

CHAIRMAN'S REPORT TO THE EDUCATION/SPECIAL GENERAL MEETING OF CHUNA SACCO ON 16TH SEPTEMBER, 2017

Dear Members of CHUNA SACCO, County Director of Co-operatives, Nairobi City County, Officers from Starehe Sub-county Co-operative Office, other invited guests, ladies and gentlemen, allow me to take this early opportunity to welcome you all to this meeting of CHUNA SACCO. This I do on behalf of the management of the society who also wish that I bring their note of appreciation and gratitude for you sparing time to attend today's meeting.

Our being here is not "a matter of course"; we acknowledge that it is by God's grace and favour, for which we are truly grateful. We are however, saddened to note that since we were gathered here on 22nd July, 2017 for the Annual General Meeting, a number of our members have passed on. We believe that they have gone to a better place and pray that God will rest their souls in eternal peace.

Today's meeting is dual purpose; it is a Special General Meeting and also an Education Meeting.

Members who attended the Annual General Meeting on 22nd July, 2017 will easily recall why we are holding a Special General Meeting. For the sake of all of us however, a brief reminder will be given, as follows:

One of the major business items of an Annual General Meeting is to conduct elections either to fill any position(s) in the Board and /or Supervisory Committee which may have fallen vacant since the previous Annual General Meeting, or to fill positions falling vacant under the one-third rotation rule. Elections were, however, not conducted during the said Annual General Meeting. The reason was that, on 12th May, 2017 four society Board members, specifically those in the Executive Committee had been suspended by the SACCO regulator, the SACCO Societies Regulatory Authority (SASRA) for a period of ninety (90) days. The 90-day suspension period would have lapsed by 12th August, 2017. However, as we approached the date of the Annual General Meeting the suspension period had neither lapsed nor had the suspensions been lifted. The Board was of the view that in the circumstances it would have been unfair and prejudicial to the suspended Board members if the elections were held during the Annual General Meeting. The Board applied to, and was given authority by the Commissioner for Co-operative Development, so that the society holds the Annual General Meeting without conducting elections. The Commissioner's letter dated 19th July, 2017 directed that the society should conduct elections within sixty (60) days from the date of the said letter. I suppose the directive was based on the understanding that by the expiry of the 60 days, which would be 19th September, 2017, the 90-day suspension period for the four Board members by SASRA would have lapsed and/or SASRA would have determined their fate. The Saturday coming immediately before the expiry of the 60-day period granted

by the Commissioner, is today, the 16th of September, 2017 and hence the Board's decision to convene the Special General Meeting today.

Knowing that a Special General Meeting would be called later in the year, members at the Annual General Meeting agreed to postpone consideration of two other agenda items; appointment of the society's external auditor for 2017 and, consideration of the Budget for 2018, which we should do today.

Members are aware that the society usually holds the Members' Education Meeting either in September or October, except for last year when it was held in November. The Annual General Meeting having been held in July unlike in previous years when it is held either in March or April, chances are that this year's the Education meeting would have come either in October or November, in order to allow adequate time for preparation. However, as already intimated, the Special General Meeting had to be held on or before 19th September, 2017. The society Board members reasoning like "ordinary men of business" were of the view that, primarily due to financial and time constraints, it would not be prudent to hold the Special General Meeting in September and an Education meeting later in the year. They therefore resolved to combine the two meetings; reason why today's meeting is both an Education as well as a Special General Meeting.

I wish to remind members that there are three agenda items for the Special General Meeting, namely; Consideration and approval of the operational budget for 2018, Appointment of auditors for 2017 and, Elections. As members have seen from the notice of today's meeting, there are a total of seven (7) positions for which elections will be held unlike the usual four and, in accordance with members' resolution during the Annual General Meeting, these elections will be by secret ballot. Obviously dear members, the elections will consume a considerable amount of time. In order to allow ample time for the exercise therefore, I request members to be especially mindful of time and not to dwell on a single issue for too long or repeat questions on those which have already been dealt with.

The Education meeting will come first, and, in consideration of the circumstances expressed a while ago, the society management has agreed on an education meeting which is not as elaborate as those held previously. The chairman's report will endeavour to bring out all pertinent issues regarding society operations while, unlike in other years, there will be only one external facilitator.

Dear members, I now wish, on behalf of society's management to bring you an update on the current state of society affairs.

In doing this I am guided by and reminded of various commitments we in management made to members during the Annual General Meeting. We did acknowledge that indeed mistakes had been made in the running of society affairs, which had led to the society losing more than Kshs 600 million through embezzlement. We did, however, encourage members that the mistakes could be corrected so that, going forward, the society is set on a recovery path, it experiences a turnaround to once-again become a stable and prosperous organization, which inspires hope and confidence among members and one they are proud to be associated with. A vibrant and prosperous society which discharges its mandate to the satisfaction of members remains our goal and commitment, which we hope to achieve guided by three pillars:

1. Curbing income leakages
2. Growing society income
3. Cost-cutting.

Curbing Income Leakages:

Among the major causes of income leakages have been identified as malpractices in the loaning process. This may be either through granting of loans to members who do not qualify, meaning that they do not have capacity to service the loans granted to them; or granting of “additional loans” which we have nick-named “ugali saucer” loans, in the guise of Top-up loans, thereby denying the society the 10% Top up commission which, in some cases would be withdrawn from a member’s account and therefore end up in somebody’s or people’s pockets. The other way is through more direct fraud where a loan is processed for a non-member for that is the only way the previously overstated loan portfolio (now part of other assets) could be explained by some as belonging to retrenchees who as we know left the society way back in 2001.

To stop this trend, loans are now granted strictly according to the laid down policies; to those who qualify with no chances for default, unless for some reason, a member’s salary is either stopped or another deduction included after the loan has been disbursed. Top up loans are treated as new loans, which they are, and therefore have to be guaranteed afresh and evidence provided of clearance of the previous loan balance from own funds, in the absence of which a journal voucher for the 10% top up commission is raised and is in the member’s file before the loan can be processed. Staff working in the FOSA have been reminded that funds can only be withdrawn from a member’s FOSA account by the member in person or his/her properly authorized agent and that departure from this requirement will attract severe disciplinary action.

Growing Society Income:

The major source of society income is the interest charged on loans. That is why a smooth and disciplined loaning process is so important. Management is aware that the higher the volume of “quality loans” granted, the higher the income to the society.

Normal/Development loans constitute the highest component of loans to members and are also the highest income earner. Currently there is a backlog of about two months which has partly been occasioned by partial or late remittance of check off proceeds. We however hope that going forward and as we engage the employer on this, remittance will improve and thereafter, management hopes to raise the maximum normal loan limit from the current Kshs 3 million to Kshs 4 million. We hope this will encourage those members with high savings and paying capacity to take loans from the society rather than going to commercial banks.

Another two steps management has taken with a view to growing income and also in response to members' requests are:

- a) A School fees loan can now be taken at any time of the year and be paid over a period of twelve months, although management recognises the possibility that year-end will remain the peak demand period for the loan. The maximum remains Kenya shillings two hundred thousand (Kshs200,000.00).
- b) FOSA advance maximum has been increased to Kenya shillings Three Hundred Thousand (Kshs 300,000.00) payable over a period of twelve months (up from 9 months) and at a lower interest of 2% per month on reducing balance (previously 5%).

It is hoped that the measures taken so far will spur loan uptake and ultimately grow society income.

In response to members' complaints regarding guarantorship where some members have been included as guarantors of loans they know they never guaranteed, management has now instituted a text message alert to guarantors of normal loans.

Other sources of society income include:

- a) Commission income such as the 10% top-up commission and which, as already intimated, management has made efforts to ensure that all commission which is due to the society actually gets to the society.
- b) Dividends from the National Co-operative Organisations (NACOs) to which the society is affiliated, including Co-operative Bank, Co-operative Insurance Company (C.I.C) and the Kenya Union of Savings and Credit Co-operatives (KUSCCO)

Cost-Cutting

This is an important undertaking because one can grow income but if expenses are not managed well they can consume most of the income, leaving little surplus for members to enjoy in form of dividends. Some of the areas of expenditure where members have expressed concerns include; Annual General Meeting, Computer, Staff and Bank charge expenses. Management is already working to manage all these expenses but of course this will only become evident in the financial statements for this year. We, for

example, are certain that Annual General Meeting expenses this year are lower than for 2016 while dubious computer expenses, apart from those incurred at the beginning of the year, are not allowed. Except for Bank charges arising as interest on the loan facility the society has from the bank, which cannot be avoided unless the loan is cleared, other bank charges arise from overdrawn ATM settlement account or interest charged when the society takes a Bank overdraft or another facility termed Excess. By ensuring that the ATM settlement account is well funded and “operating within our means”, that is, without resorting to Overdrafts/Excess, the attendant expenses will certainly reduce.

Regarding staff expenses, these are being managed by avoiding unnecessary overtime engagements for staff. Also once a substantive Chief Executive Officer (C.E.O.) and Internal Auditor are recruited, the management will evaluate the society’s staffing needs especially in view of the recent decline in membership numbers. We recognize that this is a potentially difficult undertaking especially if there has to be staff rationalisation but management will be guided by the best interests of the society and its members and promise to exercise transparency and fairness.

In the Chairman’s report that was presented to members during the Annual General Meeting on 22nd July, 2017, the Board had promised that after the Annual General Meeting they would take up the matter of recruitment of the Chief Executive Officer and Internal Auditor with the recruitment agents, Co-op Consultancy and Insurance Agency. The Board wrote to the Agency on 30th August, 2017 requesting for an update on the recruitment process and also expressing concern on the period taken for the process to be concluded.

In response to our letter, the Head of the Agency indicated that indeed the recruitment report has been ready since February, 2017 but that the former chairman had requested the agency to present the report after the Lecturers’ strike was resolved and after the society holding its Annual General Meeting. I believe the former chairman had anticipated that the society’s Annual General Meeting would be held either in March or April this year but we all know that the Annual General Meeting was held in July 2017. The Board intends to receive the report from the recruitment agents soon after the Special General Meeting and subsequently proceed to fill the two positions.

Another area where there will be a reduction in expenses is the premium which is usually paid for insurance on loans. The premium paid for the one year cover starting 1st July, 2017 to 30th June, 2018 has reduced substantially. This is partly due to rationalization of the loan portfolio as well as competition among insurers. What is also interesting is that the reduced premium has come with additional benefits, as follows: CHUMBEFU payment for funeral of a deceased member is Kshs 50,000.00 now (previously Kshs 20,000.00) while for a dependant the payment is Kshs 20,000.00 (previously Kshs 10,000.00).

Management believes that the interventions outlined here above will bear fruit so that the society may be able to pay its financial obligations and still be able to pay a better return to members, not the 1% interest paid in respect of 2016.

One major financial obligation the society had to meet in respect of the year 2016 was making a provision of Kshs 45 million in the financial statements for the year towards amortization of the so-called Other Assets of approximately Kshs 660 million. Convinced that the funds were lost through embezzlement, management wished to institute a Forensic Audit through the office of the Auditor General, with a view to identifying the culprits who would then be held to account for the lost funds. Members were informed at the Annual General Meeting that the Auditor General's office wanted Clearance or No Objection guarantee from SASRA for them to undertake the assignment. The society management sought the same in a letter to SASRA dated 22nd May, 2017 but in an email communication dated 20th July, 2017 SASRA declined to give clearance noting that they did not find the need for such clearance since the decision to institute a Forensic Audit was purely a Board matter. Information about that occurrence was brought to the attention of members during the Annual General Meeting on 22nd July, 2017. The Board also indicated that the available option was to approach the office of the Commissioner for Cooperative Development with a request for her office to conduct an Inquiry/Investigative Audit in the society, on the understanding that these types of audit have the same depth and effect as a Forensic Audit. Members agreed and passed a resolution to that effect during the Annual General Meeting.

A request for the Commissioner to institute an Inquiry was written on 28th August, 2017, including a request for an indication of the probable costs for the assignment. In a letter dated 5th September, 2017, the Commissioner, making reference to our letter of 28th August, 2017, has indicated that she has, on her own accord and in accordance with provisions of the Co-operative Societies Act, decided to conduct an Urgent Inquiry into the affairs of the society. The Inquiry fees are Kshs 650,000.00 which the society has been directed to pay by Bankers cheque to the Principal Secretary, State Department of Co-operatives. This has been done and therefore we expect the exercise to commence fairly soon and also that culprits of embezzlement of society funds will be identified so that they can subsequently be held to account individually.

Members will note that management has tried to use public bodies rather than engaging private firms, in order to manage costs for the undertaking. We also hope members appreciate the need for this undertaking and request that, by way of a resolution, members will approve the proposal by management for the office of the Commissioner to conduct an Inquiry into the loss of the said funds.

ELECTIONS

As members will recall and as also intimated earlier in this report, the reason elections were not held during the Annual General Meeting on 22nd July, 2017 was that four Board members had been suspended by SASRA on 12th May, 2017 for a period of 90 days, meaning upto 12th August, 2017. It was necessary that we wait for either the suspension period to lapse or SASRA to determine their case.

Having determined their case, the Chief Executive Officer, SASRA has, by individual documents dated 28th July, 2017 communicated the decision of the regulator and the reason thereof quoting powers conferred upon it by the SACCO Societies Act, No. 14 of 2008 Laws of Kenya and the relevant regulations made under the said Act. SASRA has, in short:

- a) Directed the immediate removal of each individual from the service of CHUNA SACCO as a member of the Board of Directors from the date therein.
- b) Prohibited each individual from holding an office in any SACCO Society in Kenya for a period of three (3) years with effect from the date therein.

Copies of the communication to the individual officers were given to, among other officers, the Chairman, Board of Directors and Chairman, Supervisory Committee, CHUNA SACCO.

The four, exercising their individual rights, appealed against the decision by SASRA to the Cabinet Secretary, Ministry of Industry, Trade and Co-operatives on 21st August, 2017. Copies of the individual appeals were served on CHUNA SACCO on Monday 28th August, 2017. One of the prayers by each of the officers was that their positions are not declared vacant during the Special General Meeting on 16th September, 2017. According to the communication from SASRA the Board had intended to declare the four positions vacant. With the new occurrence and aware that we had to comply with the Commissioner's directive for holding the Special General Meeting by latest the 19th September, 2017, the Board wrote to the commissioner on 29th August, 2017, seeking guidance on how to proceed. The Board especially sought guidance on whether to declare the positions vacant pending the outcome of their appeal. The Commissioner in a communication dated 31st August, 2017, has given clearance for the society to hold the Special General Meeting on 16th September, 2017 as proposed and declare the four positions vacant as per the action by SASRA. In the circumstances, it means the positions previously held by the four became vacant with effect from 28th July, 2017. The positions are in S.W.A, Chiromo, Kenyatta National Hospital and Kikuyu. The position previously held by Mr. Joseph K. Maiyo (S.W.A) was due for contest under the one-third rotation rule, alongside one in Kabete, currently held by Dr. James M. Kahunyo and one Chiromo, currently held by Mr. Wycliffe O. Ogal. It therefore means that today's elections will be for 6 (six) positions in the Board of Directors: 2(two) in Chiromo, 1(one) in Kenyatta Hospital, 1(one) in Kikuyu, 1(one) in S.W.A and 1(one) in

Kabete. In addition 1 (one) position in the Supervisory Committee, currently held by Mrs. Salome M. Muchere will be contested on the basis of the one-third rotation.

Members are notified that the matters regarding vacant positions as presented herein above may change by the date of the Special General Meeting. The reason is that on Friday 8th September, 2017 afternoon, the society received an Application filed under a Certificate of Urgency in the Co-operative Tribunal by Koceyo and Company, Advocates, acting on behalf of the four former Board members and dated 8th September, 2017. CHUNA SACCO is the respondent in the application which among other things seeks Court Orders for the position in S.W.A., one in Chiromo, Kikuyu and Kenyatta Hospital electoral zones not to be declared vacant during elections at the Special General Meeting.

Hearing of the application was scheduled for Tuesday 12th September, 2017 where the society was represented by Viola & Onyango Advocates. We are informed that presentations were made by advocates for both the applicants and CHUNA SACCO and that a ruling will be delivered on Friday, 15th September, 2017. The ruling may change or uphold the status quo.

Those interested in vying for any of the positions were requested to apply for vetting by the Nomination Committee and will be presented to you by the Returning Officer in order for you to consider them for election. However, those currently serving and are eligible for re-election i.e. Mrs. Salome Muchere, Mr. Wycliffe Ogal and myself have indicated their willingness to continue serving you and request you to grant them a chance.

My advice as your chairman is that, as you exercise your right to vote and choose your leaders, be guided by a genuine desire to see the society realise the much-needed turnaround and prosperity. As I have said before, let us harness our diversity in wisdom, abilities and even ethnicity to our mutual advantage so that, together, we can grow once again.

As I conclude, I am aware that some of our members have been disappointed and even discouraged by what has been happening and, therefore, resigned from the society. While resigning is every member's right and option, it is, certainly, not a solution.

With co-operative regards, I thank you all ladies and gentlemen; God bless you.

Dr. James M. Kahunyo
Chairman