

REPUBLIC OF KENYA



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REPORT

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DATE: **08 JUN 2024** DAY: **Thursday** OF

TABLED BY:

Hon. Naomi Wago, MP
Deputy Majority Whip

THE AUDITOR-GENERAL

CLERK-AT THE-TABLE:

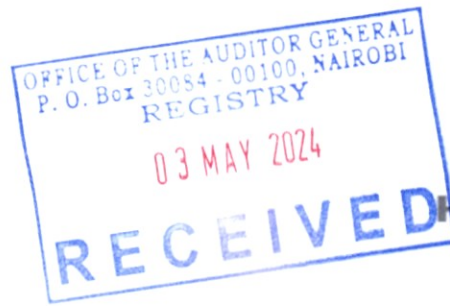
M. Mado

ON

FINANCIAL INCLUSION FUND

**FOR THE SEVEN (7) MONTHS PERIOD ENDED
30 JUNE, 2023**





Hustler Fund
JIINUE - JIENDELEZE

(FINANCIAL INCLUSION FUND)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE SEVEN (7) MONTHS PERIOD ENDED

30TH JUNE 2023

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

**Financial Inclusion Fund
Annual Report and Financial Statements for the
Seven months period ended June 30, 2023.**

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1. Acronyms, Abbreviations and Glossary of Terms

A: Acronyms and Abbreviations

CEO	Chief Executive Officer
DG	Director General
CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
MD	Managing Director
NT	National Treasury
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
OSHA	Occupational Safety and Health Act of 2007
PFM	Public Finance Management
PPE	Property Plant & Equipment
PSASB	Public Sector Accounting Standards Board
SAGAs	Semi-Autonomous Government Agencies
SC	State Corporations
WB	World Bank
VC	Vice Chancellor

B: Glossary of Terms

Fiduciary Management- Members of Management directly entrusted with the responsibility of financial resources of the organization

Comparative Year- Means the prior period

2. Key FIF Information and Management

(a) Background information

The Financial Inclusion Fund (FIF) was established in 2022 under the provisions of section 24(4) of the Public Finance Management Act, 2012. FIF is headquartered in Nairobi, Kenya. FIF represents a significant initiative aimed at providing crucial financial products and services to individuals at the bottom of the economic pyramid. FIF was developed and launched in November 2022 through a collaborative effort between private sector experts and public officials, marking a milestone in the realm of Public-Private Partnerships. The Fund's core mission is to comprehensively empower its target clients by focusing on pillars such as affordable credit, competitive savings products, financial literacy, universal health care, and goal-based investments.

(b) Principal Activities

The Financial Inclusion Fund is primarily mandated to:




- i. **Facilitate Financial Empowerment:** The Fund's core mission is to provide comprehensive financial empowerment to individuals and businesses at the bottom of the economic pyramid. This is achieved through the provision of affordable credit, competitive savings products, financial literacy, and access to essential services.
- ii. **Support Economic Growth:** The Fund is committed to fostering economic growth in Kenya by extending financial services to those traditionally excluded from the formal financial sector. By providing access to credit and promoting responsible financial behavior, The Fund aims to boost entrepreneurship and economic development.
- iii. **Advance Financial Inclusion:** The Fund strives to advance financial inclusion by ensuring that even the most underserved populations have access to essential financial tools and services. This aligns with the Fund's vision of creating a financially inclusive society where all Kenyans can participate in economic activities.
- iv. **Promote Sustainability:** The Fund recognizes the importance of sustainability in its operations. This includes reducing its environmental impact, adhering to ethical business practices, and actively engaging with the community through Corporate Social Responsibility (CSR) initiatives.
- v. **Ensure Social Equity:** The Fund places a strong emphasis on social equity by promoting gender-inclusive hiring practices and stakeholder engagement. It seeks to create a diverse and inclusive workforce that mirrors the society it serves.

These functions are derived from the Public Finance Management (Financial Inclusion Fund) Regulations, 2022, and are in line with the Fund's vision of becoming a leading catalyst for financial inclusion and economic growth in Kenya.



(3)The Board of Directors

Ref	Directors	Details
1.	 <p data-bbox="304 913 691 1025">Irene Muthoni Karimi – Chairperson - Independent Board Member (60 years)</p>	<p data-bbox="715 465 1476 584">Ms. Irene Karimi is an international development professional with more than 30 years’ experience in project management, organizational development and training</p> <p data-bbox="715 629 1476 913">Ms. Karimi holds a B.A. in Business Administration from Andrews University, Berrien Springs, Michigan/University of Eastern Africa (Baraton)campus. She is a Certified Performance Technologist (ISPI, 2017) and holds certificates in Project Management, Project Analysis and Monitoring and Evaluation from the USDA Graduate School in Washington, DC.</p>
2.	 <p data-bbox="304 1444 691 1641">Susan Auma Mangeni- PS State Department of Micro, Small and Medium Enterprises (MSMES) Development – (45 years)</p>	<p data-bbox="715 1041 1476 1413">Susan Mang’eni is the Principal Secretary of the newly established State Department of Micro, Small and Medium Enterprises (MSMES) Development under the Ministry of Cooperative and MSMES. She is a governance and development expert with close to 15 years’ experience in both the private and public sectors, in areas of strategic leadership, public policy formulation, analysis and implementation, enterprise development, institution building, oversight, youth and women empowerment.</p> <p data-bbox="715 1458 1476 1585">PS Susan holds an MA in Entrepreneurship Development and a BS in Political Science and Public Administration both from the University of Nairobi.</p>

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3.	 <p>Hardlyne Lusui- Independent Board Member (42 years)</p>	<p>Ms. Hardlyne Lusui possesses excellent leadership, communication, analytical, organizational planning and financial management skills.</p> <p>Ms. Lusui holds a Master of Arts Degree in Women Leadership and Governance from The University of Nairobi and Bachelor of Science Degree in Information Science from the Kenya Methodist University. She further holds a Diploma in Information Sciences from Eldoret Polytechnic.</p>
4.	 <p>Paul Musyimi - Independent Board Member (38 years)</p>	<p>Mr. Musyimi is an Advocate of the High Court of Kenya in private practice. He has extensive experience in Energy Law, Contracts Law, Public-Private Partnerships, Constitutional and Devolution Law having served as Legal Officer at Rural Electrification Authority, Legal Advisor to the Governor of Nairobi and Advocate and Consultant at several Leading Law Firms.</p> <p>He holds a Bachelor of Laws (LL.B) from the University of Nairobi and is currently pursuing his Master of Laws (LL.M) in International Trade and Investment Law at the same Institution. In addition, he has a Post-Graduate Diploma from the Kenya School of Law and an Entry Certificate to Arbitration from the Chartered Institute of Arbitrators (CIArb). He is a Member of Law Society of Kenya, East African Law Society, Kenya Institute of Management (KAM).</p>
5.	 <p>CCOP Symon C. J Mburia Alternate to PS Co-operatives (50 years)</p>	<p>CCOP. Symon C.J. Mburia is a Deputy Commissioner for Co-operative Development & immediate former Ag. Chief Executive Officer of Kenya Society of Professional Co-operators (KSPC) Mr. Symon Mburia joined the Government of Kenya in 1993 as a co-operative officer and has grown through the ranks to the current position.</p> <p>Symon C.J Mburia holds a Bachelor of Commerce degree from the University of Nairobi (UoN) a Msc. in Entrepreneurship from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and a Certificate in Public Policy Development from Strathmore University.</p>

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6.	 <p>FCPA Geoffrey Malombe- Representative of national Treasury (50 years)</p>	<p>FCPA Geoffrey Malombe has extensive experience spanning more than 25 years in the financial Markets. He holds many leaderships and director position in some of the government agencies. His key skill is policy and strategy formulation.</p> <p>He holds a Masters of Arts Degree and a Master’s in Business Administration from the University of Nairobi. He is a graduate of Egerton University with a Bachelor of Science in Agricultural Economics. He is also a CPA (K)</p>
7.	 <p>Elizabeth N. Nkukuu, CFA Ag. Chief Executive Officer (42 years)</p>	<p>Ms. Elizabeth N. Nkukuu has close to Twenty years of experience in the Financial Services sector with a key focus on Investment Management in the Pension and Personal Wealth Creation programs</p> <p>Ms. Elizabeth N. Nkukuu is currently pursuing her Doctor of Philosophy(PHD) Degree in Business Administration (Finance) from Nairobi University. She has a Master of Business Administration(MBA) from Nairobi University and a Bachelor of Science in Actuarial Science from Nairobi University.</p>

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(4) Key Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were:

	Management	Details
1.		Ms. Elizabeth N. Nkukuu has close to Twenty years of experience in the Financial Services sector with a key focus on Investment Management in the Pension and Personal Wealth Creation programs. Her specialty has been around Portfolio Management, Real Estate Investments and Development, Private Equity Management including deal sourcing and

 <p>Elizabeth Nkukuu CFA Ag. Chief Executive Officer</p>	<p>structuring, Fundraising among others. She is passionate about wealth creation and to this end she is a Financial Literacy training and Advisor .</p> <p>Ms. Elizabeth N. Nkukuu is passionate about helping people create businesses that last through training, coaching, and mentoring entrepreneurs. She has run a couple of businesses learning a lot from both worlds. Her combination of impressive professional and academic qualifications and the hands-on experience gained by running businesses, bring together a significant advantage of the theory and practical aspects of running successful businesses.</p> <p>Ms. Elizabeth N. Nkukuu is currently pursuing her Doctor of Philosophy(PHD) Degree in Business Administration (Finance) from Nairobi University. She has a Master of Business Administration(MBA) from Nairobi University and a Bachelor of Science in Actuarial Science from Nairobi University.</p>
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(c) Fiduciary Oversight Arrangements

To effectively carry out its mandate the Board shall have the following key committees.

- i. *Audit, Risk and Compliance Committee*- This Committee shall be established Subject to paragraph (2) of Public Finance Management (PFM) regulations 2015 to provide oversight of the financial reporting process, the audit process, and internal controls in compliance with laws and regulations.
- ii. *Strategy, Programs and Resource Mobilization*- The Fund's strategy is often dependent on and implemented through its core programmes. To this end, it is proposed that Strategy, Programs and Resources Mobilization Committee is formed with the responsibility of providing oversight on strategy matters, planning, service delivery and implementation of its core mandate.
- iii. *Finance and Operations Committee*- The Public Finance Management (PFM) Act 2012, clause 10 (7) states that the administrator of a national public fund shall ensure that money held in the fund, including any earnings or accruals is spent only for the purposes for which

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the fund is established. Clause 10 further requires national public funds to, a) Prepare financial statements for each financial year in a form specified by the Accounting Standards Board; and (b) not later than three months after the end of each financial year, submit those statements to the Auditor-General and a copy of the statements to the National Treasury, Commission on Revenue Allocation and the Controller of Budget. The committee will oversee all the support functions of the fund including, Human Resources and Procurement.

The membership of the various committees is as below

1. Audit and Risk

S/No.	Name	Responsibility
1.	Paul Musyimi	Chairperson
2.	Geoffrey Malombe	Member
3.	Susan Man'geni	Member

2. Strategy, Programs and Resource Mobilization

S/No.	Name	Responsibility
1.	Geoffrey Malombe	Chairperson
2.	Mr. Paul Musyimi	Member
3.	Ms. Hardlyne Lusui	Member
4.	Susan Man'geni	Member
5.	Symon Mburia	Member
6.	Ms. Elizabeth Nkukuu	Member

3.1.1 Finance and General Purpose Committee

S/No.	Name	Responsibility
1.	Hardlyne Lusui	Chairperson
2.	Susan Man'geni	Member
3.	Symon Mburia	Member
4.	Geoffrey Malombe	Member
5.	Elizabeth Nkukuu	Member

During the year the Board had two (2) full Board meetings and one meeting for the inauguration of the board where all the members except Geoffrey Malombe attended. The Finance Strategy

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and General-Purpose committee had one meeting while the Strategy, Programs, and resource mobilization had four Committee meetings to review and approve the products.

(d) Headquarters

P.O. Box 30547
KIBT Building
Ojjo Road
Nairobi, KENYA

(e) Contacts

Telephone: (254) 728600576
E-mail: ceo@hustlerfund.go.ke
Website: www.hustlerfund.go.ke

(f) Bankers

1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000 -00200
Nairobi, Kenya

2. Kenya Commercial Bank
Milimani
P.O. Box 48400- 00100
Nairobi, Kenya

3. Family bank
Family Bank Plaza
P.O. Box 74145- 00100
Nairobi, Kenya

(g) Independent Auditor

Auditor-General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084 -00100
Nairobi, Kenya

(h) Principal Legal Adviser

The Attorney General
State Law Office and Department of Justice
Harambee Avenue
P.O. Box 40112 - 00200
Nairobi, Kenya

3. The Board of Directors

S/No	Name	Designation
1.	Irene Muthoni Karemi	Chairperson
2.	Hardlyne Lusui	Board member
3.	Paul Musyimi	Board Members
4.	Susan Mang'eni	Board Member
5.	Symon Mburia	Board Member
6.	Geoffrey Malombe	Board Member
7.	Elizabeth Nkukuu	Ag. CEO

4. Key Management Team

	Management	Details
1.	Elizabeth Nkukuu	Ag. Chief Executive Officer

5. Chairman's Statement

It gives me great pleasure to present to you the financial statements of the Financial Inclusion Fund popularly known as the Hustler Fund.

As you may be aware the Fund was launched in November 2023 by His Excellency the President, Hon. William Samoei Ruto. The Fund is aimed at providing support to the people at the bottom of the Economic Pyramid. The Fund is a clear success story of how if well implemented Public Private Partnerships can be a success. The product design and rollout were done through the collaborative efforts of people from the private sectors and public officers.

The Fund is aimed at having comprehensive financial empowerment for its target people that is people at the bottom of the pyramid. To effectively deliver on this mandate the fund has to focus on the following key pillars

- a. Provision of affordable credit to people and businesses with the aim of graduating the beneficiaries to access credit from other financial institutions.
- b. Provision of competitive savings products to all;
- c. Financial Literacy and Business Capacity Building for the beneficiaries;
- d. Provision of the Universal Health Care; and
- e. Goal-based investments for housing, education among other safety nets.

In the first seven months of the fund's exitance, the fund was able to make significant strides which started with the launch of the loan products the Personal Loan product was launched in November, and the group product was later launched in June. The Savings products have been part of the two products as there is a mandatory component of the funds that go towards savings.

As at the end of the financial year the Fund had made significant strides having received Kenyan Shillings Twelve billion (Kshs 12 billion) from the National Treasury and had disbursed most of it. Given the Fund issues short term loans and it is a revolving fund, the total disbursements were at Kenya shilling Thirty-Two billions (Kshs 32) with the total repayments were at over Kenya shillings Twenty-one billion Ksh (21 bn)

The total savings were at Kenya shillings one billion and six hundred million. (Ksh 1.6 billion)

Having attained the above success and with close to Twenty million people having registered on the platform, the focus in the coming financial year is for consolidation of the business base and

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continuing investing in product development and innovation. There will be a need to focus on strengthening the Fund's internal capacity to support the growth that we foresee. This growth will require a lot of synergies across the various ministries and government institutions which we believe has been the case in the last year as well.

The fund will also be focusing on further product development across all the products under the funds mandate. The loan products will focus largely on businesses loans with the aim of upgrading the clients

We are looking forward to a successful year.



Irene Muthoni Karimi

Chairperson of the Board

Financial Inclusion Fund

6. Report of the Chief Executive Officer

The Financial Inclusion Fund was launched on November 30th 2023 by His Excellency the President, William Samoei Ruto. The fund is aimed at providing financial products to people at the bottom of the economic pyramid. Since its launch the fund has made significant strides having launched two credit products and having rolled out mandatory and voluntary savings.

The fund performed well during the year under review having received Kenya shillings Twelve billion (Kshs 12 bn) from the National Treasury. The fund had revolved bringing the total disbursement to Kenya shillings Thirty Two billion (Ksh 32bn) supported by the strong repayment that stood at Kenya shilling Twenty one billion (Kshs 21 bn). The first launch was on the personal loan product which was widely distributed with over nineteen million Kenyans having borrowed from the fund and the average loan size standing at Kenya shillings Seven hundred and twenty-seven (Kshs 721).

The group loan product which was launched on June 1st , 2023 took some time to pick as we embarked on a sensitization campaign, for the one month the fund was operational, the total amount lent was Kenya shillings Eighty Two million (Kshs0 to Twelve thousand (12,000) groups with the average loan size being Kenya Shillings Six thousand eight hundred shillings (Kshs 6,800).

The fund savings product has also done p well over the time under review. The savings products are of two types: first is the mandatory savings which is five percent (5%) of the loan amount and is deducted at the loan disbursement point and two the voluntary savings for people willing to save for very specific needs. As at the end of June the total mandatory savings stood at Kenya shillings one billion Six hundred million (Kshs 1.6bn) and the voluntary savings stood at Kenya shillings Twenty Four million (Kshs 24 million).

The Fund is aimed at servicing people across the entire country, and we have seen the use of technology help enable achievement of this goal. The fund has seen uptake across the country with subscriber base at 803, 371 and had borrowed Ksh 1.84 bn while counties in Northern Kenya and part of the Coast region have the lowest borrowing. Lamu East and Ijara have low subscription of less than 5,000 people.

For the fund is largely dependent on the repayment rates and the average repayment rates stands at 65.6% which is good for start and we have seen that it varies across the country with the highest

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repayment coming from Kiambu 79.1%, Lari 78.9%, Westlands 78.6%, Githunguri 78.3% and Nyeri town 78.1%. The counties with low repayment rates are those from Northern Kenya with some having a repayment rate of below 30% these include Mandera West 27.3%, Wajir West 24.1% and Wajir North 23.3%.

Despite the great performance, the fund has had some challenges that any start-up faces which include the slow pace of the setup of the secretariat that has led to a lot of reliance on the third-party providers which at times can be inefficient. The growth of the Fund has been significant and there has been need to stop and relook at the operations to ensure that the fund is not exposed to any unforeseen risks that could render significant risk to the fund.

The last financial year's key focus was the launch and rollout of two products within the Funds pillars that is the credit product and the savings products which were successful by any measure. The focus for the next financial year is the other pillars that include financial literacy and capacity building and developing the other products mainly the savings products.

There was not much recurrent investment in the last financial year as the secretariat was under formation and the structures were still in formation. There will be a lot of focus on operationalizing the secretariat and creating the important systems to run the institution.



Elizabeth Nkukuu
Ag. Chief Executive Officer
Financial Inclusion Fund

7. Statement of Performance against Predetermined Objectives for FY 2022/2023

The Fund having been launched in the current financial year is in the process of coming up with the strategic plan and coming up with the various performance targets. The Fund's mandate is to provide comprehensive financial products and services to individuals at the bottom of the economic pyramid to support the Government's vision of transforming its citizens from social protection to social security.

The key performance pillars shall include:

Provision of affordable credit for people at the bottom of the pyramid across the country

Provision of competitive savings products

Capacity building

Market linkages

Corporate Governance Statement

The Financial Inclusion Fund aims to adhere to the highest codes of governance. According to the formative regulations the fund shall be managed by an Advisory Board. There will be a management team that is headed by the Chief Executive Officer who will be the Fund's Administrator.

The Advisory Board took office in March of 2023 after being gazetted in January. During the year the Board held Two full board meetings and there was a total of six committee meetings. The board also attended an induction programme organized by the State Corporation Advisory Committee (SCAC). The payments of the board meeting allowances were in line with the directive by SCAC. The Board is in the process of developing the Boards governing documents among them the Charter and the Board calendar for the next financial year.

8. Management Discussion and Analysis

The fund is set up to deliver financial inclusive solutions for people at the bottom of the economic pyramid. In order to reach all the people across the country the fund access is digital and so far, we have seen significant success in the same. The fund has funded people in all counties. The fund so far works with the private sector that is the banks and the Mobile Network Operators to serve its clientele. The framework is for joint execution and also the same would apply when it comes to the collection of the funds.

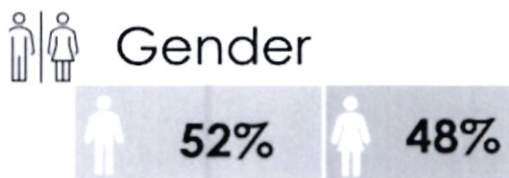
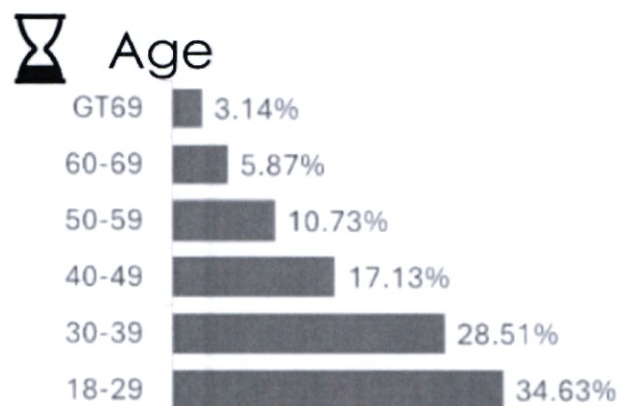
The Fund's key objective is to ensure that they provide financially inclusive products and services that are accessible to the entire eligible population.

Some the Key success metrics as at November 2023 are as shown below:

Opt-Ins
19.8mn Subscribers



Borrowers
17.40mn Subscribers



Transactions
KES 35.01bn
 Loans value Disbursed

KES 1.84bn

Involuntary Savings

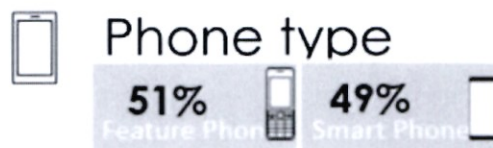
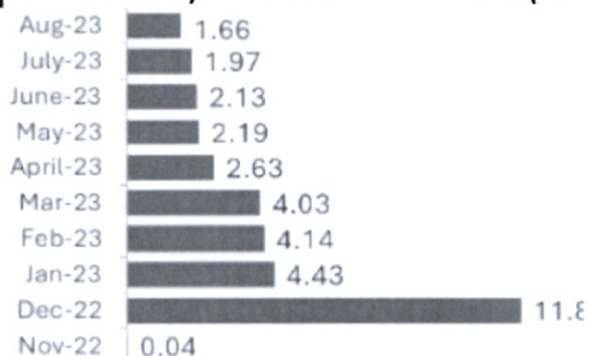
KES 742

Loan ticket size

Monthly Trend – Subs.(mn)



Monthly Trend – Value(br)



The fund has been accessible to people across the country as can be shown from the chat below

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County	Subs	Val - Mn	Vol
Nairobi	2,183,433	5,736.03	6,825,081
Kiambu	1,233,511	3,291.37	4,099,948
Nakuru	884,950	2,038.38	2,722,015
Machakos	667,747	1,249.05	1,677,070
Kakamega	617,723	1,134.81	1,634,926
Meru	584,650	1,119.62	1,594,868
Kilifi	543,258	855.22	1,244,462
Mombasa	535,703	1,199.27	1,550,670
Bungoma	506,222	978.36	1,407,573
Uasin Gishu	505,894	1,185.53	1,562,395
Kisumu	467,195	774.14	1,093,131
Kajiado	467,142	1,020.98	1,311,751
Kisii	418,790	583.22	863,117
Kitui	398,333	567.53	840,874
Muranga	390,346	880.61	1,195,326
Narok	362,692	568.12	815,159
Homa Bay	358,415	457.97	709,662
Kericho	349,847	753.46	1,037,744
Makueni	348,457	527.64	769,032
Nandi	347,616	788.64	1,102,299
Bomet	344,190	663.52	930,917
Trans-Nzoia	343,783	699.36	979,451
Migori	331,829	445.12	677,801
Siaya	325,038	482.34	723,531
Nyeri	323,006	852.65	1,112,639
Embu	283,722	644.39	878,935
Kwale	281,147	419.18	613,720
Busia	279,791	490.11	707,685
Kirinyaga	258,775	566.98	776,882
Nyamira	226,438	334.05	500,733
Nyandarua	213,599	496.56	686,219
Laikipia	203,299	480.49	633,701
Baringo	201,489	434.67	595,801
Turkana	185,084	191.06	295,566
Vihiga	178,827	329.88	468,947
Tharaka-Nithi	170,127	322.19	457,610
Elgeyo Marakwet	149,926	279.50	399,482
Taita / Taveta	138,506	266.68	369,802
Garissa	122,707	128.33	192,380
West Pokot	120,205	151.22	226,850
Tana River	96,477	110.32	169,066
Wajir	91,600	76.96	123,364
Marsabit	84,540	84.83	129,226
Samburu	76,437	92.75	135,350
Mandera	74,184	61.50	99,960
Isiolo	66,677	101.11	139,920
Lamu	54,026	95.40	132,901
Grand Total	17,397,353	35,011.09	47,215,542

The Fund secretariat is under formation and in the process of coming up with the key processes and procedures across all the departments including Finance and accounting.

9. Environmental and Sustainability Reporting

Sustainability Strategy and Profile

The Financial Inclusion Fund's resolute dedication to sustainability is anchored in a strategic framework centered around technology. Notable aspects encompass:

- i. **Integration of Technology:** Technology occupies a central role in the fund's product development and distribution processes. This integration minimizes environmental impact, reduces paper usage, and aligns with the global trend towards digitization.
- ii. **Leadership Commitment:** The leadership's proactive involvement, particularly the accounting officer, serves as a driving force in championing sustainable practices throughout the organization. This top-level endorsement is pivotal in fostering a culture of responsibility.
- iii. **Navigating Trends:** The fund actively engages with prevailing political and macroeconomic trends that mold sustainability priorities. By adapting to these broader influences, the fund ensures its sustainability initiatives remain relevant and effective.
- iv. **Guided by International Best Practices:** The Hustler Fund adheres to internationally recognized sustainability best practices, emphasizing alignment with established norms to foster credibility and effectiveness.
- v. **Balanced Assessment:** Acknowledging both accomplishments and areas requiring enhancement, the fund maintains transparency by openly addressing successes and setbacks. This balanced approach fuels continuous improvement.

ii) Environmental Performance

The Hustler Fund's unwavering dedication to environmental responsibility is encapsulated within its meticulously designed environmental policy. This policy serves as a cornerstone, guiding the organization's commitment to sustainable practices.

- i. **Clear Outline of Environmental Policy:** At the heart of the fund's operations is a well-defined environmental policy. This policy articulates the fund's pledge to minimize its ecological footprint, advocating for conscientious practices that contribute to a healthier planet.
- ii. **Policy in Action:** The environmental policy translates into tangible actions that resonate with the fund's commitment. This is vividly evident in the strategic efforts employed to reduce carbon emissions, effectively manage waste, conserve water resources, and protect biodiversity.
- iii. **Evidence of Achievements:** A testament to the fund's effectiveness in environmental stewardship is its remarkable accomplishments. Notably, the introduction of a digital lending

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platform has led to a significant reduction in paper consumption, aligning its practices with contemporary ecological standards.

- iv. **Acknowledgement and Mitigation of Shortcomings:** The Hustler Fund operates within a framework of continuous improvement. This entails a candid appraisal of areas where environmental impact needs mitigation. Proactive measures are being undertaken to address these shortcomings, reflecting the fund's commitment to responsible practices.

iii) Employee Welfare

Employee well-being is an integral facet of the Hustler Fund's organizational fabric and is evidenced in the following ways.

- i. **Policies for Fair Hiring:** The organization's commitment to equitable practices is reflected in its hiring policies. Notably, a focus on gender ratio and stakeholder engagement ensures an inclusive and diverse workforce, enhancing the Fund's social impact.
- ii. **Continuous Improvement in Hiring Practices:** The Hustler Fund is committed to the evolution of its hiring practices in line with industry best practices. This commitment ensures that the organization consistently attracts and retains top talent.
- iii. **Empowering Skill Development and Career Growth:** The Fund actively invests in its workforce by fostering skill enhancement and career development opportunities. This empowerment enhances both employee satisfaction and organizational growth.
- iv. **Recognition and Rewards:** The Hustler Fund's ethos of recognition is realized through robust appraisal and reward systems. Employee contributions are acknowledged, motivating exceptional performance and fostering a culture of excellence.
- v. **Safety and Compliance:** The organization upholds the highest standards of safety and compliance with the Occupational Safety and Health Act of 2007 (OSHA). This commitment to employee well-being underscores the Fund's dedication to holistic care.

iv) Market Place Practices

The Hustler Fund's ethical foundation extends to its marketplace practices.

- i. **Ethical Competition Measures:** The organization is steadfast in ensuring competition practices adhere to the highest ethical standards. This includes robust anti-corruption measures, responsible political engagement, championing fair competition, and respecting competitors.
- ii. **Ethical Supplier Relations:** The Hustler Fund nurtures relationships with suppliers based on ethics and integrity. Adherence to contracts and equitable payment practices not only sustains partnerships but also reflects the Fund's commitment to ethical business conduct.

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- iii. **Ethical Marketing Commitment:** Transparency and honesty underscore the Fund's marketing endeavours. A steadfast commitment to ethical marketing practices ensures that information is presented accurately, promoting trust with stakeholders.
- iv. **Consumer-Centric Product Stewardship:** Safeguarding consumer rights is paramount. The Hustler Fund takes active measures through product stewardship, ensuring adherence to stringent ethical standards that prioritize consumer well-being and satisfaction.

v) Corporate Social Responsibility / Community Engagements

The Hustler Fund's engagement with the community is a cornerstone of its identity. This section highlights:

- i. **Focused CSR Initiatives:** The Fund's commitment to societal betterment is channeled through initiatives emphasizing financial literacy, entrepreneurship, and community development. These initiatives align with the fund's goal of fostering lasting positive impact.
- ii. **Tangible Societal Impact:** Through these initiatives, the Hustler Fund has measurably empowered communities. Evident outcomes include enhanced community empowerment and elevated financial literacy levels, which testify to the tangible improvements realized.
- iii. **Concrete Community Engagement:** The Hustler Fund's engagement extends beyond intention, manifested through actionable steps. This includes charitable contributions, Corporate Social Investment, and diverse community-centric initiatives that embody the Fund's commitment to creating lasting change.

Conclusion

The Hustler Fund, despite its relatively recent inception, has left an indelible mark on Kenya's financial landscape. Its resolute commitment to sustainability, as evident through technology-driven strategies, environmental responsibility, and ethical practices, underscores the Fund's dedication to a brighter future.

The remarkable pace at which the Hustler Fund has been embraced by Kenyans is a testament to its relevance and impact. The Fund's rapid uptake by over 19 million citizens and disbursement of Kshs. 32 billion signifies the depth of its resonance in addressing financial inclusion challenges.

Equally remarkable is the Fund's agility in product development and distribution, a feat achieved

collaboration with chamas and Saccos, the Fund's adaptability and innovative spirit are instrumental in creating broader avenues for impact.

The governmental backing, demonstrated by President William Ruto's unwavering support, not only solidifies the Hustler Fund's credibility but also affirms its position as a catalyst for sustainable economic growth and poverty reduction. This support paves the way for further innovation and

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expansion, promising even greater societal transformation.

As the Hustler Fund continues its journey, the confluence of rapid uptake, evolving products, strategic partnerships, and governmental support presents an exciting landscape of possibilities. With each milestone achieved and challenges overcome, the Fund's potential for positive change magnifies, promising a future where financial inclusion transforms lives and propels Kenya towards sustainable development.

10. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023, which show the state of Financial Inclusion Fund affairs.

i) Principal activities

The principal activities of FIF are the provision of financial inclusive products and services to people at the bottom of the economic pyramid.

ii) Results

The results of FIF for the year ended June 30, 2023, are set out on page 24

iii) Directors

The members of the Board of Directors who served during the year are shown on page 11.

All the directors were appointed during the year with the appointment dates as shown below:

S/No	Name	Date of taking office
1.	Irene Muthoni Karemi	20 th January 2023
2.	Hardlyne Lusui	20 th January 2023
3.	Paul Musyimi	20 th January 2023
4.	Susan Mang'eni	20 th January 2023
5.	Symon Mburia	10 th May 2023
6.	Geoffrey Malombe	1 st August 2023
7.	Elizabeth Nkukuu	1 st March 2023

iv) Surplus remission

The Financial Inclusion Fund did not make any surplus during the year (FY 2023 Kshs Nil) and hence no remittance to the Consolidated Fund

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v) Auditors

The Auditor-General is responsible for the statutory audit of the Financial Inclusion Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 Fund for the year/period ended June 30, 2023, in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board



.....

Elizabeth Nkukuu, CFA

Secretary to the Board

11. Statement of Directors Responsibilities

Section 81 of the Public Finance Management Act, 2012 and require the Directors to prepare financial statements in respect of that Financial Inclusion Fund (Fund), which give a true and fair view of the state of affairs of the Fund at the end of the financial year/period and the operating results of the Fund for that year/period. The Directors are also required to ensure that the Fund keeps proper accounting records that disclose with reasonable accuracy the financial position of the Fund. The Directors are also responsible for safeguarding the assets of the Fund.

The Directors are responsible for the preparation and presentation of the Funds financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year (period) ended on June 30, 2023. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the *Fund*; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Financial Inclusion Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and under the provisions of the section 24(4) of the Public Finance Management Act, 2012. The Directors are of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2023, and of the Entity's financial position as at that date. The Directors further confirms the completeness of the accounting records maintained for the Fund's, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the *Fund* will not remain a going concern for at least the next twelve months from the date of this statement.

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Approval of the financial statements

The Financial Inclusion Fund financial statements were approved by the Board on 26/10/23
2023 and signed on its behalf by:



Irene Muthoni Karimi

Chairperson of the Board

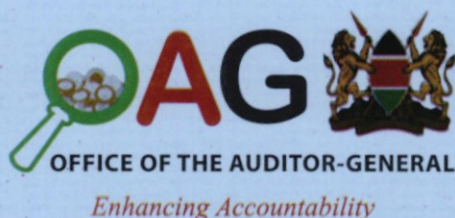


Elizabeth Nkukuu

Accounting Officer

REPUBLIC OF KENYA

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Website: www.oagkenya.go.ke



HEADQUARTERS
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON FINANCIAL INCLUSION FUND FOR THE SEVEN (7) MONTHS PERIOD ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the financial statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in use of public resources which considers compliance with applicable laws, regulations, policies, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Financial Inclusion Fund set out on pages 1 to 30, which comprise of the statement of financial position as at 30 June, 2023, and the statement of financial performance, statement of changes in net

assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Report on the Financial Statements

1.1 Failure to Provide Source Documents

Management submitted the financial statements for audit on 29 September, 2023 and amended financial statements on 03 May, 2024. However, the source documents to support the financial statement balances such as Cashbooks and General Ledger were not provided for audit review. It was therefore not possible to confirm the source and authenticity of the balances in respect of the components reflected in the Trial Balance and the financial statements.

1.2 Presentation of the Financial Statements

Review of the financial statements submitted for audit against the reporting template prescribed by the Public Sector Accounting Standards Board (PSASB) of Kenya revealed the following omissions;

i. Inconsistency of the Pagination

The financial statements presented for audit had inconsistency in the table of contents where items 13 and 14 are omitted. The provision of the Auditor General's report was also missing while the statement of financial performance is indicated as item 12 but the subsequent statement of financial position is captioned as number 15 thereby omitting number 13 and 14.

ii. Failure to Disclose Interest Earned from Customer Savings

Examination of loan disbursement records reveals that the Fund had customer savings amounting to Kshs.1,600,738,661 as at 30 June, 2023. However, the interest accrued from the customer savings was not disclosed as revenue in the statement of financial performance and statement of cashflows for the period.

1.3 Variances Between the Balances in the Financial Statements and the Loan Disbursement Data

Review of the financial statements against loan data provided for audit review revealed variances between financial statement balances and the data as detailed below;

Item	Financial Statements (Kshs.)	Supporting Records (Kshs.)	Variance (Kshs.)
Interest Income from Loans	465,589,559	84,015,467	381,574,092
Customer Savings	1,500,260,763	1,600,738,661	(100,477,898)
Receivables from Exchange Transactions – Loan Borrowers	10,566,483,268	10,487,276,433	79,206,836

However, the recomputed total interest as at 30 June, 2023 as per the regulations amounted to Kshs.454,600,950.

1.4 Unsupported Balances

The following balances reported in the financial statements were not supported with the relevant documents:

No	Item	Note	Amount (Kshs.)	Remarks
1	Use of Goods and Services	8	232,795,259	Payment Vouchers and invoices showing goods and services procured were not provided for review.
2	Other Income	7(c)	805,475	Bank statements and schedule showing date and amount of interest earned not provided.
3	Trade and Other Payables	13	232,794,780	Schedule showing names of creditors and amount due to them not provided.
4	Customer Savings	12	1,500,260,763	Bank Statements confirming the existence of the Customer Savings not provided.

1.5 Unsupported Statement of Changes in Net Assets Balances

The statement of changes in Net Assets for the seven months period ended 30 June, 2023 reflects unexplained balance of Kshs.12,232,794,298, transfers to revolving fund of Kshs.116,397,390, and Secretariat amount of Kshs.116,397,390. However, the amounts were not supported by ledger, trial balance or any verifiable documents from which the balances were drawn.

In the circumstances, the accuracy of the financial statements could not be ascertained and do not comply with International Public Sector Accounting Standards -1 on presentation of financial statements.

2 Unconfirmed Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 9 to the financial statements reflects cash and cash equivalent balance of Kshs.3,006,579,704 which comprised of funds held in five (5) bank accounts and the Mobile Network Operators subcontracted by the Fund. However, the review of the balances revealed that Management provided bank statements and certificates of bank balances in support of cash balances held in the five (5) bank accounts operated by the Fund amounting to Kshs.2,747,553,151. However, copies of cashbooks, bank reconciliation statements and Board of Survey reports as at 30 June, 2023 were not provided for audit review.

Further, cash balance amounting to Kshs.259,026,553 held by the service providers in the mobile money wallets could not be confirmed as there was no documentation provided for audit review to confirm its existence.

In addition, details on the bank account signatories and their specimen signatures were not availed for audit review.

In the circumstances, the completeness, existence and accuracy of the cash and cash equivalent balances of Kshs.3,006,579,704 reflected in the statement of financial position could not be confirmed.

3 Doubtful Recovery of Receivables from Exchange Transactions

An analysis of data provided by Kenya Commercial Bank revealed that 21,282,515 customers opted in to benefit from the Fund out of which 17,855,858 beneficiaries applied for the loans and received disbursements amounting to Kshs.32,015,962,276 which includes Kshs.1,189,050 of the groups product.

Out of the total loans disbursed, a balance of Kshs.10,950,075,614 had not been repaid as at 30 June, 2023 as reflected in the statement of financial position and as disclosed in Note 11 to the financial statements. The balance comprises of interest receivable, interest from investment and loan receivables from loan borrowers of Kshs.382,786,870, Kshs.805,475 and Kshs.10,566,483,268, respectively.

However, analysis of the outstanding loan receivables from loan borrowers indicates that 78 % of the loans amounting to Kshs.8,219,087,056 had been outstanding for more than three (3) months as detailed below:

Period (Days)	Number of Loans	Outstanding Principal Loan Amount (Kshs.)	Percentage (%)
0 - 30	1,433,958	1,265,675,943	12%
31 - 60	609,318	471,554,335	5 %
61 - 90	708,989	530,959,097	5 %
Above 90	14,193,800	8,219,087,056	78 %
Total	16,946,065	10,487,276,432	100%

In the circumstances, the recoverability of outstanding loans totalling Kshs.8,219,087,056 could result in loss of public funds.

4 Irregularities in Loan Disbursements

Audit review of the loan disbursement data revealed the following observations-;

4.1 Irregular Charges to Customers

Regulation 22 of the Public Finance Management (Financial Inclusion Fund) Regulations 2022 states that the interest or administrative fee payable by a beneficiary on a financial service or product advanced under the Regulations shall be at a maximum rate of eight per centum on reducing balance: provided that where a beneficiary defaults, the interest or administrative fee payable shall be nine and one half per centum on a reducing balance.

However, it was noted that Safaricom charged roll over fee at the rate 0.195 to 0.392% and penalty fee at the rate of 0.13 to 4.95% to beneficiaries amounting to Kshs.368,760,229 contrary to the provisions of the law and regulations.

4.2 Customers Without National Identity Cards (ID)

A review of records from Kenya Commercial Bank (KCB) revealed that there were five (5) customers who had no National Identity Card numbers which is the key identifier for all beneficiaries of the Fund. It was therefore not possible to confirm if the customers were issued with loans.

4.3 Loans not Linked to a Transaction Code

Loans processed are linked to a transaction code, which is a reliable verification that funds were transferred to a mobile number. However, a review of the data provided revealed that there were 424 loans amounting to Kshs.405,445 that had no transaction code. It was therefore not possible to verify whether the amounts were actually disbursed to a mobile number.

4.4 Issuance of Additional Loans

The analysis of the data provided for audit review revealed that 114,213 borrowers were issued with 229,421 loans amounting to Kshs.161,931,703 before repayment of previous loans.

It was not clear why some borrowers were issued with multiple loans while some of the people who opted in were not issued with any loan.

4.5 Closed Loan Accounts but not Repaid

Audit analysis revealed that 129,315 loan accounts totalling Kshs.81,622,289 had been closed. However, their loan repayments could not be traced. No proper explanation was provided by Management to explain why the loan accounts were closed before the repayment of the loans.

4.6 Non-Disclosure of Loans

Audit examination revealed that there were 2,701 loans amounting to Kshs.2,020,985 that were issued but could neither be traced in the loan repayments or the outstanding loans. The accuracy of the loans disbursed could therefore not be confirmed.

4.7 Duplicate Loan Identity Numbers (IDs)

Data analysis for Loan disbursements at KCB revealed that customer Loans were uniquely identified through a Loan Identity Number. However, it was identified that there are Loan Identity Numbers that were used to process more than one loan whereby 867 loan IDs were used to process 1,978 loans amounting to Kshs.477,928. This is an indication that the loan management system is not properly configured.

4.8 Disbursement of Loans Above the Set Loan Limits

During the audit, it was observed that loans were issued based on a Credit-Scoring Model which is used to determine the credit worthiness of an eligible person to qualify for an initial loan or for subsequent and enhanced financial service. The scoring model also sets a loan limit for all eligible persons as follows:

- i. Initial Limit – for loans issued between November, 2022 and February, 2023.
- ii. First Revised Limit – revised for loans issued between February, 2023 and November 2023, and
- iii. Second Revised Limit – revised for loans issued with effect from November, 2023.

However, examination of loan records reveals that the Fund disbursed loans which exceeded the set limits as follows;

- (a) 238,707 persons were issued loans amounting to Kshs.420,312,323, which exceeded the initial loan limits by Kshs.219,615,242. Included in these loans are 5,070 persons who were not eligible for a loan.
- (b) 75 persons were issued loans amounting to Kshs.774,330, which exceeded the revised loan limits by Kshs.378,930.

This indicates that the system may not be properly configured to ensure that the loans disbursed do not exceed the loan limits.

4.9 Disbursement to Non-Compliant Customers

The only customers who are eligible to apply and receive loan disbursements are the customers who had opted into the Financial Inclusion Fund. However, it was noted that 1,304 persons were paid loans amounting to Kshs.1,744,155 yet the persons were not in the list of customers who opted in to benefit from the Fund. Further, it was observed that 808,047 persons were issued with initial loan disbursement amounting to Kshs.464,700,721 before they opted in to the financial service or product.

In the circumstances, it was not possible to confirm if the loan disbursements made to various customers complied with the regulations and whether the loans were accurate and free from manipulation.

5 Irregular Procurement of Service Providers

The State Department for Co-operatives received Kshs.12 billion from The National Treasury for the Fund's seed capital in the financial year 2022/2023. Subsequently, the State Department for Co-operatives disbursed Kshs.9.46 billion and Kshs.2.54 billion to the Kenya Commercial Bank and Family Bank, respectively, for onward transmission to the Telcos (Safaricom, Airtel and Telkom), for lending to the unserved and underserved persons. However, Management did not provide procurement records to confirm how the service providers were identified.

Further, although Management explained that the service provider agreements were forwarded to the Attorney-General for comments before execution, the same had not been executed at the time of audit and were not provided for audit review.

In the circumstances, it is not possible to establish how the service providers were identified and contracted and whether the relevant provisions of law were followed.

6 Lack of ICT and Risk Management Policies

A review of records reveal that the Fund's Advisory Board was inaugurated in the month of March, 2023 after being gazetted in January, 2023. However, review of the internal controls at the Fund in the month of October, 2023 revealed that the Board and Management had not formulated and documented an ICT Policy and a Risk Management Policy. Therefore, there were no measures in place to mitigate against emerging risks in the Fund's day to day operations.

Consequently, the ability of the Fund Management to identify threats or risks and various strategies of minimizing their impact may be compromised.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its services, disclosing as applicable matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management and ensuring the adequacy and effectiveness of the control environment.


Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with

Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal controls, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and overall governance in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of the Financial Inclusion Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL


Nairobi
03 May, 2024

**Financial Inclusion Fund
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12. Statement of Financial Performance for the Seven Months Period ended 30 June 2023

	Note	2022-23 Ksh
Revenue from exchange transactions		
Interest Income from Loans	7 (a)	465,589,559
Other Income	7 (c)	805,475
Total Revenue		466,395,034
Expenses		
Use of Goods and services	8	232,795,259
Total Expenses		232,795,259
Surplus		233,599,775

The notes set out on pages 6 to 29 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:


.....


Name: Elizabeth Nkukuu
Accounting Officer

Date 21/5/24


.....

Name: Solomon Kiratu
Head of Finance
ICPAK M/No: 12540

Date 21/5/24


.....

Name: Irene Karimi
Chairman of the Board


Date 21/5/24

**Financial Inclusion Fund
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15 Statement of Financial Position as at 30 June 2023

	Note	2022-23 Ksh
Current assets		
Cash and cash equivalent	9	3,006,579,704
Receivables from exchange transactions	11	10,950,075,614
Revenue from non-exchange transactions	10 (a)	10,000,000
Total Current Assets		13,966,655,318
Current Liabilities		
Customer Savings	12	1,500,260,763
Trade and other payables	13	232,794,780
Total current liabilities		1,733,055,543
Net Assets		12,233,599,775
Revolving fund		12,000,000,000
Surplus		233,599,775
Total Net Assets and liabilities		12,233,599,775

The financial statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:



.....
Name: Elizabeth Nkukuu
Accounting Officer

Date 21/1/24


.....
Name: Solomon Kiratu
Head of Finance

ICPAK M/No: 12540

Date 21/1/24


.....
Name: Irene Karimi
Chairman of the Board

Date 21/1/24

Financial Inclusion Fund
Annual Report and Financial Statements
For Seven (7) Months Period ended 30 June 2023

16. Statement of Changes in Net Assets for Seven (7) Months Period ended 30 June 2023

Details	Revolving Fund	Surplus	Total
	12,000,000,000	233,599,775	12,232,794,298
Transfer to revolving Fund	116,397,390		116,397,390
Secretariat		(116,397,390)	(116,397,390)
Total	12,116,397,390	117,202,385	12,223,599,775

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For Seven (7) Months Period ended 30 June 2023

17. Statement of Cash Flows for Seven (7) Months Period ended 30 June 2023

	Note	2022-23 Ksh
Receipts		
Interest received		
On loan		
Safaricom		50,442,514
Other Telcos		602,849
Defaulted and paid 9.5%		
Safaricom		31,381,832
Other Telcos		375,493
Total Receipts	7 (b)	82,802,689
Payments		
Use of Goods and services	8	480
Interest		
To KCB		-
To Family Bank		-
To the secretariat		-
Total Payments		480
Net Cash flows from operations		82,802,208
Cash flows from investing		
Loan disbursement	14	- 32,133,879,719
Loan repayment	15	21,567,396,452
Net Cash flows from investing activities		- 10,566,483,267
Cash flows from financing Activities		
Customer savings	12	1,500,260,763
Revolving fund	16	11,990,000,000
Net Cash flows from financing activities		13,490,260,763
Cash and cash equivalent at the beginning		-
Cash and cash equivalent at the end		3,006,579,704

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the Seven months period ended June 30, 2023.**

18. Statement of Comparison of Budget and Actual amounts for Seven (7) Months Period ended 30 June 2023

The total allocated for the year was Kshs. 12,000,000,000 however 11,990,000,000 was received as at 30th June 2023 and the balance of Kshs 10,000,000 was received in July 2023

	Original Budget	Adjustments	Final budget	Actual comparable basis	Performance Difference	% of Utilization
	KShs	KShs	KShs	KShs	KShs	%
Revenue						
Government Grants and Subsidies	20,000,000,000	(8,000,000,000)	12,000,000,000	11,990,000,000	10,000,000	100%
Total Income	20,000,000,000	(8,000,000,000)	12,000,000,000	11,990,000,000	10,000,000	100%
Expenses						
Capital Expenditure	12,000,000,000	-	12,000,000,000	11,990,000,000	10,000,000	100%
Surplus				-		

Reconciliation Statement

Description	Kshs.
Surplus as per Budget	0
Accrued Interest on loans	465,589,559
Other Income (Accrued)	805,475
Use of goods and services	(232,795,259)
Surplus as per Performance	233,599,775

19. Notes to the Financial Statements

1. General Information

The Financial Inclusion Fund (FIF) was established 2022 under the provisions of section 24(4) of the Public Finance Management Act, 2012. FIF is headquartered in Nairobi, Kenya. FIF represents a significant initiative aimed at providing crucial financial services to individuals at the bottom of the economic pyramid. Its inception in November 2023, following a collaborative effort between private sector experts and public officials, marks a milestone in the realm of Public-Private Partnerships. The Fund's core mission is to comprehensively empower its target audience by focusing on pillars such as affordable credit, competitive savings products, financial literacy, universal health care, and goal-based investments.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant, and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of FIF. The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and the International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

Notes to the Financial Statements (Continued)

3. Adoption of New and Revised Standards

- i.* New and amended standards and interpretations in issue effective in the year ended 30 June 2023.

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an FIF future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset’s cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an FIF risk management strategy and the accounting treatment for instruments held as part of the risk management strategy.
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting FIF provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p>

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Standard	Effective date and impact:
	<p>(a) The nature of such social benefits provided by FIF.</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on FIF financial performance, financial position and cash flows.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guaranteed contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
<p>Other improvements to IPSAS</p>	<p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> Amendments to refer to the latest System of National Accounts (SNA 2008). • <i>IPSAS 39: Employee Benefits.</i> Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • IPSAS 29: Financial instruments: Recognition and Measurement. Standard no longer included in the 2023 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.

Notes to the Financial Statements (Continued)

- ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.*

Standard	Effective date and impact:
IPSAS 43	<p><i>Applicable 1st January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an FIF.</p> <p>The new standard requires entities to recognize, measure and present information on right of use assets and lease liabilities.</p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p>

- iii. *Early adoption of standards*

FIF did not early – adopt any new or amended standards in the financial year.

Notes to the financial statements (continued)

4. Summary of Significant Accounting Policies

- a) Revenue recognition**
- i) Revenue from non-exchange transactions**

Fees, taxes, and fines

FIF does not recognize revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to FIF and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to FIF and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realized in the statement of financial performance over the useful life of the assets that has been acquired using such funds.

- ii) Revenue from exchange transactions**

Rendering of services

FIF does not recognize revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably, and it is probable that the economic benefits or service potential associated with the transaction will flow to FIF.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information

The original budget for the Current FY was approved by the National Assembly on March 8th 2023. No subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. No additional appropriations were added to the original budget by FIF in order to conclude the final budget.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Budget information (continued)

FIF budget is prepared on a different basis from the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 18 of these financial statements.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where FIF does not operate and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable FIF and the same taxation authority.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- i) When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- ii) When receivables and payables are stated with the amount of sales tax included
The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, FIF recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Summary of Significant Accounting Policies (Continued)

e) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date.

f) Research and development costs

FIF expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when FIF can demonstrate:

- i) The technical feasibility of completing the asset so that the asset will be available for use or sale.
- ii) Its intention to complete and its ability to use or sell the asset.
- iii) How the asset will generate future economic benefits or service potential
- iv) The availability of resources to complete the asset.
- v) The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

g) Financial instruments

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. FIF does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements. A financial instrument is any contract that gives rise to a financial asset of one FIF and a financial liability or equity instrument of another FIF. At initial recognition, FIF measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

a) Financial assets

Classification of financial assets

FIF classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity or fair value through surplus and deficit on the basis of both FIF management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless an FIF has made irrevocable election at initial recognition for particular investments in equity instruments.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Subsequent measurement

Based on the business model and the cash flow characteristics, FIF classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through net assets/ equity

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Fair value through surplus or deficit

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/equity are measured at fair value through surplus or deficit. A business model where FIF manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through a surplus or deficit model.

b) Financial liabilities

Classification

FIF classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

h) Provisions

Provisions are recognized when FIF has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where FIF expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

i) Social Benefits

Social benefits are cash transfers provided to i) specific individuals and / or households that meet the eligibility criteria, ii) mitigate the effects of social risks and iii) Address the need of society as a whole. FIF recognises a social benefit as an expense for the social benefit scheme at the same time that it recognises a liability. The liability for the social benefit scheme is measured at the best estimate of the cost (the social benefit payments) that FIF will incur in fulfilling the present obligations represented by the liability.

j) Contingent liabilities

FIF does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

k) Contingent assets

FIF does not recognize a contingent asset but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of FIF in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

l) Nature and purpose of reserves

The Fund has not come up with a reserve policy as at the time of the preparation of the Financial statements

m) Changes in accounting policies and estimates

FIF recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

n) Related parties

FIF regards a related party as a person or an FIF with the ability to exert control individually or jointly, or to exercise significant influence over FIF, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

o) Service concession arrangements

FIF analyses all aspects of service concession arrangements that it enters in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, FIF recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent

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that an asset has been recognized, FIF also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

Summary of Significant Accounting Policies (Continued)

p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

q) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

r) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2023.

Summary of Significant Accounting Policies (Continued)

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of FIF financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. State all judgements, estimates and assumptions made:

Estimates and assumptions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. FIF based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of FIF. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual value

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- a) The condition of the asset based on the assessment of experts employed by FIF.
- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- c) The nature of the processes in which the asset is deployed.
- d) Availability of funding to replace the asset.
- e) Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 40. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

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Notes to the Financial Statements (Continued)

6. Transfer from Ministries, Departments and Agencies (MDAs)

Name of The Entity Sending The Grant	Amount recognized to Statement of Financial performance. * KShs	Receivable of KShs	Amount recognised in capital fund.	Total transfers (Current FY)
			KShs	KShs
State Department for SMEs	-	10,000,000	11,990,000,000	12,000,000,000
Total	-	10,000,000	11,990,000,000	12,000,000,000

7. a) Interest Income

Description FY	2022-2023 Kshs.
Normal @8%	
Safaricom	79,454,101
Other Telcos	4,243,673
Defaulted @9.5%	
Safaricom	357,722,951
Other Telcos	24,168,833
Total Interest Income	465,589,559

b) Cashflow Income

Description	2022-2023 Kshs.
Cashflow Income	
Total Interest Income Accrued	465,589,559
Less Interest receivable	(382,786,870)
Total Interest Received	82,802,689

C) Other Income

Description	2022-2023 Kshs.
Income on Interest from Treasury Bills	805,475
Total Other Income	805,475

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Notes to the Financial Statements (Continued)

8. Use of Goods and Services

Description	<i>2022-2023</i>
	Kshs.
Interest	
To the Banks	116,397,390
To the Telcos	116,397,390
	-
Bank charges	480
Total	232,795,259

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9. Cash and Cash Equivalents

Description	2022-2023	
	Kshs.	
Cash at KCB bankika	873,755,609	
Cash at KCB Simba Savings	1,448,399,476	
Cash at KCB Entrepreneur Bank savings	31,803,132	
Cash at Family Bank principle	393,594,934	
Mpesa float balance at Safcom	96,390,511	
Mpesa float balance at Airtel and T-Kash	79,833,353	
Other Telcos float Interest Bal	978,343	
Safaricom float interest Bal	81,824,346	
Total Cash and Cash Equivalent	3,006,579,704	

10. Receivables from non-exchange transactions

a. Receivables

		Kshs
Receivables from non-exchange transactions	10,000,000	
Total	10,000,000	

(b) Ageing analysis for Receivables from exchange transactions

Description	2022-2023	
	Current FY	% of the total
Less than 1 year from exchange transactions	10,950,075,613	100%
Less than 1 year from non-exchange transactions	10,000,000	100%
Total	10,960,075,613	

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11. Receivables from Exchange Transactions

(a) Receivables from Exchange Transactions (Current)

Description	2022-2023
	Kshs.
Interest receivable	382,786,870
From Savings(investments)	805,475
From telcos (amount not yet transferred in the banks)	-
Loan receivables	
From Loan borrowers	10,566,483,268
Total Receivables	10,950,075,613

12. Customer Savings

Customer Deposits	2022-2023
Description	Kshs.
Customer Savings	1,500,260,763
Total	1,500,260,763

13. Trade and Other Payables

Trade and other payables	
Description	2022-2023
	Kshs.
Interest payable to banks	116,397,390
Interest payable to telcos	116,397,390
Interest payable to secretariat	
Total trade and other payables	232,794,780

14. Loan Disbursement

Description	2022-2023
	Kshs.
Safaricom	31,470,401,088
Airtel	631,675,499
T-Kash	31,803,132
Total Disbursement	32,133,879,719

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15. Loan repayment

Description	2022-2023
	Kshs.
Safaricom	21,422,407,599
Other Telcos	144,988,853
Total Loan Repayment	21,567,396,452

16. Revolving Fund

Description	2022-2023
	Kshs.
Transfer from State Department for Cooperatives	11,990,000,000
Total	11,990,000,000

Financial Risk Management

The carrying amount of financial assets recorded in the financial statements representing FIF maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

Description	Total amount	Fully performing
	Kshs	Kshs
As at 30th June 2023		
Receivables from exchange transactions	10,960,075,613	10,960,075,613
Total	10,960,075,613	10,960,075,613

11 Financial Risk Management

FIF activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. FIF overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. FIF does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history. The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that FIF has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. FIF has significant concentration of credit risk on amounts due from people who borrowed from the fund the first months after it was launched. The board of directors sets FIF credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

FIF financial risk management objectives and policies are detailed below:

i) Credit risk

FIF has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by FIF management based on prior experience and their assessment of the current economic environment.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with FIF directors, who have built an appropriate liquidity risk management framework for the management of FIF short, medium- and long-term funding and liquidity management requirements. FIF manages liquidity risk through continuous monitoring of forecasts and actual cash flows. The table below represents cash flows payable by FIF under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

iii) Market risk

FIF has put in place an internal audit function to assist it in assessing the risk faced by FIF on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls. Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect FIF income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. FIF Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to FIF exposure to market risks or the way it manages and measures the risk.

12 Related Party Disclosures

Nature of related party relationships

Entities and other parties related to FIF include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of FIF, holding 100% of FIF equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of FIF, both domestic and external.

Other related parties include:

- i) The Parent Ministry- Ministry of Co-operatives and MSME development.
- ii) Key management.
- iii) Board of Directors.

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Notes to the Financial Statements

13 Events after the Reporting Period

There were no material adjusting and non- adjusting events after the reporting period.

14 Ultimate And Holding FIF

FIF is a Semi-Autonomous Government Agency under the Ministry of Cooperatives and MSME development. Its ultimate parent is the Government of Kenya.

15 Currency

The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest Kshs.

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Appendix 1: Implementation Status of Auditor-General’s Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
HIA				

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your Entity responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.

[Handwritten Signature]

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C.E.O

Financial Inclusion Fund

Date:

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Appendix 2 : Transfers from Other Government Entities

The Fund did not receive Funds from other entities during the year. The total amounts received from the National Treasury were Ksh 11,990,000,000

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Where Recorded/recognized	
		Capital Fund	Total Transfers during the Year
	11,990,000,000	11,990,000,000	11,990,000,000
Total	11,990,000,000	11,990,000,000	11,990,000,000

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