

CHAIRMAN'S **REPORT 2021**

The Chief Guest, the Vice Chancellor, University of Nairobi, Prof. Stephen Gitahi Kiama, The County Director for Co-operatives, Nairobi County, Mrs. Dolphine Aremo, The Starehe Sub-County Co-operatives Officer, Ms. Roselyn Mwithiga, Fellow Delegates, fellow Directors, invited guests and staff, It gives me great pleasure to extend to you all, on behalf of the Board, our deepest gratitude for creating time amid your busy schedules and to us for this Historic event.

Also, allow me to convey a special appreciation to the Vice Chancellor, University of Nairobi, Professor Kiama, for accepting to join us as the Chief Guest.

We cherish our interactions with you Professor, being our key stakeholder as you have provided an opportunity to dialogue and network. I've always believed that one person can be a force for positive change; that one person, as Bobby Kennedy famously said when he visited Soweto, that one person can be like a stone, a pebble thrown in a lake, creating ripples – ripples of hope, he called it. And that's especially true of you Professor. You are already showing you intend to make a difference. You came in and purposed to sort our case, you are determined to help your members of staff sort out their issues through the welfare wing. This is a very important call. It has made a real difference in the lives of our Members. And it could not have happened had you not worked together with us.

Ladies and Gentlemen, to quote an American physician and poet, Oliver Wendell: "To reach a port we must sail, sometimes with the wind, and sometimes against it. But we must not drift or lie at anchor" In our current VC God has given us grace and we are sailing with the wind.

Fellow Leaders, I believe that we need to acknowledge these achievements in order to summon the confidence to carry this progress forward and to make sure that we do not abandon those very things that have delivered this progress.

We have had a share of difficult moments and issues. The greatest issue with a domino effect magnitude we faced when we first came into office was lack of Liquidity in the midst of an unprecedented financial crisis and had paralyzed the broader SACCO operations. From the depths of the financial crisis of our time, we coordinated our response to avoid further catastrophe and return the Sacco to a growth path.

I suggest to you that the most urgent task facing CHUNA today and for decades ahead is to create an opportunity for her members to economically be self sufficient. And this will be an enormous undertaking. CHUNA will need to generate more income than it's doing right now. And time is of the essence. The choices made today will shape the trajectory for decades to come. We know what it will take for CHUNA to win the future. We need to out-innovate, we need to out-educate, we need to out-recruit, we need to out-build our competitors. We need to make CHUNA the best place to do business.

But as we work with you to make CHUNA a better place to do invest, I'm hoping that all of you are thinking what you can do for CHUNA. Ask yourselves what you can do to recruit more Members, what you can do to support CHUNA to grow. That's what I want to talk about today -- the responsibilities we all have – the mutual responsibilities we have – to secure the future that we all share.

But ultimately, winning the future is not just about what the Sacco can do for you to succeed. It's also about what you can do to help the Sacco succeed.

Fellow Leaders; Today the CHUNA SACCO marks yet again the end and beginning of a financial year. We gather again not only to fulfill statutory obligations as required by the law but to also to take stock of our performance, consider/reconsider our business moves and exchange ideas on how to move the SACCO forward. The year that has just ended has been marred by a share of its challenges largely drawn from the Covid-19 pandemic. The outbreak has had a momentous impact on consumers' behaviour not only in Kenya, but across the world at large. The economic productive activities witnessed a downward trend as the population of people living in various regions and cities were quarantined. The government measures to contain the virus by enforcing lock-down, curfews and social distancing although saved lives, economically they ruined some livelihoods. These measures compelled people to adjust their individual daily behaviour, thus prompting them to become more proactive in managing the sudden situational change. Daily routines were, hence, shifted from offline to online; forcing many, for example, to work from home. Lives have been lost, jobs/businesses have been lost, thus loss of income. Indeed the SACCO was not spared as she lost some of her members to the disease, while the University the main source of the CHUNA SACCO membership, did not renew some contracts of our members due to the difficult economic times. However, we still thank God for His mercies thus far.

From a leadership perspective, the Board, which I have the privilege to lead, takes this early opportunity to thank you for the unwavering support and welcome you all to today's deliberations. The board is alive to the opportunity to make a lasting impact in executing the mandate of the SACCO members.

Upon assuming office in 2018, this Board began a rigorous process of defining the strategic direction for the organization for the next coming years.

Ladies and Gentlemen, It's my firm believe that we cannot solve the challenges of our time unless we purpose to solve them together, unless we perfect our union by understanding that we may have different stories, but we hold common hopes; that we may not look the same and we may not have come from the same place, but we all want to move our SACCO in the same direction — to better it for the future of our children and our grandchildren, a generation we can not fail.

Your imagination, your intuition and your initiative will determine whether we build a SACCO where progress is the servant of our needs, or a SACCO where good values and new visions are buried under unbridled growth. For in our time, we have the opportunity to move not only toward the rich and powerful society, but upward to a Society of continuously uplifting everyone. In fact I have asserted a firm conviction — , that you the Delegates, being the supreme organ of the governance of our SACCO and my fellow Board —, working together, we can move beyond some of our old challenges, and that in fact we have no choice if we are to continue on the path of a more better SACCO.

Fellow Leaders, we are coming from a past scarred with a history well known to us. Even as we clean up the mess we inherited, we will constantly reevaluate our approach, subject our decisions to a review from time to time, because you see...the engine that drives our SACCO is slowly beginning to turn, and the upward trajectory is beginning to take shape. We're working towards historic reforms and members needs management of our SACCO,

Let me take a moment to highlight these moves, which have taken concerted effort to achieve but have implications for the future success of our Sacco.

1. STRATEGIC PLAN

All our members have an expectation that their funds will always be safeguarded. For us, effective utilization of member funds is built upon robust governance structures supported by defined and documented systems and controls. The Board retains the primary responsibility for these matters, and has in the recent past developed a planned way of delivery contained in a deliberate Strategic Plan, with clear set metrics to measure progress and hold ourselves accountable. We have sought the strongest and most sustainable legal framework for addressing our issues in the long term. By doing that we can leave behind a legacy that outlasts our leadership, that endures for the next Chairmen and the Board after that -- a legacy that protects the CHUNA Members. We'll consistently assess our efforts to attaining what we have set to achieve and our progress in combating nonconformity.

Together we have an opportunity in these next four years to do the very practical work that will ensure we leave no one behind, something I know we all believe in. With your backing for the Strategic Plan, we will pursue four main outcome areas, which we have, in the strategic plan document referred to as Pillars, focused on very concrete and specific results for our Members.

2. TECHNOLOGY

Secondly the SACCO has heavily invested in technology for safety of Members' funds and convenience in transactions. Some of the services you can access at the SACCO due to adoption of the latest technology are;

- **Online Loan Application**: All our loan products can be applied online and fully guaranteed online. Our members can visit and have been visiting our website for the procedure.

- **Online Account Statement**: You can access all that pertains to your BOSA and FOSA activities at CHUNA through the members web-portal including available on any computer or android phone e.g. account statements, guarantorship, internal transfer of funds, funds withdrawal etc.

- **Mobile Cash access**: You can withdraw cash, deposit cash through our Cloudpesa wallet after registering.

- **Mobile based lending**: You can access between Ksh 15,000.00 up to Ksh 50,000.00 (from previous maximum of Ksh 15,000.00) as unsecured loan (no guarantorship) through our mobile App as from 01 March, 2021

- **Online payments**: The SACCO no longer pays using cheques but online electronic transfers.

3. LIQUIDITY

The SACCO is currently liquid and has been able to meet members loan demands within the stipulated time-lines. This has been majorly made possible because many members have deliberately made FOSA their salary pay-point. Currently over 800 members process their monthly salary through FOSA which translates into Ksh 40 million per month being channeled through the SACCO and it will be a great plus if the other remaining over 2000 members would consider doing the same. It is my and your responsibility to convince them.

The same can be attributed to the fact that our current VC Prof Kiama has deliberately purposed to regularly and promptly be remitting all the check-off over the past few months. And for this gesture we are forever grateful to him. We encourage him to keep up this support to the SACCO.

4. NEW PRODUCTS AND RECRUITMENT OF COMPETENT STAFF

The key to our success has never been just developing new ideas; it is also developing new member-centric products. The Board introduced three new products in the year 2020 which have performed exceptionally well, that is M-CHUNA loan which is a mobile telephone based lending, Armotized loan and Jijenge Loan. Early this year for those members newly joining the SACCO we introduced KARIBU loan, for Senior Citizens product i.e. for the Retirees is awaiting approval before it's launched. We intend to introduce more this year, especially collateral based lending.

We also recruited a Certified Credit Analyst (CCA), this an equal of CPA(K) in accounting. This is after realization that our Credit team were Accountants and other professionals with no Credit management background.

5. EMPATHY TO OUR MEMBERS THROUGH LOAN RESTRUCTURING AND LOAN DEFAULT

On the onset of Covid-19 pandemic, the Board deliberately allowed members of the SACCO to restructure their loans as a way of cushioning themselves from the then anticipated economic hard times and also reduce default rate in the SACCO. A number did while others did not. However, we can report that this action drastically reduced default rate to a point the provisioning for loan default is an income instead of an expense. Our members who took the offer equally benefited by having more savings in their payslips.

The Board, based on the prevailing situations and analysis of the same, will be allowing some reliefs to members if need be for mutual benefit of the SACCO and the members.

The SACCO has equally registered improvements in various aspects as briefly mentioned below;

6. SACCO PERFORMANCE

Under Financial Performance, I wish to report on the following key matters;

a). Income/Revenue

Our total revenues increased from 183.4 million in 2019 to 206.4 million in the year 2020, thus a growth by Ksh 23 million which translates to 12.51% growth. Out of this we are able to propose for your approval an interest on members deposits and dividends of 42 million, being 15% dividends and 2% interest on members deposits.

b). Balance Sheet growth

Our Balance sheet grew from Ksh 1.6563 billion in year 2019 to Ksh 1.7175 billion in year 2020. Delegates, this is a significant improvement considering that a whole Ksh 59 million reduced it through the provision for Other Assets Suspense. This improvement was as a result in growth of our loan portfolio by Ksh 85.1 million and re-evaluation of our investments in Co-op Holdings which includes shares of Co-op Bank and CIC Insurance plus the Shares of Co-op Bank we hold directly (not through Co-op Holdings) from Ksh 15.9 million to Ksh 130.1 million. The Other driver was Cash and Cash equivalents which stood at Ksh 113.6 million in 2020 from Ksh 13.1 million in year 2019. However, our Trade Receivables (Money people owed the SACCO and were due) reduced to Ksh 50.6 million in 2020 from Ksh 227.7 million in 2019.

The growth in loan portfolio was as a result of availability of funds and re-tuning of our loan products to suit members needs

c). Statutory Ratios

SACCO business just like banks have a responsibility to abide by the basic safeguards or standards that are necessary to protect the Sacco Members/investors from harm/exploitation and economic shocks. These are prudential ratios. Not every regulation is bad. Not every regulation is burdensome on business. A lot of the regulations that are out there are measures by the government to protect the economy and thus we should embrace them wholeheartedly. So, regulations didn't destroy the SACCO industry; it enhanced it and made our lives better since they are SMART, and designed for growth. The government has various safeguards enshrined in statutory ratios, which Saccos are supposed to comply with. For CHUNA the SACCO's statutory ratios improved as a result of the performance are as shown in the table below. The SACCO has been largely compliant on regulatory matters except on few ratios. One key ratio which the Regulator is ever concerned about is the Institutional Capital ratio which we are still at 5.64% instead of 8% and above. The only way to achieve the ratio going forward is to purpose to retain more surpluses or diverse our sources of income to generate more.

| Capital adequacy ratio | Standard | <u>2020</u> | <u>2019</u> |
|---|-----------------|--------------------|--------------------|
| Core Capital/Total Assets | >10% | 16.67% | 10.59% |
| Core Capital/Total deposits | >8% | 21.73% | 12.93% |
| Share capital/Total assets | >2% | 6.25% | 6.17% |
| Institutional Capital /Total Assets | >8% | 5.64% | 4.42% |
| Equities&Investments/ Total deposits | <5% | 9.87% | 1.11% |

d). Expenses

Our Total expenses marginally increased from Ksh 115.3 million in 2019 to Ksh 132.1 million in 2020 an increase of Ksh 16.6 million which translates to 14.47%, largely drawn from provision for other assets as explained below;

[i]. Provision for Other Assets suspense from Ksh 46 million to ksh 59 million that is an increase of Ksh 13 million. Remember this is more of an order from the regulator SASRA to write off the Ksh 760 million funds unaccounted for so far and thus can only be negotiated. However, allow me to also inform you that the higher the value, the higher the cash outflow savings for the SACCO.

[ii]. Personnel expenses and governance expenses, slightly increased as a result of the lock-downs, which increased cost especially of travel and the use of hired space for meetings as a result of the unavailability of the SACCO Boardroom which was being used by the Forensic Auditors throughout the year and thus was out of bounds, two delegates meeting event in 2020 apart from the ADM etc.

7. FORENSIC AUDIT

The SACCO has conducted the Forensic audit to establish the whereabouts of the Ksh 670 million. As you are aware, the Forensic Audit is over and you adopted the report on 17th April, 2021, we wish to remind you that the implementation will not be easy but at the same time assure that the Board is determined to implement your resolutions on the document to the letter.

On the same we shall require your unwavering support in every way possible.

8. SACCO MEMBERSHIP

The SACCO 70% membership is currently composed of senior citizens who are retiring in the next few years. **The SACCO in the year 2020 lost 60 members due to retirement, 311 due to non-renewal of contracts and 15 due to death. However, 81 former members rejoined and 48 new members also joined in the same period.**

For this reason, we encourage all of us to assist in recruiting new members.

Actually, the SACCO pays Ksh 500.00 to every member who recruits a new member.

9. RELATIONSHIPS WITH STAKEHOLDERS

The SACCOs relationship with stakeholders has greatly improved. One of our major stakeholders is the University of Nairobi who has greatly assisted in members remittance and we are grateful to the Vice Chancellor for this tremendous purposive gesture, which has gone a long way in sorting out our liquidity. One thing which has hindered the SACCO's performance in the past has been delayed/non-remittance of monthly check-off deductions by the University. This led to the SACCO turning to expensive bank loans and overdrafts, led to many members withdrawing their Deposits savings at the SACCO and in fact the last three years over Ksh 600 million savings were withdrawn by members when they could not access loans at the SACCO due to liquidity challenges. I am happy to report this year that since August, 2020, the University management has consistently remitted the checkoff in time and also cleared the principal arrears of over Ksh 210 million, and this we owe it to the VC's purposive goodwill in supporting the SACCO. We are only now following up the interest arrears of Ksh 300 million and there is good progress in the discussions toward this end.

13. OTHER MATTERS

i. Unpaid 10% Top-up fee

The issue of unpaid 10% Top-up fee we have noted is a matter of concern and indeed affecting majority of members. The Forensic Auditor has established all those who never paid and thus we are asking them to pay as was directed by members at the Special General Meeting of April, 2018.

i. Delegates Elections

Our Bylaws requires Delegates elections to be conducted after every three years and indeed this is the norm in the Co-operative movement. Therefore, our delegates elections shall be at least a month to the 2022 ADM. We may do them virtually just the way the University Pension did this year or physically.

ii. Bylaws Amendment

There are few areas of our Bylaws which require amendments and one of them is to amend Clause 32.3 and 34.4 to accommodate virtual meetings going forward so that we do not have to write letters to the Commissioner for permission to hold virtual meetings. We intend to do a thorough review of the Bylaws next year as we have established that some of its clauses are inconsistent with the industry practises e.g. the Chairman of the Education Subcommittee should be the Vice Chairman while in our case, the Vice Chairman is the Chair of the Credit Subcommittee.

iii. Budgets

We adopted a new strategy of budgeting for a three year period beginning this year. You will notice in our budget document that the Proposed Budget covers year 2022, 2023 and year 2024. Many of you might not be aware that when Covid-19 came and the Commissioner suspended all Co-operatives ADM/AGM, those who had no budgets for the year were only allowed to use half of the previous year budget. We were not affected since a proposed budget for year 2021 had been approved by the 2019 ADM, SACCOs which had not done as we had were caught in difficult situations and thus strained in their expenditure rather than income. Therefore, from that experience of others, we propose you approve a three year budget and each year shall be reviewed independently a year before it crystalize.

iv. Guarantor-ship

We have noted a number of guarantorship disputes mainly with claims of forged signatures, inflation of guaranteed amounts and other issue.

We advise members to take note that guarantorship is a contract and as such has legal implications/consequences and should be taken seriously and not be seen as merely an act of appending a signature.

v. Boosting of Shares

The SACCO can boost your shares so that you qualify for a higher loan based on your Deposits at a small commission of 15% of the boosted amount.

vi. Process of transferring Share Capital

Share Capital can only be transferred by those who have left the Sacco membership to either existing members or those who have equally left. One only needs to write a letter to the CEO instructing him to do the transfer and pay the requisite fee which was originally 10% but has been reviewed downwards to Ksh 500.00

vii. CHUMBEFU Deficit

The Chumbefu deficit has drastically reduced from Ksh 25 million to Ksh 4.1 million and once it becomes positive the Board shall re-evaluate its operations and how members should accrue more benefits from it.

Distinguished delegates, we are the glue that can play an effective role to hold together the CHUNA System on one of its most important missions. Reaching our destination, in terms of measurable success, will require delivery of members' needs on a basis that is financially sustainable.

The recognized trust and regard of members is a strong basis from which to grow new products and services. In transitioning, we must retain the valued member-centric ethos we are recognized for. Members' trust that has been built up over time can be lost very quickly if their best interests are not protected – which presents food for thought as we seek to pursue a more complex business offering.

Way forward

Establishing an investment Vehicle

The SACCO is not yet completely out of the mess we found it in. The hole left by the loss of Ksh 670 as a result of wanton theft will take some years to fully fill and be on the track. It is worth noting that this can only be achieved by the SACCO being innovative. However, some innovations are not permissible in the laws governing Co-operatives movement. Thus, the only option available is to consider registering an investment wing for the SACCO to engage in other business activities which can generate incomes to the SACCO.

Indeed there are many business opportunities out there if the SACCO was to have an investment wing like other SACCOs/Co-operatives, CHUNA would be in another league. Therefore, we leave you to consider this option for future adoption and implementation.

An alternative good source of income shall not only be beneficial to members in terms of high rates of dividends but shall lead to reduced rates of lending and reduction or elimination of some of the services charges.

Rebranding of the SACCO

We also need to rebrand the SACCO name and give it more appealing name associated with success.

The common bond is open, and in order to be able to attract everyone the name must not only be appealing but signify the aspect or the fact that anyone from anywhere can be a member.

Office Space

The SACCO is in dire need of office space. Currently, the SACCO cannot afford a space of its own outside the University. For the time being we have requested the University for more space and if none is available we have equally requested to be allowed to use prefabricated container.

However, we should not consider either of these two proposals as the ultimate solution to the space problem. Let us think of how to mobilize members to invest in acquiring a building(own premise) for the SACCO by owning Shares for that building (Investments towards acquiring the building). This is how many SACCOs have done it.

Thank you, God bless you, and God bless CHUNA Sacco.

CHUNA SACCO, CHUNA TUNDA.

Kefah Omwando

BOARD CHAIRMAN

