AN INVESTIGATION INTO THE IMPACT OF REGULATIONS ON PERFORMANCE OF DEPOSIT-TAKING SAVINGS & CREDIT CO-OPERATIVES IN KENYA

(A Survey of Deposit Taking SACCOs in Nairobi County)

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October, 2013
DECLARATION

This research report is my original work and has not been presented for a degree in any other university or any other award.

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DEDICATION

This research report is dedicated to my family members Jennifer, Simon and Charles for their moral support during the entire period of this document preparation. They have sacrificed a lot to make my dreams come true. Their prayers and love has been of great value to me during this period.
I would like to extend my appreciation and gratitude to all those that contributed tremendous input towards completion of this research report. I want to specifically thank my family members for their sincere support, my supervisor Dr. Ambrose Jagongo for his valuable guidance and my friends Kiragu and Macharia for their advice. I am also grateful to Gladys for typing this work. To crown it all, thanks to the almighty God for giving me sufficient grace.
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DEFINITION OF OPERATIONAL TERMS

Impact – the effect of the independent variables of the dependent variable

Deposit-taking Saccos – Savings and credit cooperative societies that accept members’ deposits or conduct front office savings activities.

Performance – the level of success in terms of membership growth and net surplus of the Sacco societies.

Regulations – rules made by government through Sacco Societies Regulatory Authority in order to control the way deposit-taking Saccos conduct business

Core capital – fully paid up members’ shares, capital issued, disclosed reserves, retained earnings, grants and donations all of which are not meant to be expended unless on liquidation of the Sacco society

Institutional capital – disclosed reserves, retained earnings, grants and donations all of which are not meant to be expended unless on liquidation of Sacco society.

Capital adequacy - minimum capital required in the Sacco

Loan loss provision – an expense in the income statement to reflect an increase in the probability of losses due to bad/unpaid loans.
ABSTRACT

Kenya's Saccos have grown at a tremendous rate in the past years but have had no effective regulatory framework that captured the deposit taking aspect of the Sacco societies until 2010. Following the enactment of the Sacco Society Act of 2008, the Sacco Societies Regulatory Authority (SASRA) was introduced in 2010 to license, standardize, regulate and control the operations of deposit-taking Saccos. The authority ensures that all deposit-taking Saccos are licensed and observe prudential standards that are set. Nevertheless, little is known about how these regulations have impacted the performance of the deposit-taking Sacco societies. This prompted the research to find out the impact of these regulations on performance of deposit-taking Sacco societies. It had been practically difficult for the key players in the deposit-taking Saccos to effectively implement the regulations set by SASRA without clear understanding of how they affect performance of their Saccos. The purpose of this study was therefore, to assess the impact of these regulations on the performance of deposit-taking Saccos in Kenya. The study aimed at providing valuable information to the key players in the co-operative movement about how the performance of the deposit-taking Saccos was affected by these regulations. The objective of this study was to determine how licensing, capital adequacy, governance and reporting requirements impacted the performance of deposit-taking Saccos in Kenya. Previous related studies, theories and other literatures were reviewed to support the study. On collection of data, questionnaires with both structured and unstructured questions were used. Face-to-face interview was also carried out where the researcher needed to clarify or to probe for more information. The study was a census and the population was 34 respondents each drawn from all the 34 registered deposit-taking Saccos in Nairobi County. The collected data was then analyzed using descriptive statistics and the results presented using frequency tables, charts and graphs. A linear regression model was also used to determine the nature of impact that the independent variables had on the dependent variable. From the presented information, conclusions on whether and how these regulations affected performance of deposit-taking Sacco societies was drawn and recommendations made from there.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study.

In this section the co-operative movement and Sacco sub-sector historical background and the regulation of Saccos in Kenya was discussed. The historical background of the co-operative movement was meant to create understanding on the origin, nature and trends of the movement while the discussion on the regulation of Sacco societies was meant to create understanding on the regulatory frameworks that govern Sacco societies in Kenya. Much focus was given to Sacco societies that accepted members’ deposits.

1.1.1 Co-operative Movement and SACCO Sub-Sector Historical Background.

The cooperative history dates back to 1852 when Herman Frank consolidated two pilot projects in Germany into credit unions (Ondieki A.N et al, 2011). In 1864 another Germany, Raiffeisen founded the first rural credit union in rural Germany to cater for the needs of the rural poor. The rural communities were considered unbankable because of very small, seasonal flows of cash and very limited human resources, WOCCU (2008). Since then, there has been a rapid growth in the cooperative movement worldwide based on the organizational methods of Raiffeisen.

Several financial and other related crises have faced the economy but the co-operative societies have survived to date. During previous times of crisis, co-operative forms of enterprise have shown resilience. Indeed, it seems that co-operatives in developed countries are enduring this crisis better than their commercial counterparts (Birchall & Hammond
Emerging literature indicates that there are many innovative co-operative ventures in Africa, but that co-operatives on the whole are still developing (Pollet, 2009).

The Sacco sub-sector is part of the larger cooperative movement in Kenya. There are two broad categories of co-operatives: Financial co-operatives (Savings & Credit Co-operative Societies - Saccos) and non-financial co-operatives (include farm produce and other commodities marketing co-operatives, housing, transport and investment co-operatives).

According to Procasur Africa report (2012), Savings and Credit Co-operatives (Saccos) have witnessed faster growth than other co-operatives in the recent past. Savings and Credit Co-operative Societies (Saccos) are formed by members with the objective of mobilizing savings for the purpose of creating sources of credit for its members at competitive rates of interest. Since many of the members tend to be in low income brackets. In their very nature, Saccos societies are aimed at alleviating poverty. They are part of the co-operative movement which supports 45% of Kenya’s economic activities, and it is therefore one of the options for achieving sustained economic growth (Ongwae, 2003).

The Sacco subsector in Kenya continues to contribute enormously towards the social economic welfare of Kenyans. The sector has grown impressively in the last 25 years and is now embraced by many Kenyans as the alternative model of doing business and a way of life (SASRA report, 2011). According to this report, the department of co-operative development has registered over 7,500 Saccos compared to 1350 Sacco societies in 1985.

Amid several financial challenges, Saccos are among the few business organizations which survived the financial meltdown of 2008 in developed and developing countries. This was so because of the people centered business model that they embrace. Further, it’s worth noting that 90% of Kenyans directly or indirectly benefit from the co-operative movement and
therefore, emphasis should be on the co-operative sector as a vehicle towards mobilization of resources, wealth creation and industrialization (SASRA Report, 2011). The co-operative movement is therefore a key driver towards the attainment of the country’s vision 2030 goals.

1.1.2 Sacco’s Regulation in Kenya.

Despite the Kenya’s Sacco system having grown at a tremendous rate in the past several years, it has lacked an effective regulatory oversight and supervision that would enable it to evoke trust in their customers and to compete against banks and microfinance institutions (Ahmed, 2009). The Co-operative Societies Act has governed all Saccos and their apex structure since 1966 with several amendments. Recognizing the difficulty of supervising the operations of the Saccos under the Co-operative Societies Act, given the dynamism in their operations, the government enacted the Sacco Societies Act in 2008, which established the Sacco Society Regulatory Authority (SASRA) to license, regulate, supervise and promote Sacco societies development in Kenya (Procasur Africa, 2012).

The report by Procasur Africa observes the shortcomings of the Co-operative Societies Act as the failure to establish rules that specify qualifications of board members, failure to establish rules that limit risk exposure and disclosure norms, failure to specify liquidity reserve, failure to state the audit report standards and failure to establish the provision for writing off non-performing loans.

It is more than three years now since SASRA commenced implementation of the new regulatory framework for deposit taking Sacco societies. Over this period, the Sacco Societies Act and the regulations required the Sacco societies that were already operating
Front Office Savings Activities (FOSA) as at the date of publication of the regulations which was June 2010 to apply for license with SASRA to be granted permission to continue their operations. According to Gakunu P. (2011), SASRA’s big picture under the new legal and regulatory framework is to ensure a thriving and ever growing Sacco subsector competing with the very best in the world and at the same time creating opportunities for more people to emerge from poverty into a dignified and self-reliant life. This will be achieved in collaboration with the government and the Sacco subsector stakeholders to ensure Saccos grow and remain attractive to members.

The regulating authority provides an enabling legal and regulatory framework to the Sacco societies to enable them remain competitive in the financial market and build their members’ confidence by offering them efficient services (Ademba C, 2011). He further asserts that the objective of this regulation is to protect the interests of Sacco members and ensure public confidence thus ensuring sustainability of the Sacco subsector as a key player in the Kenyan financial sector.

1.2 Statement of the Problem.

Throughout the history of co-operatives and Sacco movement in Kenya, its regulation has been limited to Sacco Societies Act (SSA) which had not fully captured the deposit-taking aspect of the Sacco societies. Saccos were set up with clear intentions which were significant to the members. However, some faulted in their mission and have since closed down to the disappointment of their members. This was mostly due to mismanagement either fraudulently or due to lack of professionalism guided by a proper regulatory framework. It was also increasingly becoming difficult to hold the board members and
management staff responsible for mismanagement accountable (Ademba C, 2011). This was largely blamed on lack of proper regulatory and supervisory framework that would capture licensing requirements, governance rules, capital adequacy and reporting requirements. This is because there was no specific regulatory body established for the purpose of overseeing the operational behaviors of the DT Saccos. According to C. Muthui (2011), most Saccos collapsed due to corruption, infighting for positions and generally poor management practices. Since the establishment of the Sacco Societies Regulatory Authority (SASRA) in 2010, the effect of the set regulations on the Saccos’ performance is yet to be clearly understood by the key players in the Sacco societies subsector.

There is therefore, an urgent need for the managers of the deposit-taking Saccos to clearly understand the effect of these regulations on the performance of the Sacco societies so that they can implement them more effectively. Currently, the board members and the management staff of the deposit-taking Saccos view the requirements by SASRA as a burden to the Sacco, largely because they have not been able to interpret the effects of these requirements on the performance of their societies.

Most of studies conducted in this area tend to concentrate on other factors that influence performance of the co-operative societies in Kenya. The little study that had focused on establishing the effect of the current regulations on performance of deposit-taking Sacco’s in Kenya had not generated the much needed understanding. This study therefore, sought to provide this important insight on how these regulations affect the performance of the deposit-taking Sacco Societies in Kenya since it lacks in detail from the previous studies, hence made it necessary to conduct this study to bridge that informational gap.
1.3 Objectives of the Study.

1.3.1 General Objective.
The general objective of this study was to investigate the impact of the current regulations on performance of deposit-taking Sacco's in Kenya with a survey of deposit-taking Saccos in Nairobi County.

1.3.2 Specific Objectives.

i. To determine the impact of licensing requirements on performance of deposit-taking Saccos in Kenya.

ii. To establish the impact of capital adequacy requirements on performance of the deposit-taking Saccos in Kenya.

iii. To evaluate the relationship between governance regulations and performance of deposit-taking Saccos in Kenya.

iv. To assess the impact of reporting regulations on performance of deposit-taking Saccos in Kenya.

1.4 Research Hypotheses.
The study sought to verify the following hypotheses:

$H_0$: Licensing requirements have no impact on the performance of deposit-taking Saccos in Kenya.

$H_1$: Licensing requirements have impact on performance of deposit-taking Saccos in Kenya.

$H_0$: Capital adequacy requirements do not affect performance of deposit-taking Saccos in Kenya.
H₁: Capital adequacy requirements affect performance of deposit-taking Saccos in Kenya

H₀: There is no relationship between governance regulations and performance of deposit-taking Saccos in Kenya

H₁: There is relationship between governance regulations and performance of the deposit-taking Saccos in Kenya.

H₀: Reporting regulations do not have impact on performance of deposit-taking Saccos in Kenya

H₁: Reporting regulations have impact on the performance of deposit-taking Saccos in Kenya

1.5 Significance of the study.

The findings of this study formed a useful reference document for the Saccos in their endeavor to improve their profitability and Government of Kenya in its efforts to regulate the co-operative societies in Kenya. The study also formed a base for academic researchers.

Sacco Societies’ Management - The study aimed at advising the management of the Saccos on the ways the current regulations affect performance of the Sacco societies with the ultimate goal of ensuring growth and sustainable income and maximum benefit to the members.

Academic Researchers and Scholars - Majority of previous researchers in this area had written in depth about the micro and small enterprises but less on regulation of deposit-taking Saccos. The research therefore aimed at shedding more light in this field and forming bases for further studies in the area.
Government - The main aim of Saccos is to stimulate voluntary savings amongst members besides the financial assistance provided in form of loans repaid with low interests. The research shed more light on how members’ deposits were being utilized by the Saccos. Through this research, therefore, the government through the newly established regulator would be able to know whether regulating the co-operatives is enhancing better performance in the sector. The government would be able to establish whether the members are confident and secure in saving with their Sacco societies. This way, the government would be able to accelerate achievement of the Kenya’s financial strategy.

1.6 Scope of the Study.

This study was conducted in all 34 deposit-taking Saccos in Nairobi County. Chief executive officers in these Saccos were the respondents. Nairobi County had been picked to represent other counties in the country due to its highest number of registered deposit-taking Saccos in Kenya.

1.7 Limitations of the Study.

Cases of respondents not cooperating were experienced at a very low rate. The high return rate was largely influenced by the nature of information asked for in the questionnaire together with an assurance by the researcher that the information collected was purely for academic purposes. No part of that information has been used for any other purpose.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction.

This chapter reviewed the existing literature, information and publication on the current Sacco regulations and their impact on the financial performance of the Sacco Societies that accept deposits from the members. The chapter gave insight of theoretical review of literature, empirical review of the literature and conceptualization of the research problem.

2.2 Theoretical Review.

The study was supported by Economic Regulation Theory and Agency Costs Theory

2.2.1 Economic Regulation Theory.

This theory, which has been around in one form or another since Adam Smith, regarded market failure as the motivating reason for the entry of regulation. Once established, regulatory bodies were supposed to lessen or eliminate the inefficiencies engendered by the market failure (Sam Peltzman, 1985). Economic Regulation theory offers two complementary rationales for regulating financial institutions. This theory treats rules as governmental instruments for increasing fairness and efficiency across the society as a whole (Diamond and Dybvig, 1983). The theory assigns regulation to governmental entities that search for market failures and correct them. According to Jensen and Michael, (1994), economic regulation theory portrays regulation as a way to raise the quality of financial services by improving incentives to perform contractual obligations in stressful situations. Stiger J. G (2009) argues that the fundamental flaw in financial regulations is that it is based on assumptions that regulators are self-interested individuals like the rest of us. He further
saying that we think about regulation only in terms of how to engineer the incentives of the regulated and ignore the fact that the regulators themselves rarely have a stake in doing the job well, which in any other occupation would limit the motivation and type of individuals a position attracts (Edward, 1997). Two assumptions seem to have typified thought about economic policy. One assumption was that economic markets are extremely fragile and apt to operate very inefficiently (or inequitably) if left alone. Secondly, the government regulation is virtually costless (Richard A. P, 1974). Richard A. P (1974) further observes that with these assumptions, it was very easy to argue that the principal government interventions in the economy; trade union protection, public utility and common carrier regulation, public power and reclamation programs, farm subsidies, occupational licensure, the minimum wage, even tariffs were simply responses of government to public demands for the rectification of palpable, and remediable, inefficiencies and inequities in the operation of the free market. Economic regulation theory underpinned this study by explaining the need for regulations in the Sacco subsector for the purposes of fairness and competitiveness.

2.2.2 Agency Costs Theory.

We define an agency relationship as a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent.
In addition, in some situations it will pay the agent to expend resources (bonding costs) to guarantee that he will not take certain actions which would harm the principal or to ensure that the principal will be compensated if he does take such actions. However, it is generally impossible for the principal or the agent at zero cost to ensure that the agent will make optimal decisions from the principal's viewpoint. In most agency relationships the principal and the agent will incur positive monitoring and bonding costs (non-pecuniary as well as pecuniary), and in addition there will be some divergence between the agent's decisions and those decisions which would maximize the welfare of the principal.

The agency costs theory in this study served to provide understanding that the board members and the management staff of a deposit-taking Sacco act on behalf of the Sacco members. As such they usually incur some costs which may be financial or otherwise and in this case come in form of adhering to the current regulations since these regulations seek to protect the interest of the members.

2.3 Empirical Review.

This review focused on the past studies on the independent variables which included the licensing requirements, capital adequacy regulations, governance rules and reporting requirements.

Cooperative development in Kenya, like in most African countries, has generally traversed two main eras, namely, the era of state control and that of liberalization (Quiroz, 2007). The first era, which saw the origin and substantial growth of cooperatives under state direction, conditioned these organizations to emerge as dependent agents and/or clients of the state and other semi-public agencies (Lila, 2010). By serving as instruments for implementing government socio-economic policies, cooperatives were engulfed into state politics to the
extent that the failures of state policies found expression in the cooperative movement. This partly explains why literature on cooperatives in this era is awash with more stories of cooperative failure than stories of cooperative success. Such failures contributed to calls for the liberalization of the cooperative movement in the early 1990s (Ministry of Co-operatives and Marketing, 2008).

Arun, 2005; Kirkpatrick and Maimbo, (2002) believed that the level of risk and the scale of operations of the majority of microfinance firms are so low that it is unlikely that they would generate any kind of instability to the financial system (Kirkpatrick and Maimbo, 2002). The Self-Regulation approach is usually supported when the microfinance industry is on its first stage due to the fact that regulators have none or little experience with the special features of the microfinance business (Kirkpatrick and Maimbo, 2002). Thus, for experiences in which there is a long history of non-profit or public organizations involved in the provision of financial services to low-income and poor households, like the Peruvian one, such an approach should not be appropriate. Besides, it is believed that this kind of internal regulation has little possibility to be successful when microfinance activities start growing, because the objectives and interests of the MFIs involved may not be convergent (Kirkpatrick and Maimbo, 2002; Arun, 2005). In fact, empirical evidence has shown that self-regulation has not been completely effective in enforcing good financial discipline; nonetheless, it has induced MFIs to pursue good accounting practices and reporting standards (Christen et al, 2003).

According to Kirkpatrick and Maimbo, (2002), incorporating MFIs into the existing regulatory framework would contribute to a better integration of these institutions with the financial system (Christen et al, 2003). It is seen as more efficient and easier to adjust what
already exists and to look for an adequate harmonization of the regulatory practices so as to facilitate the incorporation of MFIs to the regulated market (Christen et al., 2003). Finally, the establishment of a special regulatory framework tailored to the characteristics and risk profile of MFIs is widely supported by the microfinance industry (Kirkpatrick and Maimbo, 2002). This approach known as the ‘special window’ for microfinance is supposed to contribute to a better insertion of MFIs to a regulatory structure, according to the range of financial services to be provided (Gallardo et al., 2005).

In 2005, the world council of Credit Unions (WOCCU) carried out a study named the Regulatory Impact Assessment (RIA) on 148 Sacco’s with Front Office Service Activities (FOSAs) in Kenya. The purpose of the study was to find out whether Sacco’s were ready to comply with the proposed Sacco bill once it becomes law. The study found out that out of the 148 Sacco’s which were surveyed only about seven would comply. The main reasons which were given as obstacles to compliance included: Firstly, most Saccos were undercapitalized and thus member’s funds were at risk. Secondly, most Saccos hand huge non-performing loans some of which were not recoverable. Thirdly, Saccos were not adhering to prudential standards as there were none developed. Fourthly, some Saccos hand no institutional Capital. The members owned the total Capital which they used to guarantee one another. This made the societies liabilities to exceed the assets a scenario that lend to a very unstable situation.

2.3.1 Licensing Requirements.

The Sacco Societies Act (2008) states that, a Sacco Society shall not carry out deposit-taking business without a valid license from Sacco Societies Regulatory Authority (SASRA). The
new legal framework, comprising of the Sacco Societies Act of 2008, and the Sacco Societies (Deposit-taking Sacco Business) Regulations of 2010, currently applies to Sacco societies that conduct deposit-taking business as defined in the law (EUSS, 2012). The new law applies only to SACCOs that provide banking services, (FOSA) or those that wish to offer these services in the future. These are SACCOs which accept deposits from members on a day-to-day basis. The Act specifies the requirements documents that a Sacco intending to be licensed for deposit taking business should forward to SASRA. These requirements include application form, “fit and proper test”, Sacco’s registration certificate under the Cooperative Societies Act of 1997, notification of the Sacco’s head office and a three-year business plan and feasibility study (SSA, 2008). Further the Sacco should submit extract of minutes of the general meeting resolution authorizing application for deposit-taking license, the name of the proposed chief executive officer, financial statements for the preceding three years, evidence that the Sacco has adequate capital and application fee.

2.3.2 Capital Adequacy Requirements.

The Act and Regulations include clear standards regarding, among others, capital, liquidity, the extent of external borrowing, asset categorization and provisioning, maximum loan size, and insider lending (Ademba C, 2011). Capital adequacy refers to a relative measure: it establishes the maximum level of leverage that a financial institution is allowed to reach on its operations (Jansson, 1997). It is measured by the ratio of risk-weighted assets relative to regulatory equity, which has been internationally recommended to be equal to 12.5 times, or commonly known as a capital adequacy ratio of 8% (Jansson, 1997). Nonetheless, it has to be remembered that this prudential standard proposed by the Basel Committee was intended to be applied to international and large banking institutions from developed countries, and
that it has been translated to several financial systems in developing countries despite the well-known differences in institutional risk profile, scale of operations and national economic environments (Guidotti et al, 2004; Jansson, 1997). It is generally recommended that regulations should properly define the characteristics of micro enterprise lending as an activity and microcredit as a product in order to facilitate the introduction of credit risk regulations (Jansson et al, 2004). Perhaps more than any other prudential standards, the ones regarding credit risk are suggested to be tailored as close as possible to the specific characteristics of the lending. These requirements should be applied to every institution engaged in credit operations; regardless of their institutional form (Christen and Rosenberg, 2000). In addition, it is suggested that these regulations be as simple as possible, in order to be compatible with possibly future innovations in the microfinance industry (Jansson et al, 2004).

One of the prudential standards is the minimum amount of liquid capital that MFIs should raise to enter the regulated market (Staschen, 2003). This requirement is an absolute measure of solvency and is usually established by primary regulation (Staschen, 2003). It is justified on the grounds of influencing the structure of the financial system: it serves as a cushion in periods when the institution shows an unhealthy situation due to its own performance or to exogenous factors such as economic downturns (Christen et al, 2003). This prudential standard is conceived to support the start-up and initial years of operations of a MFI until it reaches its break-even point (Jansson et al, 2004). Some argue that high minimum capital requirements could act as barriers to market entry to possible new players that are not able to raise sufficient capital for the initial stages as a regulated institution (Jansson, 1997). But, on the other hand, a high minimum capital requirement could help to
mitigate moral hazard behaviour among shareholders (Jansson et al, 2004). In addition, a high minimum capital requirement is often seen as one tool for limiting the number of institutions that the supervisory body should be responsible for monitoring, especially if the supervisory resources are scarce (Schmidt, 2000).

2.3.3 Governance Regulations.

The government will ensure that the Saccos have good management and handle the members’ money honestly and wisely (EUSS, 2012). At a minimum, the Board of Directors (elected at the Annual General Meeting) has to establish an audit committee and credit committee. It will also be their responsibility to establish appropriate policies on credit, investment, human resource, savings, liquidity, information preservation, dividend, and risk management (Gakunu P, 2011). A major change on governance is that directors and senior management are subject to vetting (fit and proper test) by SASRA (EUSS, 2012). The separation of the responsibilities of the Board and the management has been clearly outlined in the Regulations to ensure transparency and accountability in the running of the Sacco. Gakunu P. (2011) highlights the benefits of regulation of deposit-taking Saccos as competitiveness with other financial institutions, channeling their funds through the Sacco by the government and other organizations, guarantee of members deposits and integrity in corporate governance. Regulations regarding ownership and corporate governance are meant to establish minimum standards about the nature and quality of shareholders, measured by their financial solvency and personal integrity (Hardy, Holden and Prokopenko, 2003). Regarding their economic capacity, it is required that a shareholder should have enough resources to be able to raise additional funds when the supervisory agency requires a capital injection (Christen et al, 2003). It is argued that microfinance intermediaries, acting as
deposit-taking institutions, should comply with similar banking requirements to ensure a
good structure of corporate governance (Jansson et al, 2004).

Besides, members of the board and top management should be required to demonstrate their
good ethical character and their knowledge in finance-related matters. The regulatory
framework must clearly define the roles and responsibilities of the members of the board
and the executive management regarding the financial performance of the institution and
compliance with regulation (Jansson et al, 2004).

2.3.4 Reporting Requirements.

Saccos are subject to adhering to monthly (capital adequacy, liquidity, deposits, financial
position and income), quarterly (risk classification of assets and loan loss provisioning,
investment returns, investment return) and annual (other disclosures and audited financial
statements) reporting requirements to SASRA (EUSS, 2012). The new law will mean more
benefits for the members and their Sacco, but there is also a cost. This new cost will become
part of the fees that members pay for services. However, their money will be safer in their
Sacco than before the implementation of the regulations.

2.4 Research Gaps.

There has been no much information about the unfolding status of the cooperative
movement since market liberalization a decade ago. Regulation frameworks that have been
established since then sought to ensure that the members’ funds were safely invested and
risk of loss is minimized. Much of the studies available at the time of this study tended to
focus on factors that influence performance of co-operative societies while few narrowed
down to scrutinizing how the set regulations affected the performance of deposit-taking Saccos. This study therefore, sought to fill the existing knowledge gap in determining the impact of the new Sacco regulations on the overall performance of the deposit-taking Saccos.

2.5 Conceptual Framework.

Independent Variables

<table>
<thead>
<tr>
<th>Licensing Requirements</th>
<th>Capital Adequacy Required.</th>
<th>Sacco Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Capital required at application</td>
<td>• Core capital costs</td>
<td>• Membership growth</td>
</tr>
<tr>
<td>• Infrastructure costs</td>
<td>• Institutional capital costs</td>
<td>• Profit margin</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Loan loss provision</td>
</tr>
</tbody>
</table>

Governance Regulations

- Audit expenses
- Directors’ board expense

Reporting Regulations

- Reporting expenses

Intervening Variables

- Market Interest Rate
- Politics
- Competition

Figure 1: Conceptual framework.

Source: Author (2013).
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction.

This chapter presents the methodology that was used in gathering the data, analyzing the data and reporting the results. Here, the researcher aimed at explaining the methods and tools that were used to collect and analyze data to get proper and maximum information related to the subject under study. This included research design, target population, sampling technique and size, data collection procedure, data validity and reliability, data analysis and data presentation.

3.2 Design of the Study.

This study was a survey where all the deposit-taking Saccos in Nairobi were studied. It was highly descriptive in nature and the results obtained from Nairobi County were generalized to represent all the Saccos in Kenya.

3.3 Target Population.

Population is a well defined set of people, elements, events, group of things or households. Target population on the other hand is the specific population about which information is desired. The target population of this study was 34 CEOs from all the 34 registered deposit-taking Saccos in Nairobi County.

3.4 Sampling Techniques.

The sampling plan describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units
from which the sample will be selected (Cooper and Schindler, 2008). This study was a 
census of all the deposit-taking Saccos in Nairobi County. Full representation in the County 
was observed since all the deposit-taking Sacco societies were studied.

Table 1: Sample size

<table>
<thead>
<tr>
<th>Number of Deposit Taking Saccos in Nairobi County (Population)</th>
<th>Saccos to be Studied (Sample Size)</th>
<th>Sample Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>34</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher, (2013)

3.5 Data Collection Procedure

Questionnaires were used to obtain important information about the population. For further 
understanding, the researcher conducted face-to-face interview to some respondents where 
deemed necessary. This allowed the researcher to probe for more information from the 
respondent where there was a need. The questionnaires had both closed and open ended 
questions. The questionnaires were administered through drop and pick method to the 
respondents while face-to-face interview was conducted to 10 respondents to get more 
information or to seek clarification from the respondents.

Collection of data using questionnaires was preferred since it allowed the respondents to 
give their responses in a free and convenient environment.

3.6 Validity and Reliability

Validity refers to the accuracy and meaningfulness of inferences based on the research 
results and can be enhanced by absence of errors in the data collected (Mugenda &
Mugenda, 2008). The research instrument was piloted with 4 respondents who represented about 10% of the number of respondents in the actual study. Validity of the data collection instrument was enhanced by going through the questionnaires with the respondents and ascertained that each of the items was framed in the least ambiguous way. Mugenda & Mugenda (2008) observes that a pilot study is aimed at establishing construct validity of the data collection instruments. It assisted in identifying the problems which the respondents might have encountered in the process of answering the questions. The piloted questionnaires were then revised and ambiguous items modified.

The researcher administered the instruments personally to the respondents. The feedback was used to validate the instruments in readiness for the study. After administering the instruments to the selected respondents, the data obtained was a true reflection of the variables under study.

On reliability, the researcher ensured that proper coding was done in the questionnaire, instructions to subjects were clear, avoided biasness and ensured that the respondents were not tired when filling in the questionnaires. The researcher also ensured that the influence of the intervening variables was controlled in the drafting of the questionnaire.

3.7 Data Analysis and Presentation

For data collected to be meaningful, it needed to be analyzed in a way that it is easy to be understood. After the collection of the questionnaires from the respondents, they were reviewed to check for any mismatch of information and whether there were gaps left unfilled. SPSS computer software was then used to analyze the data. The coefficient of correlation (r) of various variables was determined to assess the nature of relationship between the dependent variables and the independent variables. The p-value was used to test
the hypotheses. The conclusions and recommendations were then derived from the analyzed
data which was then presented in percentages, frequency tables, charts and graphs for easy
interpretation and understanding.

The causal effect of independent variables was determined using the regression model
below:

\[ Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \]

Where:

- \( Y \) = Percentage surplus/Change in membership
- \( a \) = Constant
- \( \beta \) = Coefficient of \( X \)
- \( X_1 \) = Cost of licensing
- \( X_2 \) = Capital adequacy cost
- \( X_3 \) = Governance cost
- \( X_4 \) = Reporting expense
- \( e \) = Error term
4.1 Introduction
This chapter presents the findings of the study according to the data collected from the respondents. These findings are presented in frequency and percentage tables, pie charts and graphs.

4.2 Response Rate
There was a response rate of 97% as shown in the table below:

<table>
<thead>
<tr>
<th>Cadre</th>
<th>Questionnaires Issued</th>
<th>Questionnaires Returned</th>
<th>Percentage Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit-taking</td>
<td>34</td>
<td>33</td>
<td>97%</td>
</tr>
<tr>
<td>Saccos' CEOs</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author (2013)

This high response rate was largely contributed by two main factors. First, the questionnaire was structured in a manner that made it easy for filling in the right information and secondly, the respondents were contacted before a questionnaire was delivered so that they were able to fill them at their most convenient time.

4.3 Period of Years that DTSs have taken Deposits
Among the 33 deposit-taking Saccos that were studied, 79% of them had taken deposits for more than 7 years, 9% of them had taken deposits for a period between 5 and 7 years while 12% of the Saccos studied had taken deposits for a period of between 1 to 4 years. None of
the Saccos studied had accepted members' deposits for less than 1 year as shown in the figure 2 below.

Figure 2: Period in Years that Saccos had taken Deposits
Source: Author (2013)

4.4 Performance of Deposit-Taking Saccos
Performance of deposit-taking Saccos was studied using three parameters namely net surplus, membership and loan-loss provision.

4.4.1 Net Surplus

Figure 3: Net Surplus of DTS
Source: Author (2013)
Most of the deposit-taking Saccos i.e. 85% that were studied had their net surplus increasing with time while 12% of them had their net surplus decrease with time. The other 3% had their surplus remain constant.

4.4.2 Membership

![Membership Growth Diagram]

Figure 4: Growth in Membership in DTS

Source: Author (2013)

Over 90% of the deposit-taking Saccos that were studied had increased the number of the members over time while only one Sacco representing 3% of the Saccos studied had reduced the number of the members. Another one Sacco representing 3% of the deposit Saccos studied had the number of its members remain constant.

4.4.3 Provision for Loan Loss

On how the loan loss provision changed from before to after the regulations was introduced, 66% of the respondents indicated that the provision increased while the other 34% decreased in their Saccos. These findings are presented in the pie chart below labeled figure 5.
4.4.4. Influence of Regulations on Saccos’ Performance

On whether the current regulations had some influence on the performance of the deposit-taking Saccos, 94% of the respondents indicated that the regulations had some influence on the performance of the Saccos. Only 3% of the respondents indicated that the regulations did not have any influence.
not influence the performance while the other 3% were not aware whether these regulations influenced performance or not as shown in figure 6 above.

4.5 Licensing Regulations
Over 60% of the respondents disagreed that licensing of deposit-taking Saccos improved their performance while 12% of them neither agreed nor disagreed. The others about 28% agreed with only about 12% strongly agreeing that licensing of these Saccos raised their performance. On whether licensing of deposit-taking Saccos ensured fair competition in the market only 39% of the respondents agreed while another about 39% disagreed. The other about 22% of the respondents neither agreed nor disagreed.

On the issue of raising the members' savings with the Saccos, majority of the respondents i.e. 45% neither agreed nor disagreed with the statement. About 37% of the respondents agreed that the licensing of the deposit-taking Saccos raised the members' savings in the Saccos while the rest about 18% disagreed with the statement. Again the respondents were asked whether the licensing of the deposit-taking Saccos enhanced transparency and accountability in the Sacco sector hence avoiding losses through malpractices.

Over 40% of the respondents agreed that the licensing of the deposit-taking Saccos actually enhanced transparency and accountability in the Sacco subsector, while about 48% of the respondents disagreed. The other 9% neither agreed nor disagreed with the statement. However, on the issues of raising the public trust and confidence in the Saccos and protecting the members' interests in the Saccos through licensing of the deposit-taking Saccos, about 80% and 90% respectively agreed with the statements. The other 20% and 10% respectively disagreed with the statements as indicated in the bar graph below labeled figure 7.
Impact of Licensing Requirements on Performance of Deposit-Taking Saccos

<table>
<thead>
<tr>
<th>Impact</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neither Agree nor Disagree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improves Performance of Saccos</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Ensures Fair Competition in Market</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raises Members' Savings with Saccos</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhances Transparency &amp; Accountability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raises Public Trust in Saccos</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protects Members' Interests</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

0.00% 10.00% 20.00% 30.00% 40.00% 50.00% 60.00% 70.00%

Figure 7: Impact of Licensing on Performance of Deposit-Taking Saccos
Source: Author (2013)

4.6 Capital Adequacy Regulations
On the kind of impact that capital adequacy regulations had on the net surplus of the deposit-taking Saccos, the study sought to find out how specific requirements namely maintaining of minimum capital, maintaining of 15% of saving deposits and short term liabilities in liquid assets, having a written credit policy that is consistent with the Act, external borrowing not exceeding 25% of the total assets, quarterly review of the credit portfolio and not holding more than 10% of the total assets in non-earning assets.

The findings revealed that the respondents were divided on whether maintaining a minimum capital of 10 million shillings and not less than 8% of the total assets and an institutional capital of not less than 8% of total assets since 36% of the respondents indicated that the regulation increased the net surplus while an equal percentage indicated that the requirement decreased the net surplus. The other 28% indicated that the requirement had no effect on the net surplus of the Saccos. On maintenance of 15% of savings deposits and short term...
liabilities in liquid assets, the respondents were equally divided as about 42% of them indicated that the requirement increased the net surplus while about 48% of the respondents indicated that the requirements actually reduced the net surplus of the deposit-taking Saccos. The rest of the respondents i.e. 10% indicated that the requirement had no effect on the net surplus of the Saccos, as shown in the figure below labeled figure 8.

![Impact of Capital Adequacy Regulations on Sacco Performance](image)

**Figure 8: Impact of Capital Adequacy Regulations on Sacco Performance**

*Source: Author (2013)*

Almost 85% of the Sacco CEOs that filled in the questionnaires indicated that a written credit policy helped to increase the net surplus of the deposit-taking Saccos, while the other 15% indicated that the requirement about having a written credit policy that is in consistent
with the provisions of the Act decreased the net surplus of the Saccos. On the regulation regarding external borrowing of the deposit-taking Saccos, more than 50% of the respondents indicated that the regulation helped to increase the net surplus of the deposit-taking Saccos while about 24% of them indicated that the regulation decreased the net surplus of the Saccos. The other about 24% indicated that the regulation on external borrowing not exceeding 25% of the total assets did not have impact on the net surplus of the Saccos.

The study further sought to find out how the quarterly review of credit portfolio influenced the net surplus of the deposit-taking Saccos. The findings revealed that 82% of the deposit-taking Saccos that were studied had their net surplus increase as a result of this regulation. About 9% of the Saccos studied did not have their net surplus affected in any way while the other 9% of the Saccos had their net surplus decrease as a result of this regulation requiring them to review their credit portfolio quarterly. Finally, on the regulation regarding the maximum amount to be invested in non-earning assets, about 58% of the respondents indicated that the regulation increased the profitability of the Saccos while only about 9% indicated that the regulation decreased the Saccos’ profitability. The other 33% indicated that the regulation had no effect on the Saccos’ profitability as presented in the bar graph above.

4.7 Governance Regulations
The study sought to establish how specific governance regulations affected the performance of the deposit-taking Saccos. The findings revealed that the governance regulations have strongly impacted the performance of the deposit-taking Saccos as represented by the bar graph below labeled figure 9.
Majority of respondents i.e. more than 90% agreed that governance regulations boosted public confidence in deposit-taking Saccos hence attracting more savings in them. Further, more than 90% of the respondents again agreed that the governance regulations improved financial accountability in Saccos hence improving their performance. Only about 3% of the respondents disagreed that these governance regulations improved financial accountability in Saccos. On whether governance regulations promoted sound management practices hence reducing losses, majority of the CEOs representing approximately 94%, agreed that the regulations indeed promoted sound financial and business management in the Sacco sector. The findings of the study also revealed that governance regulations ensured that the right skills to assess, disburse and monitor Saccos’ loan portfolio were integrated in deposit-
taking Saccos hence reducing the liabilities of the Saccos. About 85% of the CEOs agreed with the statement while 12% of them neither agreed nor disagreed. Only 3% of all the respondents disagreed that the governance regulations helped the deposit-taking Saccos to acquire the right skills.

4.8 Reporting Regulations
The study sought to determine how various reports that are required to be prepared and submitted by the deposit-taking Saccos to the regulator at different intervals affected the performance of deposit-taking Saccos. The findings are as presented in figure 10 below:

![Bar chart showing the impact of reporting regulations on performance of DTS](image)

**Figure 10: Impact of Reporting Regulations on Performance of DTS**

**Source: Author (2013)**

The findings of the study revealed that the reporting requirements improved the performance of the deposit-taking Saccos. Majority of the respondents indicated that all the required reports were important in improving the performance of these Saccos. Each report was supported by about 70% of the respondents as indicated in the figure 10 above. Only insignificant number
of respondents disagreed with the statement that these reporting requirements improved the deposit-taking Saccos' performance.

4.9 Testing of Hypotheses
In order to test the hypotheses of this study, the p-values of the independent variables and the dependent variable were established. Where the p-value was less than the α value, the null hypothesis was rejected and where the p-value was greater than the α value, the null hypothesis failed to be rejected. The relationship between the independent variables and the dependent variable was established by determining the coefficients of correlation (r) at 95% level of confidence. The dependent variable was the membership growth while the independent variables included the four variables as shown in the conceptual framework.

4.9.1 Hypothesis on Licensing Regulations
The null hypothesis stated that licensing requirements had no impact on the performance of deposit-taking Saccos. This study, however, revealed that there was a strong positive relationship between licensing of the deposit-taking Saccos and the growth of membership of those Saccos as indicated by a correlation coefficient of 0.691.

Table 3: Licensing of DTSs – Membership Growth Relationship

<table>
<thead>
<tr>
<th>Percentage Membership Growth (Y)</th>
<th>Licensing Regulations (X₁)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson's Correlation</td>
<td>0.691</td>
</tr>
<tr>
<td>Sig.(2-tailed)</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: Author (2013)
The p-value of 0.000 was less than a value of 0.05, (p-value < α) hence the null hypothesis that licensing regulations do not impact the performance of the deposit-taking Saccos was rejected.

4.9.2 Hypothesis on Capital Adequacy Regulations
The null hypothesis indicated that capital adequacy requirements did not affect the performance of deposit-taking Saccos in Kenya. Impact of capital adequacy requirements was measured through the application of particular guidelines regarding capital adequacy and their outcome on the membership growth. It was established that there is an average positive relationship between capital adequacy requirements as set in the regulations and performance of deposit-taking Saccos as indicated by a positive coefficient of 0.508. This therefore, means that based on this parameter, the null hypothesis was rejected. The p-value was 0.011 which was less than the accepted level of significance meaning that these findings can be generalized.

Table 4: Capital Adequacy Requirements – Membership Growth Relationship

<table>
<thead>
<tr>
<th>Percentage Membership Growth (Y)</th>
<th>Capital Adequacy Requirements (X₂)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson's Correlation</td>
<td>0.508</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.011</td>
</tr>
</tbody>
</table>

Source: Author (2013)
4.9.3 Hypothesis on Governance Regulations
The null hypothesis stated that there is no relationship between the governance regulations and the performance of the deposit-taking Saccos. The study however established that there was a strong positive relationship between the governance regulations and the performance of deposit-taking Saccos as indicated by a correlation coefficient of 0.872. The p-value on the other hand, was 0.044 which was less than the α value as indicated in the table below. This means that the null hypothesis was rejected and the alternative hypothesis was accepted.

<table>
<thead>
<tr>
<th>Percentage Membership Growth (Y)</th>
<th>Governance Requirements (X₃)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson’s Correlation</td>
<td>0.872</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.044</td>
</tr>
</tbody>
</table>

Source: Author (2013)

4.9.4 Hypothesis on Reporting Regulations
The null hypothesis on this variable stated that reporting regulations do not have impact on the performance of deposit-taking Saccos, meaning that these reporting regulations do not impact the number of members who save with these Saccos. The study showed that the relationship between the two variables was positive but very weak as indicated by a correlation coefficient of 0.135. The findings could not be generalized given that the p-value of 0.102 was higher than the acceptable significance level of 0.05.
Table 6: Reporting Requirements – Membership Growth Correlation

<table>
<thead>
<tr>
<th>Percentage Membership Growth (Y)</th>
<th>Reporting Regulations (X₄)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson’s Correlation</td>
<td>0.135</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.102</td>
</tr>
</tbody>
</table>

Source: Author (2013)

4.10 Model Analysis

4.10.1. Model Summary
A model summary was used to predict the value of the dependent variable using independent variables. This study’s dependent variable was performance of the deposit-taking Saccos (membership growth) while licensing, capital adequacy, governance and reporting regulations were the independent variables. The R-value was 0.736, as indicated in table 6 below, which represented the sample correlation and, therefore, indicated a high degree of correlation.

4.10.2 ANOVA
The statistical significance level of the regression model was 0.0376 as shown in the table 6 below, which was less than the acceptable significance level of 0.05, (p < 0.05). This means that the prediction of the outcome of the study using this model was acceptable i.e. determination of performance of deposit-taking Saccos (membership growth) the independent variables namely; licensing regulations, capital adequacy regulations, governance regulations and reporting regulations.
Table 7: Model Analysis

Regression Statistics

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple R</td>
<td>0.736414</td>
</tr>
<tr>
<td>R Square</td>
<td>0.58774</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.578161</td>
</tr>
<tr>
<td>Standard Error</td>
<td>0.159193</td>
</tr>
<tr>
<td>Observations</td>
<td>33</td>
</tr>
</tbody>
</table>

ANOVA

<table>
<thead>
<tr>
<th>Source: Author (2013)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Df</th>
<th>SS</th>
<th>MS</th>
<th>F</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>4</td>
<td>1.355161</td>
<td>0.33879</td>
<td>2.625876</td>
</tr>
<tr>
<td>Residual</td>
<td>26</td>
<td>3.354517</td>
<td>0.12902</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>4.709677</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.10.3. Regression Coefficients

Using Excel, the values of the $\beta$s in the regression model ($Y=a+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+e$) used to determine the causal effect of the independent variables on the dependent variable were determined. Below are the values as extracted from Excel.

From the tabulated figures below, the completed model was:

$$Y = 1.78 + 0.213X_1 + 0.211X_2 + 0.337X_3 + 0.173X_4 + e$$
This means that 21.13% of the percentage membership growth in a deposit-taking Sacco is caused by the licensing of the Sacco. As the Sacco gets licensed or as the members get to know about the Sacco’s licensing, the membership increases. Adhering to capital adequacy guidelines explains up to 21.1% of the membership growth of the deposit-taking Saccos meaning that adherence to capital adequacy requirements causes an increase of 21.1% membership growth. Another 33.7% of the membership growth is caused by adhering to the governance regulations meaning that adhering to these guidelines help in raising the membership of the deposit-taking Saccos.

**Table 8: Regression Coefficients**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Standard Error</th>
<th>t Stat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>1.779254</td>
<td>4.945892</td>
</tr>
<tr>
<td>Licensing Regulations Values</td>
<td>0.213372</td>
<td>1.637047</td>
</tr>
<tr>
<td>Capital Adequacy Regulations Values (X&lt;sub&gt;2&lt;/sub&gt;)</td>
<td>0.2113943</td>
<td>1.810442</td>
</tr>
<tr>
<td>Governance Regulations Values (X&lt;sub&gt;3&lt;/sub&gt;)</td>
<td>0.3367345</td>
<td>0.754022</td>
</tr>
<tr>
<td>Reporting Regulations Values (X&lt;sub&gt;4&lt;/sub&gt;)</td>
<td>0.1654162</td>
<td>2.395666</td>
</tr>
</tbody>
</table>

**Source: Author (2013)**

Finally, the reporting regulations cause a 17.3% increase in the members who save with the deposit-taking Saccos. However, there is another component of membership growth that is accounted by other factors outside the four independent variables that are captured in this study.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
In this chapter the researcher summarized the findings of the study then made conclusions based on the presented findings. Finally, recommendations were made from the conclusions arrived at. The researcher further identified the areas for further research.

5.2 Summary of Major Findings
It was established that the four independent variables namely licensing, capital adequacy, governance and reporting regulations had a positive impact on the performance of deposit-taking Saccos. The major parameter of performance of deposit Saccos was membership growth which in turn affected the profitability of the Sacco. Licensing and governance regulations had a strong positive impact on the membership of the deposit-taking Saccos. Regulations on capital adequacy on the other hand had an average positive impact while reporting regulations had weak positive impact on the membership growth of the Saccos and consequently their profitability.

It was also established that the four independent variables that were studied caused membership growth, with varying percentages, in deposit-taking Saccos which in turn raised the profitability of the Saccos. However, implementation of these regulations incurred some expenses which directly reduced the net surplus of the deposit-taking Saccos.

5.3 Conclusion
The regulations as set by the government on the licensing of deposit-taking Saccos were found crucial in ensuring that the members' deposits were well safe-guarded. This is because, for any Sacco to be licensed to carry out deposit taking activities it must have a minimum capital of Ksh. 10 million. The core capital and the institutional capital should not
be less than 10% and 8% of the Sacco’s total assets respectively. Though this requirement and others that are required to be met before a Sacco is licensed to carry out deposit taking activities may, on the surface, decrease the net surplus of the Sacco, it raises the public’s trust and confidence to save more with the Sacco eventually leading to higher surpluses. It is therefore, concluded that licensing regulations of deposit-taking Saccos raises the membership of these Saccos and consequently their profitability.

Capital adequacy regulations such as maintaining a minimum capital and maintaining 15% of deposits and short term liabilities in liquid assets, having a written credit policy, limit on external borrowing, quarterly review of the credit portfolio and limit on investment on non-earning assets raise the performance of the deposit-taking Saccos though on average. This is achieved through increasing of the members who save with the Saccos due to the confidence that they are not at a high risk of losing their savings. The regulations ensure that the members’ deposits are invested prudently and the risk of losing them is minimized as much as possible through adherence to prudential standards.

Governance regulations highlight the minimum qualifications of any person to act as a Sacco’s board member, CEO or at management level. These regulations ensure that the deposit-taking Saccos acquire necessary skills to asses, disburse and monitor Sacco’s loan portfolio thus reducing the losses in these Saccos. Based on the findings of this study, this variable had the highest input in the performance of the deposit-taking Saccos especially in membership growth and net surplus of the Saccos. Following this, it is concluded that these regulations are critically important in improving the performance of the deposit-taking Saccos.
On reporting regulations, the deposit-taking Saccos are required to submit different reports at varying times of the years. The main reports are capital adequacy report, liquidity report, report on deposit return, asset risk classification and loan loss provision report, return on investment report, financial position report, statement of comprehensive income, cash flow statement, statement of change in equity and directors' responsibility report. Based on the findings presented, all these reports, though weak, were found important in raising the performance of the deposit-taking Saccos. Again, from the regression model the regulations on reporting were found to have some contributions in the growth of the membership of these Saccos. Following that, it is concluded that the reporting regulations help in improving the performance of deposit-taking Saccos.

The four independent variables namely; licensing regulations, capital adequacy regulations, governance regulations and reporting regulations were found to have led to a sound financial management in deposit-taking Saccos hence reducing cases of fraud that could be rampant in the absence of these regulations. In general, these regulations have significantly improved the performance of the deposit-taking Saccos in terms of membership growth and net surplus.

5.4 Recommendations

The researcher recommends that the deposit-taking Saccos' management should change their attitude and view towards the regulations set by the government to manage these Saccos. Currently, some managers in the deposit-taking Saccos view these regulations as an unnecessary cost on their side and therefore, they implement them as a matter of being unavoidable rules. They need to view these rules as part of their key strategies to raise their
market share and competitiveness in the financial sector which in turn will raise their performance.

On the side of the government, the researcher recommends that the regulations should be reviewed regularly in consultation with the key stakeholders in the deposit-taking Saccos and the Sacco societies’ movement at large. This consultation, however, should not only be done during the review but rather it should be a continuous process even as the regulations get implemented. This way, the regulations may become more acceptable among the Sacco managers and easily implementable. Consequently, the Saccos’ performance may rise above the current position to the benefit of all stakeholders in the Sacco sector.

5.5 Areas for Further Research

This study focused on the impact of regulations on the performance of deposit-taking Saccos in Kenya. Studies focusing on the challenges facing implementation of the regulations should be done to shed more light in the area. Other studies should also be conducted on the impact of such regulations on the performance of other financial institutions in order to draw some comparisons between deposit-taking Saccos and other financial institutions.
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Sasra website: www.sasra.org.ke


Appendix I: Questionnaire Introduction

The C.E.O,

Name of SACCO: ____________________________

Thro’

KENYATTA UNIVERSITY
MAIN CAMPUS
NAIROBI

Dear Sir/Madam,

RE: AUTHORITY TO CONDUCT RESEARCH

I am a student in Kenyatta University undertaking Master of Business Administration – Finance Option. It is required of a student to conduct an academic research before graduating from the university with the said degree. In order to achieve this, I am conducting a research on An Investigation into the Impact of Regulations on the Performance of Deposit-Taking Saccos in Kenya (A survey of Deposit-Taking Saccos in Nairobi County).

I have chosen your renowned Sacco society to provide information on the topic and you are kindly requested to fill in the provided questionnaire. The information collected will be used for academic purposes only and will be treated with utmost confidence.

Thank you in advance.

John M. Gathige

D53/OL/22012/2011
Appendix II: Questionnaire

SECTION A: GENERAL INFORMATION

1. Name of the Sacco (Optional) ____________________________________________________________

2. How long has your Sacco been operating Front Office Savings Activities?

   Less than 1 years [ ]
   1 years to 4 years [ ]
   4 years to 7 years [ ]
   More than 7 years [ ]

PART B: SACCO PERFORMANCE

3. Please indicate the profitability, membership and provision for loan loss of your Sacco Society in the years indicated below:

<table>
<thead>
<tr>
<th>Years</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Surplus (000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Membership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for loan loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Has the net surplus, membership growth and loan loss provision indicated in the table above been influenced by the SASRA regulations? Tick in the table below:

   [ ]
PART C: LICENSING REQUIREMENTS

5. Using a tick [✓], indicate the extent to which you agree with the tabulated statements about the importance of licensing deposit-taking Saccos

(1- Strongly Disagree 2 – Disagree 3 – Neither Agree nor Disagree 4- Agree 5- Strongly Agree)

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensing of deposit-taking Saccos protects the interests of members</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licensing of deposit-taking Saccos by SASRA raises the public trust and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>confidence in these Sacco Societies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licensing enhances transparency and accountability in the SACCO subsector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>hence avoiding losses through malpractices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licensing of deposit-taking Sacco Societies has raised members’ savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>with the Saccos</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licensing of deposit-taking Saccos ensures fairness in market competition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licensing of deposit-taking Saccos improves the performance of the</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PART D: CAPITAL ADEQUACY REQUIREMENTS

6. Using a tick [✓], indicate the how the following prudential operating standards affect the net surplus of deposit-taking Saccos

<table>
<thead>
<tr>
<th>Standard</th>
<th>Decrease</th>
<th>No Effect</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining minimum capital (Core capital - Ksh 10m and not less than 8% of total assets, Institutional capital of not less than 8% of total assets)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintaining 15% of savings deposits and short term liabilities in liquid assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Having a written credit policy that is consistent with provisions of the Act</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External borrowing not exceeding 25% of its total assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviewing of credit portfolio at least once every quarter year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not investing in non-earning assets in excess of 10% of the total assets</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PART E: GOVERNANCE REQUIREMENTS.
7. Using a tick [\(\sqrt{}\)], indicate the extent to which you agree with the tabulated statements about governance rules by SASRA

(1- Strongly Disagree 2 – Disagree 3 – Neither Agree nor Disagree 4- Agree 5- Strongly Agree)

<table>
<thead>
<tr>
<th>statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance rules enhance necessary skills to assess, disburse and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>monitor Sacco’s loan portfolio reducing liabilities in Saccos</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governance rules promote sound financial and business management</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>practices in deposit taking Saccos</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rules on governance improve financial performance of deposit-taking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sacco societies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rules on governance of deposit taking Saccos boost confidence and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>trust of members hence saving more funds with Saccos</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

PART F: REPORTING REQUIREMENTS

8. Using a tick [\(\sqrt{}\)], indicate the extent to which you agree that tabulated reporting requirements improve the financial performance of the deposit taking Saccos

(1- Strongly Disagree 2 – Disagree 3 – Neither Agree nor Disagree 4- Agree 5- Strongly Agree)

<table>
<thead>
<tr>
<th>statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital adequacy reporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Statement Reporting</td>
<td></td>
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<td></td>
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<tr>
<td>------------------------------------------------------------------</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity statement reporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement of deposit return</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on the risk classification of assets and provisioning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>reporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on investments reporting</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Statement of financial position</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Statement of comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audited statement of financial position</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Audited statement of comprehensive income</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow statement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement of change in equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disclosure of material amount written off</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement of director's responsibility</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

9. Give your opinion on how SASRA regulations affect financial performance of deposit-taking Saccos in Kenya

Thank you for your time
Appendix II: List of Deposit-taking Saccos in Nairobi County

1. STIMA SACCO SOCIETY LTD
2. U.N SACCO SOCIETY LTD
3. CHAI SACCO SOCIETY LTD
4. NACICO SACCO SOCIETY LTD
5. MWITO SACCO SOCIETY LTD
6. COMOCO SACCO SOCIETY LTD
7. MWALIMU NATIONAL SACCO SOCIETY LTD
8. WANANDEGE SACCO SOCIETY LTD
9. KENYA POLICE STAFF SACCO SOCIETY LTD
10. NATION STAFF SACCO SOCIETY LTD
11. ORTHODOX DEVELOPMENT SACCO SOCIETY LTD
12. KINGDOM SACCO SOCIETY LTD
13. AFYA SACCO SOCIETY LTD
14. HARAMBEE SACCO SOCIETY LTD
15. JAMII SACCO SOCIETY LTD
16. SHERIA SACCO SOCIETY LTD
17. ASILI SACCO SOCIETY LTD
18. SAFARICOM SACCO SOCIETY LTD
19. KENPIPE SACCO SOCIETY LTD
20. AIRPORTS SACCO SOCIETY LTD
21. CHUNA SACCO SOCIETY LTD
22. UKULIMA SACCO SOCIETY LTD
23. WANA-ANGA SACCO SOCIETY LTD
24. NAKU SACCO SOCIETY LTD
25. WAUMINI SACCO SOCIETY LTD
26. COUNTY SACCO SOCIETY LTD
27. HAZINA SACCO SOCIETY LTD
28. KENYA BANKERS SACCO SOCIETY LTD
29. NASSEFU SACCO SOCIETY LTD
30. FUNDILIMA SACCO SOCIETY LTD
31. MAISHA BORA SACCO SOCIETY LTD
32. NAFAKA SACCO SOCIETY LTD
33. KENVERSITY SACCO SOCIETY LTD
34. MAGEREZA SACCO SOCIETY LTD

Source: SASRA Website, 2013