



DUDU SACCO SOCIETY LTD
P.O. Box 30772 - 00100, Nairobi, Kenya
36th ANNUAL GENERAL MEETING

Chairman's report for year 2018

Dear Ladies and Gentlemen,

It is my pleasure to welcome you to the 36th Dudu Sacco Annual General Meeting (AGM) to be held on Saturday, 23rd March 2019.

I wish to take you through some of the key highlights and performance for the year ended 31st December 2018.

The Management and the Staff of Dudu Sacco achieved its goals of steering the Sacco in a successful path. We have observed renewed members' trust and confidence for the Society as shown by increased utilization of savings and loan products in 2018.

Accomplishments in 2018:

- (i) We have simplified procedures to enable fast tracking of loan requests, reviews, and disbursements. This has significantly reduced the turn-around time between the *receipt of loan application* and *loan disbursement*.

Emergency loans are processed instantly and usually paid within the same day.

On average, it takes less than a month to process and disburse *Asset and development loan*.

This is a major milestone involving expedited service delivery to members and we plan to further reduce turn-around times and possibly process *Development loans* twice in a month.

I wish to confirm that the Society is financially stable at present and has NOT faced liquidity problems at any time since 2017.

The additional fund of **KSh. 5,227,294.00** remaining after disbursement of total loans amounting to **KSh. 138,984,155.00** in 2018 was invested at C.I.C Money Market.

It is important to note that the previous alarm about the diminishing guarantorship was based on total outstanding loans guaranteed but not spread among the guarantors list. Thus, to determine guarantorship status of a member, the following three factors are considered; (i) personal loan obligations held (ii) the total sum of guaranteed portion(s) of loan(s) after equal distribution of the total loan among listed guarantors, and (iii) the member's deposits. Based on the above analysis, we rarely encounter ineligible guarantors during loan approval meetings as more than 98% of the applications had qualified guarantors.

Nevertheless, the importance of accumulating more deposits is reflected in the dividends earned, and importantly the member's borrowing power will increase, thus enabling self-guaranteeing for up to certain amount of loan.

- (ii) All transactions of the Society were conducted in a transparent manner by adhering to the available policy documents that outline procedures, guidelines, instructions, rules and regulations to be followed by the Sacco, hence increasing value for money. However, Dudu Sacco has had only two policy documents in place: (i) Human Resource, and (ii) Loan policies. Therefore, we are developing initial drafts of the following additional policy documents: (i) Dividends / interest on deposits policy (ii) Procurement policy, and (iii) Marketing policy
- (iii) The Society organized a five-day *Marketing week* in 2018, at *icipe-Duduville* and in *ITOC- Mbita*, to publicize the Sacco while aiming at conducting recruitment drive to enroll new members who are either employees of *icipe* or *icipe*-hosted organizations. Seven (7) new members joined the Society during the *Marketing week* and a total of 39 in the whole year. Since then, the Management has tasked the Manager of Dudu Sacco and his staff to organize door-to-door visits every week in order to register new members. We also aim to conduct regular recruitment drives to register new members in Mbita so as to widen the guarantorship base. The office of Dudu Sacco representatives in Mbita will facilitate this.
- (iv) Ladies and Gentlemen, as you are already aware, Dudu Sacco was registered with Metropol Credit Reference Bureau Limited (CRB) in 2017 after a one-off payment of CRB affiliation fees of **KSh. 44,100**. Thereafter, in September 2018, we wrote CRB

notification letters, as required by law, to all **15 (fifteen) loan defaulters** who left *icipa* without settling their loan accounts. These defaulted loans have since been recovered from guarantors by the Society. Consequently, the main agenda for which Dudu Sacco joined the CRB, as approved by members during AGM, was to increase confidence and trust among its members by ‘forcing’ the loan defaulters to refund the affected guarantors an equivalent amount of money recovered from them by the Sacco. Thus, following a 30-day notice through written official communication, phone calls, messaging via SMS, WhatsApp, and Facebook – as a legal requirement prior to CRB listing of debtors, some defaulters wrote back requesting for additional time ranging from 30 – 60 days with promises to begin repayment schedules. We have already **enlisted one defaulter** and others in the list could follow. The Society will also explore the implications of involving the services of the debt collection section of CRB in debt recovery from the listed defaulters.

(v) Cost reduction:

In order to cut down on expenditure, since 2018 up to date, we have been connecting Duduville with Mbita during Education days and also the AGM through video-link at zero-cost to the Sacco (thanks to *icipa*).

Additionally, since 2017, the 12-member Board (Management and Supervisory) reduced the frequency of official meetings by utilizing email communications to discuss specific issues, and work on specific documents that we then shared for comments prior to convening a meeting to finalize. Therefore, in just two years from 2016 to 2018, we have cut down the amount spent on sitting allowances by **47.27%** (sitting allowances in 2016 = KSh 799,886, 2017 = KSh 495,269, and 2018 = KSh 421,784), thus saving the Sacco **KSh 378,102**. For avoidance of any doubt, the 12 members of Board do NOT receive any other form of income from the Society, except the sitting allowances (as set out in the Cooperatives Act) after official meetings aimed at driving forward the activities of the Society. Similarly, other budget lines were adjusted accordingly to ‘*minimize expenditure without compromising on quality service delivery for advancement of the Society’s goals*’

Members’ funds

Members’ deposits increased by 13.12% to **KSh 126,456,018** as at 31st December 2018, up from **KSh 111,790,745** as at 31st December 2017.

More than 50% of the members' cumulative deposits are below **KSh 200,000**. The Society encourages all members to move out of the lower strata bands by saving more in monthly deposits.

The number of active members as at December 2018 increased by 3.4% to 365 (end of 2017 = 353 members), while dormant members increased by 20.97% to 75 relative to the previous year (**Table I**).

Out of the 365 active members, 75% ($n= 274/365$) are currently servicing loans, whereas 25% ($n= 91/365$) have no loans (**Table I**).

Table I: Percentage of membership with and without loans.

Status	December 2018	% With loans	% Without loans
Active members	365	75% ($n= 274/365$)	25% ($n= 91/365$)
Dormant members	75		
Total	440		

We recommend development of new loan products to target the active members without loans, but this should be done after detailed analysis to understand this target group, e.g. age, gender, occupation, preferred lifestyle.

Members' *Fixed deposits* increased by **58.62%** to **KSh. 16,068,151** by 31st December 2018 up from **Ksh. 10,130,222** as at 31st December 2017, whereas during the same period the *Withdrawable savings* reduced by **13.28%** to **KSh. 4,015,839**. *Children account* recorded an increase of **19.47%** to **KSh. 975,292** by 31st December 2018 compared to **Ksh. 816,342** in December 2017.

These findings showing increased investments under the two saving products (i.e. *fixed deposits* and *Children account- Dusco Junior*, both attracting high interest returns at 10% p.a) demonstrate increased confidence and renewed trust for the Society. This is also supported by 28.3% increase in loans uptake in the year 2018 (**Table 2**).

Analysis of loan disbursement as at 31st December 2018

During the year 2018, a total of **Ksh. 138,984,155.00** was loaned to members compared to **Ksh. 108,287,881.00** in 2017, giving a difference of **Ksh. 30,696,274** that translates to **28.3%** increase in loans disbursed in the year ended 2018 (**Table 2**).

Table 2: The summary of loans disbursed to members under various loan products.

Year (31 st Dec)	Development / asset Loans	Emergency Loan	Education Loan	Special College	Totals (Kshs)
2018	97,849,381	8,332,852	18,963,002	13,838,920	138,984,155
2017	75,839,561	10,617,120	18,648,200	3,183,000	108,287,881
2016	106,445,997	10,317,296	16,822,007	—	133,585,300

We noted over four times (>4×) increased uptake of *Special College Loan* in 2018 relative to 2017 (**Table 2**).

The increased borrowing of loans in 2018 was promoted by the *Deposit Advance* product, which enabled eligible members to qualify for bigger *Asset* and *Development loans* after boosting their deposits. Analysis of the performance of loan products in terms of the amounts of loan borrowed and its corresponding interest generated is indicative of poor performance by 2nd *Emergency* and *Development 2nd Refinancing* (**Table 3**).

Table 3: Loan products and analysis of their performance in year 2018.

S/No	Product name	Loan amount	Interest generated
1	Jambo Karibu	1,512,655.00	146,134.50
2	Emergency	6,809,363.00	280,743.75
3	2 nd emergency	10,834.00	276.50
4	College fees	16,538,766.00	680,337.90
5	Special college fees	13,838,920.00	635,359.50
6	School fees	2,424,236.00	112,631.90
7	Development	47,677,268.00	6,095,389.25
8	Development 1 st Refinancing	10,724,823.00	719,247.50
9	Development 2 nd Refinancing	-	2,942.50
10	Asset Development	37,451,867.00	9,356,350.25
11	Asset Dev. Refinancing	1,995,423.00	241,318.00
12	Loan bridging charges	-	1,884,754.75
13	One - off surcharge	-	733,671.60
Overall TOTAL (KSh.)		138,984,155.00	20,889,157.90

Members' arrears:

The members' **unpaid arrears** on monthly remittances (deposit and loan arrears = KSh. 636,278.40) and cancellations of Standing Orders of Ksh. 521,494.00 amounted to a total of **KShs. 1,157,772.40** by the close of year 2018. This shows an increase in arrears relative to the total arrears of **Ksh. 874,115.00** (i.e. inclusive non-performing SO of **KSh 152,405.00**) in the previous year.

Loan default:

A total amount of **Kshs. 2,886,565.30** was defaulted in 2018 compared to **Kshs. 1,072,220.35** in 2017. The end of contracts contributed to increased rates of default on loan repayment.

Challenges to credit access by members;

The following three challenges could interfere with member's access to the Sacco's credit facilities;

- (i) Short contract periods lasting for 3 - 6 months for some *icipe* employees prevents access to development loans due to security issues for the Sacco. Also, contract non-renewals results in a major impediment to credit access.
- (ii) Arrears of all forms and loan default.
- (iii) Cancellation of Standing Orders by loanees soon after loan disbursement.

Possible solutions to the above loaning challenges:

The Board recommends the following solutions to solve challenges in credit access:

- (i) Deployment of new measures to discourage arrears and cancellations of bank Standing Orders by loanees, for instance, the Sacco could establish a binding agreement between the loanee and loanee's bank for placement of irrevocable Standing Order.

At this point, the Sacco could introduce penalties or charges for premature cancellation of Standing Orders that breaches the loan repayment schedules by the loanee.

- (ii) Members should honour their obligations to the Society by repaying loans promptly to increase level of trust to their guarantors.
- (iii) Members should endeavor to uphold cooperative values founded on self-help, mutual responsibilities, equality and equity. They should practice honesty, openness and social responsibility in all their activities (see Dudu Sacco by-laws section 5; subsection 5.1).

Emerging issues:

The International Accounting Standards Board (IASB) has changed the accounting standards from **IAS 39** (International Accounting Standards 39) to **IFRS 9** (International Finance Reporting Standards 9) effective from 1st January 2018. The former **IAS 39** standards were based on the **Incurred Costs**, whereas **IFRS 9** factors in the **Expected Costs**.

Thus, IFRS 9 accounting standard brings in a new methodology used to define how irrecoverable loans provisions are determined.

As a result of this, all lending institutions (including Dudu Sacco) are mandated to make provisions (i.e. Put money aside from the surplus) for all loans as a risk management measure. The provision rates are determined by loans aging (determined by the number of months in arrears) for a maximum period of one year as depicted below:

- a) One percent (1%) provision rate for loan classified as performing to cover for the expected credit loss (0- 30 days arrears)
- b) Five percent (5%) provision rate for a loan classified as watch (31 – 90 days arrears);
- c) Twenty-Five percent (25%) provision rate for a loan classified as substandard (90 – 180 days arrears);
- d) Fifty percent (50%) provision rate for a loan classified as doubtful (180 - 360 days arrears); and
- e) One hundred percent (100%) provision rate for a loan classified as loss (over 360 days arrears)

The implication to this is that Societies that will have more loans in arrears and defaults will end up paying less returns to members because most of the Surpluses will be transferred to the provisions. And the longer delays in repayment imply higher provision rates.

Deposit Advance

All Dudu Sacco loaning products are subjected to regular 6-month or annual reviews to analyze the performance trends, and in the process new recommendations are made.

A recent annual review of **Deposit Advance** product depicted an unprecedented trend of discouraging monthly savings as revealed by the analysis of Members Personal Accounts (MPAs) of the 40 members who have presently utilized this product.

The By-laws of Dudu Sacco section 4(a) states the key objectives of the Society as follows; “To promote **thrift** (i.e. *saving*) among its members by affording them an opportunity for accumulating their savings and to create thereby a source of funds from which loans can be made to them exclusively for provident and productive purposes, at fair and reasonable rate of interest; thereby enabling them to use and control their money for their mutual benefits”

Thus, **Saving** is a key component to any Society because it invigorates cash flows that finance the loans which in-turn provides interest.

In light of the above analysis on *Deposit Advance*, the Management developed new control measures to avert this trend. The new product features are as follows, effective from **15th February 2019**;

- (i) The minimum period for a member to qualify shall apply as per the Sacco by-laws.
- (ii) Members can only qualify for the next *Deposit Advance* facility upon repaying the first loan in its totality.
- (iii) Member can qualify for *Deposit Advance* of up to 50% of current deposits.
- (iv) The facility shall attract a onetime 5% charge on the amount advanced.
- (v) Maximum amount to be advanced is **Ksh. 150,000** and will only be granted to members applying for loans exceeding three times their deposits.
- (vi) During loan application, eligible applicants will complete official forms to request for *Deposit Advance*.
- (vii) The deposits boosted shall earn interest on pro-rata basis.

The Management Committee proposes to retain the current multiplier of 3x (where; x = is the members' deposits/shares) as the maximum borrowing power.

We also recommend that interest of **Ksh. 8,219,641** on member's deposits be refunded at the rate of **6.5%** in 2018 compared to **5.6%** for the previous year and dividends on shares at the rate of **5%**. Members with arrears will not be paid directly as their earnings will be used to defray part of arrears. The Management strongly recommends capitalization of the year 2018 dividends amounting to Kshs. 157,360 and this capitalization of dividends should continue for the next few years in order to reach a minimum Share Capital threshold of **KShs. 10 Million** as required by the Ministry of Cooperatives, up from the current Share Capital of **KSh 3,147,196**. This is meant to solidify the capital base.

Withholding tax: Recent developments reported in the Finance Bill of 2018 authorized increased withholding tax on dividends and interest on deposits from five percent (5%) to 10% and this government directive will affect dividends payout for the year ended 2018.

The Society has continued to organize and deliver relevant training seminars on broad variety of topics ranging from guarantorship to financial literacy and investment matters for its Duduville and Mbita members during video-linked education days held annually. The increasing rate of attendance recorded on the 21st July 2018 of 188

versus 162 members in 2017 is commendable as it is appropriate in content based on the analysis of members' feedback.

We are grateful to *icipe* for allocating an office space to Dudu Sacco, and also for providing infrastructural support such as Internet connection. We are thankful to the Finance Departments of *icipe* and of the hosted organizations within *icipe* (including; *Biovision Africa Trust, IFDC, Birdlife International, CIAT, Beacon of hope, IPNI*), where our Sacco draws its membership from, for timely remission of monthly check-off funds to the Society.

I am pleased with all my fellow co-operators who collectively play key roles of growing Dudu Sacco Society by way of saving and borrowing funds.

I thank the Management, Sacco Manager and Staff of the Society for their unwavering support, hard work, and dedication to ensure equitable and timely service delivery to all our members.

God bless you all.

Yours sincerely,



Dr. Joel Bargul

CHAIRMAN, DUDU SACCO SOCIETY LTD

(Approved for circulation by the Management Committee on 18-3-2019)