



**MOMBO**

Sacco

Endless Possibilities

# DIVIDENDS & INTEREST ON MEMBERS' DEPOSITS POLICY

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CONSULTANCY & INSURANCE  
AGENCY LTD



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## 1.0 LIST OF ABBREVIATIONS AND INTERPRETATIONS

<b>ADM</b>	Annual Delegates Meeting
<b>BOSA</b>	Back Office Services Activity
<b>BOD</b>	Board of Directors
<b>BY-LAWS</b>	Mombo Savings and Credit Cooperative Society By-laws
<b>CEO</b>	Chief Executive Officer
<b>NDTS</b>	Non – Withdrawable Deposit Taking Sacco
<b>RULES</b>	Requisite legal laws governing Co-operatives and sacco societies in Kenya
<b>SACCO</b>	Savings and Credit Co-operative Society
<b>SASRA</b>	Sacco Societies Regulatory Authority
<b>SOCIETY</b>	Co-operative Society as Registered under the Co-operative Society Act
<b>UFAA</b>	Unclaimed Financial Assets Authority



## 2.0 PREAMBLE

This Dividend Policy is a comprehensive document encompassing guidelines on distribution of surplus among shareholders in proportion to the ownership. This policy seeks to guide the Sacco with information on factors that affect the society's dividend calculation and payment, interest on deposits, determining interest rates and interest setting.

While the policy anticipates and provides for a wide range of circumstances, it is not exhaustive and should be read in conjunction with existing Laws and other relevant policy documents as well as the application of industry best practice. In addition to this policy, specific instructions and operational guidelines may be issued from time to time by the Board of Directors and/or Sacco Management.

## 3.0 INTRODUCTION

**Mombo Savings and Credit Co-operative Society Limited** was registered in the year 2015 under the Co-operative Societies Act Cap 490 Laws of Kenya as limited liability Society. It began its operations in the same year with the aim of mobilizing savings thereby creating and accumulating capital and providing affordable credit facilities to its members to improve its member's economic and social well-being. The Sacco has its head office at Landmark Plaza, 13th Floor, Argwings Kodhek Road,

The Sacco operates BOSA and offers an array of competitive, flexible and affordable saving and loan products to its members.

This policy framework takes in cognizance the aspirations of the Sacco, the challenges and lessons learnt, the opportunities arising there from and the industry best practices. It is well aligned to the Mombo Savings and Credit Cooperative Society (amended) Bylaws, 2019.

## 4.0 OBJECTIVES OF THE POLICY

The main objective of this policy is to enhance Sacco decision on how much of its earnings it will pay out to shareholders. Specifically, the policy will ensure

- 4.1. Dividend is declared by directors at the close of the financial year from available earnings of that particular year but not from retained earnings of past years.
- 4.2. Dividend is payable to ownership shares subject to making transfers to the prescribed statutory reserves.
- 4.3. Long-term financial analysis is done to come up with dividend payout ratio. This will stabilize dividend rate to ensure Sacco continuity and consistency in performance.



## 5.0 LEGAL AND REGULATORY FRAMEWORK

This policy has been developed within the following legal and regulatory framework:

- i. The Co-operative Societies Act 1997 [Amended 2004];
- ii. The Sacco Societies Act Revised 2012 [2008];
- iii. The Sacco Societies Non-Deposit Taking Business Regulations, 2020; and
- iv. The Society's Bylaws.

## 6.0 RESTRICTING PRINCIPLES

Preparation and implementation of this policy is guided by the following principles;

- 6.1. No dividend shall be paid when the Society is insolvent;
- 6.2. Rate of dividend to be paid shall be determined by the management and recommended to the board of directors for the approval during the annual delegates meeting;
- 6.3. The Society shall pay dividends as a return to members in considerations of society performance, current and future needs;
- 6.4. Dividend for defaulters shall be used to reduce their outstanding loan;
- 6.5. Dividend shall not be paid out on borrowed funds.;
- 6.6. The Society shall strive to stabilize the dividend rates to ensure continuity and consistency in performance. The Sacco may establish and maintaining a dividend equalization fund as per S 51(2) of the Non – Deposit – Taking Regulations, 2020;
- 6.7. The Board shall monitor and enforce a minimum liquidity cut-off rate below which NO dividend payments are to be made.
- 6.8. The Society shall not declare a dividend if the Society has made a loss during a financial year.



## 7.0 DIVIDEND PAYOUT PARAMETERS

7.1. Subject to the Cooperatives Societies' Act, Sacco Societies Non-Deposit Taking Business Regulations 2020, Bylaws, Sacco Performance and industry best practice, and approval by the annual delegates meeting, the Board of Director shall propose to the Annual Delegates Meeting how to distribute the preceding years' surplus in alignment to the following parameters.

### a) External Parameters

- 7.1.1. **Statutory requirements:** Not less than 20% of the surpluses retained in any one year shall be set aside in cash and be carried to the Statutory Reserve Fund,
- 7.1.2. **External Stakeholders:** The Sacco will consider other restrictions such as debt and other obligations in considering dividend payout.
- 7.1.3. **Competition and Trends:** The Sacco may consider the industry trends and comparable saccos in determining their competitive dividend rates.

### b) Internal Parameters

- 7.1.4. **Profitability:** The Sacco will take into consideration the years declared surplus, the law prohibits dividend pay otherwise, that is, when not in surplus;
- 7.1.5. **Growth:** In the event that the sacco may need to expand in alignment with its strategy, this may necessitate significant funds that will be obtained from the Sacco's reserves. Consequently, the Board of Directors will allocate reserves to these undertaking prior to dividend payouts, therefore affecting dividend rates;
- 7.1.6. **Financial position:** In order to ensure sustainability and maintain an acceptable financial position, the sacco may consider maintaining a high retention ratio. This will be proposed by the BOD and may be altered from time to time as deemed necessary.



## 8.0 DIVIDEND PAYOUT

8.1. In addition to the 20% statutory requirement, as mentioned in *section 7.1.1* above, at least 10% of the surplus in any one year shall be set aside to the Capital Reserve Fund;

8.2. The remainder, of the annual net balance from computation of components mentioned in *section 8.1*, above may then be disposed of as may be decided by the Annual Delegates Meeting as:

- I. Payment of dividend on shares,
- II. Payment of honoraria to Board Members,
- III. Payment of bonus to staff,
- IV. Payment into the institutional capital,
- V. Payment into the general reserve including the appropriations account,
- VI. Recapitalization of member shares,
- VII. Contribution to a development fund or other funds,
- VIII. Contribution to any charitable, educational, medical or other purpose in accordance with the provisions of the Act.
- IX. Payment in any other way approved by the delegates meeting with the undistributed balance carried forward to the following year

8.3. Subject to the provisions of relevant regulation, the Society may propose dividend out of surplus for the year or out of available reserves for distribution of dividend, including the dividend equalization fund as per *section 6.6* of this policy and after taking into consideration all other constraints per this policy;



## 9.0 DIVIDEND PROVISION

In case the Society has decided to pay dividend;

- a) The rate of dividend shall be at agreed upon rate passed by a duly constituted annual delegates meeting, the rate shall be applied to shares held as at close of the financial year;
- b) After the decision of Annual Delegates meeting, the individual member's share of the total dividend shall be calculated, and the amount added to the members BOSA account.
- c) The member shall have the option of capitalizing the share capital or be paid in cash,

## 10.0 INTEREST ON MEMBERS DEPOSITS

The Sacco may interest on deposits to its members in any financial year. It shall be computed as a financial expense.

### 10.1. Computation

The rate of interest on deposits shall be made after computing the expected rate of return on investment of members' deposits in the financial year in question and budgeted for. If the Societies performance is better or worse than projected, the rate of interest shall be adjusted accordingly.

### 10.2. Declaration

Interest on deposits declaration shall be at the Society's Annual Delegates Meeting which shall be held not later than four months after the close of the financial period.

### 10.3. Payment

The cumulative interest on deposits shall be paid not later than 60 calendar days after the declaration of the same. The computed Interest shall be transfer to the respective BOSA accounts of the members held in the Sacco. The Society shall thereafter debit the BOSA accounts and transfer the interest earned to the respective member to the bank accounts where the members have accounts or to mobile money wallets.



#### **10.4. Capitalization**

Members who wish may opt to have their interest payouts converted into deposits that will improve their borrowing power and future interest earnings.

#### **11.0 POLICY REVIEW**

The Sacco's Board is responsible for formulating, reviewing, and adjusting this Dividend & Interest on Members Deposits policy and will review this policy on an annual basis and make changes if necessary, so that it is reflective of daily operations and requisite regulations.



## 12.0 APPROVAL OF THIS POLICY

This document was discussed and approved for implementation as the Dividend & Interest on members Deposits Policy of Mombo Sacco Society with effect from ..... OCTOBER 2020

It is approved under Minute Number .....of the Board Meeting held on ..... OCTOBER 2020.

Designation	Sign	Date
Chairperson		23/10/2020
Secretary		23/10/2020
Treasurer		23/10/2020

