 with Land loans & salary loans taking lead. Khasakh has maintained a favorable and affordable interest rate of 16% on reducing balance throughout the year to ensure a healthy & wealthy financial state of its membership.

The Sacco's loan portfolio is expected to grow by 25% 2023 as a result of increased credit uptake from real-estate loans and the slated intensive marketing drives throughout the year across the various WVU clusters and partner companies. More loan applications are also expected from the new members as explained in © above.

ii. Loan Repayments

We collected a total of 4,304,072,203/= in loan repayments for the year 2022. This significantly reduced the net loan portfolio outstanding to 4,720,338,000/= by close of the year as reported in the annual audit report. Please note that 80% of these recoveries are off the source from the WVU payroll deductions. Nevertheless, we still have a big number of members whose loans are under default as a result of dishonored loan repayment plans & agreements.



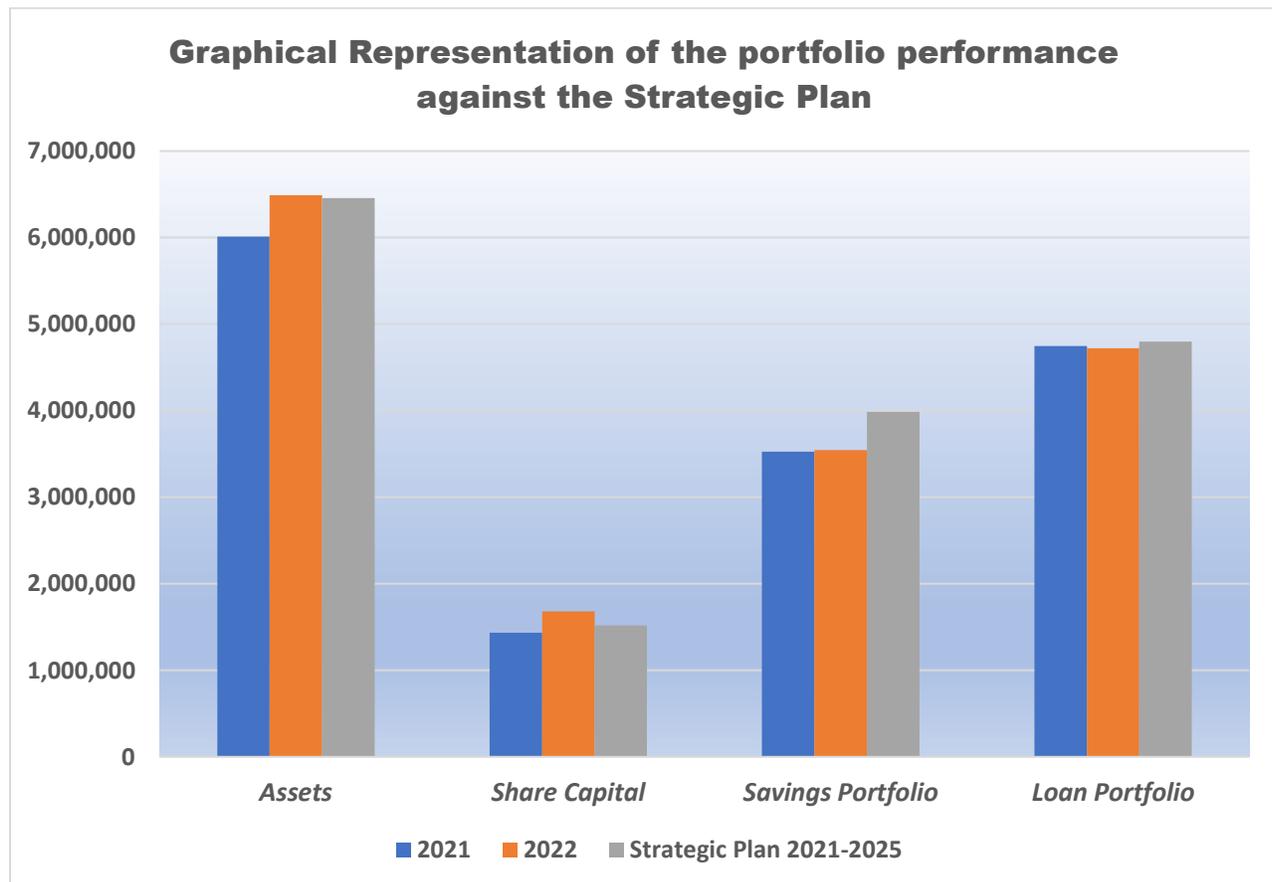
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iii. *Bad Debt recoveries & Write offs*

A total sum of 131,977,656/= Was recovered from loan defaulters last financial year. These recoveries were possible through lodged legal suits and enforcement of settlement deeds by our legal personnel. Salary loans amounting to a sum of 11,491,000/= which were categorized as bad debts were written off through the loan provision. This decision was made after several attempts of recovery which did not yield any results as majority of the defaulters were unreachable nor untraceable with no available Physical collateral that could be liquidated to settle their respective loan balances. Please note that the recovery processes shall continue and any amounts recovered will be recognized as an income to the Sacco.

Below is a graphical representation of the annual financial performance visa vie our set targets as per the 5-year strategic plan 2021-2025.





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FINANCIAL INVESTMENTS

Khasakh mainly takes on short term investment ventures in order to meet its day to day liquidity demands as they fall due. This is because the Sacco's core mandate is to offer credit to its members. Investment in these short-term flexible options enables us to meet those credit demands whenever the need arises.

The table below shows the financial investments made within the financial year in UGX "000"

Investment Type	Agent	Amount Invested	Interest Rate	Period Of Investment	Interest Earned
Fixed Deposit	Britam Insurance	950,000	9.5- 11.04%	12 Months	83,222
Unit Trust Fund	ICEA Insurance	150,000	10-11.9%	Not Fixed	48,629
Money Markets	UAP Insurance	0	10- 11.8%	Not Fixed	17,912
Total		1,100			149,763

In 2022, Khasakh mainly invested in money markets, Fixed Deposits and Unit Trust Funds with the respective Insurance Companies as showed in table (1) above. A sum of 1,800,000,000/= (**One billion Eight Hundred Million Shillings**) was placed in the respective investment types shown however, due to liquidity demands to service loan requests, a number of withdrawals were made amounting to 700,000,000/= (**Seven Hundred Million Shillings**) within the year hence losing out on the expected interest on the various investment types respectively. We closed with 1,100,000,000/= (**One billion One Hundred Million Shillings**) as balance in the different financial investments.

With the above financial investments, Khasakh Earned a total of 149,763,000/= as net interest however 17,947,650/= of the income received is attributed to the financial year 2021.

Nevertheless, in order to raise more capital, members are urged to purchase more shares to enable the Sacco engage in long term investment options which will yield better interest. ***Let's grow Khasakh together.***



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BUDGET PERFORMANCE

The table shows the SACCO's Financial performance against the respective budget estimates in UGX'000'

Particulars	2021	2022	Budget utilization	2022- Budget
Interest Income	705,384	808,589	96.5%	837,690
Non- Interest Income	50,545	73,674	86.2%	85,445
Total Income	755,929	882,263	95%	923,135
Interest Expense	163,671	177,953	91.6%	194,472
Personnel Expenses	105,404	145,783	98.9%	147,320
Administration Expenses	257,060	152,819	80.8%	189,144
Governance Costs	54,541	113,478	108%	104,750
Expenditure	580,676	590,033	92%	635,686
Net Surplus	175,253	292,230	101%	287,449

Interest Income on Loans

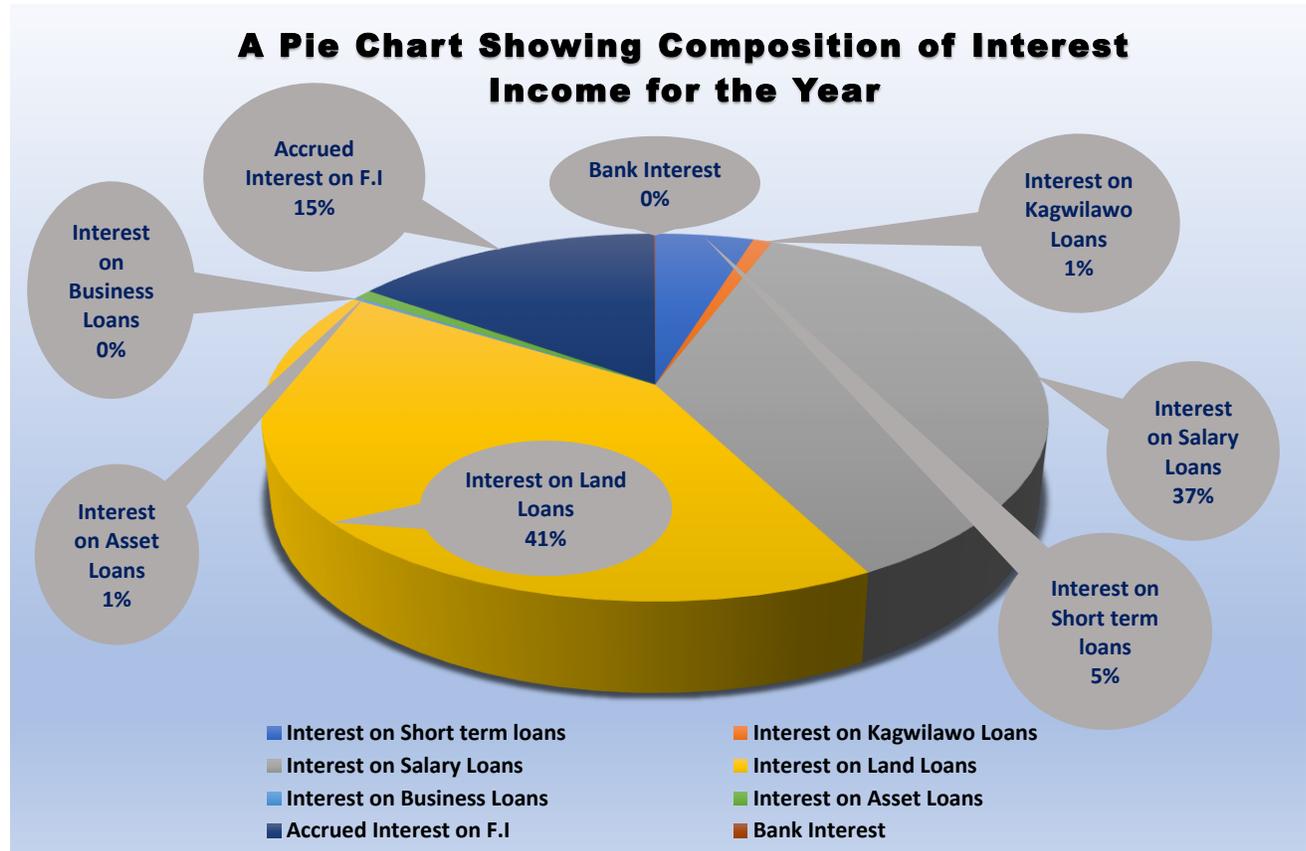
A 15% growth in interest income from loans was registered in 2022 compared to the last financial year. This growth is mainly attributed to the recovery efforts exercised on both performing loans and non-performing loans and increased member uptake of medium & long-term loan products like salary & land loans which have higher returns.

Income from financial investments also contributed to general growth in interest income by 46% more compared to the previous financial year. This was due to favorable interest rates in the various money market funds ranging from 9.5- 11.9% throughout the year.

Non-interest Income

Income from alternative sources increased by 46% compared to the previous year. Income from loan processing fees, monthly ledger fees and income from AGM penalties were attributed to this growth.

Overall, we achieved 95% of our estimated income projections as per the previously approved annual budget.

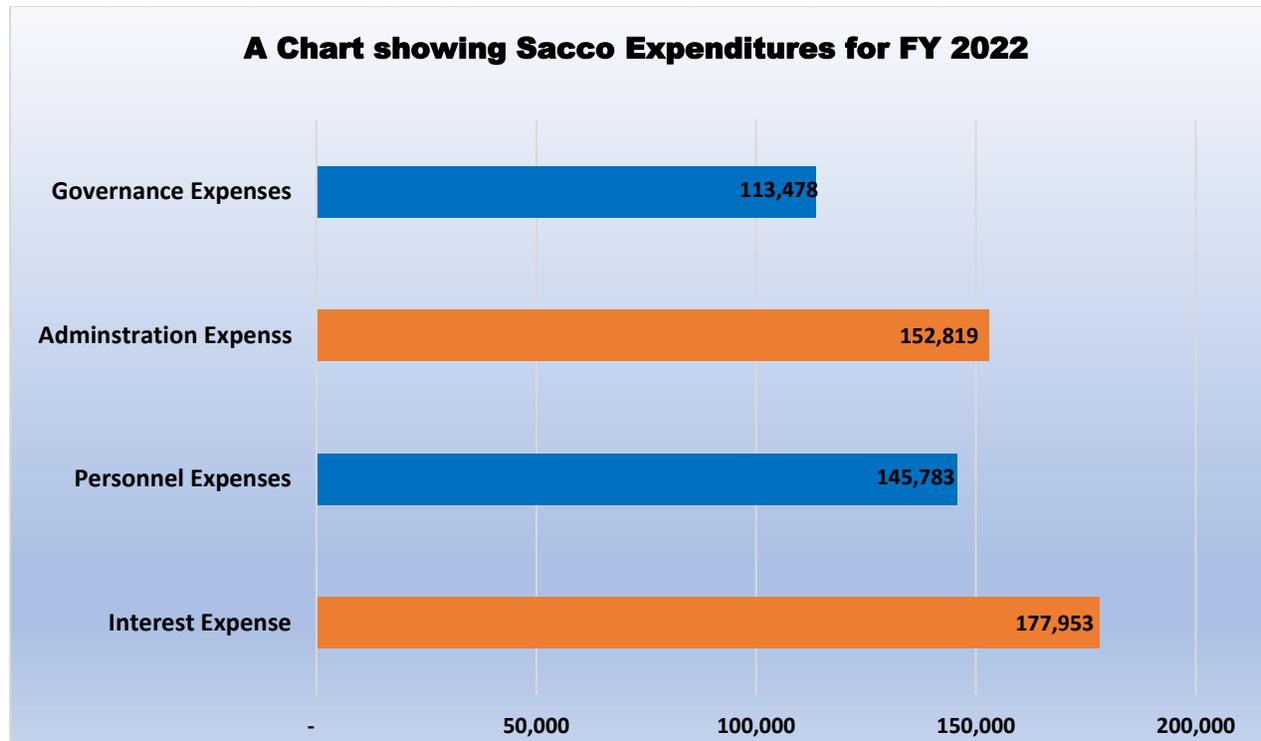


Expenditure

Khasakh expenses are mainly categorized under administrative, Personnel, Governance and interest expenses incurred on the respective saving products. For FY 2022, the Sacco managed to work within its means and performed relatively well against the budget estimates for the year with actual expenditure dropping by 7% compared to the budgeted for in 2022. This was possible due to the austerity measures taken by the management and the finance & investment committee to closely track & monitor Sacco incomes & expenditure.

The Prudent financial management also helped to minimize costs and maximize our surplus total costs compared to the last financial year. This has enabled us declare an improved dividend rate from 9.5% to 11% on all fully paid up shares held by 31st March, 2022.

Overall utilization was 93% as per the budget estimates for the respective year.



ISSUANCE OF DIVIDENDS

2022 saw an increase in shares by 247,300,000/= resulting into a growth in Share Capital from 1,43,075,000/= to 1,682,375,000/= within the year. With reference to the Sacco's newly approved dividend & share policy, only fully paid up members who held shares by 31st March, 2022 qualified to earn dividends for the year 2022.

It is upon this background that an 11% rate was decided upon as earning per share for FY 2022 amounting to a sum of 157,658,000/= as dividends payable to 553 members holding 57,330 shares valued at 1,433,250,000/= respectively. This so far brings 2,750/= as the highest paid dividend per share for the past 5 years.



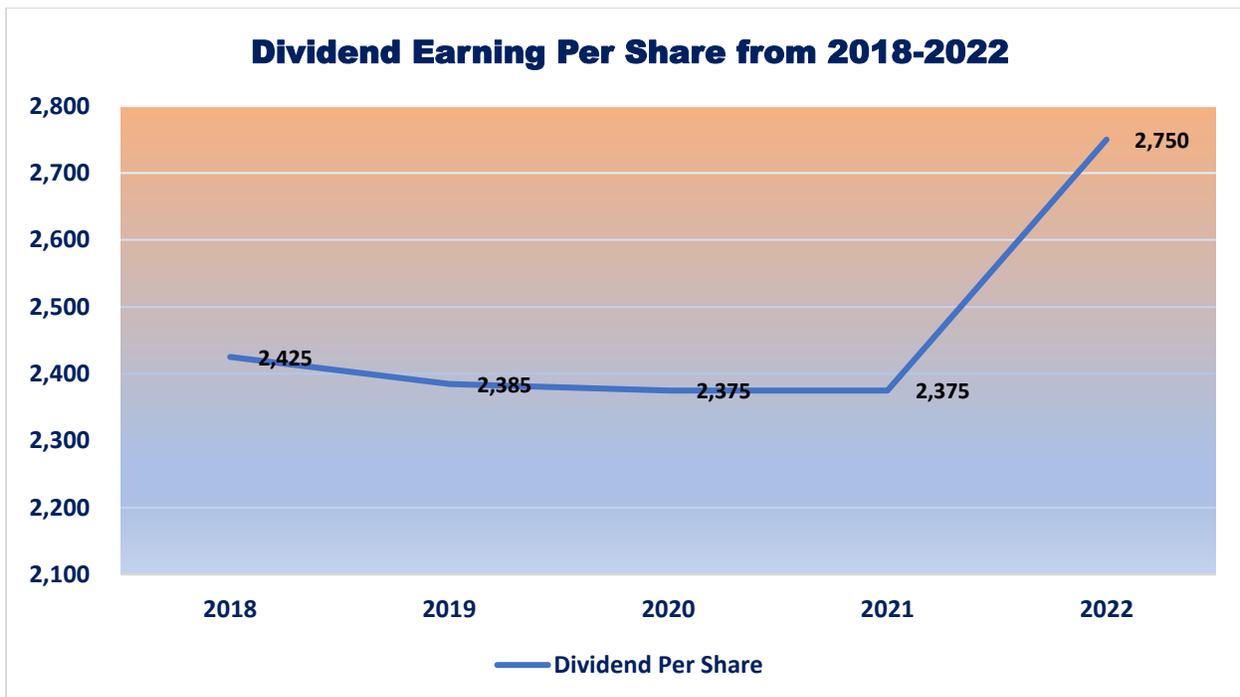
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Below is a summarized Graphical representation of share growth & dividend earning over the past 5 years in UGX “000”.



A Trend Line showing Dividend Earning per share for the last 5 years in UGX”000”





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CHALLENGES ENCOUNTERED WITHIN THE FINANCIAL YEAR 2022

- Delay in account reconciliations due to unknown deposits that can not be traced to their respective owners. The number of Unknown deposits has slightly declined compared to the prior years however, we still have a few members who have continued to make transfers to the respective Sacco bank accounts without stating their membership particulars or names.
- Low subscription to other Sacco saving products like education saver other than the General saver product. Majority of our members have only subscribed to one saving product which de-popularizes the rest and also reduces on the expected saving deposit collections for a specified period. Members are encouraged to take on other saving products as a way of growing the saving culture and also a form of proper planning for those certain expenses like school fees.
- Slow share growth as a result of few subscriptions to shares by the membership. Majority of our membership are only persuaded to purchase shares when in need of credit. Whilst this raises capital for the Sacco, the amounts purchased are still not enough to meet the required share capital targets needed to diversify our investments.
- Loan default due to non-compliance to credit terms & conditions. There is a growing tendency of a few of our members who directly halt their remittances towards their monthly loan obligations at their own peril without prior notice to the Sacco management. These acts are contrary to the signed commitments every member acknowledges during loan application & assessment.
- Delayed remittance of saving contribution for members from WVU. This had been in the past however, due to payroll challenges with the partner, payment of members' monthly contributions off the payroll takes time which in turn leads to redemption/ withdrawal of other Sacco funds from the respective money market funds to service withdrawal and loan requests. This in turn leads to forfeiture of some of the expected interest.

RECOMMENDATIONS/ WAY FORWARD

- The Msacco Mobile Application has been rolled out to enable members make direct deposits from their mobile money wallets directly into their respective savings account with Khasakh Sacco. This aims at direct reconciliation & update of member accounts and also encourage more savings due to the ease of transacting.
- Members are encouraged to take on other saving products as a way of growing the saving culture and also a form of proper planning for those certain expenses like school fees etc.
- Khasakh has taken on diversification of its investments in order to increase revenue, this in turn will grow our gross surplus which will directly yield better return on investment for our shareholders. This movement is evident in our current year increment in dividend earnings per share.



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- Efforts have been put in place to reinforce all loan agreements between khasakh & the respective members, these among the few are preparation and execution of mortgage deeds, loan agreements, settlement deeds and other legal documentation that are applicable to our borrowers before loan are disbursed. This will help manage non-compliance to agreed loan terms & conditions.
- Engagements are ongoing with the concerned personnel within our partnership in order to address delayed remittances of monthly staff savings contributions & we believe possible solutions shall be arrived at as soon as possible

CLOSING REMARKS

As Khasakh strives to maintain and grow its portfolio among the big saccos in Uganda with over 6 billion shillings in total assets, we are grateful to God for the far he has brought us and for the many great opportunities ahead. Khasakh as a going concern is well on its course towards achieving its strategic objectives, is financially sound and still remains the most affordable source of finance for development towards a healthy & wealthy state of its membership.

We are optimistic that 2023 comes with a very positive promise for Khasakh Sacco as we work to growing the Sacco to even greater heights.

Prepared by Finance & Investment Committee

<i>Name</i>	<i>Designation</i>
<i>Mr. Kamwaka John Twesigye</i>	<i>Chairperson</i>
<i>Ms. Atim Lucky</i>	<i>Treasurer</i>
<i>Ms. Nuwomigizi Jascinta</i>	<i>Secretary</i>

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