CHAIRMANS REPORT TO THE FIRST ANNUAL DELEGATES MEETING/CONFERENCE HELD ON FRIDAY, 31ST MAY 2019 AT THE METHODIST RESORT & CONFERENCE CENTRE.

1. SALUTATIONS
The Chief Guest Prof. Peter Mbithi, Nairobi County Director for Co-operatives, Starehe Sub County Co-op Officers, KUSCCO representative, Co-op Bank Representative, Honourable Delegates, Invited guests, ladies and gentlemen, I feel honoured and privileged to welcome you to CHUNA SACCO's first ever Annual Delegates Meeting.

2. INTRODUCTION
As you are aware the SACCO has been in existence since 1976 and in all the 41 Annual General Meetings, all members have been participating by way of attending Annual General Meetings, this was working in the initial stages when the membership was small. However, as the membership grew, the Annual General Meetings became quite disorganized with little or no impact on the Society's growth and development, but just a ritual to comply with the law. In the process the Society started spiralling down on governance and performance.

This led to many members especially the teaching staff to shy off from these meetings while other members attended for the sake of receiving Kshs 1,000.00 payment and nothing else. In fact majority would come only to sign the Attendance Register as late as 4.00pm, so as to get that money, without participating in the event at all. The consequences of performing the AGM as a ritual rather than an event to define policy directions, critically scrutinize the performance and set aspirations for its growth and development have been lethal to say the least.

It's also worth noting that earlier in the year 2016, Sacco Societies Regulatory Authority (SASRA) had conducted an investigation into the business affairs of the Society and discovered so many issues of non-compliance with regulations and policies, beside other malpractices. Indeed they discovered the Society books were not balancing by a tune
of Kenya shillings 670 million in Assets. This prompted them to issue directives, which were unfortunately ignored and even contested in court by the then Board of Directors.

SASRA in a bid to save the Society and indeed members' funds, sacked the then Executive Committee of the Board, consisting of the Chairman, Vice Chairman, Secretary and Treasurer. This action attracted the attention of the Commissioner for Co-operatives Development, who then in 2017/2018 conducted an Inquiry into the affairs of the Society and presented an Inquiry report to CHUNA SACCO members during a Special General Meeting held on 7th April, 2018 at Millennium Hall One in Chiromo Campus, University of Nairobi, which was adopted and culminated in the dissolution of the board, followed by the appointment of an interim board for ninety days and finally the election of the current board on 14th July 2018.

Among the key recommendations of the Inquiry report was that the Society changes her Governance structure from the Annual General Meeting (AGM) based universal suffrage to Annual Delegates Meeting/Conference (ADM/C) based system of governance. The proposal was duly approved during a Special Annual General Meeting held on 14th July, 2018, resulting in today's Annual Delegates Meeting/Conference.

However, this being the inaugural ADM/C, when CHUNA is transiting from universal suffrage to delegates system of governance, there is bound to emerge teething problems and logistical challenges, which we shall overcome together as we move forward.

I must take this opportunity to thank the Office of the Commissioner for Cooperative Development; the Nairobi County Director for Co-operatives, Madam Dolphine Aremo; the Starehe Sub County Cooperative Officer, Mrs. Jane Ndirangu and their teams for their relentless support to the Society during this transition process.

3. OVERVIEW

CHUNA SACCO has been in existence for the last 41 years as a Going concern. Indeed the Society like any other has also had its golden years compared to where it is today. I am pleased to inform this gathering that
the Society’s going concern status is strong, because it has been able to adapt to every challenge thrown its way by circumstances or events.

As at the end of year 2018 the Society had been able to mobilize Kshs 1.65 billion in form of Members Deposits for its 3448 members making an average of Kshs. 500,000.00 per member. That is above the national average of Kshs. 300,000.00 as per latest SASRA Industry Supervisory report. Although, the current active members are 3053.

The Society’s Loan Portfolio stood at Ksh 1 billion being an average of Kshs 330,000.00 per member. Comparing average deposits per member with average loan amount per member, it implies the Society should be able to pay members loans without external funding. From the above statistics the Society should be having an asset worth over Kshs 500 million somewhere. However, such an asset is nowhere to be found hence called Other Assets, a big elephant the Delegates must give a way forward.

This Other Asset will continue to drag the Society’s growth since it has to be amortized over a period of 11 years and so far only three instalments have been done totalling Ksh136 million (45m in 2016, 45m in 2017 and 46m in 2018). Without this elephant the Society would be paying a good rate of dividends/interest for the last two years including the year 2018 and retaining earnings to build her reserves.

The Board has agonised for the last eight (8) months on how to get out of this nightmare, but there seems to be no shortcut to address this monster, except to institute a variety of interventions that might not be pleasant to members, but are absolutely necessary for the revival and transformation of CHUNA into a thriving enterprise.

Consequently, the board will be proposing very robust interventions to ensure that the society is not only able to address the historical anomalies caused by mismanagement by the previous boards, but also enhance its capacity to effectively execute its core mandate of mobilising savings and providing credit to its members as and when they require it.
4. ACHIEVEMENTS

Despite the many challenges faced, as a result of having inherited an ailing institution, the current board has from the onset embarked on the path of change that is aimed at reforming and transforming CHUNA to a model of good governance and efficient service. Highlighted here below are the changes introduced by the current board in the last eight months with the aim of cutting cost, enhancing savings and improving service delivery:

**a. New Management Information System.**

We are all aware that in October 2018 the Society acquired and implemented a new Management Information System, Navision 2018; which is a windows’ based ERP software replacing the E-Coop system, which was being used to defraud the society. The new system has, through the members’ portal, given members control of their CHUNA Accounts and has offered members several enhanced services, like email and SMS notifications, among others.

System implementation starts with Registry as the source of member data, the Board has modernised the registry structures and has also installed CCTV Cameras in all the offices with a screen to monitor events in the office. This will help eliminate incidences of files disappearing.

**b. Implementation of the New Governance System.**

The Delegates System of governance was adopted during the Special General Meeting held on 14th July, 2018. This was meant to ensure that a culture of good corporate governance is instituted in CHUNA, away from the chaos and confusion that characterised the conduct of society business in the past. Towards this end the board organised a series of events to guarantee the effective implementation of the new governance structure:

- Developed and ensured registration of new society bylaws with effect from February 2019.
- Held campus based education meetings from the 25th February 2019 to 7th March 2019 to sensitize members on the changes taking
place in the society, especially the new bylaws and the delegates system of governance.

- Organized Delegates Elections on 29th April 2019 at the respective electoral zone.
- Held a successful delegates induction workshop on 17th May 2019 at Sportsview Hotel, Kasarani.

Ladies and Gentlemen, remember that today’s Annual Delegates Meeting/Conference is the crowning part in implementing the new system of governance and we can all appreciate the difference in comparison to what used to happen in our Annual General Meetings, especially in Millennium Hall, Chiromo Campus or at the 844 Building in Main Campus.

It is worth to note that some constituencies including main campus, Kisumu, Mombasa and SWA fell short of the required number of delegates and therefore this will be addressed as per section 6(29.12) of the bylaws.

**c. Introduction of New Products and Services.**

In response to the needs of the members, the current Board has during the period under review introduced several products/services designed to improve service delivery. Among these are:

- New loan products, emergency 20 and emergency 6 (which does not limit a member’s appraisal to the one third rule).
- Cloud Pesa – This enables members to operate their accounts by use of their mobile phones.
- M - Pesa services
- The CHUNA App on the play store

The SACCO will soon launch an Online Loan Application Form to accelerate the processing of loans and ensure the security and integrity of the loaning process. The board intends to introduce more products and innovations to meet the demands of the members.

Fellow Delegates, when the current board joined CHUNA in July 2018, the society only had a loaning policy, which meant that most of the society’s activities were carried out on an ad hoc basis, depending on the individual whims and vested interests of the board/management of the day.

The board has moved with speed and developed Policies & SOPs for Human Resource Management, Information Communication Technology (ICT) Management, Management of Elections, Finance and Accounting, Procurement, Risk Management and Audit Charter. More policies & SOPs shall be formulated as the SACCO embarks on developing it’s 2019/2023 Strategic Plan, where you, the distinguished delegates, are expected to play a key role in developing the road map for CHUNA’s revival. This exercise is scheduled to take place in the months of July/August 2019.

e. Payment/Retiring of Bank loans.

As highlighted in the Inquiry Report, the previous boards had developed an appetite for taking expensive bank loans for payment of dividends that did not exist! This was done through creative accounting for the sole purpose of perpetuating the political careers of certain individuals.

When this board assumed office, the society had two bank loans totalling Two Hundred Thirty Eight Million (Kshs. 238, 000, 000). As a strategy to clean up the society’s books and wean it off destructive practices that are impacting negatively on its performance, the board has stepped up efforts to clear these loans and only one loan of Ninety Seven Million (Kshs. 97, 000, 000.00) is outstanding.

f. Listing with Credit Reference Bureau - Metropol CRB.

My Dear Colleagues, to enhance loan recovery and ensure that defaulters are compelled to honour their obligations, the board signed an agreement with Metropol CRB in March 2019 and soon we are going to start sharing information with them.
g. Human Resource Management and Discipline.

Apart from developing a Human Resource Policy, the board has conducted appraisal for all staff, with the aim of not only identifying gaps in their skills, but also to enable the board take appropriate action to enhance performance.

Towards this end the board has recruited, through Consultancy Firms, A Systems Administrator and an Assistant Auditor. The Board has also taken Disciplinary Action against a number of staff, whose performance was wanting. This included the dismissal of three members of staff; early retirement of one; while two others are on suspension and have sought legal redress awaiting determination.

h. SWOT Analysis Workshop/Report

The board organized a successful SWOT Analysis Workshop, which was held at the Central Catering Unit (CCU), University of Nairobi on 10th and 11th of August 2018. The workshop was attended by the Board of Directors, Staff and at least thirty (30) CHUNA members nominated from across all the electoral zones.

The report from this workshop laid the foundation for the reforms that the current board is implementing. The board is confident that together we can now upscale the reforms and transform CHUNA.

5. GENERAL PERFORMANCE FOR 2018

The Society’s performance has not been very impressive due to many challenges faced during the financial year 2018, most of them being historical as a result of previous mismanagement. Key among them being:

a. Expensive bank loans
b. Other assets of 670 million.
c. Defaulted loans.
d. Provisions for bad debts.
It is worth noting that 45.4% of the expenditure is actually provisions. Had the provisions not been there, the Society would have made a surplus. Details of this performance will be explained in the books of accounts.

6. IMPLEMENTATION OF THE INQUIRY REPORT

I wish to report that the process of implementing the Inquiry report is ongoing and that majority of the recommendations have been effected, except for a few challenges highlighted here below:

i. Follow Up On Surcharged Former Officials.

The former officials went to court and lost. Those who did not go to court have paid as follows as at today:

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<th>NAME</th>
<th>SURCHARGED</th>
<th>PAID</th>
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<td>1</td>
<td>Mr. Nixon Otienye</td>
<td>182,492.00</td>
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<td>2</td>
<td>Mr. Julius Nduba</td>
<td>182,492.00</td>
<td>182,492.00</td>
<td>Nil</td>
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<td>3</td>
<td>Mr. Joseph Kiprono Maiyo</td>
<td>197,130.00</td>
<td>50,000.00</td>
<td>147,130.00</td>
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<td>4</td>
<td>Mr. Edward Tale Nabangi</td>
<td>6,683,000.00</td>
<td>155,000.00</td>
<td>6,528,000.00</td>
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<td></td>
<td><strong>TOTALS</strong></td>
<td><strong>7,245,114.00</strong></td>
<td><strong>569,984.00</strong></td>
<td><strong>6,675,130.00</strong></td>
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The following have not paid anything at all; however, demand letters from our Lawyer have been dispatched to ensure compliance.

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<th>NO</th>
<th>NAME</th>
<th>AMOUNT</th>
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<td>2</td>
<td>Mr. George Onyara</td>
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<td>3</td>
<td>Mr. Stephen Ogonyo</td>
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<tr>
<td>4</td>
<td>Dr. James Kahunyo</td>
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<td>5</td>
<td>Mr. Wycliffe Ogal</td>
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<td>6</td>
<td>Dr. George Abong</td>
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<td>7</td>
<td>Prof. Olunga</td>
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<td>8</td>
<td>Mr. Joe Esau</td>
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<td>9</td>
<td>Mr. George Guthaiya</td>
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<td>Mrs. Salome Muchere</td>
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<td>11</td>
<td>Dr. George Mukhwaya</td>
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**TOTALS** | **1,668,871.00**

The DCI has been invited to investigate the conduct of the former CEO.
ii. Compliance to Prudential Ratios, By-Laws and Policies

We are still having a big challenge in the society’s ability to comply with Prudential Ratios (statutory requirements) and we will be presenting proposals for your approval to implement. However, on By-Laws and policies we are fully compliant.

7. CHALLENGES ENCOUNTERED & PROPOSED SOLUTIONS/RESOLUTIONS

As I had promised earlier to explain the reasons for the Society’s performance, the following contributed in curtailing the Society’s performance and general reduction in income.

a. Historical Injustices in Loans leading to high provisioning for Other Assets and Loans

The Society is grappling with a high number of Non-performing loans (Portfolio At Risk - PAR) which stood at Ksh167 million as at December and provisioning for the same as per SASRA regulations, is 28% against the regulatory recommended ratio of below 5%. Examples of such loans are ones which were given without any loan applications forms and therefore, have no bio data e.g. repayment period, those given beyond one’s ability to repay, those given more than three times of one’s BOSA Deposits, some have no guarantors etc. Delegates, these were the reasons our accounts were qualified.

Fellow Delegates, to cure this, we propose that upon exit, a member who was in the Society when the books were “cooked” and dividends paid, should be surcharged 5% of the gross BOSA Deposits and this money shall be refunded in case the Forensic Audit identifies those who are culpable.

For Loans, the members who accessed loans irregularly should be called upon to bring forth collateral which can be charged and in case of default the Society to realise such collateral and engage Debt collectors.

Last but not least on this issue, the Society needs to put to rest the matter of historical injustices by unearthing the truth. Towards this end the Board recommends that the Society conducts a Forensic Audit. Once the truth is known, other matters can then follow rather than living in ambiguity.
We need to know for **SURE** who was responsible for the embezzlement of the **670 million**.

**b. Liquidity/Delayed Check-off**

As at 31/12/2018 the University had not remitted Ksh 156 million. To date the figure stands at approximately Ksh 200 million. Averagely on a monthly basis, the University owes the Society Ksh 130 million. Hypothetically, if this money was loaned out even for one month at 1% the Society would have earned or would be earning Ksh 1.3 million as interest income for one month, implying the Society has lost Ksh 15.6 million in interest income for twelve months. If you add the interest on overdrafts of 21.6 per annum (averaging 1.5m per month) then, this amounts to Ksh 37.2 million which the Society lost in the year 2018. My fellow delegates, this delayed remittance leads to three main negative consequences, namely;

- **Loss of income**: this is because the Society’s stock for trade is money, when that stock is not there the Society is not making sales and thus losing interest it could have earned had it sold the money.

- **Expensive overdrafts**, because the Society must meet some of its basic objectives like granting emergency loans, school fees loans etc, it borrows from Banks in form of overdrafts. The cost of the overdrafts eats into the Society’s dwindling incomes.

- **Mass membership withdrawals.** The SACCO business model is anchored on numbers, the higher the numbers the higher the business volumes and the higher the income. Because the Society is unable to meet the Normal loans demand on time, many members have opted out of the Society to either banks or other SACCOs.

The way forward so far is for the Society members to pass their salaries through CHUNA FOSA and we urge a resolution be passed by this meeting on the same, that no member will access a loan at CHUNA without passing his/her salary at CHUNA FOSA so that the University does not have to recover anything on behalf of CHUNA. Alternatively, members can also have a Direct Debit arrangement between their Banks and CHUNA.
c. Expensive Bank Loan(s)
The Society took two Bank loans totalling Kshs 600 million in the year 2016. These loans initially were at very high rate since the interest rates cap had not been mooted by our parliament. The Society, because of the delayed remittance is struggling to meet the bank loan repayments in time. This in turn leads to accrued interest and penalties which also significantly eat into the Society income. In fact the Bank loan interest for year 2018 was 16% of the total income and 29% of the total expenditure.

The solution is for the Society to depend on its internally generated funds. Some of the ways of achieving this is to;

i. Increase minimum monthly Deposits contributions from Kshs 2,000.00 to 2,500.00 This will lead to monthly cash inflow increase of one (1) million (2000*500) and thus Kshs 12 million annually.

ii. Banding Deposits contributions to Loan amount e.g. a certain deposit contribution is tied to a certain loan amount. (Refer to document on Proposed Resolutions)

iii. Encourage members to take up FOSA savings products e.g. Holiday Savings, Education Savings Scheme, and Fixed Deposits etc.

d. Members on Short Term Contracts at the University
As we are all aware the majority of the Society members are those University staff on short term employment contracts. Previously the University used to renew such contracts automatically. However, since the beginning of year 2018, the contracts renewal is not guaranteed. Majority of the Society’s defaulted loans forming part of the PAR are from members whose contracts are not renewed. This has forced the Society to ensure such staff members are granted loans recoverable within their contract period causing a lot of disenchantment and member exits.

The Society is going to cluster the members into groups with limits of how much in aggregate a group can access, use collateral or guarantorship by members on permanent terms of employment. This will ensure these members can access loans even beyond an individual’s contract period.
e. Inherited Personnel
Currently the Society has thirteen staff members on permanent terms and two on casual contract basis. This is a reduction from 21 that were initially there.

From our analysis, majority have no requisite academic qualifications and necessary skills. In fact most have only Secondary school certificates. Lack of these two comes with inherent incompetence which has hindered implementation of some strategies. The Board has outlined trainings to enhance their capacities and equip them with the necessary skills.

f. Compliance with Regulatory Ratios
As mentioned earlier, this has been a challenge and the risks associated with non-compliance are dire to the going concern status of the Society.

In fact in the AGM of 2013, it was clearly resolved that each member should build his/her Share Capital to Kshs 41,500.00. However, the Bylaws were not amended to reflect the same, thereby creating a loophole for members to be refunded this critical money required for compliance with Capital Adequacy ratios. Legally, Share Capital is not refundable but transferable to another member.

I urge Delegates to pass an amendment to Section 8 of our Bylaws so that the Minimum Shares to be held by any member is 2075 valued at Kshs 41,500.00.

Leaving the matter as it is, is greatly putting the going concern status of the Society at the risk of de-registration.

g. Chumbefu
CHUMBEFU which is an acronym for CHUNA MEMBERS BENOVELENT FUND was and is still a good and noble idea of helping members’ at the most difficult times (during demise) as Sinking/Benevolent fund. The original purpose was to;

a. Attend to funeral expenses in case a member, his/her spouse or child passes on.
b. Pay off loans of the deceased so that family members and guarantors are not harassed. The best way to achieve this was by paying for loans insurance from the fund.

At some point the idea of refunding members 75% was adopted. This was not a good idea however noble it was because it made the fund to go into a deficit. This deficit increased to a tune of 25 million by the end of year 2017 and the regulator, SASRA, noted the fund was being sustained by the members’ Deposits instead of it being self-sustaining. SASRA then ordered refunds to members be stopped forthwith till the deficit is fully recovered and the fund be restructured.

The Board proposes that:

- Chumbefu reverts back to a benevolent fund (revolving fund), with effect from when the current insurance policy expires.
- Insurance on loans should be charged as a direct cost/expense at the rate of 1.8% of the loan taken.
- Increase contributions from the current Kshs. 200 per month to Kshs. 300 per month; this will help in offsetting the current deficit and generate a surplus for investment.
- That any surplus realized from the revolving fund should be invested in welfare ventures e.g. purchase of a benevolent van/hearse for income generation.

h. Monthly Contributions For Reserve Of Ksh 100.00

This amount goes directly to the Society’s Balance Sheet as Reserves and has been Non-Refundable. The Board intends to scrap this deduction altogether.

i. 2019/2023 Strategic Plan

CHUNA has been operating without a Strategic Plan. The Board together with the senior staff are in the process of formulating a five year Strategic Plan before the end of August, 2019. We shall together with you finalise the plan for implementation.
j. The 4m stolen by former staff and a member

This matter is in court and the accused Mr. Daniel Owuor Onyango (the member) through his lawyer is dragging the case with unnecessary adjournments requests which the judge has granted in all occasions.

The insurance has not yet compensated CHUNA since the loss adjustor has not yet completed investigations.

8. CONCLUSION

In conclusion, I wish to assure you that the Sacco is on a recovery path; however, to maintain that momentum, you will be required to make very unpopular decisions with the members who elected you. You are the Surgeon, CHUNA is the patient and I want you to understand that no surgery is sweet, every surgery is painful but the results are better health for the patient. As a doctor do the right thing to help this patient.

Thank you and God Bless You All.

Mr. Julius N. Matano
Ag. BOARD CHAIRMAN.