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INQUIRY REPORT

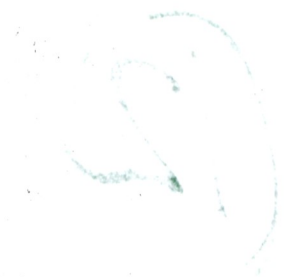
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ON

CS/1916

HARAMBEE SACCO SOCIETY LTD.

MAY, 2002

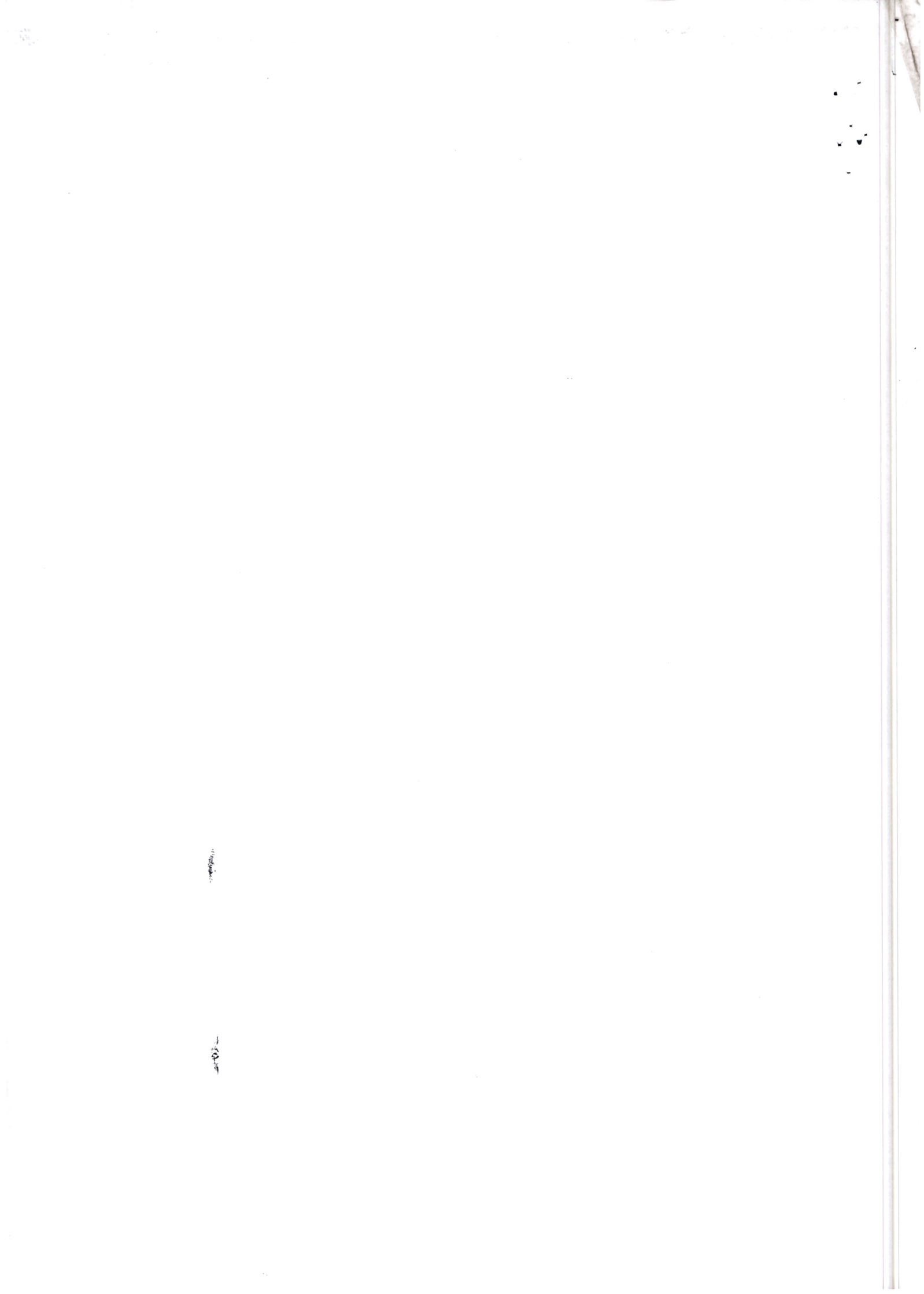


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Mr. F.F. Odhiambo,
Deputy Registrar of Cooperatives Societies,
Department of Cooperative Development,
Ministry of Agriculture and Rural Development,
Reinsurance Plaza,
NAIROBI.

Dear Sir,

RE: REPORT OF THE INQUIRY TEAM APPOINTED TO LOOK INTO THE AFFAIRS OF HARAMBEE SACCO SOCIETY LTD.

By a letter Ref.No.CS/1916/(133) Dated 27th December, 2001 you appointed the undersigned Officers to inquire into the By-Laws, Working and Financial Conditions of Harambee Sacco Society Limited – CS/1916. The Inquiry Order was gazetted in Gazette Notice No.8749 dated 27th December, 2001. The Inquiry Order was subsequently extended to 28th March, 2002.

The Inquiry Team has completed its findings and made recommendations in accordance with the terms of reference given.

We now have the honour to present our report to you. In doing so, we wish to take this opportunity to thank you and the Commissioner of Cooperative Societies most sincerely for bestowing upon us the privilege to undertake this exercise. We also wish to express our gratitude to the Permanent Secretaries; Mr. Z.K.A.Cheruiyot, MGH, Mr. J.E.O. Ongwae, EBS, Prof. Migot Adhola, of Provincial Administration and Internal Security, Directorate of Personnel Management, and Ministry of Agriculture and Rural Development respectively; and Chief of the General Staff, Gen. J. R.E. Kibwana, EGH, CBS, for releasing us to undertake this exercise. It is our sincere hope that the findings and recommendations of this report will be found useful to address some of the constraints that affect Harambee Sacco Society Ltd.

Yours faithfully

Dr. S. M. Mwaliko, S.S.

Mr. W.W. Oduor

Mr. S.G. Mohammed, MBS, ndc(K),

Mr. J.L.M. Juma, ndc(K)

Mr. R.A. Hadao

Mrs. M.M. Wanyonyi

Ms. J.W. Karanja

CHAIRMAN.....

Member.....

Member.....

Member.....

Member.....

Member.....

Member.....

ACKNOWLEDGMENT

The Inquiry Team would like to record its appreciation and gratitude to the following:

- (i) The Commissioner of Cooperative Development, Mr. S. Kirugi and the Deputy Registrar of Cooperative Societies, Mr. F. F. Odhiambo for appointing us members of the Inquiry Team.
- (ii) The Permanent Secretary Provincial Administration and Internal Security, Mr. Z.K.A. Cheruiyot, MGH; the Permanent Secretary/Director, Directorate of Personnel Management, Mr. J.E.O. Ongwae, EBS; the Permanent Secretary, Ministry of Agriculture and Rural Development, Prof. Shem Migot Adhola; and Chief of the General Staff, Gen. J.R.E. Kibwana, EGH, EBS, for nominating us to undertake this task.
- (iii) The Provincial and District Commissioners for facilitating our visits in the field and their valuable contributions.
- (iv) The Provincial and District Cooperative Officers for their briefing on the Harambee Sacco activities in their respective areas.
- (v) Harambee Sacco Branch officials and members for their contributions.
- (vi) The Central Management Committee, Supervisory Committee and Staff of Harambee Sacco for ensuring that the necessary logistical support was available as required.
- (vii) The national officials and the Senior Staff of Afya and Ukulima Saccos for meeting the Inquiry Team and their valuable insights into the operations of their Saccos.
- (viii) The Secretaries Agatha Kaluki and Hellen Sirma and the driver Benson Kimani for their devotion and hard work.

The Inquiry Team benefited a lot from both oral and written submissions from various contributors. However, the findings and recommendations in this report are entirely from members of the Inquiry Team.

INQUIRY ORDER AND TERMS OF REFERENCE

THE COOPERATIVE SOCIETIES ACT

(No. 12 – 1997 SECTION 58)

LAWS OF KENYA

Whereas, I have on my own accord, decided that an Inquiry be held into the By-Laws, Working and Financial Conditions of **HARAMBEE SACCO SOCIETY LIMITED – CS/1916** and in accordance with Section 58 of the Cooperative Societies Act, No. 12 of 1997.

Now therefore, I authorize: (1) Mrs. M. M. Wanyonyi – Assistant Commissioner of Co-operative Development – Re-Insurance Plaza (2) Ms. J. Karanja – Senior Cooperative Officer – Re-Insurance Plaza (3) Mr. S. M. Mwaliko – Deputy Secretary (A) – Office of the President (4) Mr. J. L. Juma – Under Secretary (A) – Office of the President (5) Mr. R. A. Hadao – Under Secretary – Office of the President (6) Brig. S. G. Mohammed – Department of Defence (7) Mr. W.W. Oduor – Directorate of Personnel Management to hold an Inquiry within one (1) month from the date thereof at such place and time as may be expedient and duly notified by them.

The attention of all Officers and members of the Society is directed to the following Sections of the Cooperative Societies Act.

Section 60(1)	-	Cost of Inquiry,
Section 60(2)	-	Recovery of Costs Expenses,
Section 94	-	Offences

DATED at Nairobi this 27th day of December 2001.

F.F. ODHIAMBO
DEPUTY REGISTRAR OF COOPERATIVE SOCIETIES

SPECIFIC TERMS OF REFERENCE

1. Examine the existing mode of representation at the society's Central Management Committee and the general meetings and give recommendations on possible improvements where necessary.
2. Examine the current Branch Network and their effectiveness in facilitating proper policy making and control by the members.
3. Examine the current society's by-laws vis-à-vis the existing Co-operative Societies Act and Rules and give recommendations on its improvement to serve the members better considering any existing conflicts with the Co-operative law and Principles.
4. Examine the current staffing levels, terms and conditions of service for the staff and propose any improvements where necessary.
5. Examine the current society's organizational structure and recommend any improvements where necessary.
6. Examine the level of implementation of the Previous Inquiry Reports, recommendations and their impact so far on the society.
7. Any other areas which may improve the organization with a view to improving the delivery of services to the members.
8. Based on your findings and observations, propose short-term and long term changes necessary to improve the society's services to its members.

METHODOLOGY

After the initial briefing at the Office of the Commissioner for Cooperative Development, members of the Inquiry Team set up the modalities of going about the task. They drew up a work programme and embarked on the business by:

1. Perusing and referring to relevant documents namely the Cooperative Societies Act and the Rules, By-Laws, Cooperative policy and operational documents, among others.
2. Visited the eight Provincial Headquarters and some districts during which they received representations from Branch Officials and members of the Sacco.
3. Conducted interviews with members of the Central Management Committee, Supervisory Committee and Staff at Harambee Sacco.
4. Conducted spot checks of various areas of operations of the Sacco.
5. Visited selected site and service schemes and real estate properties facilitated or owned by the Sacco respectively.
6. Conducted interviews with various suppliers of goods and services to Harambee Sacco.
7. Undertook benchmark studies of Afya and Ukulima Saccos.

CENTRAL MANAGEMENT COMMITTEES AND SUPERVISORY COMMITTEE MEMBERS AS FROM 1992 TO THE YEAR 2002

As at the time of writing this report the Central Management Committee comprises of seven members namely:

- | | |
|------------------------|-----------------|
| 1. Mr. Macloud Malonza | - Chairman |
| 2. Mrs. B. Oguya | - Vice Chairman |
| 3. Mr. F. Muchiri | - Secretary |
| 4. Mr. M. Nyang'ute | - Treasurer |
| 5. Ms. N. weru | - Member |
| 6. Mr. J. K'ouko | - Member |
| 7. Mr. C. Geni | - Member |

The following members of CMC were suspended on 16/11/2001.

1. Mr. D. Gogo
2. Mr. B. E. Akwara
3. Mr. S. Chege
4. Mr. F. Barasa

June 2000 to November, 2001

- | | |
|---------------------|------------------|
| 1. Mr. D. Gogo | - Chairman |
| 2. Mr. B. E. Akwara | - Vice chairman |
| 3. Mr. S. chege | - Hon. Secretary |
| 4. Mr. F. Barasa | - Treasurer |
| 5. Mr. C. Geni | - Member |
| 6. Ms. N. Weru | - Member |
| 7. Mr. M. Nyangute | - Member |
| 8. Mr. J. K'ouko | - Member |
| 9. Mr. F. Muchiri | - Member |
| 10. Mrs. B. Oguya | - Member |
| 11. Mr. M. Malonza | - Member |

Supervisory Committee

- | | |
|------------------|-------------|
| 1. Mr. P. Ndiege | - Chairman |
| 2. Mr. C. Osore | - Secretary |
| 3. Mr. J. Yamo | - Member |

REVISORY 002

1999 to 10th June, 2000

comprises

- | | |
|----------------------|------------------|
| 1. Brig. J. Serem | - Chairman |
| 2. Mrs. B. J. Masila | - Vice Chairman |
| 3. Mr. B. Okwayo | - Hon. Secretary |
| 4. Mr. L. Orayo | - Treasurer |
| 5. Mr. P. Wachira | - Member |
| 6. Col. E. K. Njerui | - Member |
| 7. Mrs. J. Kinyua | - Member |
| 8. Mr. H. F. Ojiambo | - Member |
| 9. Mr. O. Ogolla | - Member |
| 10. Mr. J. Jogo | - Member |
| 11. Mr. C. Mutali | - Member |

Supervisory Committee

- | | |
|---------------------|-------------|
| 1. Mr. A. Chege | - Secretary |
| 2. Mr. J. Obuya | - Secretary |
| 3. Mr. Mwalimu Juma | - Member |

1997 and 1998 CMC

- | | |
|------------------------|------------------|
| 1. Brig. J. Serem | - Chairman |
| 2. Mr. W. O. Ogolla | - V/Chairman |
| 3. Mrs. J. B. Masila | - Hon. Secretary |
| 4. Mr. H.F. W. Ojiambo | - Treasurer |
| 5. Mr. P. Wachira | |
| 6. Col. E. K. Njeru | |
| 7. Mr. L. O. Orayo | |
| 8. Mr. B. Okwayo | |
| 9. Mrs. J. W. Kinyua | |
| 10. Mr. C. Mutali | |
| 11. Mr. J. L. Jogo | |

1998 Supervisory Committee

- | | |
|--------------------|------------|
| 1. Mr. B. Maragia | - Chairman |
| 2. Mr. P. Kinuthia | - Member |
| 3. Mr. F. Barasa | - Member |

1995 Commission Members

- | | |
|------------------------|------------------|
| 1. Mr. B.E. Akwara | - Chairman |
| 2. Mrs. F. Otete | - V-Chairman |
| 3. Mr. D. Aradi | - Hon. Secretary |
| 4. Mr. D. R. Mutisya | - Treasury |
| 5. Mr. S. Mutungi | - Member |
| 6. Brig. J. Serem | - Member |
| 7. Mr. A. K. Mwasserah | - Member |
| 8. Mr. A. A. Musasia | - Member |
| 9. Mr. M. Ndiwa | - Member |
| 10. Mr. O. F. Kibuna | - Member |

1996 Commission Members

- | | |
|--------------------------|------------------|
| 1. Mr. B. E. Akwara | - Chairman |
| 2. Mrs. J. A. Okada | - Vice Chairman |
| 3. Mr. D. A. Aradi | - Hon. Secretary |
| 4. Mr. D. R. Mutisya | - Treasurer |
| 5. Mr. M. Ndiwa | - Member |
| 6. Lt. Col. V. W. Ajumbo | - Member |
| 7. Mr. D. J. Mwasaga | - Member |
| 8. Mr. J. Matagarro | - Member |
| 9. Mr. O. F. Kibuna | - Member |
| 10. Mr. A.A Musasia | - Member |

1994 Commission Members

- | | |
|-------------------------|------------------|
| 1. Mr. M. Mwashimba | - Chairman |
| 2. Col. D. T. M. Nyagah | - V/Chairman |
| 3. Mr. B. E. Akwara | - Hon. Secretary |
| 4. Mr. D. R. Mutisya | - Treasurer |
| 5. Mrs. F. Otete | - Member |
| 6. Mr. A. J. Okoth | - Member |
| 7. Mr. E. O. Ogutu | - Member |
| 8. Mr. J. Matagarro | - Member |
| 9. Mr. Z. K. M'Mugwika | - Member |
| 10. Mr. J. R. M. Mwangi | - Member |
| 11. Mr. D. Aradi | - Member |
| 12. Mr. G.W. Mbuthia | - Member |

1993

- | | |
|-----------------------|------------------|
| 1. Mr. A. J. Okoth | - Chairman |
| 2. Mr. M. Mwashimba | - V/Chairman |
| 3. Col. D.T.M. Nyagah | - Hon. Secretary |
| 4. Mr. D. R. Mutisya | - Treasurer |
| 5. Mrs. K. Otete | - Member |
| 6. Ms. A. Kamami | - Member |
| 7. Mr. E. Ogutu | - Member |
| 8. Mr. B. E. Akwara | - Member |
| 9. Mr. Z. M'Mungwika | - Member |
| 10. Mr. J. R. Mwangi | - Member |
| 11. Mr. H. Wanjala | - Member |
| 12. Mr. G. Mbuthia | - Member |

1992

- | | |
|-------------------------|-----------------|
| 1. Mr. A. J. Okoth | - Chairman |
| 2. Mr. M. Mwashimba | - Vice Chairman |
| 3. Dr. R. O. Arunga | - Secretary |
| 4. Mr. P. C. A. Kilei | - Treasurer |
| 5. Col. D. T. M. Nyagah | - Member |
| 6. Mr. D. R. Mutisya | - Member |
| 7. Mr. T. O. Ayim | - Member |
| 8. Mr. N. N. Obuba | - Member |
| 9. Mr. S. Maraka | - Member |
| 10. Mr. G. Mbuthia | - Member |
| 11. Mr. J. M. Mwilidza | - Member |
| 12. Mr. H. Wanjala | - Member |

EXECUTIVE SUMMARY

Despite the fact that the Harambee Sacco Society has suffered massive mismanagement for a long period, the Inquiry Team is of the view that the Sacco can still be redeemed and made to provide the services for which it was established by members. The following is the summary of the issues observed about the society and the measures that the Inquiry Team recommends to revamp the Sacco.

1. Implementation of Inquiry Reports recommendations

The Inquiry Team observed that Harambee Sacco Society's record of implementing past Inquiry reports is generally poor. In this regard, the Team recommends that members of this Inquiry Team be mandated to make follow-up on the implementation of the recommendations contained in this Report and that of the year 2000. The Team would work closely with the CMC, Supervisory Committee and Management Staff to work out the implementation plan, which should not take more than three years.

2. By-Laws

The Team observed some inconsistency between the by-laws and Cooperative Societies Act and Rules. The necessary amendments to the by-laws have been proposed.

3. Organizational structure

The operational structure of the organization is not clearly defined. The reporting system is unclear and the distribution of responsibilities lopsided. Member participation in decision-making is low. There is no clear delineation of roles between the Central Management Committee and the Management Staff. The CMC which is the policy decision-making organ is often involved in the day to day administrative issues which could have been handled by the General Manager and his team.

The Inquiry Team recommends:

- (i) Restructuring of both the decision-making and operational structures.
- (ii) An organ called the **National Patrons Council** whose role will be advisory, be created comprising of major stake-holders namely,
 - (a) The Permanent Secretary, Provincial Administration and Internal Security.
 - (b) Chief of the General Staff.
 - (c) Commissioner of Police.
 - (d) Commandant Administration Police.
 - (e) Director National Youth Service.
 - (f) Permanent Secretary/Director DPM.

The organ need not be established in the society's by-laws it will also be replicated at the branch level where District Commissioners or Commanding Officers could be designated as patrons of branches, if members of those branches so wish.

4. **Mode of representation**

It was observed that major stake-holders, who comprise over eighty percent (80%) of the membership and contributions of the Society are not adequately represented in the CMC. The conduct of the Annual Delegates meetings was also observed to be wanting.

It is recommended that the major stakeholders stated in 3(ii) above be represented in the CMC. Additional election procedures should be initiated as proposed later in this report. The CMC and Supervisory Committee officials should continue to be drawn from among Nairobi delegates.

5. **Branch Network**

Branches were created haphazardly without following the by-laws. They are too many (159). Their management is also weak. They have no proper records of their membership.

The following is recommended:

- (i) Branches should be reduced to 141 as recommended elsewhere in the report.
- (ii) They should have proper records of their members.
- (iii) They should be strengthened by providing necessary facilities such as stationery, filing cabinets and little funds to run them.

6. Financial Management

There is a weakness in collection of funds (revenue) as evidenced in non-performing loans amounting to Kshs.513,183,058.90 and outstanding rent of Kshs.15,010,800. The society has over depended on overdraft as a source of revenue. The society has a problem with enforcing financial controls and discipline as a result of lack of clearly defined management policies. Internal controls are lacking as supervisory and internal audit are weak. Cash and cheques handling is poor. Other weaknesses include lack of budgetary controls, I.O.U.s, too many bank signatories, deviation of funds to non-core functions and non-keeping of vital records, such as on cash book transactions and bank reconciliation..

The insurance cover for the sinking fund is expensive and payment through Triple A Capital Ltd. is unnecessary.

The External Auditor is engaged in matters at the society which should not be of his concern, eg. tax consultancy, reauditing, etc.. Payments made to M/s Kibiego for these services of 3,995,480/= were unwarranted. Staff in the financial department lack the necessary qualifications, hence poor performance.

The following is recommended:

- (i) The society should strengthen its revenue collection by designating an officer to follow up with Ministries and other organizations for deductions.
- (ii) Establish a staff task force to follow up on non-performing loans
- (iii) The society should gradually retire the overdraft for a period of one year by adopting the following measures:

- (a) Step up rent collection;
 - (b) Dispose the real estate property (houses);
 - (c) Adhere to loan policy;
 - (d) Scale down loans issued;
 - (e) Adhere to budgetary provisions;
 - (f) Suspend all capital expenditure
- (iv) Financial and Procedural Manual should be improved and applied.
- (vi) I.O.U.s should be discontinued forthwith.
- (vii) The society should terminate the reinsurance agreement with CIC and manage Sinking Fund themselves. They should also engage an actuary to study and advise the best way of managing the funds.
- (viii) The site and service schemes should be finalized and handed over to the owners, and any expenditure incurred by the society be recovered.
- (ix) The payment of Kshs.3,995,480 to M/s Kiblego Kiptum for reauditing and tax consultancy should further be investigated by the Kenya Police Anti-Corruption Unit.

7. Procurement

The provisions of the Procurement Manual are not adhered to in purchases of goods and services. The procurement Section is poorly staffed. It was also observed that the cost of projects escalated due to variations and delay in executing them occasioned by poor supervision.

The society has engaged too many legal firms. The overall expenditure on legal services is too high, rising to Kshs.23,361.057 for the year 2001 alone. This expenditure was above the approved budget of Kshs.3,500,000 representing an increase of 56.7%. It arises out of litigations due to actions of successive management committed which include:-

- (a) removal of lawyers
- (b) arbitrary midstream termination of contracts
- (c) challenging Government decisions unnecessarily
- (e) simple disputes with members

The society does not seem to fully utilize the service of the Senior Legal Officer.

The following is recommended:

- (i) The provisions of the Procurement Manual should strictly be adhered to for all purchases. The Manual should be updated to be in line with the one circulated by the Director of Public Procurement.
- (ii) The Society should employ qualified personnel to manage its procurement services. A Procurement Manager should be recruited to man the Section.
- (iii) The society should fully utilize the services of the Senior Legal Officer to advise on any matter with a legal bearing.
- (iv) The society should engage fewer legal firms, in any case not more than three (3) who can handle a variety of cases.
- (v) The society should endeavour to limit litigations, sort out some of these matters out of court or use the Cooperative Tribunal in order to reduce on expenditure towards legal services.
- (vi) The Society should strictly adhere to the scope of works contracted and variations should not exceed the contract sum. Variation in excess of 10% should be retendered.

8. Loans Administration

The society does not have a written loan policy and even what exists in the by-laws is not fully adhered to. The decentralization of emergency loans to upcountry branches was approved by ADM of 2000 but this

has not been fully implemented. The processing of emergency loan applications and reimbursement has not been streamlined. The practice of suspending development loans in favour of school fees loans inconvenience members who have different priorities.

The following is recommended:

- (i) The society should formulate a comprehensive loan policy document within six months after the adoption of this report.
- (ii) The society should fully decentralize emergency loans to upcountry branches immediately as directed by ADM.
- (iii) The management should progressively set aside funds to cater for excessive loan demands due to school fees, and in case of a shortfall, seek loan facilities from KUSCCO Central Finance Programme in order to facilitate simultaneous disbursement of all types of loans.

9. Staff Management

Staff of the Society at lower level are recruited and deployed without consideration of the required qualifications in the Staff regulations and procedures.

The following is recommended:

- (i) Posts from supervisory level and above should be filled through advertisement and recruitment be done with assistance of FKE.
- (ii) All the staff of the society should be reinterviewed and deployed in line with their qualifications and job specifications to address the current discrepancies.
- (iii) Staff regulations and procedures should be strictly applied in order to instill discipline among staff members.
- (iv) The Management staff should be responsible for the deployment of other staff to respective areas of specialization.

- agency loan
The
fees loans
- (vi) Staff rationalization be carried out with a view to establishing the optimum staff position.
 - (vii) The positions of the General Manager, Financial Controller, Chief Internal Auditor and Procurement Manager should enjoy security of tenure.

10. Member Development

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The society has been instrumental in improving the living standards of members through provision of affordable credit. The society has however, not done well in providing member education which is important in empowerment of members to play their roles effectively. The education provided is very low and not focussed. The society is also lacking non-educational interventions such as rewards for branch and member's exemplary performance.

The following is recommended:

- thout
s and
- (i) The society in collaboration with the Department of Cooperative Development should work out a comprehensive member education programme.
 - (ii) The society should introduce non-educational interventions in form of incentives to well performing branches and members.

11. Service Delivery

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There is poor communication between the society and members. At the Society Headquarters there is no specific inquiry desk to guide members and visitors.

The following is recommended:

- in
- ent
- (i) The society should respond to members issues in writing and endeavour to use courier services for loan applications and disbursements.

- (ii) The society should establish information desks and sign boards at the headquarters showing offices where members would receive services.

12. Computerization

The computerization project was undertaken without proper feasibility study and involvement of the user. The society did not make use of reputable firms, neither was competitive bidding sought. As a result, the project has taken too long to finalize despite the colossal expenditure of over Kshs.160,000,000. The computer system is not fully operational and hence the society has not got value for its money.

The following is Recommended

- (i) The contractors should be made to fulfil their contractual obligations with no further costs to the society or refund society for payments made for services not rendered.
- (ii) The SACCO staff should constitute a computerization implementation team comprising of Heads of Departments to formulate a comprehensive computerization policy and oversee full implementation.
- (iii) No further expenditure on computerization should be incurred without the approval of ADM.

CHAPTER I

INTRODUCTION

1.0 PREAMBLE

In view of the complaints made by members of Harambee Sacco Society Ltd., particularly on mismanagement of funds, the Government appointed an Inquiry Team in accordance with Section 58 of the Cooperative Societies Act (No.12 of 1997) to look into the affairs of the Society. The Team comprised of the following members:

1. Mr. S.M. Mwaliko, SS - Senior Deputy Secretary, Office of the President
2. Mr. W.W. Oduor, - Assistant Director, Directorate of Personnel Management
3. Brig. S.G. Mohammed MBS,ndc(K), - Department of Defence
4. Mr. J.L.M. Juma, ndc(k) - Under-Secretary, Office of the President,
5. Mr. R.A. Hadao - Under-Secretary, Office of the President
6. Mrs. M.M. Wanyonyi - Assistant Commissioner for Cooperative Development.
7. Ms. Jane W. Karanja - Senior Cooperative Officer

Members of the Inquiry Team commenced work on 27th December, 2001 by studying the Cooperative Societies Act, Rules (1998), Government Policy documents, by-laws, financial records and other documents related to the terms of reference. The Team also conducted interviews with members of the Central Management Committee, Supervisory Committee, Staff and some Suppliers of goods and Services to the Society. Field visits to the eight Provincial Headquarters and districts of Taita-Taveta, Machakos, Uasin Gishu, Busia, Homa Bay and Kisii were made by the Team during which representations from branch officials and members of the Sacco were received. The Team also visited some selected site and service schemes and real estate properties facilitated and owned by Harambee Sacco Society respectively.

1.1. Interpretation of terms of reference

The Inquiry Team deliberated on the terms of reference given and understood them to focus on the following:

- (i) Mode of representation at the CMC and General Meetings**
 - Stability in the Sacco
 - Security and protection
 - Accountability
 - Efficiency
 - Responsibility
 - Sustainability

- (ii) Branch Network**
 - Equity
 - Optimal effectiveness
 - Communication
 - Feedback

- (iii) Society's By-laws**
 - Harmonization with Cooperative societies Act and Rules
 - Harmonization with principles and values
 - Acceptability
 - Enhancement of members' rights

- (iv) Staffing levels and terms and conditions of Service for Staff**
 - Parity of treatment
 - Meritocracy
 - Efficiency
 - Effectiveness

(v) Organizational structure

- Streamline Systems
- Improve overall coordination.

(vi) Implementation of previous Inquiry reports

- Level of implementation
- Impact
- Sustainability

(vii) Short term and long term changes

- Immediate measures
- Medium term measures
- Long term measures

(viii) Financial Conditions

- Proper management of resources
- Provision of quality services
- Strengthen financial discipline
- Maximise member benefits

1.2 Growth of Cooperative Movement

The Cooperative movement has made significant contribution in the development of the Kenyan economy. This is exemplified by the phenomenal growth of the Cooperative societies and the turnover they have made over the period. While in 1975 there were only 996 registered societies with a membership of 666,000 and a turnover of Kshs.691 million, this increased to 5129 societies in 1995 with a membership of 2.7 million and a turnover of Kshs.10 billion. However, the overall decline in economic performance in the last ten years has not spared the Cooperative movement in the country. As a result, a number of Cooperative Societies have collapsed while those based on salaried employment have been experiencing declining membership due to retrenchment and collapse of business entities.

1.3 Cooperative Policy and Legislation

In recognition of the vital role played by the Cooperative movement in the economic development of the country, and the structural adjustment changes that were taking place world-wide, which were also affecting Kenya, the Government introduced "Sessional Paper No.6 of 1997 on Cooperatives in a Liberalized Economic Environment." The Sessional Paper defined a new relationship between the Government and the Cooperative movement. In this initiative, the management of cooperatives was left in the hands of its members while the Government was left with the responsibility of creating a conducive environment for development of the Cooperative movement. This culminated in amendment of the Cooperative Societies Act Cap 490 in 1997 and a new, Act No.12 of 1997, came into operation, which removed day to day Government control. The assumption then was that members would be adequately educated on Cooperative principles and values to enable them independently manage their societies.

1.4 Cooperative values and Principles

The Cooperative movement cut across all sectors of the economy which include both formal and informal sectors. All cooperatives operate under the following principles and values

- (a) Voluntary and open membership
- (b) Democratic member control
- (c) Member economic participation
- (d) Autonomy and Independence
- (e) Education, Training and Information
- (f) Cooperative among cooperatives.
- (g) Concern for the community

1.5. Structural Framework of the Cooperative movement

Majority of the Cooperatives in Kenya are organized around a specific activity. However, there are also those that are organized around several economic activities and these are known as Multi-purpose Cooperatives. All categories of co-operatives fall into a four-tier system consisting of:

- (i) Primary Societies
- (ii) Secondary Societies
- (iii) National Cooperative Unions
- (iv) Apex organization.

The vertical linkage is through affiliation and share holding. Currently, the apex organization is the Kenya National Federation of Cooperatives through which the Kenyan cooperative movement is linked to the rest of the world through International Cooperative Alliance (ICA).

Savings and Credit Cooperatives (SACCOS) enables members of a common bond to promote thrift by accumulating their savings to create a fund from which loans are advanced to members. These Saccos are united under the Kenya Union of Savings and Credit cooperatives (KUSCCO). The latter is in turn affiliated to Kenya National Federation of Cooperatives. Loans advanced to SACCO members are exclusively for provident and productive purposes at fair and reasonable interest rates. Generally, the Cooperative movement has contributed significantly in raising the living standards of Kenyans and hence their importance in the economy.

CHAPTER II

BACKGROUND

2.0 **Harambee Sacco Society Ltd: its Genesis, Growth and Constraints**

Harambee Savings and Credit Co-operative Society Ltd. had a humble beginning as a merry-go-round welfare organization amongst the subordinate staff of the Office of the President. The aim of this initiative was to promote thrift out of their otherwise low salaries.

Encouraged by the success of the above endeavour, members of the welfare organization registered Harambee Sacco Society Ltd. in February, 1970. At the very beginning, the Cooperative Society was only made up of employees of the Office of the President and those that had their accounting units within that Office. The composition has transformed a great deal over the period with membership cutting across the spectrum of all Government Ministries/Departments and related parastatals. However, the majority of the members of the society are still found in the Office of the President. At inception, Harambee Sacco was based in Harambee House but as the Society grew it relocated to Government Press and later to Shankardass House in 1982. In 1987 the Society moved to Harambee Plaza at the junction of Uhuru Highway and Haille sellasie Avenue.

Membership of the society has steadily and rapidly grown reaching to about 120,000 in the late 1980's but started declining from 1994 due to the Civil Service Retrenchment Programme. It currently stands at about 90,000 spread in 159 branches, with Nairobi having about 45,000 members in 54 branches. The share capital of the society, as at December 2000 stood at Kshs.3.7 billion. The Society granted a total of Kshs.3.1 billion as loans to its members in 2001.

Harambee Sacco Society has had a phenomenal growth since its registration in terms of membership and capital. As a large society its network linkages with the Government and private sector is also extensive, resulting to operational constraints. In an effort to cope

with the above challenges the society came up with a Strategic Plan in which it outlined its Vision and Mission with emphasis on efficient delivery of service. Like any other Cooperative Society, Harambee Sacco has various organs established to regulate its business.

2.1 Vision and Mission

In an endeavour to be more focussed in its delivery of services to its members, the society came up with a three year Strategic Plan (1999-2001) in which its Vision and Mission was outlined as follows:-

Vision

"To be the leading Savings and Credit Cooperative Society in Financial strength and Provision of Quality Service to our Members and other stakeholders."

Mission Statement

"To mobilize savings and promote prudent investments thereby forming a solid financial base from which the society will provide members with loans and advances at affordable interest rates in order to enhance viable socio-economic development projects."

2.2 Linkages with Government Organs and the Private Sector

As stated in paragraph 1.4. above, Harambee Sacco has been guided by the principles and values enshrined in the cooperative philosophy. In this regard, the Cooperative Department of the Ministry of Agriculture and Rural Development plays a pivotal role in the management of the Cooperative movement in the country. Harambee Sacco, as the largest Sacco Society in the country, has continued to attract scrutiny from the Cooperative Department because of its magnitude and the repercussions that may arise in case of gross mismanagement. Others who relate closely with the society include the various Ministries which provide the membership, and check off, the Government Computer Service which provides the by-product on members deductions and the various firms which supply goods and services to the society. Harambee Sacco is a large market for various firms in the country.

2.3 Operational Constraints

The rapid growth of the Society, its sheer size and deviation from its core business has created operational constraints. The society's liquidity has been impaired in the last few years due to over investing in fixed assets which have not made meaningful returns to the society. These constraints can be traced to the following:

- (a) The construction of Ushirika Estate in the 1980's where the Society lost about kshs.122 million. The sale of the houses could not realize the amount that was spent on their construction.
- (b) The Greenfield Project where some Kshs.267 million has been pumped. The project is still uncompleted and those that were to benefit are yet to take possession of their plots. Another Kshs.120 million or more may be required to complete the project.
- (c) Investment in housing estates such as the Harambee Estate (Nyali), Limuru Road and Matundu Lane where the Society has not got value for its money and also is incurring huge losses.
- (d) Initiating projects which end up with highly inflated costs, eg. the computerization which has cost the society over Kshs.150 million since its inception.
- (e) Imprudent financial management resulting in high overhead costs and wastage.
- (f) Lack of professionalism in human resource management.

The above operational constraints have resulted in the following:

- (i) Loans backlog of about six months.
- (ii) Persistent liquidity problems which necessitated to an overdraft facility of Kshs.200 million and which is costing the society heavily in terms of interest. In 2001 the society paid Kshs.73.2 million as interest on the overdraft facility.
- (iii) Low staff morale and productivity.
- (iv) Member apathy towards the society.

The above has been compounded by a loss of some 15,000 members during the Civil Service Retrenchment Programme making the society

to lose a lot money in terms of contributions and outstanding loans from the retrenched members. This situation has also adversely affected the society's capital, liquidity and profitability.

2.4 Organs of the Society

Harambee Sacco Society has established the following Organs which regulate its business:

- (i) Branch Annual General Meeting
- (ii) Annual Delegates Meeting
- (iii) Central Management Committee
- (iv) Supervisory Committee
- (v) Executive Committee
- (vi) Credit Committee
- (vii) Education and Staff Development Committee
- (viii) FOSA Committee

CHAPTER III

IMPLEMENTATION OF INQUIRY REPORTS

3.0 Introduction

Harambee Sacco Society has had two inquiries since inception. These were conducted in 1978 and 2000. However, this Inquiry Team confined itself to the 2000 Inquiry Report because it deemed the 1978 Inquiry Report to have been overtaken by events. There was also an inspection conducted in 1994, which led to the appointment of a Commission in March, 1995, hardly a week after an election of the Central Management Committee had been held. The Commission was headed by Mr. B.E. Akwara and served for two years. It was later replaced by an elected Committee in 1997.

During the field visits by the Inquiry Team, delegates and members of the Sacco expressed dissatisfaction in the non-implementation of various recommendations that were made by previous Inquiries and Inspection teams and hoped that the current Inquiry Team's recommendations would be implemented.

3.1 The Inquiry Report of June, 2000

Arising from the complaints by members of the Sacco on the mismanagement of the Society, the Government appointed an Inquiry Team in June, 1999 to look into the affairs of the society. The appointment of the Inquiry Team was contested in Court by some members of the Central Management Committee, delegates and the then General Manager. The court however, ruled in favour of the Government. The society paid a total of Kshs.4.million for the CMC officials in legal fees which was a loss to the society. Another Inquiry Team was appointed in January, 2000 to undertake the task and presented its report in a Special General Meeting on 10th June, 2000.

3.2 Findings of the Inquiry Team of 2000

A summary of the findings of the report include the following:

1. Some sections of the by-laws were not in conformity with existing Cooperative legislation and the former needed to be amended.
2. Infighting within the Central Management Committee was rampant leading to poor delivery of service.
3. The top management was not rendering professional advice and service to the Society. They took advantage of the infighting within the CMC to engage in unauthorized contractual obligations which cost the society heavily.
4. Poor deployment and supervision of staff.
5. Poor maintenance of books of accounts and other records. Vital records such as Members Personal Accounts (MPAs), Assets Register, Ledgers for individual clients, etc, were lacking.
6. The Staff took advantage to advance themselves loans at the expense of members. Their loan applications were processed immediately while those by members took an average of seven months to process.
7. There was preferential treatment in loans processing.
8. The Society engaged in unviable investments leading to wastage of resources.
9. Despite receiving massive funding the computerization project of the society was far from completion and little benefit had been realized. Over Kshs.130 million had been spent on the project against an estimated cost of Kshs.49 million.
10. Too many signatories to the accounts of the society which could lead to loss of funds. There were a total of 15 of them.

11. Heavy spending on consultancies, which were realizing little benefits to the Society. Some firms were reported to be owing the Society huge sums of money for non remittance of funds which came through them and which amounted to Kshs.99,417,821.80.
12. Engaging in unproductive ventures such as the identification card project which cost the society a whopping Kshs.28 million.
13. Non recovery of interest on some loans which are cleared in cash.
14. Frequency of CMC meetings and those of the Sub-Committees were too high with attendant payment of sitting allowances.
15. Money obtained as payment of rent to Harambee Plaza was treated as the society's income.
16. There was no separation of Harambee Plaza shares from the Society's shares.

3.3 Recommendations

The Inquiry Team of 2000 made the following recommendations, among others:

1. By-laws of the Society which are not in conformity with the existing legislation should be amended.
2. Staff reorganization should be undertaken to have an optimum establishment of 150 for the society.
3. The staff should form their own Sacco to reduce conflict of interest.
4. Competent staff should be hired while those who do not meet the requirements and expectations be replaced.

5. The main activities of the society should be separated from those that are subsidiary, ie. Site and service schemes, which should be run by independent Committees.
6. Some of the consultants currently hired by the society should be dispensed with. Those owing the society funds should be made to repay with an interest and those that have not cleared their liabilities should not be allowed to do business with the society. They may also be reported to their professional bodies for necessary action.
7. Member education should be intensified.
8. Members' Personal Accounts (MPAs) should be maintained as required by the law.
9. The dismissal of Mrs. Grace M. Maundu, former General Manager, should be upheld due to her mismanagement of the society's affairs.
10. The Computer Project should be re-evaluated to determine the additional resources required to complete the project.
11. The current Central Management Committee and Supervisory Committee members (in June 2000) should be replaced for mismanaging the society.
12. Harambee Plaza shares should be separated from the Society's shares.
13. Harambee Sacco should pay rent to the owners of Harambee Plaza.
14. The management of Harambee Plaza building should be separated from that of the Sacco.

3.4 The Status of Implementation

In an attempt to implement the recommendations made by the June, 2000 Inquiry Team, the Sacco drew up a work plan in July, 2000.

The status of some salient recommendations of the 2000 Inquiry Report is as follows:

1. **Introduction of Members Personal Accounts**

This has not been done.

2. **Computerization Project**

The society engaged a consultancy to audit the project as recommended by the Inquiry Team. However, the project has continued to be a high money guzzler. Over Kshs.160 million has been spent and another Kshs.47 million to be spent. Areas that are computerized are Accounts, Loans Department and FOSA. On the whole the system has not been integrated.

3. **Strengthening Financial Controls**

These remain weak, although attempts have been made to come up with Financial and Procedural Manual which is not yet operational.

4. **Control of the overdraft facility**

It has continued to be a serious financial drain on the society's funds. No attempt has been made to either do away with it or reduce it.

5. **Rationalization of Staff**

This has not been done.

6. **Site and Service Schemes**

The Greenfield project and most of the site and service schemes are yet to be completed.

7. Rehabilitation of lifts at Harambee Plaza.

This has not been completed despite the Company engaged to do the work having been paid upfront. The project has considerably delayed in completion.

8. Members' Education

The society lacks a comprehensive member education programme.

9. Loans recovery

Although measures such as zero rating have been introduced loans recovery in the society remain poor.

10. Assets register

An attempt has been made to create an Assets Register. A consultant was engaged who is compiling the report which is yet to be submitted.

11. Sacco Staff to cease from being Members of the Society

Delinking members of staff from membership of the Sacco has not been implemented.

12. Separation of shares

Separation of Harambee Plaza shares from those of the society has been done.

13. Payment of rent by the society to Harambee Plaza

This has not been effected.

14. Establishment of an independent management for Harambee Plaza building.

This has not been done.



15. Sinking Fund

The recommendation to maintain separate books of accounts for the sinking fund and to stop doubling of shares of deceased members have been implemented. However, the recommendation for the society to approach an actuary to study the fund and advise accordingly has not been effected.

16. Other recommendations

Most of the rest of the recommendations are yet to be implemented.

3.5

Recommendation

In view of the poor record of implementation of recommendations made by past Inquiry Teams, this Inquiry Team recommends that it be mandated to make follow-up on the implementation of the recommendations contained in this Report and those of the 2000 Report. The Team would prepare with the CMC and Management staff an implementation plan which should not take more than three years.

CHAPTER IV

POLICY AND LEGAL FRAMEWORK

4.0 Introduction

Kenya's long-term goals and objectives since attaining independence have been among other things to meet individual basic needs, political justice, human dignity, freedom from want, disease, ignorance and exploitation.

The Strategies that have been adopted to achieve these include:

- * Creation of income earning opportunities.
- * Control of rapid population growth through family life education.
- * Improvement of family expenditure.
- * Provision of basic services such as education, health care and water supply.
- * Ensuring rural urban balance through District Focus Strategy and provision of an enabling environment through relevant policy changes to enable the private sector play a leading role in the economic development of the country.

Cooperative Societies were viewed as appropriate vehicles to foster the Socio-economic development of the country.

- 4.1 The growth of the co-operative movement dates back to pre-independence days when the first co-operatives were registered under the Cooperative Ordinance (1931). These were mainly agro-based and were specifically promoted to enable white settlers in the so-called "White Highlands" to sell their cash crops. In 1945, another Ordinance was introduced and for the first time indigenous Kenyans who had hitherto been barred from forming or joining co-operatives

were allowed to grow cash crops like coffee. At independence, there were one thousand and thirty (1,030) co-operative societies with a turnover of Kshs.100 million.

After independence, the Government took an active role in supporting the movement. Kenyans were encouraged to engage in economic activities in order to build the nation. In 1966, the Co-operative Societies Act Cap 490 of the Laws of Kenya was enacted. The Act enabled the Government to be involved in the day-to-day activities of the societies. Registration of other non-agro based co-operatives was also encouraged. These included Savings and Credit Co-operative Societies and Harambee was one of the very first SACCOs to be registered, in February 1970.

In 1975, Sessional Paper No. 14 on Co-operative Development Policy for Kenya was published in which the Government stated its continued recognition of co-operatives as vital institutions for mobilization of natural, human and financial resources for national development. The growth and development of co-operatives has enjoyed enormous government support. This support ranged from actual budget allocations, sourcing and channeling of donor funds and technical know-how to co-operatives, closely guiding and supervising the co-operatives in attendance with the provisions of the Co-operative Societies Act Cap 490 and the Rules thereto.

The above Act stipulated stringent government controls and supervision. As a result many problems related to over-dependency were observed and were seen to hinder the emergence of member-controlled, member-managed, self-reliant co-operatives. Members had come to heavily rely on the Government to assist them in curbing mismanagement of their funds and other resources. It empowered the Government through the following functions:

- (i) Co-operative Policy and Implementation
- (ii) Co-operative Registration and Extension Services.
- (iii) Accounting and Auditing for Co-operative Societies.
- (iv) Co-operative Education and Training.

(v) Co-operative Credit and Finance; and

(vi) Supervision of Co-operative Bank.

The above scenario lasted until the late eighties when the Government gradually reduced its involvement in the day to day management of Cooperative Societies. Stakeholders in the Cooperative movement responded by initiating activities that culminated in the formulation of Sessional Paper No.6 of 1997.

4.2 This policy paper was formulated in line with the current National Liberalization Policy, which stresses a Free Market Economy and divesture of Government from private business enterprises. It created a new relationship between the Government and the Co-operative Movement. The resultant effect of this restructuring was intended to make co-operatives autonomous, self-reliant, self-controlled and commercially viable institutions in line with the internationally accepted Co-operative Values and Principles. The main objective of the policy was to consolidate past achievements in this sector so that the Kenyan public could continue to benefit from this form of enterprise.

Although the Government is no longer involved in the day-to-day management of the co-operative societies, it is interested in a healthy growth and development of co-operatives including the provision of adequate legislation. Furthermore, the government is also concerned that all stakeholders in co-operatives, including members and creditors, are adequately protected. The Government's role has now been reduced to include the following functions:

- (a) Registration and liquidation of co-operative societies.
- (b) Enforcement of the Co-operative Societies Act.
- (c) Formulation of Co-operative Policy.
- (d) Offering Advisory Services and Creating an Enabling Environment for Co-operative Growth and Development.

(e) Registration of Co-operative Audits.

(f) Carrying out of Inquiries, Investigations and Inspections.

The reduced role of Government in the co-operative sector created a gap which could not be readily filled by members. In most cases members were not adequately equipped with the technical know-how to manage these institutions. The sessional Paper has in this regard outlined a comprehensive educational and training policy for the movement. In a nutshell, the Co-operative Education Policy focuses on specific organs of the societies as follows:

(a) At membership level, Education Programmes should aim at developing an informed and loyal membership with rights and responsibilities of members clearly spelt-out. The need for members to elect honest, responsible and informed leaders of the Society should be given special emphasis.

(b) Education at committee level ought to focus on the co-operative as an organization. The core business should be defined as its ongoing mission while effective and efficient delivery of service to members must be prioritized. The committees are expected to portray good leadership and entrepreneurial skills. They are also expected to instill discipline and demand results from the employees among other things.

(c) At employees level, Society Management is required to recruit relevant staff from the market and carry out on-the-job training to equip them with skills that are aimed at enhancing their performance. Long-term training is also recommended where there is special need.

The main institution that is recommended to carry out Co-operative Education is the Co-operative College of Kenya, which is expected to continually design and develop training programmes that address the needs of the co-operative movement.

4.3 Co-operative Societies Act No.12 of 1997

In order to legalize the liberalization process in the co-operative movement and to implement Sessional Paper No. 6 of 1997, the Government had to revise the Cooperative Societies Act Cap 490 (1966). The new Act namely, Cooperative Societies Act No. 12 of 1997 came into operation on 1st July 1998 under the assumption that the Co-operative Movement was mature enough to supervise and manage itself. The main objective of the Act was to democratize and professionalise the management of Cooperative Societies by making them autonomous, member controlled, self reliant and commercially viable and to ensure that they operated within the internationally accepted Co-operative Principles. The Act was also intended to substantially reduce State control over the co-operatives by removing government intervention in the day-to-day management of co-operative societies and the transfer of management responsibilities to the members of the Societies. Major changes to the old Act included the following:

- (a) The reduction of powers of the Commissioner, which made him only "responsible for the growth and development of co-operative societies".
- (b) The introduction of the Office of the Registrar whose duties comprise of the following:
 - (i) Co-operative registration and legislation
 - (ii) Carrying out inquiries, inspections and investigation
 - (iii) Registration of amendments of by-laws
 - (iv) Enforcement of the Co-operative Societies Act
 - (v) Liquidation of Cooperative Societies.
- (c) The introduction of the international co-operative principles with a requirement that the same be included in the by-laws of each co-operative.

- (d) The establishment of the Co-operative Tribunal to handle disputes concerning the business of a co-operative society.

By introducing the new changes in the Act and allowing society members to decide their own destiny the government had hoped that the management of these institutions would in turn behave responsibly. Unfortunately this was not the case. The new development witnessed some unscrupulous committee members engage themselves in outright embezzlement of society funds, illegal practices, nepotism, non-viable investments, clinging to office and wrongful dismissal of society employees.

4.4 Observations and Findings

The Team observed that:

- (i) Harambee SACCO has been able to operate well within Sessional Paper No.14 of 1975 on Cooperative Development Policy for Kenya by enabling its members to save and create a pool of funds from which they can individually acquire credit. However, its continued divergence from the core business by investing members' funds in non-viable real estate properties does not augur well as far as members needs are concerned. Lack of meaningful returns on these investments has denied them a lot of services and other benefits.
- (ii) Harambee Sacco has been hit hard by the effects of liberalization with the withdrawal of Government involvement in the day-to-day management of the Society. It has largely ignored some of the co-operative principles namely: Education, Training and Information to members. Member interviews carried out in the field by the Inquiry Team clearly demonstrate this anomaly. Some of the nostalgic utterances heard were to the effect that "the Government has ignored us". This is an indication that the members are not ready to be part of the existing autonomy, self reliance and self help culture that is typical of the liberalization process.

- (iii) There has been a high turnover of management committee members in Harambee SACCO in a bid to instill sound management in the Society. Complacency and lack of effective and efficient delivery of service to members are the order of the day. Although the Government Policy requires that co-operative staff should be recruited from the open market, the practice of nepotism is rampant in Harambee SACCO.
- (iv) Observations by the Inquiry Team reveal that Harambee SACCO has endeavored to employ a number of professional staff at higher level and deployed them in relevant departments. However, the technical expertise is quite often not utilized by the management committee which lacks technical know how to adequately interpret reports, contracts and other information relating to the SACCO's various activities and operations. An example of this inadequacy is the fact that the various committees have entered into certain contracts and terminated others without fully understanding the legal implications of their actions. It is not clear whether they are fully advised or not.
- (v) Malpractices, such as embezzlement of funds, illegal practices, nepotism, etc. were clearly observed in Harambee SACCO by members of the Inquiry Team. Indeed, some of the malpractices have almost become institutionalized to the extent that a section of committee members have continued committing them with impunity.

4.5

Recommendations

The Inquiry Team recommends that:

- (i) The Harambee Sacco leadership should update members on the liberalization process especially with regard to the government's role in the development of the movement.
- (ii) Members of Harambee Sacco should be sensitized on the need to elect men and women of integrity as a means of curbing mismanagement of their funds.

- (iii) The Committee should not take for granted members loyalty and their sense of ownership. Delivery of quality services and products should be seen as a marketing factor.
- (iv) The Sacco Leadership should also refrain from the practice of nepotism as this breeds indiscipline and lack of professionalism.
- (v) It is recommended that the provisions of the Act be adhered to in order to curb malpractices such as embezzlement of society's funds.

CHAPTER V

HARAMBEE SACCO BY-LAWS

5.0 Introduction

Harambee Sacco has amended its by-laws twice since the Co-operative Societies Act was amended. The first amendment was done in 1998 under the Chairmanship of Brigadier Serem. In August, 2001 the Management Committee led by Mr. Gogo also carried out a second amendment. A section of the members has expressed dissatisfaction in the manner in which the second amendment was done. Members of the Inquiry team were informed that this exercise was done hurriedly without active participation from the grass root.

The Inquiry Team has carefully scrutinized the two sets of by-laws with a view to harmonizing them with the Co-operative Societies Act No.12 of 1997, the Co-operative Societies Rules (1998) and the Co-operative Principles and values.

Some of the salient by-laws recommended for amendment are as follows:

1. **By-law 5 on Investment**

Investment was placed before the core business of the society, which is savings and loans. It should be recast to prioritize the core business of the society.

2. **By-law 6(h) on objectives (Education)**

It is narrow and does not cover all matters pertaining to education.

3. **By-law 9(a) (ii) on Common Bond**

The common bond to be decided by the Annual Delegates Meeting as it is a major policy.

4. **By-law 16(e) on Member's Obligation**

The member is not bound to participate in all projects of the society.
Recommended for deletion.

5. **By-laws 17(a) on Member's Personal Account**

It is a requirement that every member receive periodic statement.

6. **By-law 19 on Spouse, Family Members and Employees**

They should not become members of the society unless they belong to the common bond.

7. **By-law 38(a) on Branches and delegates**

Number of delegates and branches should be determined by the Annual Delegates Meeting.

8. **By-law 42 on voting during ADM**

Add 42(d) to provide that voting at the Annual Delegates Meeting shall be done by secret ballot.

9. **By-law 46(f) on Expulsion of a Member**

The Central Management Committee has no powers to expel a member. It can only suspend.

10. **By-law 47 (b) on election of CMC Members**

Introduce election of CMC Members on a three year rotational basis.

11. **By-law 48 (n) on indemnity**

Amount of indemnity to be given by the Annual Delegates Meeting resolution.

12. **By-law 49 (o)**

The CMC should establish a controlling criteria on staff recruitment, promotion and discipline for all staff.

13. By-law 80

Add to provide that no member of the Central Management Committee, Supervisory Committee and staff should engage in business with the society either directly or by proxy.

14. By-law 83 (i) (e)

Should be deleted as it is not practicable.

15. By-law 84 (c)

Should be deleted as it contravenes the loans policy.

5.1 Recommendation

The Inquiry Team recommends that the amendments proposed in Appendix XI be incorporated in the by-laws of the society to conform with the requirement of the Cooperative Society Act, Rules(1998) and the Cooperative principles and values.

CHAPTER VI

ORGANISATIONAL STRUCTURE

6.0 Policy and Decision Making Structure

6.1 Introduction

The society's organizational structure has two components namely:-

- (i) Decision making and policy structure
- (ii) Operational structure

The Sacco draws the bulk of its membership from a cross section of civil servants in the Office of the President. The composition range from lowest cadre to the Permanent Secretaries. However, virtually all ministries and a few parastatals do provide members to Harambee.

6.2 Decision Making and Policy Structure

6.2.1 (a) Members

The General Membership is divided into 159 branches established country-wide. Members in the branches are expected to hold meetings and deliberate on running their society. They make resolutions which influence ADM decisions.

6.2.2 (b) Delegates (Branch Officials)

Members in each branch elect three delegates namely Chairman, Secretary and Treasurer.

6.2.3 Annual Delegates Meeting

This is the supreme authority of the society comprising all branch delegates. The by-law provides for a maximum of 500 delegates. Among the functions of the ADM as provided for in the Cooperative Society Rules No.24 and Harambee Sacco By-law 46 are as follows:-

- (i) Electing members of the CMC and those of the Supervisory Committee;
- (ii) Appointing an Auditor for ensuing year;
- (iii) Receiving reports from CMC, Supervisory Committee and other Committees of the society;
- (iv) Considering Auditors Report;
- (v) Approving the Budgets;
- (vi) Transacting any other general business of the society.

Thus, any major policy decision affecting the society must therefore be authorized by the ADM.

2.4 Central Management Committee

The Central Management Committee has eleven elected members comprising of Chairman, Vice-Chairman, Treasurer, Honorary Secretary and seven others. They are elected from among the Nairobi delegates during the ADM. This organ of the society is charged with the responsibility of formulating policy and decision making on a day to day basis. The functions of CMC as provided for in the by-law No. 49 are:

- (i) Management of the Societies funds
- (ii) Preparation of budget for ensuing financial year
- (iii) Approval of loans and effecting their recoveries;
- (iv) Ensure accurate maintenance of records of the society;
- (v) Recruitment of staff of the society, interalia
- (vi) Recommend interest rates on loans from time to time;
- (vii) Lay before the ADM a balance sheet and final accounts together with proposal on disposal of net surplus, if any.
- (viii) Act upon all applications for membership.

Currently the Central Management Committee has seven members since four remain suspended due to a court case which they are facing.

6.2.6 Supervisory Committee

The Supervisory Committee is established under by-law No.72. It is elected by the ADM and acts as the principal watchdog of the society. In this regard, it is charged with the responsibility of ensuring that the Management Committee observes the various policies of the Sacco in execution of its duties.

6.2.5 Sub-Committees

The current society's by-law provides for the formation of four(4) sub-committees for the purpose of efficient running of its business. However, decisions made in those sub-committees should be brought to the CMC for ratification.

- (i) **Executive Committee** - comprising of Chairman, Vice Chairman, Secretary and Treasurer tasked with dealing with urgent matters requiring immediate decision.
- (ii) **Credit Committee** - tasked with the responsibility of approving loan applications and ensuring that repayment is effected;
- (iii) **Education and Staff Development Committee** - tasked to undertake member education, staff training, dissemination of information, formulation of personnel policies and discipline of staff, among other duties.
- (iv) **FOSA Committee** - Established to oversee and direct the business of Front Office Service Activity which is a new product of the society.

6.3 Observations and Findings

- (i) Most members of Harambee Sacco are not well informed about the affairs of their society and lack sufficient education on Cooperative matters.
- (ii) There is general apathy among members towards activities of the society;

- (iii) Active participation of senior cadre in the affairs of the society is low;
- (iv) There is general perception among the lowest cadre of staff that the society belongs to them since they initiated it and hence their high participation;
- (v) Branch members registers are not well maintained; as a result election of bonafide Branch officials is not guaranteed;
- (vi) The Branch meetings are not regularly held and this reduces member participation in decision making;
- (vii) The documents related to ADM are not sent to delegates on time to scrutinize them;
- (viii) There is no clear delineation of duties between the CMC and management staff leading to confusion;
- (x) The Supervisory Committee lack the necessary clout to intervene in stopping mal-practices that it detects in the society;
- (xi) There are too frequent meetings of the CMC sub-committees and Adhoc Committees. This does not allow sufficient time for implementation by staff besides unnecessary cost to the society.
- (xii) All decisions made on behalf of CMC should be ratified by the whole CMC.

6.4 **Recommendations**

The Inquiry Team recommends the following:

- (i) Members of the senior cadre should take keen interest in the Management of the Society. In this regard, Heads of parent ministries, Departments and participating State Corporations should impress upon senior staff to fully participate in Sacco activities.
- (ii) Branch officials must ensure that all necessary records are maintained in accordance with the by-laws. Branches should hold their meetings regularly as stipulated in the By-laws and copies of the minutes should be sent to headquarters.

- (iii) Provincial Commissioners, District Commissioners, Commanding Officers and Heads of Units which form branches may assume the role of patrons of their respective branches, if members so wish.
- (iv) Upon election all CMC members should be inducted to equip them with the necessary skills in decision-making, financial management and credit administration.
- (v) The Supervisory Committee should be strengthened to stop any malpractice detected and if need be report to the appropriate authority for further action.
- (vi) The Central Management Committee and Sub-committees should hold meetings as follows:
 - (a) CMC, Credit and FOSA at most 4 times a month.
 - (b) Education and staff Development and Adhoc Committees at most 2 times a month.
- (vii) All decisions made on behalf of CMC should be ratified by the whole CMC.

6.5 Operational Structure

6.5.1 Introduction

In order to perform the duties stated in Section 23 to 28 of Cooperative Societies Act. No.12 of 1997 the Sacco has recruited staff totaling two hundred and sixty two (262). The entire operations of the Sacco are carried out by the above workforce. The staff are distributed to several functional Units which are answerable to the General Manager.

6.5.2 Office of the General Manager

By-law No.62 of the society provides for the appointment of General Manager who shall be the Chief Executive and Secretary to the CMC. His duties and responsibilities include:

- (1) To generally advise the Management Committee and implement its policies and decisions;
- (2) To supervise the work of all the staff and ensure that the business of the Sacco is conducted in a proper manner

- (3) To ensure that proper and accurate books of accounts, records and returns are kept and that regular financial, statistical and operational information is prepared and submitted to C.M.C.
- (4) To be responsible for the security of the funds and assets of the society
- (5) To ensure that all rent, rates, levies and debts due from and to the society are paid by their due date(s)
- (6) To implement recommendations set forth in the audit report and those issued by the Supervisory Committee
- (7) To ensure there is Liquidity to meet Loan demands, savings withdrawal and operating expenses interalia.
- (8) To ensure that all statutory contributions and dedications are correctly calculated and that all amounts due and the necessary returns are submitted by their due dates.

6.5.3 **Departments**

There are a number of departments that report to the General Manager and handle various functions. These are:

- (a) Human Resource and Administration
- (b) Finance and Accounting
- (c) Loans
- (d) FOSA
- (e) Legal
- (f) Public Relations
- (g) Internal Audit
- (h) Information Technology

6.5.4 **Observations and Findings**

- (1) The Society does not have an approved organization structure chart. This may indicate existence of informal relationships in the working environment.
- (2) The existence of communication problems in the society may be attributed to lack of a well defined reporting structure.
- (3) Interference by delegates in operations of the society is an indication of a weak organization structure.

- (4) Discipline, coordination and supervision are compromised as a result of an ill-defined structure which does not allow the General Manager to exercise his responsibilities.
- (5) The Registries are handling all files relating to loans, administration and personnel. This situation leads to confusion, consequently missing files and delay in action.
- (6) The Department of Human Resource has been weakened and its functions transferred to Education and Staff Committee. This situation is not desirable as it allows for interference.

5.5.5 **Recommendations**

The Inquiry Team recommends the following:

- (1) The sections that provide services that are subsumed by all Departments of the society namely legal, internal Audit, public relation and information technology should come under the General Manager.
- (2) Establishment of a procurement Department
- (3) Establishment of Administration Department to deal with matters of security, Transport, Registries and Investment.
- (4) The Human Resource Department to be an Independent department dealing with personnel matters which will include staff development, discipline, exit, placement and emoluments.
- (5) The Society should separate its registries into two, one handling loans and the other handling administrative and personnel matters.
- (6) The functions of the Human Resource Department should be restored and the Education and Staff Committee should confine itself to policy decisions.

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- (7) The society should introduce customer service desks to guide members with inquiries.
 - (8) Training of staff on public relations and customer care should be intensified.
 - (9) The society should introduce suggestion boxes at convenient points within the Headquarters.

CHAPTER VII

MODE OF REPRESENTATION

7.0 Introduction

The Co-operative movement thrive on the principle of democratic control which "requires that its affairs are administered by persons elected or appointed in a manner agreed by the members and accountable to them". In the exercise of such duties, the leadership is entrusted with funds, resources, records, assets for which it is held accountable. The realization of the societies' vision, goals and growth therefore demand commitment and skills of those who are placed in the positions of guiding the societies' policies and activities.

The success of the organization thus depends to a great extent on the competence of the leadership. However, a search for the ideal qualities of the leaders is one question while the structure and environment in which they operate is another. It is therefore, the concern of the members of the Harambee SACCO Society that the idea of accession to leadership be reviewed in terms of standard guidelines, conduct and competences. In this respect, an attempt is made to examine the various structures of leadership within the society.

7.1 The Structure of Representation in Harambee SACCO Society

7.1.1 Member

The member is the backbone of the society. The Cooperative Societies Act, No. 12 of 1997 provides for the qualification for membership of a cooperative society in Part V, Sections 14, 16, 17 and 19. The Harambee SACCO by-laws Nos. 8 to 14 incorporate the conditions under which a member can be admitted.

Section 19 of the Act provides members' rights and obligations. It states that "Each member of a cooperative society shall have one vote only in the affairs of the society, irrespective of the number of shares he holds". This grants a member the right of self-representation, in

expressing views and taking decisions individually and on own capacity. Section 21 elaborates on members' physical participation in all meetings; "to be elected to organs of the society, subject to its by-laws and to obtain full access to its facilities and information".

Members however, are not organized but act individually in expectation that the aspirations and needs will be met by the society. At this point, members communicate their interests to the branches and expect appropriate responses on matters of loans, personal accounts, societies financial performance, by-laws, shares, dividends and all relevant activities pertaining to the SACCO.

7.2 Findings and Observations

The Inquiry Team found that there is high level of apathy brought about by the following:

- (i) Dividends are not declared consistently and when so done, are comparatively low.
- (ii) Share value of Harambee Plaza do not appreciate.
- (iii) Processing of loans take too long.
- (iv) Sinking fund payment take too long.
- (v) Correspondences are not acknowledged by the SACCO, compelling members to travel to Nairobi to follow up their issues.
- (vi) The integrity of leadership was wanting in both branches and CMC despite frequent changes.
- (vii) Participation by members in electing appropriate leadership attracted very little interest.

7.3 Branch Annual Meetings and Role of Branch Officials

By-laws Nos. 36, 37 and 38 create the branches and extend powers to them over representation through the branch meetings. This is

essentially the first formal structure that brings members together to express their views and to participate. It particularly allows them to elect the branch officials who are assigned duties and responsibilities to serve members as provided under by-law No. 38. They also use the forum to make recommendations for consideration by the Central Management Committee and the Annual General Meeting. Significantly, the arrangement also establishes the Delegate System as it provides that the "branch delegates shall be the sole representatives of the branch to the Annual or Special General Meetings". The meeting therefore serves to mobilize and articulate member interests.

7.4 Findings and Observations

7.4.1 (i) Branch Registers and other Records

It was observed generally, that the branch officials do not maintain Branch Registers of members and other records. Officials announced approximate figures to the Inquiry Team but did not produce material registers. They gave excuses, particularly citing the transfer of members as main cause for inaccuracy of records. This is a serious matter and a show of negligence of duty. This weakness has several implications to the management of the society. In view of the above, the elections of branch officials may have not been carried out fairly since non members could have also participated. It also raises the issue of inequality of representation as it would be possible that a branch with less than three hundred (300) members with three (3) delegates have similar treatment as those with more members due to failure to determine the actual number of members.

7.4.2 (ii) Branch meetings and feedback

- Meetings are not held regularly as required.
- There is no proper feedback to members by the branch on issues decided at the ADM or CMC.

7.5 Annual Delegates Meeting, (ADM)

Rule No. 23 of the Cooperative Societies Rules, 1998, establishes Annual General Meetings while Rule 24, expounds on its duties. The

Harambee SACCO society incorporates the provision in by-laws Nos. 39 and 46. The ADM is the supreme authority. It is constituted by the Branch Delegates who are drawn from the branch annual delegates meeting already described above.

The ADM has wide powers and duties as outlined in the by-laws. These may be grouped into five (5) as follows:

- Approval of expenditure
- Disposal of surplus
- Election of members of the Central Management Committee and Supervisory Committee and their tenure of office.
- Deciding on membership admission and termination of the same.
- Approval of the By-laws.
- Direction and supervision of the Central Management Committee

7.6 Observations and Findings

(i) Partisan Behaviour and Disorder

The Inquiry Team found overwhelming evidence that the meetings are characterized by shouts, boos, jeers and partisan officiating.

(ii) Manipulations

The ADMs deliberately commence late, restricting productive time. Critical agenda items are rushed through adoption without exhaustive discussion.

(iii) Inadequate Preparation for effective discussion of Audit Report and Budget Estimates

The delegates do not receive the necessary documents relating to accounts and estimates in time. This is deliberately designed not to accord substantive issues the emphasis required.

(iv) **Politics of Elections to Central Management Committee**

It is also observed that the Central Management Committee in particular and the delegates in general are much more concerned with the succession element than with the problems that face the SACCO. There is intense power struggle to advance on individual interest. The ambition is to occupy the seats. This struggle manifests in negative publicity to the detriment of the society.

7.7 **Observations and Findings**

The following issues on representation are of concern to members:

(i) **Restriction of Committee to Nairobi delegates**

The by-law No.47(a) is perceived to be biased, discriminatory and promotes marginalization of upcountry delegates in view of the fact that the SACCO is a countrywide organization.

(h) **Eligibility of Membership to the Committee**

Although basic requirements are provided, they are not sufficient to describe the ideal candidates to be elected into CMC office. This loophole has been exploited leading to poor management.

(iii) **Absence of Election Procedures**

The present practice is that nomination is done on the floor on the day of the ADM. This denies delegates adequate time to assess the candidates credibility. There is no proper vetting criteria to take into account all important areas.

(iv) **Representation of Stakeholders**

It is observed that the large stakeholders, namely Provincial Administration, Department of Defence, Administration Police,

National Youth Service and Kenya Police contribute over eighty per cent remittances to the society every month as follows:

	Department	Month	Amount	Membership
1.	OOP Hqrs. (including Prov. Adm., Adm. Police, NYS.)	June	<u>92,561,620</u>	<u>31,510</u>
2.	Department of Defence	June	<u>90,000,000</u>	<u>23,500</u>
3.	Kenya Police	June	<u>40,033,869</u>	<u>11,000</u>
	Total		<u>222,595,489</u>	<u>66,000</u>

Out of the total of Kshs260,000,000 remitted to the society monthly the major stakeholders contribute Kshs.222,595,489 which is eighty six (86) per cent of the total remittances made to the society. If fair representation was adopted, particularly on the basis of one CMC member to represent Kshs.20.million, major stakeholders would be represented as follows:

1. Office of the President - 4 seats
2. Department of Defence - 4 seats
3. Kenya Police - 1 seat
4. Others - 2 seats

If representation was applied on the basis of membership, each CMC member would represent 8,189 members. Representation in the CMC would be as follows:

No	Min./Dept.	Membership	Approx.%	Committee Members
1	OOP (including Prov. Adm., Adm. Police, NYS.	31,510	36	4
2	DOD	23,500	26.	3

3	Kenya Police	11,000	12.	1
4	Others	23,090	26.	3
	Total	90,000	100.	11

7.8

Recommendations

(i) Introducing Procedure for orderly Annual General Meetings

This by-law should be repealed and be replaced by one detailing the procedures which conform to standard norms of holding meetings and elections.

(ii) Election Policy

A by-law should be introduced to provide for nomination procedures and rules. This should include time frame between the declaration of the candidacy, various vettings and the manner of campaigns, logistics, offences and penalties as proposed in paragraph 15.1.

(iii) Consideration of various Stakeholders

The problem of national outlook and institutions with large stakes should be addressed adequately. In recognition of the principle of one man one vote, irrespective of the shareholding, the Inquiry Team recommends, that representation be based on membership distribution which translates to the following:

1. Provincial Administration - 2 seats
2. Department of Defence - 3 seats
3. Kenya Police - 1 seat
4. National Youth Service - 1 seat
5. Administration Police - 1 seat
6. Others - 3 seats

CHAPTER VIII

BRANCH NETWORK

8.0 Introduction

Harambee Savings and Credit Co-operative Society is a countrywide SACCO drawing its membership from mainly among Civil Servants in virtually all Government Ministries, Departments and Parastatals. The predominant catchment areas are however, Office of the President (Provincial Administration), Kenya Police, Administration Police, Department of Defence and National Youth Service. At present the society has an estimated total membership of about ninety thousand (90,000) members.

8.1 Branches

The society, due to its country wide operations and size of membership is organized into one hundred and fifty nine (159) branches. Nairobi Area alone has fifty four (54) branches while the other seven (7) Provinces constitute one hundred and five (105) branches. The establishment of branches is meant to facilitate representation at Annual Delegates Meetings as each branch is represented by three (3) delegates, and at the same time bring services closer to members. The total number of delegates countrywide is four hundred and seventy seven (477).

8.1.1 Criteria for Branch Establishment

Branches are established based on the criteria of one delegate representing three hundred (300) members or part thereof, as stipulated in the Society By-law No. 37(a). Other guiding criteria for setting up branches include geographical location of members, proximity in terms of location within same building and ministry or department uniqueness.

8.1.2 The Role and funding of Branch officials

Each branch has three (3) delegates who comprise of Branch Chairman, Secretary and Treasurer. These officials are assigned the following functions as stipulated in By-law No. 38:

- (i) Represent the branches to the Annual or Special Delegates Meetings.
- (ii) Conduct branch elections.
- (iii) Approve Emergency Loans in total compliance with the Harambee SACCO loans policy.
- (iv) Recommend normal loans to the Headquarters.
- (v) Recommend and forward membership applications and withdrawal cases to the Society.
- (vi) With the direction of the Management Committee, conduct education meetings to members prior to the Annual General Meeting through which members shall be sensitized on the important resolutions anticipated in the next Annual General Meeting.
- (vii) Safe custody of cheques.
- (viii) Maintain Branch registers, relevant books of accounts and submission of accounts or returns for the branch promptly and regularly before any further funding can be considered.
- (ix) Notify the Headquarters on issues related to deceased members.
- (x) Recruit new members.
- (xi) Market the SACCO activities and enhance its corporate image.
- (xii) Act as a liaison person between the SACCO society and the members.

- (xiii) General administration of the branch.
- (xiv) Comply with the code of ethics for Branch Delegates/Officials.
- (xv) Convene and preside over all branch meetings.
- (xvi) Other duties and responsibilities as may be directed by the Management Committee from time to time.

To ensure smooth operations at branch level, all these functions require well-established offices and to some extent skeleton personnel to assist branch officials.

8.1.3 Capacity

To be able to effectively perform the functions enumerated above, branch officials require the necessary capacity in terms of education on SACCO management, basic accounting procedures, managerial skills, physical facilities such as office, stationery and financial support. The branch officials are also expected to possess interpersonal and custom skills to address member needs.

8.2 Observations and Findings

The Inquiry Team observed the following:

- (1) It is evident that there are branches with few members which in this case should not warrant full fledged branch status irrespective of their uniqueness.
- (2) There were also cases of branches located within the same building or in adjacent buildings within the same location e.g Office of the President, Directorate of Personnel Management, Provincial Headquarters and District Headquarters.
- (3) Despite the rationalization of Ministries and Departments which resulted into mergers the branch network remains the same with defunct Ministries having branches.

- (4) There was no established procedure of registering branch members except by those who went to seek services in each branch. It was hence observed that a member could even obtain two (2) emergency loans from two (2) different branches.
- (5) The society did not appear to have a comprehensive historical record of membership growth and branch network.
- (6) Some of the branches did not have the necessary capacity to handle functions assigned to them. Most branch officials lacked the necessary co-operative education, basic accounting procedures, managerial skills and interpersonal and physical facilities.
- (7) It was observed that most of the branch officials, especially in the Provinces, do not call for member meetings to pass important information to members or come up with issues to raise at ADMs.
- (8) The members registers did not exist in many branches, and where they existed they were poorly maintained.
- (9) Branches operated emergency loan accounts but no step had been taken by the society to audit the branch funds. This led to outstanding cases of financial mismanagement as obtained in Busia, Kisii and Teso. Indeed, even the handing over process from one team of officials to another was lacking.
- (10) The Central Management Committee did not seem to take interest in the operations of branches. The Inquiry Team found out that the Chairman of Butere/Mumias Branch, withdrew members' emergency funds and misappropriated the money. The entire branch officials were removed, the bank account frozen by the District Commissioner, and new officials were elected into office. However, the CMC did not recognize the new office bearers even when they turned up for the ADM of October, 2001.

8.3 Recommendations

The Inquiry Team recommend that:

- (1) The branch network should be rationalized and the criteria of one delegate representing three hundred (300) members be applied.
- (2) Provincial branches should be amalgamated with District Branches located at Provincial Headquarters to form one branch.
- (3) In order to bring services closer to the members additional branches be created in certain areas with communication difficulties.
- (4) Some branches, which may, by reason of their uniqueness, retain branch status without the required number of members per delegate, should be granted only one or two delegates as the case may require while those with over 1000 members may incorporate one additional delegate for every 300 members over and above, but in any case not exceeding 5 delegates in a branch.
- (5) In view of the above a total of 141 branches and 457 delegates will now obtain as shown in the appendix 1 and 2.
- (6) Branch officials should circulate notices calling upon members within their branch jurisdiction to register at the branch offices regularly.
- (7) The society should endeavour to document its historical growth to reflect expansion in membership and branch network.
- (8) The caliber of branch officials should be reviewed and members be educated on electing a mixture of low ranking and high-ranking officers to provide for complementary qualities and abilities.

- (9) Branch officials should be given co-operative education once elected to enable them perform functions as required in the By-laws and be able to pass the same education to their members.
- (10) Branch officials should call regular meetings with their members to inform them on any happenings in the society and seek their views on important decisions.
- (11) All branches in the country should be provided with necessary facilities such as cabinets, stationery and funds for day-to-day running of branch matters.
- (12) The Society should establish a standard members register for branches and ensure that they are properly maintained.
- (13) The Central Management Committee should ensure regular auditing of the emergency loan funds provided to branches and where possible enlist the service of District Accountants to inspect the branches.
- (14) In case of change of branch office bearers, the Department of Cooperative Development officials must be present to ensure a smooth handover of society matters and file a report to the Commissioner of Cooperative Development with a copy to the society headquarters.

*For details see appendix 1 and 2

CHAPTER IX

FINANCIAL MANAGEMENT

9.0 Introduction

Sound Financial Management in a Sacco entails timely collection of society's total revenue, planning and budgeting for the same, efficient management of the finances to ensure that the main objective of providing quality products and services to its members is fulfilled. It is necessary that a Sacco formulates a sound financial policy that ensures:

- Maintaining appropriate liquidity levels.
- Safeguarding the society's assets.
- Adopting an accounting system that not only captures, records, analyses and reports all financial transactions, but also enables the management of the society to make the right decisions.
- Instituting proper internal controls to ensure that members' funds are protected from misappropriation, misapplication and or any other loss.
- Timely audits of the accounts are carried out by a reputable audit firm.
- Meeting statutory obligations.

There are two levels of Financial Management in a Sacco:-

- (a) **Financial Policy** which is formulated by the management committee and involves making investment decisions, financing and surplus distribution decisions.
- (b) **Financial operations** carried out by the General Manager and his staff who must adhere to the above policies and exhibit a business culture, creative thinking, and have the ability to negotiate on behalf of the Sacco, among other things. While matters of the financial policy lies with the CMC, subject to approval by the members, financial operations are the responsibility of the General Manager and his staff under the guidance of the CMC.

9.1 Sources of Funds

Harambee Sacco has two major sources of funds.

- (1) Revenue (own funds)
 - (a) Members shares and deposits, loan repayments, and interest on loans,
 - (b) Sinking fund contributions,
 - (c) Monthly rental income from properties off Limuru Road, Matundu lane, Nyali houses and Harambee Plaza.
- (2) Borrowed Funds
 - (a) Funds borrowed from Cooperative Bank
 - (b) KUSCCO Central Finance Programme

9.2 Observations and Findings

The Inquiry team observed that:

- (a) There are delays in effecting "check off" deductions of members shares, loans, interest on loans, and Sinking Fund contributions. Accuracy is not always guaranteed either. Interviews with members revealed that it can take up to six months for a loan to be fed into the payroll. It was not clear whether the delays were emanating from:
 - (i) The Society where data sheets are usually prepared and sent to various Ministries, Departments and Parastatals,
 - (ii) The various units of the common bond i.e. Ministries, Departments, or
 - (iii) The Government Computer System where the "check off" is supposed to be effected in the payroll system.
- (b) It was clear that the society did not maintain certain books, particularly the Members Personal Accounts (MPA'S). Without the maintenance of the MPA'S it is possible to omit certain deductions especially those involving positive variation of members contributions and payments of loans.
- (c) The Society is incurring an annual expenditure of over 4 million towards the services provided by Government Computer Centre.

- (d) Collection of rental revenue from Society's properties has been wanting. In the year 2001 the society was supposed to collect a total of Kshs.32,278,859.50 but managed only Kshs.17,862,067 due to lapses noted elsewhere in this report.
- (e) Six (6) of the Limuru Road tenants have a case in court over rent increase and are not remitting rent to the Society.
- (f) 8 Nyali Maisonettes are vacant and in a bad condition. These houses are denying the society a sizeable income of Kshs.200,000 per month and are costing the society Kshs.121,800 a month in terms of security.
- (g) Harambee Plaza has some vacant spaces that denies shareholders of the Plaza the desired income. In addition, its main occupant – Harambee Sacco, does not pay rent to the Shareholders of Harambee Plaza.
- (h) A service charge of Kshs.4,444,989 has not been collected by the society from the tenants of the Plaza for the services rendered. No sufficient explanation was given for this lapse.

9.3 Recommendations

- (1) Harambee Sacco and Government Computer Service should reach a contractual agreement aimed at streamlining the services accorded to the society.
- (2) The court cases relating to six tenants of Limuru Road should be expedited.
- (3) The houses in Nyali should be disposed off immediately.
- (4) Harambee Plaza should be managed as a separate legal entity, preferably as a Housing Cooperative, with an independent Management Committee and staff.
- (5) Harambee Sacco Society should pay rent and service charge to Harambee Plaza.

- (6) The society should endeavour to collect all outstanding rent and service charge due from tenants.

9.4 Front Office Services Activity (FOSA)

The Front Office Services Activity (FOSA) is a new concept being introduced by SACCOs with a fundamental aim of providing affordable banking facilities to members. Harambee SACCO FOSA started operating on 28th September, 2001, after approval of a feasibility study carried out in August, 1999 that established its viability. The society invested Kshs.22 million to make the facility operational.

Its principal activities are cash payment of Nairobi emergency loans, encashment of cheques and maintenance of savings accounts. The following additional banking services are expected to be introduced in the future.

- (a) Cash withdrawal facility
- (b) Fixed and call deposit accounts
- (c) Short term loans

The FOSA has achieved the following todate:

- (a) Earned Commissions (income) of Kshs.6,370,893. This compares favourably with the projections given in the feasibility study of Kshs.6,240,000 as at 15th February, 2002.
- (b) Savings Accounts Opened - 314
- (c) Deposits mobilized – Kshs.2,780,458

9.5 Observations and Findings

- (1) The investment cost of Kshs.22 million is almost one and a half times the cost given in the feasibility study of Kshs.14.29. million.
- (2) The bulk of the investment cost is constituted by the facilities construction/renovations and computerization which cost

- Kshs.5.9 million and Kshs.15.9 million (see Appendix 3) respectively.
- (3) Cost of the construction work closely relates to that of the feasibility study of Kshs.6.82 million. The works were properly advertised in the open tender and awarded to the lowest tenderer who satisfactorily undertook the works.
 - (4) The handling of the computerization project leave's a lot to be desired. M/s Cooperative Bank of Kenya Ltd. was approached to advise on the requirements to facilitate the start of a FOSA. The bank advised, among other things, the computerization requirements covering hardware, cabling and software and in addition, recommended firms to be considered to undertake the task. M/s Computer Feeds Consultants who were ultimately awarded the entire computerization project was recommended for the software development only. The firm was the only one invited to quote. The rest of the firms recommended were disregarded. Since the purchase was not competitive, the cost was grossly exaggerated. The expenditure on the computerization of Kshs.15.9 million is well above that provided in the feasibility report of Kshs.4.14 million(see appendix 4).
 - (5) Harambee FOSA charges a commission of 2% while Afya and Ukulima FOSAs charge commissions of 1.5% and 2% respectively for cheque encashment, subject to a maximum commission not exceeding Kshs.400/=. Members viewed this exorbitant and requested it to be reduced.
 - (6) Members complained that the operating hours were short, although they are in line with other FOSA and Commercial banks.
 - (7) The members are generally happy with the services offered by FOSA and it is their wish that it expand its services.

9.6 Recommendations

- (1) The cost of computerizing the society's FOSA is considered unreasonably high and should be investigated.
- (2) The management to periodically review the commission charged for cheque encashment to be in line with those of the market.

- (a) The operating hours of the FOSA should at all times be in line with those of the commercial banks and other FOSA's.
- (b) The activities of FOSA should be well supported to continue earning income for the society and also provide the current services and others in the future.
- (c) The Government should initiate regulatory measures to include periodical checks of all FOSAs.

Internal Financial Controls

(i) Budgets and Budgetary controls

Effective Internal controls procedures should ensure that every financial transaction is budgeted for, properly authorized and adequately documented or recorded preferably in a computerized system with appropriate backups.

It is the responsibility of the Supervisory Committee and Internal Audit Department to ensure that expenditure incurred is in accordance with the budget. The budgetary procedures and controls require that:

- (a) a budget is prepared.
- (b) the proposed budget is presented to the Annual Delegates meeting for approval.
- (c) weekly cash flow projections are prepared.
- (d) cash flow reports are presented to the Credit and Banking Committee for monitoring purposes.

Observations and Findings

- (a) Although the society prepares an income and expenditure budget together with weekly cash projections, neither of these are adhered to.
- (b) With the exception of the year 2001 no Capital Budget has ever been prepared in the Sacco.
- (c) Among the income items there is a service charge to Plaza tenants which is not collected by the society. It was fixed in the

- Revised budget for the year 2001 as Kshs.4,444,989 in the fourth quarter as an after thought and the total figure was also reflected as a negative variance, meaning it was never collected.
- (d) Another anomaly revealed in the society's budgetary procedure is that expenditure is incurred and then fixed in the budget long after the approval of the budget by the Annual Delegates meetings. Examples include the Kenya Lift Company and Medi-Plus expenditure. The net effect is reflected in huge negative variances.
- (e) There are also cases where amounts incurred are well above the Revised budgeted figures. These latter cases do not make sense because an ideal Revised budget should have no variance. Examples include printing and stationery, Telephone and Cables, Audit fees and legal fees which reveal high variances despite having been revised.
- (f) Pressure on the Central Management Committee from members and delegates to issue loans irregularly has rendered the cash projections irrelevant.
- (g) Irregular payments made to consultants and suppliers outside budgetary provisions have been noted with concern by the Inquiry Team elsewhere in this report. Examples include:

- A total of Kshs.23 million paid to Kenya Lift. Co. Ltd. in 2001.
- Kshs.41 million paid to various consultants since the last Inquiry(2000)
- Kshs.18.1 million paid to Medi Plus for staff medical cover, not withstanding a monthly medical allowance paid to all staff.
- Kshs.1.5 million paid to Spora Enterprises for security to the 8 Nyali houses which are unoccupied and have been badly vandalised.
- Kshs.535,121 paid to Zawam Insurance brokers. To the best of our understanding brokerage fees are paid by an insurance Company and not by the insured person.
- A total of Kshs.46,580,624 paid to Triple A. details of which are outlined elsewhere in this report.
- An income and expenditure budget is prepared every year on historical data that has evolved over the years. Weekly cash projection are also prepared for the purpose

of guiding the Credit Committee while approving loans. However, neither the budget nor the cash projections are adhered to.

- (h) Although approval of budgets is the responsibility of the Annual Delegates meeting the exercise is not usually accorded the attention it deserves. Interviews with members in the field revealed that the "Approval of budget" agendum is normally dealt with haphazardly and hurriedly with little or no regard to its significance.

9.7.3 Recommendations

- (a) Harambee Sacco should adopt a zero base budgetary process with effect from the year 2003.
- (b) Capital Budgets should be prepared whenever necessary.
- (c) Any project approved by the Annual Delegates Meeting should be included in the estimates of the ensuing year and expenditure should not be incurred unless and until the ADM has approved the relevant budget.
- (d) Revised budgets should incorporate anticipated changes in the budgeted figures as accurately as possible.
- (e) Annual Delegates Meeting should allocate ample time to the budget agendum so that delegates can discuss the same exhaustively before approving it.
- (f) The society should adhere to approved budgets.

9.7.4 Cash and Cheque Handling

Cash by its very nature is very susceptible to misappropriation. It is therefore, important that cash received is banked daily and intact. All expenditure should be paid out by cheque except for petty cash expenditure. It is a prudent practice for every society management to maintain a "Register of Accountable documents" (ie Cash receipts, Cash Payment vouchers and cheque books) showing for each document:-

- (1) The date on which it was issued.
- (2) The person to whom it was issued.
- (3) The first and the last serial number among other things.

9.7.5

Observations and Findings

- (a) The society operates a cash office where all payments in form of cash and cheques are received. The cashier also does the encashing of society cheques for some members. This is an indication of preferential treatment accorded to some members by the management as the normal practice would be to encash through FOSA.
- (b) A daily cash report is done by the Main cashier which shows the amount received from loan repayments, interest, share contribution, and Sinking Fund by cash or cheques among others. The report reveals under banking and over-bankings as the case may be.
- (c) Another function performed by the cashier is that of issuing I.O.U's to staff and committee members. The Inquiry Team, noted that some committee members did not sign for the amounts received. A total of Kshs.545,987 was owed in terms of IOUs as at 13th March, 2002. It must be noted that this is an irregular payment which is tantamount to an interest free loan.
- (d) According to records made available to the Inquiry Team during the preparation of the Annual Delegates Meetings a number of I.O.U,s and imprests are issued out to Committee Members and staff respectively. These imprests are not always surrendered fully, and indeed some are never surrendered at all. A case in point is that of Mr. S. Chege, a former Secretary of the Central Management Committee, who was issued with an I.O.U of Kshs.3,113,300. Another amount totaling Kshs.50,000 was also issued to Mr. D. Gogo for the same purpose.

There are no records to show that the I.O.U.s have been surrendered.

- (e) Prior to the establishment of the Fosa the society used to operate a mini-Fosa. The following amounts were borrowed from the mini Fosa and were still owing as at 13th March, 2002:

	Totals (Kshs.)
Central Movement Committee Members	405,000/=
Branch Officials	74,000/=
Staff Members	<u>200,704/=</u>

Grand Total

679,704/=

- Petty cash imprests are also issued out mainly to meet small expenses like motor vehicle repairs, staff tea and General Manager's office expenses. As at the time of the Inquiry a total of Kshs.137,800 in unaccounted for petty cash was still outstanding.
- (i) The Society has a total of 15 cheque signatories which is a large number by any standards. Any two committee members and one staff can sign a cheque and this does not augur well as far as internal controls are concerned.
- (ii) It is also observed that every payment must be authorized by the Central Management Committee, irrespective of value. This practice causes unnecessary delay and it inconveniences members, particularly where the amount involved is small.

Recommendations

- (i) No encashment of cheques should be done at the Cash office. Members who may need this service should be advised to cash their cheques at the Fosa counters.
- (ii) The practice of issuing I.O.U's should stop forthwith. Those with outstanding IOUs should be required to repay immediately with interest. Those who have taken money from the SACCO irregularly should be barred from any future leadership position as provided in the law.
- (iii) Any outstanding imprests should be surrendered immediately or recovered from the salaries of those concerned. In future all imprests taken must be surrendered as soon as the purpose for which they are issued is accomplished.
- (iv) Amounts owed to Fosa should be paid back immediately with an interest.
- (v) It is recommended that the General Manager, the Financial Controller and any member of the Central Management Committee be authorized to sign cheques

whose amounts do not exceed Kshs.20,000/=. However, cumulative value of such payments should not exceed Kshs.500,000/= per week. The payments must subsequently be ratified by the Central Management Committee

9.7.7 Maintenance of Accounting Records

Sound Accounting systems in Saccos include identification, recording and classification of all the society's day to day transactions. This process should ensure that responsibilities' assigned to individuals are adhered to, with minimum supervision. The system should also have the following objectives among others:

- (a) Assisting the management to develop a system of checks and balances
- (b) Harmonizing society activities
- (c) Developing accounting policies for the society.
- (d) Proper management of society's assets paying attention to valuations, record maintenance and custody.
- (e) Ensuring accuracy, validity and production of relevant reports for decision making.
- (f) Ensuring that the safety and soundness of members funds is maintained.
- (g) Ensuring compliance with the International accounting standards and Section 25 of the Cooperative Society's Act No 12 of 1997 that states:

"Every cooperative society shall keep proper books of accounts which shall be prepared in accordance with the Generally Accepted Accounting standards and which shall be necessary to give a true and fair view of the state of affairs of the society and to explain its transactions." The state of affairs include:

- (i) All income and expenditure
- (ii) All assets and liabilities of the society

In line with the above every society is expected to maintain the following standard books of accounts as required by the Cooperative Societies Rules (1998).

- (i) A Cashbook showing a record of all monies received and all monies expended.
- (ii) A General Ledger showing a summary of all accounts
- (iii) A Members Personal Account or Ledger showing members transactions with the society.
- (iv) A Petty Cashbook.
- (v) An Assets Register.
- (vi) A Stocks Control Ledger

9.7.8 **Observations and Findings**

1. The Inquiry Report of June 2000 recommended that a Financial and Accounting Systems and Procedure's Manual be documented. In response, the Central Management Committee contracted Matengo & Associates Certified Public Accountants to prepare the Societies Financial and Procedural Manual which was intended to streamline the accounting and reporting system in the society. It was also supposed to develop internal controls in the society. The firm produced a draft manual which did not meet the specifications.
2. Although the society's data is resident in the Computerized Financial Management System it does not meet user requirements, as it contains the following weaknesses interalia:
 - Lack of an operational Cashbook Module and General Ledger Module among other things.
 - Members Personal data is all in the Computer but Members Personal Accounts do not exist either in the Computer or in the Manual system.
 - Lack of Bank Reconciliation Module
3. Most of the staff employed in the Finance Department have little or no relevant technical or professional background and are therefore unable to carry out efficient and effective accounting functions.
4. A detailed Task list has been issued to all staff to prepare Final Accounts for the year 2001 Statutory Audit. This is an

improvement on past situations where the Auditor was called upon to do the same.

5. The filing system on which the society relies so much is inadequate and can easily be tampered with. This was well manifested when the Inquiry Team examined a sample of files that included loan files belonging to staff and Management Committee Members. Other observations include folio inconsistency, inability to trace file movement, action taken in a file is not indicated and instructions are given on scrap paper. Some of the files had the same pen numbering all the folios. This raises the question as to whether the folios were numbered in one day.
6. A consultant by the name Jackson and Associates has been contracted to prepare an Assets Register which has not existed in the Society since inception.
7. Although there is a provision for Stock Control Ledger in the society By-Laws, there was no evidence of its existence in Harambee Sacco.

9.7.9

Recommendations

- (1) The Society should constitute a task force comprising the General Manager, Finance Controller, Computer Manager and Senior Accountant to develop a Financial and Procedural Manual.
- (2) The society should install and operationalise the outstanding modules into the computer.
- (3) The Society should redeploy the staff in Finance Department basing on technical and professional qualifications.
- (4) The society should adopt an appropriate filing system which should be closely supervised by a qualified officer.
- (5) A stock control ledger should be established and maintained by a qualified store keeper.

9.7.10 **Bank Reconciliation**

An integral component of internal control is the preparation of Bank reconciliation statements. The main control function of a bank reconciliation is to detect any irregular or fraudulent payment that may be made by the bank. The other purpose is to ensure that bank balances are reconciled with the balances in the Cashbook. Bank reconciliations should be subjected to a system of checks and approval by a senior officer in the Finance Department. This activity is even more critical in a large society like Harambee which handles about 9,500 transactions monthly.

9.7.11 **Observations and Findings**

- (1) The Society's bank reconciliation has had many unresolved issues which are being addressed by both the society and the Cooperative Bank. These include:
 - (a) Unknown bank debits in the month of November, 2001 which amounted to Kshs.143,159,957.
 - (b) Uncleared Cashbook debits of Kshs.161,584,880.
- (2) One of the reasons why the Bank Reconciliation cannot be effectively prepared is the absence of a true Cashbook position in the society. For instance some of the large payments are not posted in the Cashbook.
- (3) The Computerized Bank Reconciliation module is not operational to assist in the identification of the more than 9,500 monthly transactions.

9.7.12 **Recommendations**

- (1) The society should institute further investigations to establish the origin of unknown bank debits. If need be, in case it is not receiving the necessary assistance, it could file a dispute with the Cooperative Tribunal.
- (2) A true Cashbook position containing all transactions should be maintained.

- (3) The Computerized Bank Reconciliation module should be made operational.

9.7.13 **Maintenance of Liquidity Levels**

The maintenance of adequate liquidity levels is essential to sound, financial management. The minimum liquidity in a Sacco should not fall below 10% of savings/deposits as provided by the Act. On the other hand the society should desist from having what is commonly known as idle liquid funds as these may imply a lost opportunity.

9.7.14 **Observations and Findings**

Harambee Sacco has been experiencing a lot of liquidity problems for a number of years. This has made it resort to having a permanent overdraft facility of Kshs.200 million. The cost of overdraft is over 57 million a year with an occasional penalty whenever it over shoots the limit. There is also an overdraft appraisal fee charged on an annual basis. Causes of this predicament are as follows:

- (a) Excessive demand for loans which has always exceeded the supply of funds. This problem is aggravated by arbitrary approvals of appeal cases.
- (b) The society does not maintain any liquidity level neither does it set aside reserves for excessive loan demands.
- (c) The ever escalating society expenditure especially with regard to operational costs adversely affects the liquidity position.
- (d) Payments of consultancy fees, especially towards lawyers and Harambee Plaza maintenance costs which are beyond the Society's budgetary provisions have depleted the society's coffers.
- (e) Non-adherence to budgetary provisions has also taken its toll on society liquidity levels.
- (f) Delayed remittances from some Ministries and Departments has also denied the members the much needed financial services, and caused penalties on overdraft.
- (g) Investment in non-profitable properties outside the core business of the society has caused financial strain to the society.

- (h) Irregular payments by the society Central Management Committee as mentioned elsewhere in this report has denied members the opportunity to get loans on time.

9.7.15 **Recommendations**

- (a) The society should scale down loans issued in order to accumulate enough funds to clear the overdraft which amounted to Kshs.206,891,913 as at 25th March, 2002.
- (b) The society should approve loans in accordance with the loan policy. The queuing system software should be installed in the computer system as recommended elsewhere in this report.
- (c) The management committee should set aside an amount for appeal cases and should not approve loans of this nature in excess of the same.
- (d) The society should maintain a cash reserve of at least 10% of savings and deposits as provided for in the Act.
- (e) Overall Expenditure should be scaled down.
- (f) The society should limit the number of consultancy services as recommended elsewhere in this report. It is important that the society prioritizes its "raison d'être" i.e. the purpose for which it was formed.
- (g) The society must adhere to budgetary provisions and if a revised budget is prepared it must be approved by members and adhered to.
- (h) The society should desist from investing in any more projects that are outside its core business and the existing ones be either sold or finalized as the case may be.
- (i) Irregular payments made by the committee in some of their contractual arrangements should be investigated.

9.7.16 **Financial Investments**

The society has the following financial Investments:

- Loans balance to members. Ksh. 3,393,241,302
- Cooperative Bank Shares. Kshs.38,314,000.00
- Codic – Cooperative Development Information Centre. Kshs.50,000
- KUSCCO Central Finance Programme. Kshs.37,787,795
- KUSCO shares - Kshs.1,457,040

• C.I.C.	- Kshs.3,060,000
• KCB	- Kshs.6,089,720
Total Investment	- Kshs.3,479,999,857

9.7.17 **Recommendation**

The Society should invest more in commercial papers, e.g. Treasury Bills, if it realizes surplus funds.

9.7.18 **Protection of Members' Funds and Properties**

(i) **Sinking Fund**

The Sinking Fund was introduced into the society in 1997 with the main objective of mitigating the society against the losses it was hitherto incurring through write-offs of outstanding loans of deceased members. Additional objective of the fund include the payment of Kshs.10,000/= towards funeral expenses of a deceased member.

Initially, each member was contributing Kshs.20/= per month. This figure was later revised upwards to Kshs.50/= in 1999 when it was realized that the initial contributions could not sustain the demand on the fund.

As at 31st December, 1999 the fund had made a cumulative loss of Kshs.96.7 million (Audit report 1999). The substantial increase in the contributions from Kshs.20 to Kshs.50/= made little impact in minimizing losses. In the year 2000 the Fund recorded a loss of Kshs.23.8m (Audit report 2000.)

During the Inquiry Teams's visits to the branches members expressed their displeasure at the persistent losses being incurred by the fund. They also raised concern to the effect that the payments for the funeral expenses take inordinately long. Payments are made long after the deceased member is buried which defeats the purpose for which the fund was established. Refund of the deceased shares brought untold suffering to the beneficiaries, some of whom do not have alternative sources of income.

The Inquiry Report of 2000 had observed the same unsatisfactory status of the fund and recommended the following:-

- (a) The society to maintain separate books of accounts for the sinking fund.
 - (b) The society to consult an actuary to study and advise on the amount to be contributed by each member
 - (c) The doubling of members shares to be stopped
- The recommendations at (a) and (c) above have been implemented. However, the recommendation at (b) is yet to be implemented.

In 2001 the management entered into an insurance arrangement with M/s Cooperative Insurance Company to cover the Sinking Fund for one year. In accordance with the terms of the arrangement the Insurer was to pay the society the loan balance of the deceased member and also the kshs.10,000/= funeral expenses. The agreed annual premium for the cover was Kshs.35,941,840. In order to finance the premium the society entered into an agreement with a firm known as M/s Triple A Capital Ltd. Triple A Capital Ltd. was to pay the insurer the entire premium up front and the society was to in turn repay the company in equal monthly installments for 10 months.

9.7.19 **Observations and Findings**

The following are our observations and findings:

- (1) The society paid M/s Triple A Capital Ltd. Kshs.46,580,624.40 during the year 2001. According to the "acknowledgement of debt" agreement signed between the society and Triple A Capital Ltd. the total owed, which includes a credit charge payable to M/s Triple A Capital, was Kshs.37,199,804.40. We could not get explanation from the society on the variation of Kshs.9,380,820 between the actual payment made and what is indicated as owed.
- (2) The amount received from members on account of Sinking Fund contributions during the year 2001 was Kshs.43,273,268.25 which fell short of the premium paid of Kshs.46,580,624.40. The fund is therefore expected to be in deficit to the tune of Kshs.3,307,356.15.

- (3) The claims both settled and outstanding amounted to Kshs.17,853,469) which is far less than the amount contributed by members to the fund as indicated at (2) above. This implies that the society can comfortably settle the claims and still remain with a surplus of Kshs.25,419,799.25. It will not therefore be necessary under the circumstances to enter into an insurance cover.
- (4) The cover has been renewed for a further one year under the same terms but at a reduced annual payment of Kshs.44,639,760.

9.7.20 Recommendations

- (a) The overpayment of Kshs.9,380,820 to M/s Triple A capital Ltd. be further investigated by Anti corruption Police Unit.
- (b) An actuary be engaged as earlier recommended to study the fund and advise the society on the best way of managing it.
- (c) In our opinion the insurance cover is not beneficial and should be terminated immediately. In the meantime, while awaiting the actuarial report the society should directly manage the fund and the benefits accruing thereof.
- (d) The society to implement ADM resolution earlier made of decentralizing funds for burial expenses to the branches.
- (e) The society to prepare and distribute to the branches quarterly statements showing the state of the Sinking Fund.

9.7.21 Other Insurance Covers

Apart from the aforementioned Sinking Fund the society has a number of other insurances all aimed at safeguarding the members interests as follows:

Type of Policy	Annual Premiums
Loan guard	35,979,673
All Risks	589,888
Burglary – Risks	3,006
Group personal Accident	1,056,000
Motor vehicles Private (3 cars)	187,865
Public liability	2,505
Fire domestic	670,240

Motor vehicle Commercial	69,258
Cash in Transit risk	159,869
Employee Group Liability	1,101,400
Medi – Plus Insurance	18,180,814

9.7.22 Observations and Findings

Harambee has been dubbed “the most insured Sacco society” in the year 2001. Indeed the society won a large trophy from C.I.C. for the same.

It was however, noted by the Inquiry Team that the manner in which the society entered in some of the insurance contracts left a lot to be desired. This is especially with regard to the irregularities surrounding the Loan Guard and Medi-plus as noted elsewhere in this report. It was also noted that although the Society had entered into a medical insurance policy members of staff were still getting a medical allowance.

9.7.23 Recommendations

1. The society should be cautious when entering into Third Party agreements for insurance contracts and preferably deal directly with the insurance companies.
2. The Society should rationalize insurance cover for staff.

9.8.0 Payment of Dividends

The Society paid dividends and interest on members deposits in the year 2000 as follows:

	<u>Total</u>
Interest on members deposits	1.21% (Kshs.44.4m)
Dividends on Harambee Plaza	1.32% (Kshs.2.6m)
Dividends on Society’s shares	8.11% (Kshs.3.6m)

9.8.1 Observations and findings

Members expressed dissatisfaction with the manner in which the above payments were made. The 8.11% paid on members shares looked attractive but it was only applicable to Kshs.500 per member. The 1.2% paid as interest on deposits was applicable to the bulk of members' contribution. Members felt cheated by the small amount paid as dividend.

9.8.2 Recommendations

The Inquiry Team recommends as follows:

- (1) The members should be properly appraised on the dividends they are likely to receive.
- (2) Generally, the society should as much as possible operate in accordance with Prudential Standards. In this regard, it should strive to familiarize itself with Pearls Monitoring System which addresses the following:

P-Protection
E-Effective Finance Structure
A-Assets Quality
R-Rates of Return and Costs
L-Liquidity
S-Signs of Growth

9.0. The State of Society's Properties

In addition to the members contributions that form the major source of revenue the society has also invested in properties as an additional source of revenue. These properties include maisonettes on Matundu lane (Westlands), Limuru road (Parklands), Ushirika estate (Pangani), Harambee estate (Mombasa) and Harambee Cooperative Plaza.

9.1 Observations and Findings

All the above properties were visited by the inquiry team and the following is their status:-

9.2 Matundu Lane (Westlands) - NAIROBI

The property comprises a block of four maisonettes of four bedrooms each. The title deed is in the name of the society but its whereabouts is unknown. The maisonettes are poorly maintained and major maintenance works are required on them. All the houses are occupied at a monthly rent of Kshs.30,000 paid directly to the society. No lease agreements have however been drawn for the tenants. If properly maintained the houses are expected to fetch a higher rent. The properties were last valued in 1999 at Kshs.26 million.

9.3 Limuru Road (Parklands) - NAIROBI

The society owns five (5) plots each with three (3) semi detached maisonettes all totaling 15 maisonettes. The property is registered in the name of the society and titles are available. The houses (3) bedrooms each, have a guest room and blocks of domestic staff quarters for three Servants to each plot. All the 15 maisonettes are occupied. There are nine (9) tenants who pay a monthly rent of Kshs.22,000 each directly to the society. The remaining 6 tenants pay rent directly to the court due to dispute. The rent is estimated to have accrued to Kshs.8 million by February, 2002. Except for the maisonettes in dispute, the rest have recently been renovated. The property lacks perimeter wall that has contributed to insecurity. Once the wall is constructed the maisonettes are likely to attract higher rent. The properties were valued in 1999 at Kshs.90 million.

9.4 Ushirika Estate - Nairobi

The society owns 7 flats at Ushirika Estate. Four of the properties have not been registered in the lands office so as to obtain separate titles. The flats each which comprise 3 bedrooms have not been repaired since construction way back in the early eighties and are in poor state. All the 7 flats are occupied by staff in lieu of payment of house allowance. The flats were each valued at Kshs.2.4 m in 1999.

9.5 Harambee Estate (Mombasa)

The property comprises eight (8) main plots subdivided into two portions. The subdivisions have not been registered at the lands office to enable acquisition of titles. A total of sixteen (16) maisonettes (8 new and 8 old) each of 4 bedrooms and self contained domestic quarters have been developed on the plots. The new houses are in fair state. The old houses, however, require major repairs occasioned by vandalism. Eight (8) houses are occupied. Six (6) individual tenants pay a rent of Kshs.17,000/= per month while the remaining two (2) houses are leased to DOD at a monthly rent of Kshs.30.000/= No lease agreements have been drawn for the houses. The eight houses have been vacant for over one year todate, as a result of which the society has lost revenue estimated at Kshs.2 million. Regrettably, for the same vacant maisonettes the society is incurring further losses through hiring guards at a monthly fee of Kshs.121,800/=. Kshs. 1,311,835.80 has so far been spent on the guards.

In the year 2001 the society, realized a rental income of Kshs.855,000 from the property against the expenses of Kshs.1,497,281.80.

These properties are in an insecure neighbourhood and therefore unlikely to attract tenants unless a proper perimeter wall is erected. The property was last valued in 1999 as follows:-

- (a) Eight (8) new maisonettes - Kshs. 36 million
 - (b) Eight (8) old maisonettes - Kshs.32 million
- Total - Kshs. 68 million

9.6 Harambee Cooperative – Plaza - Nairobi

The building was constructed in 1986 as a prestigious modern commercial building. The title is registered in the name of Harambee Sacco and is charged to Cooperative Bank of Kenya as security for overdraft facility advanced. It comprises of three level basement parking and ten floors housing offices and a restaurant. Except for two vacant offices all the available office accommodation is occupied and the rent is payable directly to the society.

During the financial year that ended on 31st December, 2001 the income realized from the rentals of the Plaza were as follows:

- (a) 1st quarter - Kshs.5,458,132.25
- (b) 2nd quarter - Kshs.3,918,860.50
- (c) 3rd quarter - Kshs.3,243,373.50
- (d) 4th quarter - kshs.2,789,596.00

Total for the year-Kshs.15,409.962.25

The above income compares unfavourably with the expenses incurred on the Plaza during the year as follows:-

Plaza expenses— Electricity	- Kshs.7,875,249
Plaza Cleaning and Hygiene	- Kshs.2,111,661,70
Other Plaza expenses (Including lift)	- Kshs.16,255,652.70
Security for Plaza	<u>- Kshs.1,891,385.25</u>
	<u>Kshs.28,133,947</u>

The rent receivable has been declining significantly. As can be seen above the rent received in the 4th quarter is half of what was received in the 1st quarter.

The reduction in rent received is attributed to the following:

- Vacation of offices by tenants and the same taken over by the SACCO which does not pay rent.
- Rent arrears
- Low rates due to a depressed market
- Vacant offices
- All the tenants of the building do not pay for water and electricity.

The shareholders of the building who are not necessarily all the members of the SACCO have voiced concern that they are not getting reasonable dividends from their shares as a result of poor management. The society does not even have a record of the share holders of the building. The inquiry of June, 2000 addressed this concern and recommended separate management for the building and that the

SACCO be paying rent for all the offices it occupies. If the recommendation was implemented the society would be owing Kshs.39,181,533 by 31st December, 2001. We urge that it should be implemented immediately. The Plaza was valued in 1999 at Kshs.550 million.

9.7 Rent Arrears

The total rent arrears as at 31st December, 2001 is as shown below:-

(a)	Matundu lane (Westlands)	- Kshs.	330,000
(b)	Limuru Road (Parklands)	- Kshs.	14,382,800
(c)	Harambee Estate (Mombasa)	- Kshs.	598,000

Total **Kshs.15,310,800**

The huge rent arrears portrays laxity in rent collection which must urgently be corrected. It is also noted that lease agreements have not been drawn for most of the tenants. This situation is likely to frustrate the efforts of recovering the rent arrears as a result of possible disputes arising from the unpaid rent.

The investment in real estate diverted the society from its core business and has been a drain on the society's income. The ownership of the properties like Harambee Plaza is unclear and not benefiting the shareholders. The investments have caused the society losses instead of profit and a case in point is the Ushirika estate where a loss of Kshs.120 million was incurred in its development.

9.8 Site and Service Schemes

In addition to the above properties the Society has also facilitated site and service schemes for which it has invested substantially.

As at February, 2001 the society had spent Kshs308,067,762.00 on the schemes as compared to what has been collected from the prospective buyers of Kshs.256,238,883.00.

Proper feasibility was not done to determine all the administrative and infrastructural requirements leading to cost escalations that were

unforeseen. The buyers were unwilling to pay the additional costs causing delays in conclusion of the projects and in some cases protracted court proceedings.

The Inquiry Team noted that the status of each of the schemes was exhaustively covered by the Previous Inquiry and specific recommendations made on the way forward for the society. However, very little progress towards implementation of the recommendations has been made.

9.9 Recommendations

The following recommendations are made:

- 1) The society should endeavour to acquire titles for all its properties.
- 2) Lease agreements should be drawn for all the tenants occupying society's properties.
- 3) The rent arrears should be immediately collected, including the sum owed by Harambee Sacco for the Plaza rent.
- 4) The properties should be revalued and disposed off immediately.
- 5) Harambee Plaza should be managed as a separate legal entity, preferably as a housing cooperative under a separate independent management Committee and Staff.
- 6) All the tenants of Harambee Plaza should be made to pay for all the services provided by the society.
- 7) The society should endeavour to recover the money incurred in facilitating the acquisition of the site and service plots. The projects should be finalized and handed over to the branches concerned.
- (8) The society should immediately stop further expenditure on the schemes since they are not its core business.
- (9) Court case relating to Limuru Road houses should be expedited.

9.9.0 Audit

During the year 2001, M/S Kibiego Kiptum & Co. who were the approved Auditors of the society were paid fees for providing various services as follows:-

Service	Cheque Nos.	Date	Amount (Kshs.)
(a) Re-auditing of 1999 accounts and preparation of accounts and records	130448	5/10/2001	986,480
	130449	5/10/2001	<u>1,515,600</u>
		Subtotal	<u>2,502,080</u>
(b) Accounting Services 1999 and 2000	126626	30/9/2001	608,400
(c) Tax consultancy (1992-2000)	124282	16/8/2001	265,500
" "	121415	6/7/2001	442,500
" (91-2000)	129172	28/9/2001	<u>177,000</u>
		Sub-total	<u>885,000</u>
(d) Audit 2000	103263	6/2/2001	424,800
" "	119915	22/6/2001	236,000
" "	122678	30/7/2001	<u>295,000</u>
		Sub-total	<u>960,800</u>
(e) Refund for the payment of supervision fees on behalf of the society	134743	12/11/2001	222,562
		Grand total	<u>5,178,842</u>

Observations and Findings

- (1) The accounts of 1999 were audited by Deloitte and Touche and adopted by the Society. There was no reason therefore, for M/s Kibiego Kiptum to reaudit the same accounts or prepare accounts and records which in any case was the responsibility of the staff. There was neither an ADM approval of the audit nor another audit report to that effect. The payments were made on the strength of the approval of just the National Chairman and Treasurer. The payments made of Kshs.2.5 million as indicated above was therefore irregular.
- (2) There was no explanation or documentary evidence of accounting services provided by the Auditor for the year 1999 and 2000. M/S Deloitte and Touche audited the 1999 accounts while M/s Kibiego Kiptum audited the 2000 accounts and both were separately paid for the services rendered. The payment of Kshs608,400 to M/s Kibiego for the accounting services for 1999 and 2000 is again viewed irregular.
- (3) One of the main reasons for engaging the Auditor as a tax consultant was to make representations to the Commissioner of Income tax on behalf of the Society to mitigate it from payment of interest and penalties on taxes. However, nothing was achieved from the consultancy since the society ended up paying for all the taxes, interests and penalties as levied. It is also noted that M/S PAB Consultants were engaged during the same period (1st January, 1998 to 30th June, 2000) to provide similar services and were paid Kshs.2.75 million. The society did not benefit from this consultancy either. The payment for tax consultancy services to Kibiego Kiptum of Kshs.885,000 and PAB consultants of Kshs.2.75 million were therefore a loss to the Society.
- (4) The Auditor was properly engaged by the society to carry out the audit of the accounts for the year 2000 at a fee of Kshs,900,000. The Auditor submitted his report which was subsequently adopted. The payment of Audit fees of Kshs.960,000 which is inclusive of VAT is therefore proper.

- (5) The refund to the Auditor for payment of supervision fees of Kshs.222,562 that he made on behalf of the society to the Department of Cooperative Development is proper.

9.9.2 **Recommendations**

- (1) Other than the payments at (4) and (5) the rest of the payments amounting to Kshs.6,746,280 are considered irregular and further investigations should be carried out to ascertain their validity.
- (2) KUSCCO should in future be approached to provide tax consultancy services.

CHAPTER X

PROCUREMENT

10.0 Introduction

In October, 1999 the Society developed and introduced the Stores Procurement Manual which was intended to govern the day to day tendering and purchasing functions. The manual is quite elaborate and if all its provisions were strictly adhered to the society would be assured of the best possible value for its expenditure.

It is however noted, that the provisions of the manual were ignored much to the detriment of the society.

10.1 Observations and Findings on purchase of goods

- (1) During the month of April, 2001, fourteen (14) tenders for supply of various goods and services required by the society for a year were approved. **Appendix vi** shows a comparison of prices between the awarded, lowest quotes and market prices for a few of the items tendered. It will be noted that the prices of the firms awarded are on average 2 to 3 times that of the market or lowest tendered prices. There was no justification or explanation provided for not awarding the tenders to the lowest quotes or the firms whose quotes closely marched the market prices. The value of all the tenders awarded for the period was Kshs.27.3 million. As a result of ignoring the lowest bidders the society lost at least Kshs.14m. on the tenders for the purchase of goods alone.
- (2) It was also noted that almost all of the firms awarded the tenders are not established dealers/stockists or manufacturers of the items awarded, which is in contravention of the procurement manual para 2.2(v). Most of the firms awarded provided mobile telephone contacts which implied that they do not have established business premises from which they are operating. Neither did they provide VAT registration or a current trading licence which goes to suggest that the firms awarded are

"briefcase" types which are normally unreliable. This view is given credence by the fact that almost half (14) of the firms awarded the tenders have defaulted in supplying goods compelling the society to resort to expensive petty cash purchases.

10.2 Observations and Findings on Maintenance and Repair Services

- (1) The scope of works or Bills of Quantities were not drawn prior to tendering to indicate the exact repair or maintenance works required. The intended works were generalized as indicated at **appendix vii** attached. As a result, the tenderers were unclear on what to quote. A number of them did in fact indicate their inability to provide reasonable quotation without Bills of Quantities or prior assessment of the repairs requirements. This fact is clearly portrayed in the tendered prices which varied significantly as shown at appendix vii.
- (2) The society stands to be cheated in such a situation where the exact repairs or maintenance works required are not well defined. Irrespective of the value of the works undertaken the contractor will still be eligible to claim the full value of the contracts.
- (3) **Appendix viii** shows a summary of the works done by the contractors on Harambee Plaza in respect of electrical, plumbing and general building works and the materials that were utilized for the works undertaken. As at February, 2002 the contractor was paid a total of Kshs.6,875,527.35 out of a total contract sum of Kshs.7,852,460 leaving a balance of only Kshs.976,932.65. The amount paid is broken down as follows:-

Payment for materials	- Kshs.3,926,230.00
Other payments (presumed labour)	- <u>Kshs.2, 949,297.35</u>
Total	- <u>Kshs.6,875,527.35</u>
- (4) The Inquiry Team was informed that the contract did not cover materials as these were to be purchased separately by the society. However, this was not specified in the tender thereby

creating a loophole which could be abused. The materials were bought at the prices quoted by the contractor but there was no evidence to show the materials indicated as supplied were all received. The payment of Kshs.2.9 million for labour alone for the works so far undertaken which are minor in nature is considered exorbitant. Further investigations by appropriate authorities need to be done to ascertain the position on this matter.

10.3 Observations and Findings on Cleaning Services

- (1) The contract for cleaning services for the year 2001 was split into eight different services and subsequently awarded to five firms as shown below:

ITEM DESCRIPTION	QUANTITY	NAME OF CO.	TOTAL PRICE
1. Cleaning of floor	Whole building	Netcol cleaning	711,600.00
2. Cleaning of cloakrooms	Whole building	Goldhawk suppliers	218,040.00
3. Cleaning of Building surroundings	Whole building	Creative cleaning service Ltd.	480,000.00
4. Cleaning of window panes	Whole building	Rift Valley Homes Management	2,400,000.00
5. Cleaning of the carpet		Netcol cleaning	21,000.00
6. Cleaning of window curtains		Netcol cleaning	300,000.00
7. Cleaning of chairs		Pest Services	180,000.00
8. Cleaning of Roof tops		Goldhawk supplies	230,400.00
Total			<u>Kshs.4,541,040.00</u>

- (2) The Team noted that the splitting of the contract was unnecessary and created administrative difficulties in supervising all these contractors who essentially render similar services. The society therefore, stands to be cheated to pay for services not rendered as a result of the inability to effectively supervise all the contracts.

10.4 Recommendations

The following recommendations are made as far as tenders for purchase of goods and the maintenance and repair services are concerned:

- (1) The tenders should as much as possible be awarded to the lowest tenderers unless the lowest has been technically evaluated and found incapable, in which case subsequent lower offer(s) should be awarded. Under no circumstances should the prices awarded be in excess of 10% of the prevailing market prices.
- (2) The scope of works or Bills of Quantities must be drawn and utilized to tender for all maintenance and repair works. The firms awarded maintenance contracts must be registered with the Ministry of Public Works in the relevant category.
- (3) The tender for cleaning services should be grouped into three categories thus:

Category	(i)	Cleaning of floors and cloakrooms
	(ii)	Cleaning of window panes, building surroundings and roof tops.
	(iii)	Cleaning of curtains, carpets and chairs

The frequency of cleaning for categories (i) and (ii) should be specified.
- (4) The current CMC, Supervisory Committee members or staff should not carry out business with the society due to conflict of interest.
- (5) The society should ensure that any future tenders are processed in strict conformity with the provisions of the Procurement Manual.

10.5 Observation and Findings on Purchases through petty cash

Appendix ix shows an analysis of expenditure through petty cash from July, to December, 2001. The following observations and recommendations are made as regards the petty cash purchases:

- (1) Kshs.1.8 million was paid to KENATCO taxis in the year 2001 for taxi hire in addition to the expenditure from the petty cash for taxi and transportation charges paid to staff which on average is Kshs.3,107 a month.

- (2) The repair of telephones averages Kshs.11,720 per month and is undertaken by a firm other than m/s Telkom (K) Ltd. This is an unnecessary expenditure to the society.
- (3) The Committee members draw sitting allowances and yet they are provided with lunches at the expense of the society. The staff similarly enjoy the same provision.
- (10) The authenticity of the cash given to the drivers for car wash cannot be established.

10.6 Recommendations

- (1) The hiring of taxi to transport CMC and staff members and the transportation charges paid to staff members for delivery of official mail should stop. The society's own transport should be utilized for these purposes.
- (2) The CMC and staff lunches provided at the expense of the society should stop.
- (3) The funds availed to the drivers for car wash should be stopped and major petrol stations be contracted to undertake comprehensive car wash.

10.7 Observations and Findings on purchases through LPOs

- (1) During the month of December, 2000 the Society issued LPO Nos.1656 and 1698 for purchase of window curtains worth Kshs,550,750.50. In accordance with paragraph 10.4 of the Procurement Manual this order should have been advertised through open tender. The Internal Auditor observed the irregularity of the purchase in August, 2001. His observations were ignored and in the same month and to the same supplier another LPO No.1823 for supply of curtains worth Kshs.688,429 was issued. The Auditor observed this purchase once more having flouted procurement procedures.

- (2) Quantity of 10,000 blank PVC cards valued at Kshs.300,000 were procured during the month of October, 2000 from M/s Movest Enterprises who quoted the lowest among the three firms invited. This purchase being in excess of Kshs.150,000 should have been done through open tender as provided in the procurement Manual.
- (3) LPO No.1826 was issued to M/s Design Wear Ltd for supply of office furniture valued at Kshs.214,600/=. No quotations were invited for the purchase.

10.8 Recommendation

The provisions of the Procurement Manual should strictly be adhered to for all future purchases.

10.9 Observations and Findings on Registration of Suppliers

In accordance with para. 13 of the Procurement Manual the society is required to keep a record of its suppliers. It is further required that the society deals directly with well established firms rather than commission agents. A computer print out of suppliers availed to the Inquiry Team does not indicate the goods or services to be supplied by the respective firms. Most of the firms listed are neither manufacturers nor known dealers in the goods and services the society usually procures.

10.10 Recommendations

The following recommendations are therefore made as regards the registration of suppliers:

- (1) The suppliers list should be updated to include the goods and services dealt with.
- (2) At least five reputable firms who should either be manufacturers or stockists/dealers should be identified for each category of goods or services required and listed in the register of suppliers. The firms should be identified from those who apply for registration as society's suppliers after advertisement in the daily papers by the society calling for interested applicants or from

- those who may have applied on their own initiative .An evaluation of the firms should precede the approval to register.
- (3) The registered suppliers should be evaluated annually and those firms that have performed poorly be deleted.
 - (4) In cases where goods or services are not covered by established tenders or the respective tenderer is in default, the society should invite quotations from registered firms only.

10.11 **Observations and Findings on Qualification of Procurement Staff**

As noted earlier, the procurement of goods and services required by the society is a multi-million shilling business. The tenders established last year (2001) alone were worth Kshs.27.3m. The figure is higher when one considers the rest of the purchases done through petty cash, LPOS or negotiated contracts. The estimate of the value of procurements since last year is Kshs.50m. Such a large volume of purchases must therefore of necessity be handled by qualified procurement personnel who would utilize their expertise to ensure the society derives the best possible value for its expenditure. It was however, disturbing to note that this responsibility has been relegated to a clerical officer who has no procurement qualifications at all.

10.12 **Recommendation**

The society should therefore, immediately employ qualified personnel to manage its procurement.

10.13 **Observations and Findings on Contracts**

Harambee Sacco has entered into contracts for various works and services. The Inquiry Team perused all the contract documents and singled out a few which raise outstanding issues.

10.14.1 Rehabilitation and Modernization of 4 no. lifts - Harambee Plaza

(1) In December, 2000 M/s Kenya Lift Company Ltd. entered into a contract with the society for the rehabilitation and modernization of the 4 lifts at Harambee Plaza. The salient terms of the contract are as follows:

- (a) **Contract sum** - Kshs.23 million
- (b) **Payment Terms** - 80% - Kshs.18,400,000 to be paid on signing of the agreement.
 - 15% - Kshs.3,450,000 to be paid on delivery
 - 2.5% - Kshs.575,000 to be paid on completion and handover
 - 2.5% - Kshs.575,000 being retention fee payable six (6) months after completion and handover.

- (c) **Delivery and completion**
 - Delivery 4 months after payment and completion 2 months thereafter.

(2) The society effected the Kshs.18.4m down payment on 8th January, 2001. The delivery of the materials was therefore to have been made four (4) months later i.e by 5 May 2001, and the completion of the works two months later i.e by 5 July, 2001. However, by the time of writing this report the works remained uncompleted, which is a breach of contract.

(3) The delay in performance of the contract has greatly inconvenienced the staff, tenants and all the visitors to the building. The Inquiry Team noted that as a result of the inconvenience some of the tenants of Harambee Plaza had to vacate the building occasioning loss of revenue. A total of Kshs.21,850,000 out of the total contract sum of Kshs.23 million has been paid to the contractor leaving a balance of Kshs.1,150,000 against Performance Bonds

provided worth Kshs.5,750,000. The cost of modernization/rehabilitation of the lift under this contract is considered exorbitant.

- (4) It was also noted that in August, 2000 the society contracted M/s Kenya Lift Company Ltd. for the supply and installation of six (6) control cards in the lifts at Harambee plaza at a total cost of Kshs.1,854,000. Full payment for the cards were effected and M/s Kenya Lifts Company Ltd. acknowledges receipt in clause 4 of the contract agreement. There was no evidence of the supply or installation of the cards. M/s Kenya Lifts Co. Ltd. had a comprehensive maintenance agreement with the society from August, 2000 to 31st July, 2001. They had also pledged free maintenance of the lifts for a further one year from 1 August, 2001. It was therefore not necessary for the society to enter into two separate contracts for the same work.
- (5) The Inquiry Team also learnt that despite the comprehensive lift maintenance agreement for which the society was paying Kshs.318,600/= every three months, the lifts remained unserviceable for most of the times. It was imprudent for the society to have continued paying for service not rendered.

10.14.2 **Recommendations**

The following is recommended:

- (1) The contract for the modernization and rehabilitation of the lifts should be finalized immediately.
- (2) The consultant overseeing the contract should produce a technical report on the performance of the project to the society.
- (3) The payment of Ksh.1,854,000 to M/s Kenya Lift Company for the supply and installation of six control cards should be investigated.

10.14.3 **Observations and Findings on Renovations to 15 Maisonettes and staff Quarters on Limuru Road**

- (1) Five firms were invited to tender for the above works and the lowest tenderer M/s Kamar Construction was awarded the tender at the sum of Kshs.7,927,387 which compares favourably with the consultants estimate of Kshs.7,750,960. The completion period was given as 12 weeks. The contractor took site in early January, 2001 and therefore the completion date should have been early April, 2001. However, due to a dispute between the society and tenants of six (6) of the houses, the contractor was denied access to the houses and therefore the works could not be completed on time.
- (2) It is noted that the contract sum has since been varied by Kshs.2,443,602.50 to a new running contract sum of Kshs.10,570,989.50 as at 4th October, 2001. The variation which represents 33% is considered significant and the additional works should have been retendered as per the procedure.
- (3) The contractor has to date been paid Kshs.9,707,296.70 leaving a balance payable of Kshs.863,493. That notwithstanding, the contractor has submitted a further claim of Kshs.2,614,893.20 vide his note ref:KC/HCP/AA-05 dated 30th November, 2001. This claim is arising as a result of the client keeping the contractor idle beyond the stipulated contract period. The claim covers the period from 4th April, 2001 to 16th November, 2001. The claim is estimated at Kshs.3.7 million as of February, 2002.

10.14.4 **Recommendations**

- (1) The contract should be terminated immediately to stop continued escalation of contractor's claim for doing nothing.
- (2) The works done should be assessed and the contractor be paid any monies due to him. The remaining works be retendered at

a later date once the court case involving the tenants and the society is determined.

- (3) The management should pursue urgent settlement of the case involving tenants.

10.14.5 **Observation and Findings on Partitioning of 3rd Floor Offices – Harambee Plaza**

M/s J.M. Muritu was awarded the contract for partitioning of 3rd floor offices at a contract sum of Kshs.9,101,000 after emerging the lowest among the six firms invited to tender for the works. The construction period was given as 14 weeks. The contractor took site on 15th January, 2001. The works were practically completed and handed over to the society on 3rd August, 2001. The final contract sum inclusive of consultancy fees was Kshs.14,454,178. The following observations are made regarding the project:

- (1) The project was poorly supervised with too many instructions to the consultant/contractor to vary the original scope of works. This resulted in variation of Kshs.3,578,104.85 on the contract sum.
- (2) Some works remain uncompleted as indicated below:-
 - Glass film to designated areas
 - 4 No electric door locks
 - Defects to alluminum doors
 - Completing the pigeon holes
 - Completing light fitting installations at the entrance lobby.
- (3) The current partitioning was undertaken to correct the inadequacies of the previous partitioning in areas of natural lighting, air circulation and personnel accommodation but these appear not to have been achieved.
- (4) A similar partitioning had been carried out on the same floor in October, 1998 at a cost of Kshs.1.5 million only

to be demolished 2 years later which was a waste of funds.

- (5) The expenditure on the partitioning of Kshs.14.4 million was not a priority and achieved little in enhancing efficiency.

10.14.6 **Recommendations**

- (1) The then CMC members should be surcharged to the tune of ten per cent of the value of the variation which was occasioned by their indecisiveness and poor supervision of the works.
- (2) The outstanding works should be completed immediately at no further cost to the society. The society should also file complaints against the firms which have not executed fully their obligations with their professional bodies they are affiliated to and the Cooperative Tribunal.

10.15.0 **Disposal of Assets**

The society has no procedures in place for disposal of assets.

The Inquiry Team recommends that a proper disposal policy and procedures be developed and incorporated as a chapter in the procurement manual.

10.16.0 **Legal Services**

In the year 2001 the society paid a total of Kshs,23,361,057.05 to various advocates for rendering legal services. Details of the payments made are as shown **at Appendix X.**

10.16.1 **Observations and Findings**

The Inquiry Team observed the following as regards legal services:-

- (1) The society had employed a Senior Legal Officer who should have handled some of the cases for which outside advocates

were engaged such as drawing simple purchase contracts and lease agreements. The management engaged the advocates without first seeking the opinion and advise of the Senior Legal Officer on how to proceed with each of the cases.

- (2) During the month of June, 2001 five different lawyers were paid a total of Kshs.10.9 million which includes payment to one lawyer of Kshs.7.5 million.
- (3) We note that there has been frequent transfer of cases between the various advocates engaged by the society at different times. The large turnover of advocates is costly to the society since it is made to pay double for the same service and in some cases with interest.
- (4) Some cases were disputes between members and the society which could have been inexpensively disposed of by referring them to the Cooperative Tribunal.
- (5) The expenditure on legal services has been escalating over the years as follows:

1999	Kshs.3,011,757
2000	Kshs.12,034,993
2001	Kshs.23,361,057

1 ½ months of 2002 Kshs.8,640,800

There is need to curb this expenditure.

10.17.0 **Recommendations**

The following is recommended:

- (1) The advice of the Senior Legal Officer must be sought for all legal matters.
- (2) The society should review all outstanding cases with a view of settling some of them out of court.

- (3) As much as is practical, the Cooperative Tribunal should be utilized to settle disputes as provided for in the Act. Members need to be educated to this effect.
- (4) The society should endeavour to engage the Service of at most 3 reputable law firms capable of handling all types of cases (criminal, conveyance, civil, etc.) which should be approved by the ADM, just like the Auditor.
- (5) The performance of the legal firms engaged should be reviewed periodically.

CHAPTER X1

LOANS ADMINISTRATION

11.0 Introduction

The Government of Kenya Policy Paper on "Renewed Growth through the Cooperative Movement" states that "Sacco societies" are established with the objective of enabling members with a common bond to save regularly together for the purpose of creating a pool of funds from which those members can obtain credit facilities on softer terms than would be available in the existing institutions." This, in substance implies that the granting of loans is the core business of SACCO societies.

In this connection, the Sessional Paper No.6 of 1997 on Cooperatives in a Liberalized Economic Environment gives one of the benefits of the SACCOS as "provision of credit to members for defraying urgent expenses such as school fees, funerals, hospital bills, at affordable costs."

11.1 Loans Policy and Procedures

By-Laws Nos. 64 and 65 create the credit sub-committee which is delegated the responsibility of administering the loan policy as stipulated in the respective by-laws. The Society offers three types of loans, namely;

- (i) Development Loans
- (ii) Emergency Loans
- (iii) School Fees

According to the policy, a member is entitled to any two loans at any given time as long as repayment allows. The interest charged is 1% per month on the reducing balance on all types of loans granted.

11.1.1 **Special Conditions on Loans**

(i) **Development**

It is granted to a maximum of three (3) times a member's contribution, recoverable within forty eight (48) months as at present.

(ii) **Emergency**

The loans in this category is granted to a ceiling of Kshs.20,000 repayable within a period of twelve (12) months. It is administered partially at the branch level, through branch floats and at the societies headquarters. All Nairobi loans are however received, processed and paid at the Sacco headquarters.

(iii) **School Fees**

The loan is granted upon production of fees structure and recoverable within 12 months.

11.1.2 **Other Special Lending Requirements.**

Apart from the above special conditions that apply to the respective loan types, there are standard lending procedures which apply to all loans as a matter of policy. The most important to mention for this purpose is the order of priority in the assessment and disbursement of loan applications. These are as follows:

- (i) Members who have never had loans
- (ii) New members who have qualified for loans
- (iii) Members who have cleared their first loans and have applied afresh.

In any case smaller loans should be considered first in case of shortage of funds. The principle of first-come first-served must, however, be observed in all circumstances.

11.2 Conditions on Share Boosting and Lumpsum Loan Repayments

The society imposes some conditions on share boosting and lumpsum loan repayments as follows:

- (i) Any boosting of shares by cash other than through the payroll attracts six (6) months waiting period before application of the same type of loan can be considered.
- (ii) Upon clearing a development (normal) loan balance by cash, a member must wait for three (3) months to qualify for another loan.
- (iii) The above condition (ii) may be waived when a member pays 15% penalty of the cleared balance.

11.3 Performance of Loan Account/Credit Facility

The Sacco has granted loans to members from 1999-2001 to a total of Kshs.6,155,612,940.00 as shown below:

Table:1 Annual Summary of Loans Approved for the years 1999-2001

	Dev. Loan		Branch Em.		Nairobi Cm		School Fees		Totals	
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
1999	18337	1,643,965,300	9994	1,798,6400	10484	103,780,300	4509	107,881,356	43,324	2,035,513,350
2000	1335	1,316,672,600	19345	293,849,300	13948	220,447,800	4797	137,145,300	51,441	1,968,215,000
2001	1259	1,310,208,100	18809	328,831,100	18621	357,927,500	3938	154,917,890	53,959	2,151,884,590
Total	44279	4,270,846,000	48148	802,566,800	43055	682,155,600	12,244	400,044,540	48,724	6,155,612,940

Source: Annual Summary of Loans Approved for period 1999 to 2001, (Loans Department, Harambee Sacco, Ltd.)

11.4 Loans Backlog

There is a six months loan backlog. As at March, 2002 there were 230 scheduled and 2590 unscheduled applications, all amounting to Kshs.296,678,620.

11.5 Written off Loans

In the year 2001 Harambee Sacco Society wrote off loans as shown below:-

Table: 2 Schedule of loans written off in 2001 by months

S.N	2001 Month	No of loanees	Amount Kshs.
1	January	33	1419157.00
2	February	50	2249733.00
3	March	50	1648419.50
4	April	54	2307227.00
5	May	49	2526107.00
6	June	44	1279681.00
7	July	45	1844436.00
8	August	41	1115839.00
9	September	48	2184923.00
10	October	32	1628905.00
11	November	66	2422987.00
12	December	18	574007.00
	Total	520	19,356,986.30

Source: Compiled from Schedules of loans written off in the year 2001, Harambee Sacco Society

11.6 Non Performing Loans

It is indicated by the society that it has suffered Kshs.513,183,058.90 in terms of non – performing loans from seventeen thousand six hundred eighty eight (17688) members as at the month of December, 2001. The society however, has not explained the causes of this non-performance since they are simply reflected as outstanding balances from respective ministries/departments.

11.7 Observations and Findings

- (1) The Inquiry Team noted that the society does not have a written loans policy document.
- (2) The society offers a ‘Refinance loan’ but this is not defined in the by-law. This facility is however not known to most members. There is also an indication that it is enjoyed exclusively by the Sacco employees who can afford to sustain it due to their comparatively high salaries. In the year, 2001 the society advanced Kshs.20,674,797 under this category.

- (3) There is overwhelming evidence that the Society does not follow the requirement that a member should not suffer total deductions in excess of 2/3 of gross earnings. Evidence from a large number of SACCO employees whose files were sampled reflect this anomaly.
- (4) The Inquiry Team noted through interviews with members that the Credit Committee does not strictly adhere to the first-come first-served rule in loan approval. This observation was also made by the Supervisory Committee in its report to the ADM in 2001.
- (5) The definition of non-performing loans is not clear to the Inquiry Team. The CMC suggested to the Team in a discussion held between the two on 13/3/2002 that the non-performing loans are the defaulted ones or those which they "are not able to distinguish, the position of the defaulters." This is an inadequate explanation for loss of Kshs.513,183,058.90 already cited above. There is therefore, a general weakness in loan recovery system in the society.
- (6) The Inquiry Team noted that casual treatment of loan application forms by the respective officers/sections in the loan approval process is widespread. In most instances the applicants' names are not given in full, witness particulars are missing, verifying personnel do not write their names and/or dates. Generally, a lot of spaces are not filled which may lead into tampering with the documents.
- (7) There is a prevailing view by the members that loan appeals are approved by the CMC discriminately and that there is no limit to the amount to be considered at any given time. This defeats standard lending procedures and principle of first-come first-served.
- (8) Both members and the management of the Society conceded that erroneous deductions do occur. The Inquiry Team attributed this to either the society or the Ministry's failure to effect appropriate check-off.

(9) The Inquiry Team noted that there are delays in effecting deductions which cause members to suffer penalties in terms of accrued interest. The causes of these delays are:

(i) payroll conditions imposed by the employers

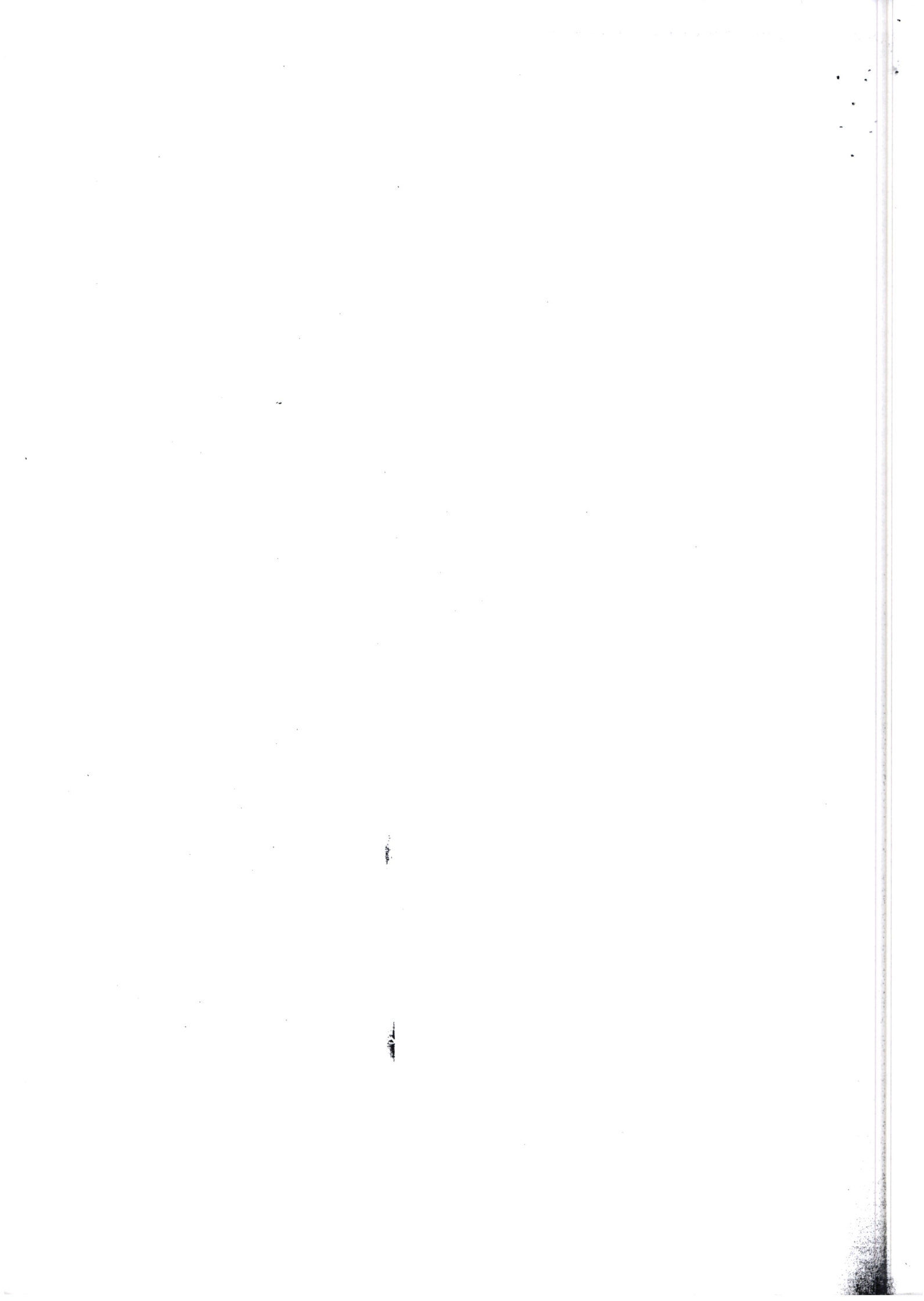
(ii) collusion of members with payroll personnel or SACCO Staff.

(10) The suspension of development loans in favour of school fees loans inconveniences members who have different priorities.

11.8 **Recommendations**

- (1) The society should formulate a comprehensive loan policy document.
- (2) The 'Refinancing' loan should be abolished.
- (3) A regular inspection of the SACCO employees payroll should be conducted by the Supervisory Committee in liaison with the Internal Audit to ascertain compliance with the two thirds (2/3) rule on gross earnings.
- (4) The society should strengthen its loan recovery system by:
 - (i) Improving records management
 - (ii) Designating a specific Officer to make follow-ups with Ministries.
- (5) The Internal Auditor should not allow payments to be effected in applications forms which are not fully filled and or altered on loan amounts.
- (6) Any Officer found negligent in handling forms should be disciplined.
- (7) There should be a fixed amount of money allocated to appeal cases each week.

- (8) The management should progressively set aside funds to cater for excessive loan demands due to school fees and in case of a shortfall seek loan facilities from KUSCCO Central Finance Programme.



CHAPTER XII

STAFF MANAGEMENT

12.0 Introduction

Management of the human resource is commonly regarded as entailing peculiar challenges. Unlike other resources that also contribute to indispensable performance, the human resource is "dynamic in nature. Motivation is indispensable in utilization of human resource but its presence in sufficient quantity and quality is not an automatic guarantee for desired output. Other factors also play an important role in achieving the desired output.

The scope of human resource management encompasses the activities of selection, recruitment, placement, motivation, development, discipline, and exit. All the activities are carried out within a policy framework that should be in harmony with labour laws, among other legal and humanitarian conventions.

12.1 Staff of Harambe SACCO

A staff headcount conducted by the Inquiry Team accounted for two hundred and fifty eight (258) staff at the Sacco. This fell short of the January, 2002 payroll total (262) by four. Going by the Career Progression Guidelines released in February, 1997, staff fall within any one of a total of thirteen cadres, in a thirteen – scale grading system ranging from HC1 (General Manager) to HC13 (Messenger).

12.2 Quality of Staff

Due to its consistency and prevalence, the Team applied the combination of K.C.S.E. Div.III/K.C.E (C-) to form an opinion on the general academic status of the Sacco employees and noted that academic standards (with exclusion of some odd cases) improves with grades. For instance, attainment of K.C.S.E Div.III/K.C.E(C-) rises from grade HCII to grade HC5 as follows:

Grade	HCII	HC10	HC9	HC8	HC7	HC6	HC5
No. of staff who scored above the cut-off point	22	14	25	17	10	8	9
Total No. of Staff	79	27	42	26	19	11	10
Percentage	27.8	57.8	59.5	65.3	52.6	72.7	90.

It is worthy noting that although the right level of staffing and quality of staff are important pre-conditions, motivation has considerable influence on output. Motivation arises from the satisfaction indicated in a job reinforced by interpersonal relations such as recognition and esprit de corps i.e team culture.

Realization of a team environment that promotes productivity hinges on Human Resource policies in place and how they are interpreted.

12.3 Observations on Staffing position and Work Environment (Conditions of Service)

The optimal level of Harambee Sacco staffing is yet to be objectively determined (the headcount total did not reconcile with figures presented by the departments and sections). Lack of a strong tradition in formulating, articulating, and interpreting policy makes professional management of Human resource in general elusive. The same reason may account for anomalies inherent in the provision of medical benefits, lack of staff projection and a coherent staff development plan, besides unprocedural practices which mar the functions of recruitment, placement, discipline, exit, etc. Typical (and selective) irregularities for given functions in the recent past are observed below:-

12.3.1 Recruitment of Staff

The Sacco's membership profile and countrywide operational status would demand a recruitment approach that is open, objective, (i.e. demand driven and merit based) and beyond public reproach. This has not been the case. Interviews and discussions conducted by the Inquiry Team reveal a long tradition of abuse in recruitment.

As has already been cited elsewhere in this report, the turnover at CMC level has been disturbingly high. It is usual for successive teams of the management committee to bring on board (or accelerate promotion of) "their" hand picked people to the detriment of some serving staff who have their services stagnated or terminated. One of the most memorable of such cases, detailed in the Inquiry Report of 2000 concerns the unprocedural recruitment and extension of exclusive loan and allowance benefits to a former General Manager. These top-level irregularities permeate the lower levels of the SACCO's staffing structure as well. For instance, some respondents informed the Inquiry Team that it was not a coincidence to have a key department of the SACCO staffed overwhelmingly by officers who hail from a particular region of the country.

The assertion was corroborated by the staff headcount conducted by the Inquiry Team which is indicative of an undue influence in the recruitment and deployment processes. Such practices create schisms, destroy *esprit-de-corps*, and undermine corporate stability.

The staff headcount also revealed that some handpicked staff are quite good, but others have low qualifications, making them doubtful material for further development.

The Human Resource Division Staff Regulations and Procedures Career Progression Guidelines outline procedures which if adhered to would introduce objectivity in the society's recruitment.

12.3.2 **Placement**

If done objectively, placement maximizes benefits from special qualifications, skills and aptitudes of staff, by matching these with appropriate organizational, supervisory, operational and customer service roles. It results in efficiency, job satisfaction, customer confidence and less stress for management.

The following concerns were raised by members (including delegates and CMC officials) with regard to placement in the Sacco.

- (i) It is not guided by professional and technical competence of staff
- (ii) It is not meritorious
- (iii) It is driven by patronization, nepotism and tribalism.
- (iv) It does not match job specifications with job descriptions but goes with the "attractiveness" of particular sections.

Several heads of departments conceded the existence of the cited improprieties and attributed them to interference (historical) by CMC members and delegates in the processes of recruitment and placement

An analysis of the situation by the team based on the data collected in a staff headcount exercise revealed that the inconsistencies do not constitute a pre-dominant pattern but are nonetheless significant due to their high visibility which tends to amplify their impact. Some odd situations revealed by the staff headcount exercise include:-

- (i) Individuals in accounts who lack the most basic accounting qualifications such as ACNC/KATC or CPAI.
- (ii) Twenty four individuals with high academic credentials that would merit higher placement than grade HC11.
- (iii) Three individuals in grade HC8 whose academic credentials are not commensurate with responsibilities at that level.

12.3.3 Discipline

The SACCO's policy on discipline is expressed in the Human Resource Division Staff Regulations and Procedures and is replicated in the Collective Bargaining Agreement. The documents have comprehensive scope, procedures are logically articulated, and the penalties are commensurate with related defaults, violations or misdemeanor. In fact, similar provisions apply quite effectively in the Civil Service as well as the SACCO Sub-Sector.

Information from some management staff suggested that discipline is at times difficult to enforce in an atmosphere where CMC members and delegates intervene and some cases are personalized or even tribalised. This situation seems to be improving as there are evidence presently

those who are alleged to have displayed serious misconduct now face disciplinary action.

12.3.4 **Exit**

Because of the strong emotional sentiments associated with exit, and its impact on the livelihoods of those involved and their dependants, it is highly regulated in law and is a major concern from a policy stand point.

Persistent cases of concern which are based on pursuit of narrowly defined interests in violation of exit policy, are highlighted below:

- (i) Some staff are harassed and forced out of employment in order to create room for CMC members' and delegates' handpicked candidates.
- (ii) Termination or non-renewal of contracts of management staff who do not fulfill irregular demands of influential CMC members or delegates.
- (iii) Termination of contracts of key heads of department when the godfathers who manipulated their appointment are voted out of the CMC or branch positions.

Some of the pressure faced by heads of departments include:

- (i) To employ staff regardless of the vacancy and the candidates qualification.
- (ii) To promote staff who lack merit.
- (iii) To place staff in "attractive" roles/functions.
- (iv) To "find" fault with staff who do not comply.
- (v) To train selected staff in preference to others.
- (vi) To permit irregular payments or fraudulent activities.

by all accounts, the threat of an unanticipated exit is used as a powerful weapon of blackmail. In such a scenario, those who cannot beat the system simply join it. It is commendable that in a Strategic Plan drawn in 2000, the Sacco has taken cognizance of the irregularities inherent in its approach to Human Resource Management and has accordingly improved on the respective areas.

12.3.5 Staff Development

A comprehensive staff development scheme would be concerned with the following:-

- (i) Enhancement of academic credentials
- (ii) Improving technical and professional skills
- (iii) Broadening people skills(interpersonal skills)
- (vi) Entrenching team skills; besides positive attitudes
- (v) Inculcation of change management skills

Strong academic credentials pre-determine the potential and suitability to undertake the above listed requirements.(i)-(v)

(a) The Saccos Staff Development Policy

Staff development policy is given a one page treatment in section 7 of the Human Resource Division Staff Regulations and Procedures (Revised January, 1999). The core policy statement emphasizes the benefits of staff development to both the organization and staff but does not mention benefit to the customer.

The Inquiry Team was informed that difficulties in the policy area are aggravated by lack of staff projection and absence of a Training Needs Analysis. The respondents also revealed that the Education and Staff Development Committee of the Sacco was in the process of formulating a coherent policy document. This is a positive step.

(b) Status of Staff Development

The main impediments cited include budgetary constraints and the low academic credentials of some of the staff. Going by the strong

views expressed by some members of staff, the Sacco's efforts in implementing staff development policy have not been impressive due to "favouritism" ie. some going for courses many times whereas others are overlooked, and use of training as a reward to the complete disregard of training needs and lack of a concrete programme.

(c) Challenges

Challenges to be overcome in entrenching a new staff development paradigm are:

- (i) Budgetary constraints.
- (ii) Syndrome whereby, for instance, staff are trained in customer care but little impact realised at operational level.
- (iii) The predicament of assuming that team skills can thrive where tribalism, nepotism, and patronization are the order of the day and where accountability for performance is absent or at best, erratic.
- (iv) Transforming the CMC into a champion of change.

In sum total, the irregularities cited in the areas of recruitment, discipline, etc, amount to "conditions of service" or a work environment that jeopardises morale and motivation. The outcome is apathy and refocusing of staff loyalty and allegiance away from their supervisors and managers to patrons in CMC or among the delegates.

12.4.6 Personnel Emoluments

Emoluments paid to the staff are observed to be attractive. It is not a sufficient condition to improve.

12.3.7 Collective Bargaining Agreement

The Inquiry Team got the impression that relations between the Sacco and the Banking, Insurance and Finance Union were so far amicably managed.

12.3.8 Medical Benefits

The Sacco's one year medical cover agreement with M/s Medi-Plus generated the following sentiments:-

- (I) Complaints by staff that the Medi-Plus contract is bogus due to numerous exclusion clauses that shift almost the entire medical burden back to the Sacco as if the contract did not exist.
- (II) Claims that some amount of coercion was applied to compel staff to sign contracts with Medi-Plus, amidst protests from the Union.
- (III) Payment of monthly staff medical allowance in parallel with the Medi-Plus arrangement is not adequately explained and raises further doubts about the whole benefits of the scheme.

The Medi-Plus arrangement is therefore a costly venture with little tangible benefits for staff. Perusal of the contract which contains the exclusion clauses revealed that very few other ailments besides malaria are covered by the contract which is not adequately explained and raises further doubts about the whole medical cover.

12.3.9 Findings on Staff Attributes and Work Environment

Human Resource Management in the Sacco lacks consistent application of professionalism. This is manifested in the underlisted conditions:-

- (i) Distribution of staff among the departments and sections is not well balanced. Some sections e.g. Finance are over manned, while others e.g. Procurement have deficiency.
- (ii) Some of the sections e.g. Administration have deficiencies at critical supervisory levels.
- (iii) Quality of staff is generally low given lack of motivation to obtain technical and professional qualifications.

- (vi) Deployment is not always in strict accordance with job specifications.
- (v) Meritocracy is not consistently applied in the functions of recruitment, placement, etc. Inappropriate role play (undue interference) by some delegates and CMC members being largely to blame. Although the **terms of service** for staff may be quite acceptable, the irregularities negate **conditions of service** thus lowering morale and motivation.
- (vi) Due to poor morale and motivation the output of the staff is associated with poor quality of service.
- (vii) The Sacco is well aware of problems that bedevil the human resource management functions and some viable solutions were presented in its Strategic Plan drawn in 2000.
- (viii) Lack of meritocracy and professionalism and other perennial weaknesses in the Sacco's human resource management is exploited by some of the delegates and CMC members in pursuit of personal interests. Restoration of a conducive environment is dependent on removal of this root cause.

12.4 **Recommendations**

In order to address irregularities in quantity and quality aspects of staff, and management of human resource work environment, the Inquiry Team recommends as follows:-

- (1) That the provisions of professionalism stipulated in by the Career Progression Guidelines and the Human Resource Division Staff Regulations and Procedures be adhered to.
- (2) That the Head of Human Resource Management be incorporated in the Education and Staff Development Committee as a Secretary/Adviser.
- (3) Staff of the Sacco be redeployed in line with their qualifications and competence to address the current disparities.

- (4) Staff in grade HC 6 and above, staff with commendable academic qualifications i.e above K.C.S.E (C-) K.C.E. Div. III be placed on the next higher grade. This however, should not affect staff who are in grade HC 6 and above.
- (5) Vacancies at supervisory level be filled from the labour market..
 - (6) A protocol of co-operation be drawn up with the Federation of Kenya Employers (FKE) as a means of lending consultancy support.
 - (7) Provision of medical benefits where outside firms are involved should be made transparent by allowing views from staff and conform to acceptable procurement practices.
 - (8) Feasible recommendations in the Strategic Plan which touch on staff be implemented.

12.5 **Personnel Emoluments Cost**

It cost the Sacco kshs1 40,160,575.40 to sustain the human resource element in the year 2001. This is about 37% of the total expenditure of Kshs.378,530,397.55 for the same period. Raising the absolute figure with exception of CBA arrangement is not advisable in view of poor performance, unsatisfactory output, and wastages arising from service agreements and moribund projects cited elsewhere in the report.

12.6 **Recommendation**

In view of the Sacco's current difficulties with staff performance, investment in loss making ventures, and costly service engagements, the Inquiry Team recommends that the Sacco should sustain expenditure on human resource at 37% of total recurrent expenditure for calendar years 2003 –2005.

CHAPTER XIII

MEMBER DEVELOPMENT

13.0 Introduction

In the Cooperative movement, a cooperator bears the triple identity of member, customer and owner. The three in one status is rationalized as follows:-

- Member** The role is attained by registration in a Sacco supported by monetary subscriptions and adherence to cooperative principles, stipulations of the Act, relevant rules and by-laws. Effective membership should also translate into improved socio economic status and loyal peerage with a keen involvement in Sacco events and other activities.
- Customer** A member is viewed as a customer by virtue of enjoying the range of services offered by the Sacco at a cost. In this regard, one should strive to uphold honesty in business dealings.
- Owner** Shares and deposits qualify a member to be an owner. Inevitably this entitles one to earn rebates and be liable to taxation. It also bestows the right to participate in decision making to guide the Saccos's development; and the obligation to support fellow "owners" quest for loans by staking shares/deposits as guarantee.

Members who play all the above roles to the full are a Sacco's most valuable resource. The primary aim of member development is therefore to empower them to play all the three roles effectively.

13.1 Recruitment

Lately, erratic performance by CMC/Delegates is fast eroding the basic reasons that made the Sacco recruit the membership strength that totalled 120,000 in the pre-retrenchment days. Given its failure to perform to members expectations, the three possibilities below may follow:

- (i) Difficulty in recruiting new members even from traditional preserves like Administration Police recruits.
- (ii) Migration of Kenya Police and Department of Defence members to existing SACCOs from their respective departments.
- (iii) Members reducing the rate of share contributions to the SACCO.

13.2 Member Education

Education is of paramount importance in the process of empowering Sacco members. It facilitates access and appreciation of information, change of attitudes and behaviour, improves personal status and outlook and promotes competency in playing appropriate roles. The liberalization in the movement removed Government controls and shifted its responsibility to members. Due to its importance, member education receives considerable emphasis in the movement.

13.3 Education for "Members"

Education needs for ordinary members revolve around the need to familiarize with the Act, rules, and by-laws relating to the SACCO. Programmes should have themes to articulate the following.

- (i) Grasp of roles of delegates, members CMC members, Supervisory Committee members, Co-operative Department.
- (ii) Appreciation of the member's role in policy and decision making.
- (iii) Familiarization with functions of the Cooperative Tribunal.
- (iv) Appreciation of the role of education in the movement to boost attendance of meetings.
- (v) The value of information about the movement and the SACCO.
- (vi) The justification for and impact of elections.
- (vii) The irrelevance of tribal groupings within a Sacco context.

It became apparent to the Inquiry Team that ignorance about their rights in relation to the above areas makes Harambee members vulnerable to exploitation. As such they are unable to fill the role the Government used to play before liberalization.

13.4 Education for Customers

The management and staff of Harambee SACCO may not shoulder full responsibility for some of the problems customers face. Examples of common areas of weaknesses are:

- (i) Deliberate defaulting on loans, to the detriment of guarantors and also the society.
- (ii) The mal-practice dampens the drive to save, discourages healthy affiliation and erodes owner's stakes.
- (iii) Failure to up-date nominees.
- (iv) Jumping the loans queue, resulting in backlogs.
- (v) Abetting corruption among delegates and SACCO staff.

13.5 Education for Delegates

Delegates play a crucial role in the decision making process in the Society and they require sufficient education in the following:

- (i) Simple budgeting
- (ii) The principle of democracy in a Sacco
- (iii) Mobilization and conduct of meetings
- (iv) Organization of Seminars
- (v) Simple records keeping and running a branch office
- (vi) Roles of delegates and CMC
- (vii) Indicators of a well managed Sacco including determination of dividends
- (viii) Time management.

13.6 Education for Supervisory Committee Members

It was noted that members of the incumbent committee have good backgrounds in finance. This tradition should be sustained. However, members of the committee need exposure to seminars on law of evidence, networking with other Saccos, financial institutions, person auditing and forensic auditing.

The last cited area deals with documentary forgery that may involve faking of signatures and falsification of records among others. Competence in this area may deter such tendencies which afflict the Sacco.

13.7 Education for CMC Members

The Central Management Committee is mandated to manage the affairs of the society. They are elected from among members who may not be conversant with Cooperative matters. They therefore require education in the following areas:

- (1) Conduct of meetings
- (2) Corporate management
- (3) Corporate ethics and values
- (4) Cooperative law and principles
- (5) Role of Cooperative movement
- (6) Negotiation skills

13.8 Non Educational Interventions

There are other interventions that may go a long way to develop SACCO members. These may include:

- (1) Branch centred contests to reward officials for the best run branches, the best informed members, etc.
- (2) Recognition of branches with the best record in attending Sacco related meetings.
- (2) Recognition of branches with best kept records.

- (3) Recognition of branches whose meetings are most regular and of both low and upper cadre personnel.
- (4) Recognition of branches with most constructive contribution to ADMS.
- (6) Enforcement of a code of ethics/conduct.
- (7) Facilitation of Sacco meetings and other functions by Area, District/Provincial Commissioners, and Base Commanders or Force Commandants.
- (8) Reward for the highest saving member in proportion to earnings.

13.9 Funding of Education Programmes

It is necessary to allocate more resources towards members' education. However, it has been observed that CMC members spend considerable amounts of money on local and overseas study tours with no resultant impact on their performance. Some of the funds should be channelled to support member/delegate education at branch level.

13.10 Observations and Findings

- (1) The society has provided the necessary socio-economic development to members. The members have been able to undertake major personal development through loans.
- (2) There are however, negative trends such as loan backlog, lack/negligible dividends, leadership turnover, etc which are discouraging members enrolment and retention.
- (3) Although the society has attempted to undertake members education and information by issuing periodicals, magazines and newsletters, conducted education tours in some provincial headquarters and utilized KUSCCO programmes, these are found inadequate as there is little impact on members.

- (vii) Officers of Department of Cooperative Development are not fully utilized in providing member education and information.
- (viii) The society does not apply non-educational interventions for purposes of enhancing member development.
- (ix) Although the budget provision for member education is adequate the expenditure is lop sided in favour of CMC officials.

13.11 Recommendations

- (1) The society should come up with a comprehensive education programme covering members, delegates and committee members.
- (2) The society should introduce non-education intervention programmes as provided in paragraph 13.8.
- (3) Officers from the Department of Cooperative Development should be fully utilized in designing and delivering education programmes.
- (4) The society should fairly distribute funds for education to adequately cater for both members and CMC officials education.
- (5) The society should market itself through provision of quality services.

CHAPTER XIV

COMPUTERIZATION

14.0 Introduction

The need for an Organization to computerize in the current information age cannot be over emphasized. Effective computerization may achieve the following with respect to operations:-

- a) Speed
- b) Efficiency
- c) Accuracy
- d) Security
- e) Improved Coordination

Due to the size of its membership, scope of its operation, onset of information technology era and the fact that other agencies interacting with Harambee had already computerized, it was necessary that the Sacco followed suit. As a result Harambee Sacco started computerizing its operations in 1993.

14.1 1st Phase of Computerization

In 1993 the society contracted M/s Cooperative Development Information Centre (CODIC) and M/s Kenya Business Machines (KBM) at a contract sum of Kshs.11.32 million to supply and install computer hardware, network and to develop computer application modules namely:-

- (a) Members Personal Account (MPA)
- (b) General Ledger
- (c) Payroll
- (d) Assets Management Register
- (e) Stock Control
- (f) Purchase Ledger

By the end of 1996 only two modules, that of the MPA and the MPA, were developed and operationalised. The rest of the modules mentioned above, though installed, were not operational. The failure of computer networking by KBM which would have enabled the members to access their respective working points was a failure to centralize its operations.

Phase II Computerization

In the second half of 1996 the society contracted M/s Information Systems Africa (ISA) to review the existing system and come up with recommendations. The firm recommended a total overhaul of the existing system by installation of new networks, purchase of a new computer hardware, restructuring of computer department and the development of new software. Subsequently, the firm (ISA) was awarded the contract to oversee implementation of its own recommendations.

To implement the above recommendations, a total of twenty consultants were engaged in this phase to provide various computer software and undertake maintenance at a total cost of KSh 112,488,124.

Phase III Conducting Computerization Audit

In view of the unsatisfactory performance and the colossal sums of money spent on the project, both the Inquiry Report of June 2000 and the Pricewaterhouse and Touche Management Report of October, 2000 recommended an Audit/Re-appraisal of the entire computerization project to address the following issues:-

- (i) Effectiveness of the system with regard to data capture, processing and dissemination.
- (ii) Reliability of the current software in managing the Sacco's transactions.
- (iii) Effectiveness of the current software in fulfilling the society's accounting requirements.

In September, 2001 the society contracted M/s Softwise (K) Ltd. to carry out the Computer Audit at a fee of Kshs.2,450,000. The firm presented its report in November 2001 in which the following were recommended:

- (a) Additional equipment acquisition.
- (b) Network extension.
- (c) GCS data acquisition.
- (d) Data cleaning.
- (e) Financial and Revenue systems implementation.
- (f) Restructuring MTS.
- (g) User training.

The report was approved by the management and the firm was further contracted to render project management services for implementation of the above recommendations. The contract was signed in February, 2002 to run for a period of six (6) months at a fee of Kshs.4 million of which Kshs.2.5 million has already been paid. The estimated cost of implementing this phase is Kshs.47 million.

The project has already cost the society Kshs.160 million. The society is in the process of spending a further Kshs.44.5 million making, a total expenditure on the computerization of Kshs.204.5 million.

14.4 Observations and Findings

The following are the observations and findings of the Inquiry Team as regards the Computerization project.

- (i) There was no feasibility study carried out prior to inception of the project.
- (ii) The project has taken too long to finalize despite the colossal expenditure of Kshs.160 million.
- (iii) Too many consulting firms were unnecessarily engaged causing confusion and delays.
- (vi) The technical competence of both the consulted firms and the Sacco were suspect.
- (iv) The society disregarded dealing with reputable firms and instead engaged the unreliable brief case dealers eg. M/s Micro Mainframe who have since closed. As a result, the

society has been denied warranty and after sales services and had therefore, to contract for the services at additional cost..

- (vi) There was no competitive bidding for the various goods and services required under the project and therefore the society did not get value for its money.
- (vii) Heads of Departments whose operations were to be computerized were not effectively involved resulting to apathy.
- (viii) The programmes were not tailor made to meet user requirements.
- (ix) The consultancies engaged do not seem to have worked closely with the users to ensure that the modules installed were working satisfactorily and to expectation.
- (x) The ongoing data cleaning process is moving at a slow pace.
- (xi) The Computer network and hardware recommended to be purchased in 2nd Phase were supplied and installed. However, the software module and only fully operational in registry, loan and payroll.
- (xii) The expenditure of phase three has not been budgeted for or approved by ADM.

14.5 Recommendations

The following are recommended:

- (a) The Sacco staff should formulate a comprehensive Computerization policy which should be consistent with its Strategic Plan
- (b) The contractors who were engaged on this project should be made to fulfil their contractual obligations with no further costs to the society or refund the society for payments made for which services have not been rendered as required.
- (c) The Sacco should constitute a Computerization Implementation Team comprising of all Heads of Departments
- (d) The on going data cleaning exercise should be expedited.
- (e) The runaway costs being incurred on the project should be tamed by doing away with the unnecessary consultancies.
- (f) No further expenditure on Computerization should be incurred without ADM approval.

CHAPTER XV

GENERAL RECOMMENDATIONS

The Inquiry Team made the following general recommendations:

15.0. **Creation of Additional Election Procedures**

To strengthen accountability, responsible representation and enhance democratic principle in the Sacco, the Inquiry Team recommends the following additional election procedures.

(a) **At Branch level**

- (i) The Central Management Committee will issue a two month notice for branch elections.
- (ii) All interested candidates for branch seats will file their applications with the General Manager of the Society within one month before the elections.
- (iii) Those eligible to stand for branch elections are:
 - Be of "O" level education.
 - Be in Job Group 'E' and above.
 - Must have Kshs.50,000/ = shares and above.
 - Must be cleared to stand for branch seats by the Branch Patron defined later in this report.
 - Fulfill other conditions given under the relevant by-law.

(b) **At Central Management Committee**

- (i) Those vying for C.M.C. seats must be cleared by their respective Accounting Officers/Chief Executives before filing their interest with the General Manager of Harambee Sacco.
- (ii) List of candidates to be circulated to all branches together with the other agenda items with the notice for the Annual Delegates meeting.
- (iii) The five stake-holders will present double the number of candidates for the seats reserved out of which the Annual Delegates Meeting will elect respective Committee members.

- The remaining three (3) seats in the Central Management Committee will be contested by the other stakeholders.
- (iv) Other requirements under the by-laws will apply.

15.1. Implementation of the Recommendations

The Inquiry Team observes that implementation of the previous Inquiry recommendations is poor. In this regard, it recommends that members of this Inquiry Team be mandated to make follow-up on the implementation, of which should not take more than three years.

15.2 Security of Tenure for the General Manager, Financial Controller, Chief Internal Auditor and Procurement Manager

The Inquiry Team observes that the above positions are key to the stability and success of the Sacco. It also observes that the turn-over of the officers in these positions has been high, creating loopholes for malpractices. To restore stability in the Sacco and revamp its performance security of tenure for these positions should be introduced and incorporated in their terms and condition of service.

15.3 Establishment of the National Patrons Council

The Inquiry Team recommends establishment of a National Patrons Council which will comprise the major stakeholders as follows:

- (i) Permanent Secretary, Provincial Administration.
- (ii) Chief of the General Staff, Department of Defence.
- (iii) Commissioner of Police.
- (iv) Commandant, Administration Police.
- (v) Director, National Youth Service.
- (vi) Commissioner of Cooperative Development.
- (vii) Directorate of Personnel Management.

The role of the National Patrons Council will be.

- (a) Advisory.
- (b) Facilitation of Sacco activities.
- (c) Ensure smooth conduct of activities such as elections.
- (d) Ensure members interest are protected.

- (e) Enhance mutual understanding between the society and employers.
- (f) Provide an avenue for conflict resolution.

15.4 Strengthening of the Supervisory Committee

The Inquiry Team has observed elsewhere in this report that the Supervisory Committee lacks the clout, although it is the society's watch dog as provided in the by-laws. To enable it perform its role effectively the Inquiry Team recommends its strengthening as follows:

- (1) Should be empowered to stop any questionable payments, tenders or contracts reported by the Internal Audit.
- (2) It should have the power to investigate or cause investigations to be carried out on questionable transactions by competent authority.
- (3) Should prepare and avail quarterly reports to the CMC and major stakeholders specified elsewhere in this report.

15.5 Strengthening of Internal Audit

The Inquiry Team observed that there was lack of adherence to internal financial controls. In this regard, it recommends strengthening of the Internal Audit through the following:

- (1) All payments must be approved by the Chief Internal Auditor before they are effected and stop all questionable payments, tenders or contracts.
- (2) Functionally, the Internal Audit should report to the Supervisory Committee but administratively it reports to the General Manager.
- (3) The Internal Audit should report to the Supervisory Committee any questionable transaction for appropriate action.

The Inquiry Team observed that procurement section of the society was poorly staffed. In view of the importance of this Office it recommends as follows:

- (i) Procurement Manager and qualified staff should be recruited.
- (ii) The Procurement Regulations issued by the Director of Public Procurement should be adhered to by the society.
- (iii) The Sacco Procurement Manual should be updated to include the provisions of the procurement document issued by the Director of Procurement.

15.7 Management of the Sacco

The Inquiry Team observes that the Sacco has suffered mismanagement over the years despite successive changes of the Central Management Committee and Supervisory Committee. The Inquiry Team further observes that stability in the Sacco is of paramount importance. Continued cyclical replacement of the CMC, Supervisory members and top Management staff will be disruptive and therefore undesirable. It is high time that all members of the society concentrate on improving the systems that have been recommended to be put in place.

CHAPTER XVI

CONCLUSION

The Inquiry Team has examined in detail the management and structural aspects of the Society as spelt out in its terms of reference. A close review of the terms of reference indicate that the exercise revolved around four broad but interrelated areas. These are financial conditions, representational structures, legal and policy framework and operational systems. In this connection, effort has been made to establish the main causes of the persistent problems in the Harambee Sacco Society and to propose measures that can bring about improvement.

In the course of the inquiry the team observed incidences of high level negligence, self interest, partisan behaviour, role confusion, wrong priority setting, extravagance, misappropriation and incompetence among others. These shortcomings are due to either absence of or loose internal systems and structures which are vulnerable to abuse and can therefore easily impede development, growth and performance of the society.

It is however noted that despite the above weaknesses the society has in the past recorded rapid and steady growth in membership, the improvement in members socio-economic well being in terms of provision of credit, mutual support and the attainment of large deposits and investments in both liquid and fixed assets.

In order to strengthen the structures and systems the inquiry team arrived at recommendations that may necessitate drastic and immediate remedial measures and others of medium and long term implementation. The overall goal is to create checks and balances and to instill discipline that will restore confidence in the organization.

The short and medium term remedial measures proposed include: Development of financial management procedures, tracing unknown bank debits, strengthening loan recovery, retiring of the overdraft, improving returns on members investments, intensifying member recruitment and development, adherence to government procurement procedures, full implementation of computerization, amending the by-laws, developing election procedures, designing organization structure, incorporation of the

main five stakeholders in the CMC, establishing a National Patrons Council, delineating roles between the CMC and the Management and creating security of tenure for the respective offices. The long term issues should focus on the sale of assets and separation of Harambee Plaza Management.

A strict adherence to the recommendations will enable the society to enjoy stability, efficiency, equity, fairness, protection of members funds and sustainability as the most desirable objectives. These, in the long run will turn members doubts into abundant hope.

Appendix I

Proposed Branches to be Rationalized

1. Nairobi Area

- (1) DOD Civilian to join DOD Headquarters but have a representative.
- (2) Directorate of Industrial Training to join Ministry of Labour but have a representative.
- (3) Information and Broadcasting to join Ministry of Information, Tourism and Trade but have a representative.
- (4) Labour Industrial Area to join Ministry of Labour.
- (5) MTB Dara Yard to join National Youth Service but have a representative.
- (6) National Social Security Fund to join Ministry of Labour with one representative.
- (7) Planning and Development to join Ministry of Finance and Planning.
- (8) Research and Technical Training to join Ministry of Education.
- (9) Supplies Branch to join Roads & Public Works but have a representative.
- (10) Ministry of Water to join Ministry of Environment & Natural Resources.

2. Central Province

P. C. Central Branch to join D . C. Nyeri Branch but have a representative.

3. Coast Province

- (1) DDI Matuga to join D .C.Kwale Branch but have a representative.
- (2) GTI Mombasa to join D.C. Mombasa but have a representative.
- (3) Mombasa North to join D.C. Mombasa but have a representative.
- (4) Mombasa PC to join D.C. Mombasa but have a representative.

4. **North Eastern Province**

- (1) North Eastern PC Branch to join Garissa DC but have a representative.
- (2) Create a Branch at Elwak.
- (3) Create a Branch at Modogashe.

5. **Eastern Province**

- (1) Archers Post to join Isiolo DC Branch but have a representative.
- (2) Eastern PC branch to join Embu DC Branch but have a representative.
- (3) Eastern PPO branch to join Embu DC but have a representative.

6. **Nyanza Province**

Nyanza PC branch to join Kisumu DC Branch but have a representative.

7. **Rift Valley Province**

- (1) Rift Valley PC branch to join Nakuru DC Branch but have a representative.
- (2) Create a Branch at Kibish
- (3) Create a Branch at Lokichogio

8. **Western Province**

Western PC branch to join Kakamega DC Branch have a representative.

Additional delegates recommended for large branches -

Nairobi

- (1) Kahawa Gariison - Additional 2 representatives
- (2) Embakasi Gariison - Additional 2 representatives
- (3) Moi Air base - Additional 2 representatives
- (4) APTC - Additional 1 representative

Coast

- (5) Kenya Navy - Additional 2 representatives

Eastern

- (6) Isiolo Garrison - Additional 2 representatives

Rift Valley

- (7) Lanet - Additional 2 representatives
- (8) 4th Brigade Gilgil - Additional 1 representative
- (9) Laikipia Air Base - Additional 1 representative

Total Additional 16 representatives

Appendix (ii)

Proposed Number of Branches and delegates

Province	Branches					Delegates		
	Existing Provision	To be abolished	New	Proposed Total	Variation	Existing Provision	Proposed Total	Variation
Nairobi	54	10	-	44	(10)	162	145	(17)
Central	10	1	-	9	(1)	30	28	(2)
Coast	17	4	-	13	(4)	51	45	(6)
North Eastern	6	1	2	7	1	18	22	7
Eastern	19	3	-	16	(3)	57	53	(4)
Nyanza	13	1	-	12	(1)	39	37	(2)
Rift Valley	31	1	2	32	1	93	102	9
Western	9	1	-	8	(1)	27	25	(2)
Total	159	22	4	141	(20)	474	455	(19)

No.

Other than for North Eastern and Rift Valley the number of branches and delegates for the rest of the provinces have reduced.

HARAMBEE SACCO SOCIETY LTD.

FRONT OFFICE SERVICES ACTIVITY (FOSA)

ANALYSIS OF EXPENDITURE IN RESPECT TO FOSA OPERATIONS

DATE:

15/02/2002

DATE	ITEM	FIRM PAID	CHEQUE NO.	AMOUNT	TOTALS
6/6/2000	Consultancy Fees	Rex Consultants Kenya Tech.	074485	138,000.00	
6/6/2000	Consultancy Fees	Consultants Mak Consultants	074485	147,347.00	
6/6/2000	Consultancy Fees	Plerice International	074483	495,810.00	
5/11/2000	Construction Work	Dinesh Construction	074482	454,075.00	935,232.00
2/3/2000	Construction Work	Dinesh Construction	091701	2,033,100.00	4,906,800.00
2/6/2001	Construction Work	Dinesh Construction	105941	1,664,100.00	
3/11/2001	Launch Expenses 10,000 brochures Launch-	Dinesh Construction	119892	1,209,600.00	318,800.00
3/11/2001	Photography	Mepto T&M Enterprises Mepto T&M Enterprises	135185 135185	61,900.00 256,900.00	27,000.00
		Photo Savoy	135186	27,000.00	419,338.40

3/11/2001	Radio Alarm Security Services Sep-Oct. Radio alarm rent – Oct.	Wells Fargo Ltd. Wells Fargo Ltd. Wells Fargo Ltd.	135187 135187 135187	361,605.00 45,343.40	22,066.00 216,700.00 126,000.00
3/11/2001	Rubber Stamps Furniture Stationery Rajwa building Contractors	Arrow Rubber Stamp Co. Designwear Ltd. Servicescope Systems Cash Box		12,390.00 22,066.00 216,700.00 126,000.00 16,050.00	16,050.00
5/10/2001	Computer 18% VAT on H/W&Ware	Computer Feeds Consultants	132649	2,431,829.10	
4/10/2001	Computer 75% Payment for H/W&S/W Operating Cash Float	Computer Feeds Consultants	132497	13,510,162.50	15,941,991.60
				Sub Total	22,929,978.00
				Grand Total	38,504,138.80

APPENDIX IV**SUMMARY OF ESTIMATED FOSA ESTABLISHMENT COSTS
(FEASIBILITY STUDY)**

<u>Cost Description</u>	<u>Notes</u>	<u>Amount Kshs.Million</u>
Premises Renovations (appendix 1)		5.50
Furniture & Equipments (appendix 2)		1.32
Computer Network (Appendix 3)	1	4.14
Staff Recruitment	2	0.05
Consultancy	3	0.80
Others (Contingencies)		<u>0.10</u>
Total		<u>11.91</u>
Add: 20% inflation factor		2.38
Total		<u>14.29</u>

AMOUNT OWED TO MINI FOSA AS AT 13/3/2002			
C.M.C.			
1	Dishon Gogo	13/3/2001	385,000.00
2	Fredrick Barasa	15/9/2001	20,000.00
			405,000.00
BRANCH OFFICIALS			
1	George Onyango	6/6/2001	15,000.00
2	Mr. Ungai	11/10/2001	10,000.00
3	Mr. N. Ondimu	20/7/2001	5,000.00
4	Mr. N. Ondimu	11/10/2001	10,000.00
5	Mr. Kimanzi	11/10/2001	10,000.00
6	Wafula Lukorito	14/8/2001	10,000.00
7	Daniel Kinampe	12/9/2001	4,000.00
8	Stanley Marete	9/3/2001	10,000.00
			74,000.00
STAFF MEMBERS			
	NAME	DATE	AMOUNT
1	Nelson Kyalo	26/6/2001	20,000.00
2	Z. Ngaira	6/4/2001	37,104.00
3	Tony Matuku	7/9/2001	2,100.00
4	Simeon Ajigo	24/8/2001	20,000.00
5	Peter Wekesa	17/8/2001	11,000.00
6	Peter Njeremani	9/4/2001	30,000.00
7	Paul Onyango	9/4/2001	3,500.00
8	Patrick Wambugu	13/9/2001	2,000.00
9	Pamela Gatakaa	10/9/2001	1,000.00
10	Mary Achieng	14/9/2001	5,000.00
11	Lilian Mwaluma	23/1/2001	2,000.00
12	Leonard Ogolla	14/9/2001	4,000.00
13	Jessica Mwalukumbi	24/1/2000	20,000.00
14	Francis Ongoma	15/2/2001	4,000.00
15	Ezekiel Ojuok	3/4/2001	10,000.00
16	Emma Awour	2/5/2001	17,000.00
17	Dorothy Nyaminde	3/5/2001	3,000.00
18	Dominic Wakaba	15/8/2001	3,000.00
19	David Wanjala	18/9/2001	1,000.00
20	Alex Ngere	30/3/2001	3,000.00
21	Nelson Chege	27/7/2001	2,000.00
			200,704.00

PRICE COMPARISON OF TENDERED ITEMS

<u>ITEM</u>	<u>QTY</u>	<u>PRICE AWARDED</u>	<u>LOWEST QUOTE</u>	<u>MARKET PRICE</u>
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CARE PRODUCTS

Sweeping brooms large	60	180/=	84/=	68/=
Large map Heads	80	185/=	85/=	90/=
Tissue papers	300 bales	720/=	450/=	550/=

PRINTING OF FORMS

File folders	1500	20/95	9/50/=	18/=
Membership forms A4 size	30 reams	666/=	60/=	350/=
Payment voucher books	500 reams	380/=	60/=	250/=
Envelopes 4.3x8.7 white	10,000	2.00/=	1.30/=	.80/=

OFFICE STATIONERY

Paper clips	130	12/=	9.60/=	10/=
Box files Globe 827	180	180/=	95/=	135/=
Paper pins 50 grams	150	30/=	11.90/=	18/=
Cellotape	14	380/=	12.95/=	18/=
Stamp pad ink	40 bottles	212/40	68/=	120/=
Stamp pad	12	175/=	50/=	100/=

Photocopying papers	3000 reams	495/=	320/=	255/=
Computer stations 11x9.5	250 boxes	3304/=	1070/=	1060/=
3 part NC122 colour	100 "	3373/=	1750/=	2400/=
Genicom 449xT	50 ribbons	6500/=	1400/=	1400/=
Maintenance and fillings				
Florescent tubes 2ft	100	45/=	104/=	120/=
" ft	400	175/=	117/=	150/=
Electric starters	400	45/=	23/=	25/=
Town socket outlet	100	592/=	276/=	350/=

PRINTING OF BROCHURES

Brochures	1000	45/=	20/25/=	51/=
Magazines	3500	85/=		51/=

REPAIR AND MAINTENANCE OF THE BUILDING

Servicing of Generator	1	130,000/=	3,800/=	
Servicing of sump pump	3	108,500/=	3,800/=	

APPENDIX VII

TENDERS FOR MAINTENANCE AND REPAIR SERVICES

ITEM DESCRIPTION	QUANTITY REQUIRED	NAME OF COMPANY	UNIT PRICE	TOTAL PRICE	REMARKS	
Electrical Services	Yearly	Tememark Diesel & Electrical Service	-	-	-	
		Climate Engineering Works Ltd.	-	-	-	
		Kamar Construction	-	-	-	-
		Samalaki Enterprises	-	-	-	-
		Mbemo Building Works	-	-	-	-
		Don Exim General Agencies	4,000.00	4,000.00	4,000.00	
		Skyman Enterprises	110,000.00	110,000.00	110,000.00	
		Rangore Construction Co. Ltd.	180,000.00	180,000.00	180,000.00	
		Rajwa Building Contractors	1,188,000.00	1,188,000.00	1,188,000.00	
		Kiba Holdings Ltd.	1,500,000.00	1,500,000.00	1,500,000.00	
Dinesh Construction Ltd.	5,000,000.00	5,000,000.00	5,000,000.00			
Plumbing System of the Building	Yearly	Timemark Diesel & Electrical Services	-	-	-	
		Climate Engineering Works Ltd.	-	-	-	
		Kamar Construction	-	-	-	
		Samalaki Enterprises	-	-	-	
		Mbemo Building Works	-	-	-	
		Don Exim General Agencies	-	-	-	
		Rangore Construction Co. Ltd.	150,000.00	150,000.00	1150,000.00	
		Kiba Holdings Ltd.	950,000.00	950,000.00	950,000.00	
		Rajwa Building Contractors	1,465,000.00	1,465,000.00	1,465,000.00	
		Skyman Enterprises	10,000,000.00	10,000,000.00	10,000,000.00	
Dinesh Construction Ltd.	-	-	-			
General Building Works	Yearly	Timemark Diesel & Electrical Services	-	-	-	
		Climate Engineering Works Ltd	-	-	-	

Kamar Construction	6,000.00
Samalaki Enterprise	200,000.00
Mbemo Building Works	2,880,298.00
Don Exim General Agencies	3,199,460.00
Rangore Construction Co. Ltd.	5,830,000.00
Skyman Enterprises	20,000,000.00
Rajwa Building Contractors	
Kiba Holdings Ltd.	
Dinesh Construction Ltd.	

ELECTRICAL PLUMBING AND GENERAL BUILDING WORKS

Harambee Plaza since its construction no major repairs have been carried out. It was only last year when the Management decided to have a maintenance contractor.

The details of the repair works undertaken are as follows:-

Electrical:

- Installation of meters (separate metering system).
- Installation of fuse switches.
- Repair of Bus Bars Replacement of light fittings.
- Maintenance of the min. L.V. Switchboard.
- Repair of 20 consumer units to balance power supply to the two wings

Plumbing and Drainage

- Replacement of broken or missing items by stronger ones of better quality able to withstand rough handling.
- Service of malfunctioning items
- Rectification of leaks and their courses

The estimated cost is:

(a) Electrical Services	Kshs.7,000,000.00
(b) Plumbing and drainage	Kshs.1,700,000.00
Total estimated cost	<u>Kshs.8,700,000.00</u>

Work Done

Electrical The contractor does maintenance only and where materials are required, the Society provides. Therefore the work done is as follow:-

- Separation of meters
- Installation of fuse switches
- Repair of Bus-bars in the rising ducts
- Replaced lighting fittings in the basements and in offices

December, 2001 is Kshs.594,000/=

Plumbing Works

- Replaced most of the missing items
- Replaced most of the leaks
- Serviced most of the malfunctioning items

The amount paid to date for maintenance as from 1st July, 2001 to 31st December, 2001 is Kshs.732,500/=.

General Building Works

- This involves masonry, carpentry and Glazing
- Repair of doors, windows, floors, walls have so far been partly done due to lack of materials involved.

The amount paid is Kshs.2,599,730/= (ie from 1st July, 2001 to 31st December, 2001).

Summary of Payments

Electrical	Kshs.594,000.00
Plumbing	732,500.00
General Building Works	<u>2,599,730.00</u>
Sub Total	<u>Kshs.3,926,230.00</u>

The total amount paid is	Kshs.6,875,527.35 (labour and materials)
Less sub total above	3,926,230.00 (materials)
Total for materials	<u>Kshs.2,949,297.35</u>

Note:

- Materials were not included in the contract and therefore are treated as a separate item.
- We follow the tender as awarded by the Tender Committee when making payments.
- Material were being authorized by the management before delivery
- Part of materials delivered are on the copy of list attached.

ANALYSIS OF PETTY CASH EXPENDITURE**APPENDIX IX**

NO.	ITEMS	JULY 2001	AUGUST 2001	SEPTEMBER 2001	OCTOBER 2001	NOVEMBER 2001	DECEMBER 2001	AVERAGE (Per Month)
1.	Refreshment							
	(a) General Manager's Office	49,114.00	38,782.00	44,112.00	24,461.00	31,140.00	29,980.00	36,265
	(b) Staff Welfare Tea	95,048.00	69,894.00	73,982.00	71,488.00	104,227.00	82,996.00	82,939
2.	Taxi Services	6,285.00	6,800.00	26,300.00	3,300.00	75,100.00	52,400.00	28,364
3.	Transport	1,850.00	3,700.00	4,090.00	1,400.00	4,350.00	3,250.00	3,107
4.	Stationery	49,320.00	33,555.00	12,958.00	11,430.00	18,293.00	11,559.00	22,853
5.	Allowance				7,000.00	2,000.00	9,400.00	3,066
6.	Telephone Repair	19,521.00	6,000.00			36,800.00	8,000.00	11,720
7.	Miscellaneous							
	(a) CMC Lunches	13,585.00	7,835.00	3,234.00	9,390.00	5,049.00		6,515
	(b) Staff Lunches	8,165.00	9,215.00	22,553.00	2,470.00	7,890.00	13,442.00	10,622
	(c) Hall Hiring	5,000.00		3,500.00				1,416
	(d) Car Wash	6,700.00	5,100.00	5,200.00	4,200.00	9,200.00	7,300.00	6,983
		254,588.00	180,881.00	195,929.00	135,139.00	294,049.00	218,327.00	213,850

HARAMBEE CO-OPERATIVE HOUSE: SUPPLIED MATERIALS

QTS	SIZE	DESCRIPTION	@	AMOUNT	AREAS RENDERED
4	1/2"	Flexible Tuesday	225/=	900/=	
10	1/2"	G.I. Hex Nipples	100/=	1000/=	
10	1/2"	G.I. Evoows	100/=	1000/=	
1	1/2"	Stop-clock	3825/=	3825/=	
2	Nos.	Sola Wash Basin	15625/=	31250/=	
1	No.	3 Lever Union Mortice Lock	1785/=	1785/=	
6	Nos.	3" Jubilee Clips	200/=	1200/=	
1	No.	Floor Bend	2750/=	2750/=	
20	Pcs.	Rubber Cores	100/=	2000/=	
1	Pc.	P.V.C. Greetings	1150/=	1150/=	
1	Pc.	Hop Cork	3825/=	3825/=	
3	1 1/4"	Bottle Traps	977/50	2932/50	
2	1/2"	Flex tubes	225/=	450/=	
12	Pcs.	4" Hinges	500/=	400/=	
1	Pc.	Silicon	1275/=	12500/=	
3	Nos.	Pedestal Lock	35700/=	2932/=	
1	No.	WC. "P" Trap-Twyfords	3825/=	35700/=	
5	No.	Stop corks	100/=	19125/=	
15	Pcs.	G.I. Nipples	100/=	1500/=	
10	Pcs.	G.I. Elbows	1000/		
12	1/2"	Flex tubes	225/=	450/=	
5	1 1/2"	Pcs. Clips	80/=	00/=	
5	Nos.	Seat & Covers M/G	2500/=	12500/=	
3	1 1/4"	Bottle Traps	977/50	2932/50	
1	Pr.	Jet seat cover brackets	375/=	375/=	
12	4"	Pcs. Jubilee Clips	200/=	2400/=	
10	Pcs.	Fourescent starter holders	300/=	3000/=	
1	Pc.	13A top plug	175/=	175/=	
1	Pc.	30A Porceline connectors	325/=	325/=	
1	6"	Pc Grating	1000/=	1000/=	
4	6"	Pcs Gratings	1000/=	4000/=	
1		Pc syphone to WC suite 4 th floor	2000/=	2000/=	

Sub-total

Kshs. 146,155/=

ELECTRICAL GOODS: FLOORS 2,3,4.5.6.7.8.9.10 FLOORS

NOS.	SIZE	DESCRIPTIONS	RATE	SHS.	CTS.	NARRATION
50	Pcs.	5ft checks	600/=		30,000.00	
10	Pcs.	4ft fittings complete	2000/=		20,000.00	
15	Pcs.	2ft fittings complete	1500/=		22,500.00	
10	Pcs.	Spur switches	1300/=		13,000.00	
10	Pcs.	1 Gang 1 way switch	180/=		1,800.00	
10	Pcs.	2 Gang 2 way switch	350/=		3,500.00	

10	Pcs.	Single sockets 13 Amps socket-outlet	320/=	3,200.00
50	Pcs.	Pull switches for offices	600/=	30,00.00
20	Pcs.	Blunking plates	200/=	4,000.00

Sub-total 28,000.00

CARPENTRY

25	Nos.	Slipping window locks/luches	2100/=	52,500.00
30	Nos.	Vacant Toilet door locks	1660/=	49,800.00
20	Pcs.	Slidding window bearing wheels	800/=	16,000.00
6	Pcs.	Slidding window locaks 7 th floor	1500/=	9,000.00
2	Pkts	2½ screws:	200/=	400.00
1	pkt.	½ Litre Oil	250/=	250.00
1	pkt.	Adjusting window screws	600/=	600.00
1	pkt.	½" screws	200/=	200.00
1	Pkt.	1" screws	200/=	200.00
1	pkt.	1" Self-Tapping Screws	750/=	750.00
1	pkt.	½ " " "	750/=	750.00

Sub-Total 130,450.00

APPENDIX X

PAYMENTS TOWARDS LEGAL SERVICES FOR THE PERIOD 01-01-2001 TO 31-12-2001					
MONTH	PAYEE	DATE	CHEQ.NO.	CREDITORS	TOTAL
January	V.A. Nyamodi & Co.	24/01/2001	101091	175,525.00	175,525.00
February	Wachakana & Co.	14/02/2001	104222	1,704,750.00	1,704,750.00
March	Kandie Kintai	14/03/2001	107461	1,904,212.60	1,904,212.60
April	Wachakana & Co.	11/4/2001	110858	385,000.00	385,000.00
April	V.A. Nyamodi	11/4/2001	110860	62,000.00	62,000.00
May	-			-	-
June	Wachakana & Co.	22/06/2001	119893	586,000.00	586,000.00
June	V.A. Nyamodi Co.	27/06/2001	120446	1,008,000.00	1,008,000.00
June	Amolo Gachoka	27/06/2001	120447	7,580,000.00	7,580,000.00
June	Kiplagat & Co.	26/06/2001	120172	81,978.65	81,978.65
June	Kinyua Koech & Co.	8/6/2001	117589	2,700,644.00	2,700,644.00
July	V.A. Nyamodi & Co.	13/07/2001	122115	63,000.00	63,000.00
July	V.A. Nyamodi & Co.	17/07/2001	122319	100,000.00	100,000.00
August	Wachakana & Co.	13/08/2001	124027	550,000.00	550,000.00
August	Amolo Gachoka	15/08/2001	124153	6,000.00	6,000.00
August	V.A. Nyamodi	21/08/2001	124514	423,000.00	423,000.00

September	Wachakana & Co.	18/09/2001	128528	500,000.00	500,000.00
September	V.A. Nyamodi & Co.	28/06/2001	129134	111,200.00	111,200.00
September	Amolo Gachoka	18/09/2001	128561	662,812.00	662,812.50
October	Wachakana & Co.	8/10/2001	130951	180,000.00	180,000.00
October	Otieno Odek & Co.	26/10/2001	132686	72,887.00	72,887.00
October	Otieno Odek & Co.	19/10/2001	139149	72,887.00	72,887.00
November	Keyonzo & Co.	1/11/2001	133092	1,600,000.00	1,600,000.00
November	Oluoch & Co.	6/11/2001	133551	198,126.00	198,126.00
November	J.K. Mwarandu & Co.	5/11/2001	133397	39,385.30	39,385.30
December	Wachakana & Co.	19/12/2001	139125	1,650,700.00	1,650,700.00
December	V.A. Nyamodi & Co.	19/12/2001	139163	870,062.00	870,062.00
December	Otieno Odek & Co.	19/12/2001	139149	72,887.00	72,887.00
				23,361,057.05	23,361,057.05

SCHEDULE OF AMENDMENT/RECOMMENDATION

Current	Amendment
<p>1. Definition and Interpretation</p> <p>By-law 3 c(i) on Deposits 3 (n) on shares. The distinction between the above terms was not clear.</p> <p>2. Mission</p> <p>By-law 5 "Investment" was placed before the core business of savings and loans</p> <p>3. Objectives</p> <p>By-law 6(f) – To maximize returns to the members.</p> <p>6(h) ".....ensure proper use of credit". This clause is narrow and does not cover all matters pertaining to the society.</p> <p>6(i) "To Perform the function and exercise the powers designated....." The clause is not clear as an objective of the society.</p> <p>4. Membership Eligibility</p> <p>By-law 9(a) (ii) ".....other agencies approved by the Management</p>	<p>1. Definition and Interpretation</p> <p>Add to the definition to specify that deposits are withdrawable whereas shares are unwithdrawable.</p> <p>2. Mission</p> <p>Recast so that core business of savings and loans is placed first.</p> <p>3. Objectives</p> <p>By-law 6(f) This by-law is redundant and could easily be manipulated. The by-law to be expunged.</p> <p>6(h) to be expanded to cover various roles, familiarization with the Act, rules, by-laws and Development in the Cooperative movement.</p> <p>6(i) to be rephrased to read " to offer any other services permissible by law for the benefit of the members."</p> <p>4. Membership Eligibility</p> <p>By-law 9(a) (ii) Extension of common bond is a major policy issue. Approval</p>

Committee."

9 (h) "Is in employment, occupation or profession which falls within the category or description of those for which the society is established."

5. **Membership composition**

By-law 10 (b) "The right of members" is misplaced.

6. **Members Rights**

By-law 15. The first phrase be replaced (10b).

7. **Members Obligations**

By-law 16 (e) Participate in Sacco project both physically and financially.

16(f) "Upon invitation, attend Co-operatives Education Meetings"

(g) make use of the services of the Sacco.

of the Annual Delegate Meeting should be sought.

9 (h) Superfluous and should be deleted.

5. **Membership composition**

By-law 10 (b) should be part of By-Law 15 which deals with Rights of members.

6. **Members Rights**

By-law 15. "The right of members of the society shall be determined and exercised in accordance with the Cooperative Society Act, Rules and By-Laws of the society and valid resolutions of the Annual and Special General Meetings."

7. **Members Obligations**

This by-law should be deleted. The member is not bound to participate in all projects of the society.

Remove all the other wordings in this clause. Should read "Attend cooperative seminars organized by the Sacco."

Should be as per sec.21 (c) Enjoy the use of all the facilities and services of the society subject to the society's by laws. Delete the Phrase under obligations and transfer it to By-law No. 15

8. Members Personal Account

By-law 17 (a) "Every member shall receive a "....."

17(b) "For payment of members....."

9. Spouse, Family Members and Employees

By-law 19: "Subject to the regulations under these By-laws, spouses of members and employees of the SACCO may also become members....."

10. Payment to Un-Admitted Nominee

By-law 21 The heading "payment to unadmitted nominee"

8. Members Personal Account

This opening statement should be rephrased to read as recommended. "The Society shall maintain a Member's Personal Account for each member which shall contain full particulars such as name, society membership number, Employment personal number, share holding, deposits, the three types of Loans – Development, Emergency and School fee, Interest and balances"

Rephrase and transfer to By law 15. To Read "Each member shall receive a periodic statement of Account containing a record of members transactions with the society in the same form as a member's personal statement and shall be sent to a member once every three months."

9. Spouse, Family Members and Employees

Sec 14(b) of the Act limits membership to those whose Employment, Occupation or profession falls within the category or description of those for which the cooperative society is formed. Therefore spouse, family members and Employees should not become members of the society unless they falls within common bond.

10. Payment to Un-Admitted Nominee

Should read "Payment to Nominee"
Delete "if not admitted to membership"

11. Society's Funds

By-law 28 (c) "Deposit or loans from members or non-members"

12. Liquidity and Reserves

By-law 35 (c) ".....delinquent loans are those loans in which payment of principal or interest is more than 30 days late."

13. Functions of the Branch Delegates/Officials

By-law 38 (a) "....number of branch delegates shall be determined by the Management Committee

38 (b) The Branch delegates shall be elected for a period of three years and shall be eligible for re-election unless transferred from electoral zone or unable to perform the stipulated duties or ceases to be in salaried employment.....after 3 years 1/3 of delegates shall retire annually....."

38 (c) (iv) "With the direction of the Management Committee....."

and subject to availability of fund."

11. Society's Funds

Should read "Deposits from Members Only."

Loans can be from both Members and non Members

12. Liquidity and Reserves

Recommend 60 days

13. Functions of the Branch Delegates/Officials

Amend the last wording to read "...determined by Annual delegates Meeting."

Delete one third retirement after three years.

Reduce the wordings to read " To carry out education to members of their respective branches. 38 split (c) (iv) To read " Get the views and resolution of members at branch level for onward presentation at Annual Delegates Meeting" and reporting back the Proceedings of ADM and SGM to

38(d) (ii) Additional phrase.

14. Annual General Meeting

By-laws 39 (b) "Any business not completed at AGMmay be taken up at subsequent S.G.M. or at the next A.G.M.

15. Required Majority

By-law 42 Additional clause

16. Powers of the Annual Delegates Meeting

By-law 46 " - "Heading"

46(f) "...the expulsion of members...."

46(o) New clause

46 (P) The 46 (o) Now becomes.

members.

38(d) ADD " He shall also record the Minutes of the Branch Meetings"

14. Annual General Meeting

To read "Any business not completed at AGM Should be taken up at a subsequent Special General Meeting.

15. Required Majority

(d) voting at the Annual Delegates Meeting shall be done by Secret Ballot on specially designed ballot papers.

16. Powers of the Annual Delegates Meeting

To read "Powers and Duties of the Annual General Meeting."

Change the word "expulsion" to "suspension"

The C.M.C. has no powers to expel a member

To read "Determine the amount to be paid as indemnity to the Society by members of the Management committee and Delegates.

And reads "Ensure the New committee may not take office until item (a) to (o) under by 46 have been dealt with.

17. Management Committee

By-law 47(b) (ii) All elections shall be determined by simple majority vote of delegates present and shall be by secret ballot, except where there is only one nominee for the office. If there is a tie vote the election shall be repeated.

47 b(iii)

47(b) (iv)

47(b) (v) "members of the Management Committee shall be elected for a term of three (3) years

18. Eligibility as a Management Committee Member

By-law 48(g) "He has been convicted of any offence involving dishonesty"

48(m)

17. Management Committee

delete "show of hands and any other method.

- To be consistent with Act and Rules. Adjust the days to read seven (7)

To be deleted at it is interferes with democracy.

Introduce election on rotational basis with the Chairman falling in the 3rd lot. One third (1/3) should retire at the end of the 1st year, the second one third (1/3) at the end of the end of the second year and the last third at the end of the third year. Determination of CMC Members who should retire at the end of any given year should be done within 7 days after election. All braches should be informed of CMC members who have retired two months before the ADM.

18. Eligibility as a Management Committee Member

Add "or imprisoned for three months or more" As contained in Rule 30 (h).

Delete.

It interferes with democracy.

<p>48n ".....provide indemnity worth Kshs.1,000,000.00....."</p>	<p>(n) To read "Is unable to provide indemnity as per Annual Delegates Meeting resolution within one week of being elected."</p>
<p>19. Functions and Responsibilities of the Management Committee</p>	<p>19. Functions and Responsibilities of the Management Committee</p>
<p>By-law 49(k) Authorize investments of the society.</p>	<p>Substitute the word Authorize with "recommend".</p>
<p>49(o) "Handle matters of recruitment, promotion..... dismissed at the discretion of the Management Committee."</p>	<p>To read "Establish a controlling criteria on staff recruitment, promotion, and discipline for all staff."</p>
<p>49 (r) determine the interest rates to be charged on members Loans.</p>	<p>Remove the term "determine" to read "Recommend."</p>
<p>49 (v) "Recommend....."</p>	<p>Include the number of firms (3).</p>
<p>20. Legal Standard of Care</p>	<p>20. Legal Standard of Care</p>
<p>By-law 50</p>	<p>Amend heading to read "Indemnity" Instead of Legal Standard of Care. As provided for in Sec 27 (6) and Rules 35</p>
<p>21. Delegation of Duties</p>	<p>21. Delegation of Duties</p>
<p>By-law 51 (b) ".....The Management must ensure full control."</p>	<p>Delete.</p>
<p>22. Records of Management Committee and Sub-Committee Meetings</p>	<p>22. Records of Management Committee and Sub-Committee Meetings</p>
<p>By-law 52.</p>	<p>Rephrase to read: "The minutes of all meetings shall be</p>

<p>23. General Manager</p> <p>By-law 62 (j) "To establish a pricing strategy for products and services....."</p> <p>24. Credit Committee</p> <p>By-law 63. "The Credit Committee shall consist of five....."</p> <p>25. Duties of the Credit Committee</p> <p>By-law 65 -(a) (l)</p> <p>26. Education and Staff Development Committee</p> <p>By-law 66. "The secretary to the Education and Staff Development Committee....."</p> <p>27. Duty of Education and Staff Development Committee</p> <p>By-law 67(1) "Recruitment, Promotion and discipline of staff....."</p>	<p>signed by chairman and secretary." Not just by any member.</p> <p>23. General Manager</p> <p>Amend to read "The General Manager to advice on pricing strategy for products and services".</p> <p>24. Credit Committee</p> <p>- Delete the term of office and Minimum qualifying standards set by Management Committee.</p> <p>25. Duties of the Credit Committee</p> <p>- Delete. These duties should be performed by staff.</p> <p>26. Education and Staff Development Committee</p> <p>The Secretary to the Education and Staff Development Committee shall be the Personnel and Administration Manager. There should be no need of electing a secretary among the members. The quorum should remain three.</p> <p>27. Duty of Education and Staff Development Committee</p> <p>As in by law 49 (o).</p>
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28. Duties of FOSA Committee

By-law 69.

29. Authority of Supervisory Committee

By-law 71 (a) " Without Intervening in the administrative functions subject to its control and supervision".

30. Powers and Duties of the Supervisory Committee

By-law 73 (d) "Analyze expenses of the SACCO in relation to the budget....."

73 (e) ".....at least once in two months."

31. Responsibility of Supervisory Committee

By-law 74 "In spite of its total independence from the Sacco administration and Management...."

32. Relationship between the Supervisory Committee and the Management Committee

By-law 75 ".....and hence it shall at

28. Duties of FOSA Committee

Add "The secretary of FOSA Committee to be the FOSA Manager."

29. Authority of Supervisory Committee

Amend to read " Supervisory Committee is responsible for Sacco compliance with internal controls. It is also responsible for the accuracy of the Sacco financial condition..."

30. Powers and Duties of the Supervisory Committee

Add "To the Management Committee and stakeholders.

(e)Amend to read "regular meetings to be held once a month or as frequently as business may dictate."

31. Responsibility of Supervisory Committee

Delete. This part of the sentence, is superfluous. The supervisory committee is generally responsible for ensuring that the management committee observes various polices of the Sacco in execution of its duties.

32. Relationship between the Supervisory Committee and the Management Committee

Delete this phrase.

all times desist from fault finding.”

33. Conflict of Interest

By-law 80

34. Authorization to Sign Document

By-law 81 (a) “Unless decided otherwise by the Management Committee all documents, contracts and cheques shall be signed on behalf of the Society

35. Loans to Members

By-law 83 (c) “....rate of interest on loans and any other charges incidental to the loans shall be fixed by the Management Committee.....”

83 (e) It shall be the duty of the Credit Committee to ensure that a

33. Conflict of Interest

Add/Amend to read – “NO member of the C.M.C., Supervisory Committee and Staff should engage in business with the society either directly or through proxy.

34. Authorization to Sign Document

Rephrase to read.

(i) Contractual transaction shall be signed by Chairman or in his absence, the Vice-chairman, Secretary and General Manager.

(ii) The Chairman, Vice-chairman, Secretary, Treasurer and either General Manager or Financial Controller to endorse financial transaction.

(iii) The General Manager, Financial Controller and one Executive official be authorized to sign cheques of amounts not exceeding Kshs.20,000 and whose cumulative value should not exceed Ksh.500,000 per week. This amount must subsequently be ratified by CMC.

35. Loans to Members

Remove the term “Fixed.” “Interest rates shall be Recommended by the Management Committee and approved by the Annual General Meeting.

Amend to read, “ Loans shall be given only for worthy purposes.”

<p>loan is used for the purpose for which it was given.</p> <p>83 (1) "..... except in cases of refinancing whereby....."</p> <p>36. Security for Loans</p> <p>By-law 84 (c)</p> <p>37. Repayments of Loans</p> <p>By-law 85 (b) ".... In the most exceptional circumstances agree to the re-financing of a loan balance or any request for an extension of time in which to pay.'</p> <p>38. Common Seal</p> <p>By-law 86 –</p> <p>39. Confidentiality of Officers of the Society</p> <p>By-law 89 (a) "Executive officer and"</p> <p>40. Inspection of Documents</p> <p>By-law 92 (a) ".....and the</p>	<p>Delete the second sentence. It is not practicable.</p> <p>Amend to read, " A member may be allowed to have all three types of Loans namely, Development, Emergency and school fees provided he has ability to repay them within the 2/3 rule requirement and the same shall be subject to three times his shares.</p> <p>36. Security for Loans</p> <p>Delete the whole phrase. This contravenes the Loans policy.</p> <p>37. Repayments of Loans</p> <p>Amend the clause to read " should be restricted to very exceptional cases with repayment period not exceeding 12 months.</p> <p>38. Common Seal</p> <p>Revert to the original seal thus "Harambee Savings and Credit Cooperative Society Ltd."</p> <p>39. Confidentiality of Officers of the Society</p> <p>Amend to Read "the General Manager.....". To be consistent with the other by-laws.</p> <p>40. Inspection of Documents</p> <p>Delete. This is not provided for in the</p>
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