



## Internship Kenya

**Title:** Development of a Risk management Strategy (RMS)

**Client:** Lelan SACCO

**Period:** Starting May- July 2018

**Duration:** 3 months

### Introduction

Lelan Financial Service Activity (FSA) was formed in the year 2010 as a self-help group to serve the members of the Lelan dairies. In 2015 Lelan Farmers Sacco was founded. The Sacco serves both members and non-members who access the various financial services. There is a close association or even a co-dependence with Lelan Dairies.

Currently, the Sacco has a membership of about 2.700 members and about 5.000 non-members who are actively delivering their milk to Lelan Dairies. Majority are small holder farmers. Main farming activities are dairy and potato farming. Lelan Sacco has a total loan portfolio of KES 26 Million.

The key focus for Lelan Sacco is to be licenced by the government of Kenya through Sacco Society Regulatory Authority (SASRA). Efforts are in place to mobilise more capital from members so as to attain this goal of licencing. The required amount to be licenced is 10M. At the moment Lelan SACCO has mobilised 3.5M

### Background and Rationale

The cooperative assessment of Lelan SACCO was conducted in November 2016 resulting in a positive advise to start a partnership between Lelan SACCO and Agriterra. The key recommendations were:

- Implement the existing manuals, procedures and policies. Take the relevant manuals e.g. Credit policy out of the manager-office into the staff office.
- To actively pursue the reduction of the amount of defaulted loans (7.9M KSH) directed by a committee consistent of the GM, Loan officer and a Board member.
- Upgrading the ICT system to the standards of a fast-growing Sacco. Network links between branches and head office.
- Enhance funding by attracting more shareholders / members and attract outside funds from e.g. cooperative bank and Lelan Highland Dairies.
- A strengthening of the co-dependent relationship of both the Dairy coop and Sacco by e.g a letter of intent for future cooperation will be discussed in a joint board meeting.

- Use the marketing policy and marketing-budget of 800.000KSH (2016) to further improve the marketing department. Use of membership to spread the word and educate people. It is advisable to put a committee of staff, members and board in place to make a marketing plan or year plan to support the financial budget.

In 2017 the first year action plan was implemented with a, key focus on increasing share capital from 2.8M to 5M, grow membership from 1.252 to 2.200, reduce defaulted loan (PF) from 8.3M to 5.9M, increase loan book from 21M to 30M and increase profitability from 7.4M to 9M (+21.6%) would be steps towards regulation by SASRA (licencing body). Lelan SACCO achieved most of these goals except that defaulted loan increased from 8.3M to 16.4M as a result of the 4-month-long draught which subsequently also reduced their profitability from 7.4M to 6.5M.

Effective risk management is fundamental to the continued existence of any organisation. This precept is particularly true for financial institutions. Lelan SACCO has in the past 3 years recorded an increment in defaulted loans.

In June 2017 a marketing mission was conducted. One of the critical observations and also recommendations of this mission was that it is necessary to decrease defaulted loans by a dedicated team of GM, loan officer and board member. However this mission did not further analyze the situation or come with concrete actions, as it was beyond the scope of the marketing mission. One of the recommendations of the mission was to update the ICT system that shall keep track of the members payment practices and will make analyzing performances, including risk management much easier. The Software has since been updated. However, there is still need to scale up and integrate the system with other branches in order to track information real-time.

## Objectives

The main objective of Lelan SACCO is to embed risk management in its strategic management decisions. This will be by a formally documented Risk Management Strategy (RMS) that details the risk management processes within the SACCO. Specific goals for the assignment includes;

- Establish and operationalise risk related frameworks
- Develop/update risk related policies and procedures
- Analyze the rate of loans issued vis a vis the rate of loan repayments e.g. no of members receiving loans per quarter vis a vis the repayments
- Develop practical mechanisms to assess and measure risks, alerting the SACCO of potential and existing risks and link this in as much as possible with existing or to be improved ICT systems
- Develop practical mechanisms to monitor and report on these risks and to implement mitigating factors and link this in as much as possible with existing or to be improved ICT systems
- Develop a plan in place to enable a 'risk culture<sup>1</sup>' at the SACCO

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<sup>1</sup> Risk culture is the system of values and behaviors present in an organisation that shapes risk decisions of management and employees.

### Scope of Assignment

The assignment shall follow the following steps, inter-alia;

- I. Review of the existing Risk Management policies and procedures.
- II. Identify gaps in the current risk management framework.
- III. Formulate appropriate and practical risk frameworks, policies, and procedures to include inter alia, operational, market, liquidity and credit risks.
- IV. A timetable for the implementation of the proposed framework, policies and procedures.

The interns will work closely together with responsible staff for risk management of Lelan Sacco, specifically the loans officers

### We are looking for

Two well-motivated Final-year BSc or second year MSc students with the following profile:

- MBA/BBA with a bias in Risk Management/financial management with a keen attitude in improving management focus of small size (farmer) companies. Good communication and writing skills, business-minded, adventurous, disciplined, precise, independent, good/fluent in English, result-driven and willing to work/live in the rural part of Kenya.

We aim for a team of one Kenyan and one International student.

### Expected results

A report detailing the findings and recommendations on a risk management strategy looking into current and potential risks on; credit, liquidity, operational, compliance and fraud. This will be translated into a SMART action plan. The implementation of the action plan (by Lelan Sacco) should result in a financially more profitable and sustainable business.

### Application

Send your CV and a short letter of motivation to Agriterra [vacature@agriterra.org](mailto:vacature@agriterra.org) for the attention of Mr C.C. van Rij, MBA, manager agri-advice, before 20 April 2018.

### **About Agriterra**

*Agriterra is an agri-agency founded and steered by the farmers' organisations and agricultural cooperatives in the Netherlands. Its mandate is to strengthen producers' organisations and cooperatives worldwide. For farmer-led business initiatives, Agriterra specifically supports business development services in the pre-investment phase such as feasibility studies, market surveys, business planning and capacity building components. In addition Agriterra provides:*

- *Brokerage services to link farmer-led business development initiatives with investors, banks and other primary and supportive stakeholders in the value chain.*
- *Advisory services often employing Agripool advisors: experts stemming from co-operative and private agribusiness companies from the Netherlands and beyond with a specific thematic or sector expertise.*