THE EFFECTS OF SACCO SOCIETIES REGULATORY AUTHORITY’S REGULATIONS ON THE OPERATIONS OF DEPOSIT TAKING SAVINGS AND CREDIT SOCIETIES IN MOMBASA COUNTY

BY

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NOVEMBER 2012
DECLARATION

This project is my original work and has not been presented for examination in any other university.

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This project has been submitted with my approval as the university supervisor.

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Approval by chairman

The project has been submitted with my approval as chairman of the department.

Signature _______________ Date __________

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Department of accounting and finance Kenyatta University.
DEDICATION

This work is dedicated to my loving husband Lewa, my sons Innocent, Trevor and Mark and my parents Lucas Kadenge and Peris Mgoi.
ACKNOWLEDGEMENT

The successful production of this project was made possible through the support, cooperation and contribution from various individuals and institution from various individuals and institutions. It is therefore with gratitude that such inputs are acknowledged. First and foremost I would like to acknowledge my God for whom all things are possible.

I would like to express sincere and deep gratitude to my supervisor Dr. Ambrose Jagongo for his guidance, support and constructive criticism. He tirelessly worked to see me through this project.

My appreciation also goes to my entire family for all the support and understanding towards me throughout the study period.

I would also like to extend my special thanks to my colleagues at work and my friends for their prayers and contributions to this project. Finally for those who contributed immensely acknowledged individually, please receive my special and humble thanks.

God bless you all.
ABSTRACT

This research study was conducted to investigate effects of Sacco society regulatory authority's regulations on the operations of deposit taking Sacco's in Mombasa County. The objectives of the study were: to determine the effects of licensing requirement on the operations of deposit taking SACCOS, to establish the effects of capital adequacy requirements on the operations of deposit taking SACCOS, to establish the effects of deposit guarantee fund on the operations of deposit taking SACCOS, to establish the effects of corporate governance requirements on the operations of deposit taking SACCOS and to establish the effects of financial reporting requirement on the operations of deposit taking SACCOS. The target population was the 14 deposit taking SACCOS in Mombasa. The researcher adopted descriptive research design and a census was conducted because 14 SACCOS were too few to be sampled. The researcher targeted the senior management staff and the chairman of the board of directors. The analysis involved a sample of 84 (100 percent) respondents that was involved in the process of data collection. The response rate was 70 (83.3 %) respondents who filled and returned the questionnaire. The data was obtained using self administered questionnaires and analyzed using Statistical Package for Social Sciences (SPSS). Descriptive statistics was used to analyze data using mean, frequencies, standard deviation and percentage and the findings presented using tables. The research findings show that onsite inspection was necessary requirement for licensing on the operations of deposit taking SACCOS with governance and compliance having the highest level of acceptance. The respondents had a high level of acceptance that most Sacco's had met the core capital of not less than 10 million shillings prudential requirement. The findings from the study draws to the conclusion that establishing internal Control Systems, business plan and management information system enhances Sacco ability to operate effectively and efficiently. Majority of the respondents suggested that deposit guarantee fund make members save more with the Sacco, reducing the interest earned on deposits while reducing the dividend payout ranked the highest.
**LIST OF ABBREVIATIONS AND ACRONYMS**

<table>
<thead>
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<th>Description</th>
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<tr>
<td>BOSA:</td>
<td>Back Office Service Activity</td>
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<td>FOSA:</td>
<td>Front Office Service Activity</td>
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<td>ICA:</td>
<td>International Co-operative Alliance</td>
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<td>KUSCCO:</td>
<td>Kenya Union of Credit Co-operations</td>
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<td>KERUSSU:</td>
<td>Kenya Rural Savings and Credit Co-operative Society Union.</td>
</tr>
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<td>WOCCU:</td>
<td>World Council for Credit Unions</td>
</tr>
<tr>
<td>SACCOS:</td>
<td>Savings and Credit Co-operative Society</td>
</tr>
<tr>
<td>SSA:</td>
<td>Sacco Society Act</td>
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<td>CSA:</td>
<td>Cooperative Society Act</td>
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<tr>
<td>MoCDM:</td>
<td>Ministry of Cooperative Development and Marketing.</td>
</tr>
<tr>
<td>DGF:</td>
<td>Deposit Guarantee Fund</td>
</tr>
<tr>
<td>SASRA:</td>
<td>Sacco Societies Regulatory Authority</td>
</tr>
<tr>
<td>D.C.O:</td>
<td>District Co-operative Officer</td>
</tr>
<tr>
<td>ACCOSCA:</td>
<td>African Cooperative Savings and Credit Association</td>
</tr>
<tr>
<td>GOK:</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>AGM:</td>
<td>Annual General Meetings</td>
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OPERATIONAL DEFINITION OF TERMS

Annual general meeting: It is a meeting of all members and should be held at least once a year. The aim is to deliberate on issues concerning the SACCO affairs. It is also the supreme authority of a co-operative society as vested in the co-operative society Act. 2004

By law: They are the rules and regulations made by a co-operative registered under the co-operative society Act.

Co-operative society: This is a society registered under section 4 of the co-operation society at cap 490 of laws of Kenya.

Co-operative societies Act: It's an act of parliament relating to the constitution registration and regulation of co-operative societies in the Kenya. It is cap 490 of the laws of Kenya.

Dividend: In relation to co-operative society, means that members share of surplus of the society which is divided amongst its members in proportion to a members share holding of the total share capital of the society.

Rural SACCOS: SACCOS for members working in the informal sectors of the economy e.g. dairy, tea etc.

Deposits: Means sum of money paid on terms under which it shall be repaid, with or without interest or premium and either on demand or a term or in circumstances agreed by or on behalf of the person making the society to receive it at the risk of the society receiving it.
<table>
<thead>
<tr>
<th>SACCO societies ACT.</th>
<th>An act of parliament to make provision for the licensing, regulation, supervision and promotion of SACCO societies, to establish SASRA.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core-Capital</td>
<td>Means the 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 societies.</td>
</tr>
<tr>
<td>Institutional capital</td>
<td>It is the total of the credit unions regulating reserve accounts undivided or retained earnings.</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background information

A saving and credit cooperative society (SACCO) is a financial institutional owned and controlled by its members for the purpose of promoting thrift, providing credit at reasonable rates as well as providing other financial services to its members. (Kisaka 2009) Many SACCOs exists to further community development or sustainable internal development at local levels. According to (Schoeder 1989) SACCOs combine two main functions which are the basically the core functions of SACCOs. They include; mobilizing savings for members as well as advancing credit to its members. SACCOs are the greatest contributors to the economic and social growth of Kenya's economy posting approximately $2.7 billion to the national gross income every year (Kuria 2005).

In Kenya SACCOs are administered under the new Act The SACCO societies Act (SSA) Cap 490 of 2008 which was inaugurated in 2009. SACCOs in Kenya have long history dating back to 1908 when the first co-operative society was formed by white settlers in Lumbwa, Rift valley in the present day Kipkeleon area. In 1945 Africans were allowed to form and join co-operatives. These cooperatives were operating according to the seven principles governing the operation of co-operatives. It was in 1931 when the first SACCO was started when the first ordinance to regulate the operation of co-operatives was enacted. At this time the banks were not adequately meeting the financial needs of the majority of Kenyans who were low income earners living in rural areas who comprise the majority of Kenya's.

The co-operatives societies Act (CSA) was first enacted in 1966. This Act gave the state extended powers to get involved in the day today managements of co-operatives. This brought a lot of problems to the co-operatives as direct intervention by the government in management of co-operatives compromised the principles of member owned and run organizations. This was against the principle of equality, equity, solidarity, democratic principle, self responsibility and self help which are important pillars of a successful co-
operative. The 1966 (CSA) Act was amended in 1977 to give management committee of Sacco’s greater autonomy in running the SACCO societies. This enabled members to make independent decisions concerning operations of their business. The government was to play the role of a facilitator that is creating an enabling environment for co-operatives to operate. The other role was regulatory, particularly in the formulation of policies and legislation.

Due to the liberalization, governance problems emerged escalating to the near collapse of the co-operatives due to mismanagement. This lead to the amendment of the Act in 2004 to re-introduce the SACCO rules and regulations through legal notice number 123/2001. The rapid growth of SACCO societies has come with an increase challenge which could not be adequately addressed within the provisions of the co-operatives societies Act (CSA) of 2004 inspite of numerous amendments. In response the ministry of co-operatives development and marketing (MoEDM) commenced the development of SACCO specific legislation which collimated in the SACCO society Act SSA 2008 that was enacted in 2009. SSA provides for the licensing and regulations of SACCO societies and the establishment of the SACCO societies regulatory authority (SASRA). With the mandate to enforce the new legal and regulatory framework. (GOK 2008)

SASRA is an autonomous government agency under the ministry of co-operatives development and marketing which is a creation of S.S.A of 2008 and was inaugurated in 2009 charged with the responsibility of licensing, regulations and supervision of deposit taking SACCOs through the adoption of prudential regulation. (GOK 2010). The Act also establishes the deposit guarantee fund (DGF) which shall provide protection to the members deposits up to Kshs 100,000 per member. SASRA started operations in June 2010 upon the publications of the SACCO societies (deposit taking Sacco business) regulations 2010. These regulations published by ministry in June 2010 like the name suggest applies to every deposit taking SACCO business.

One may ask why the Sacco’s drifted from their core functions of mobilizing savings and advancing loans to deposit taking. In 1990s Kenya experienced difficult economic times forcing commercial banks to demand a higher minimum operating balance to account
holders. This saw the middle and low income persons unable to operate bank accounts and SACCOs responded by introducing a front office activity (FOSA) which offered the quasi banking service at a competitive rate (Kuria 2006).

With the diversification in financial services offered by Deposit taking SACCO’s the borderline between services offered by commercial banks and those offered by deposit taking SACCOs became blurred. It therefore was necessary to provide a specific regulatory frame work for SACCOs conducting deposit taking business, that is the SSA No. 14 of 2008 and the SACCO societies (Deposit taking business) regulations 2010.

In Kenya there are about 230 FOSA operating SACCO’s and they are bigger than some commercial banks. With a membership of 3.2 million and controlling 75% of the total deposits to Sacco deposits of 123 billion by June 2011 (SASRA, 2011). In Mombasa county there are 146 active SACCOs, 14 out of the 146 are deposit taking SACCOs that is they operate both FOSA and BOSA. This study will concentrate on the 14 Saccos operating FOSA.

The head of legal/co-operation secretary for SASRA Ragana Roseline during a ACCOSCA regulatory workshop in Nairobi pointed out that in relation to other players in financial markets that is micro-finance institutions regulations and post bank regulations it is worth while noting that this legislation generally does not recognize the orientation of SACCOs that why there was need to establish its own legislative and regulatory framework, she further said that the vision 2030 gave new impetus to the need for regulations of SACCOS given there significance in saving mobilization as the government aims at increasing financial access to all Kenyans to bring equality in regional development.

Financial regulations are a form of supervision or regulation which subjects financial institutions to some requirements. SASRA being a regulatory authority, set to regulate deposits taking Saccos has set up some regulations to be complied by all deposits taking Saccos.
The new legal framework, comprising of the SACCO societies Act of 2008, ("The ACT") and the SACCO societies (Deposit-taking Business) regulations of 2010, ("The Regulations") are defined in the Law. All deposit taking SACCOs and those intending to provide FOSA for the first time are to abide by the following laws. The deposit-taking SACCOs are required to apply for a licence from SASRA before they can start operating and pay an annual licence fee of Ksh 50,000 for a head office and 20,000 for every branch that offers front office. Also the deposit taking SACCOs have to maintain a minimum core capital of 10 million as shown in their financial statement. The board of directors and senior management (or departmental heads) will be subject to a 'fit and proper test', on the Governance rules, the board of directors are required to establish an audit committee and credit committee. It will also be their responsibility to establish appropriate credit, investment, human resource, savings liquidity, dividend and risk management policies. Also on reporting requirement the deposit – taking SACCOs are subject to adhering to monthly (capital adequacy, liquidity and deposits), quarterly (risk classification of assets and loan provisioning, investment returns, financial performance) and annual (audited financial statements. SASRA also has the authority to inspect the premises and the records of a SACCO and prescribe actions incase of deficiencies or non compliance including the appointment of statutory manager, removal of directors and other irresponsible officers. Other rules are on the approval of opening and closing or relocating, SACCOs will also be required to pay a levy (to be determined later) to finance SASRA operations. SACCOs are also required to pay a deposit guarantee fund of up to Ksh 100,000 per member to insure each shareholder.

1.2 STATEMENT OF THE PROBLEM

From the background literature (Kuria 2005, Kutilengisa 2011, GOK2004, GOK2008) it is noted that SACCO operations in Kenya are regulated and guided by the cooperative society Act of 2004, Sacco Societies Act 2008 and the SACCO by laws. According to SASRA report of October 2011, the SACCO subsector in Kenya is the fastest growing within the cooperative sector accounting for 50% of registered cooperative societies in Kenya. The same report indicate that the deposit taking SACCOS account for 75% of the
total deposit of over Ksh 123 million and control a total assets of the SACCO sub sector of 79% amounting to Ksh 210 million and has a total membership of 1.8 billion people as at December 2010, and has a loan portfolio of Ksh 123 million and share capital of Ksh 5.4 million.

According to (Schich 2008, Harrings et al 1999) financial regulation and supervision is part of a broader. Interested financial safety net aimed at restoring confidence among both financial intermediaries and wider public. They identified the rationale for financial regulation of SACCOs thus: to safeguard the system against systematic risks, to preserves the stability and soundness of the Sacco, to maintain confidence in the financial systems, to protect the depositors, to ensure competence of providers of financial services and enhancing efficiency of the financial system.

(Mbogo 2012, Chonga 2012) noted that some of the leading operators in the SACCO deposit-taking sector in Mombasa have expressed fear about the regulations especially on annual license requirements, the capital requirement, the deposit guarantee fund, the reporting requirements, and the governance rule, arguing that the law and its regulations will deny them the competitive edge they have been enjoying in the market place, making them vulnerable to competition from commercial banks. They fear that the regulations may affect their service and product delivery and this may cause their members to migrate to commercial banks or other financial institutions. They further noted that some commercial banks have started offering specifically designed loan products that are aimed at SACCO members. Mean while scanty systematically documented information exists to describe the experience of the Sacco’s since the advents of SASRA.

This study therefore was to investigate the effects of SACCO Regulatory Authority regulations on the operations of deposit taking SACCOs in Mombasa County.

1.3.1 Objective of the study

The general objective of the study was to investigate the effects of SASRA regulations on the operations of depositing taking SACCOs in Mombasa County.
1.3.2 Specific Objectives

1. To determine the effect of the licensing requirements on the operations of deposit taking SACCOs in Mombasa.
2. To establish the effects of capital adequacy requirements on the operations of deposit taking SACCOs in Mombasa.
3. To establish the effects of corporate governance requirements on the operations of deposit taking SACCOs in Mombasa.
4. To establish the effects of deposit guarantee fund requirement on the operations of deposit taking SACCOs in Mombasa County.
5. To establish the effects of financial performance reporting requirements on the operations of deposit taking SACCOs in Mombasa County.

1.4 Research questions

1. How does the licensing requirement affect the operations of SACCOs in Mombasa County.
2. How does the capital adequacy requirement affect the operations of deposit taking SACCOs in Mombasa County.
3. How does the corporate Governance requirement affect the management of deposit taking SACCOs in Mombasa County.
4. How does the deposit guarantee fund requirement affect the operations of SACCOs in Mombasa County.
5. How does the financial performance reporting requirement affect the operations of deposit taking SACCOs in Mombasa County.

1.5 Significance of the study

The findings of the proposed study will have important implications on the future of SACCOs in Kenya as a whole. The study is expected to contribute to the existing knowledge on the importance of regulating financial activities in the economy and specifically deposit taking SACCOs and the relationship between regulation, and operations of deposit taking SACCOs in Kenya.
This will enable the managers of SACCOs be ready to embrace change and look for the necessary tools of management to ensure efficiency, good governance and prudence in financial activities. It will also be helpful to the cooperative development and marketing ministry in the formation and implementation of future policies aimed at operations of deposit taking SACCOs as well as implementation of the SASRA regulation. It will also be helpful to the SACCO managers in Mombasa as it will guide them in understanding the importance and assist them in complying with the new SASRA regulations. It will also form a base for students and other researchers to develop their studies.

1.6 The scope and limitations of the study

The study was mainly concerned with how SASRA regulations are affecting the operations of deposit taking SACCOs. The study was limited to deposit taking SACCOs in Mombasa County. The researcher has selected Mombasa County because Mombasa County has a high concentration of deposit taking SACCOs in the coast region. Also it is accessible for the purpose of carrying out the study.

During the research the researcher encountered some difficulties which may include the fact that the research is only limited to deposit taking SACCOs because they are the only SACCOs which are regulated by SASRA. Also the legislative framework governing the deposit taking SACCOs has been in place for three years, but SASRA regulations have been operationalised for only 18 months consequently very few deposit taking SACCOs operating in Mombasa have been licenced by 31st December 2011. This place a significant limit with a regard to the ability to get conclusive affect on the operations of because of the time frame for operations of deposit taking Sacco’s under SASRA regulations has been too short.

Even though the operations of SACCOs are guided by the co-operative societies Act and of 2004, Sacco society Act of 2008, each SACCO has it’s by laws and hence have differences in the way they carry out their operations. The researcher also purposes to focused on effects of SASRA regulations on the operations of deposit taking SACCOs leaving out the role of the regulators themselves in capacity development which is a key area on the implementation of the new regulatory framework. Also deposits taking
SACCOS in Mombasa are very few (only 14). These findings may not give a general overview of how SASRA rules have affected operations of SACCOS in Kenya as a whole.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides an overview of the study from publications by a credited scholars and researchers. It provides some information on the topics related to the research problem. That is it will examine what various scholars and authors have said about, SACCOs and regulation of financial institutions and specifically deposit taking. SACCO and their effects on the operations of these financial institutions. The various sub topics in this chapter will examine the importance of SACCOs and how these regulations are affecting the operations of deposit taking SACCOs.

2.2 Overview of Cooperative Societies

2.1.1 Cooperatives

According to the International Co-operative Alliance (ICA) statement of co-operative identity a co-operative may be defined as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (ICA 2010). In any community co-operatives usually exist in the form of association of people who come together as a group, driven by their social and economic needs in order to cope with their problems and improve their conditions of living (MoCDM 2006). The co-operatives are owned and managed by its members have some common bond, either they are working for the same employer, doing a similar business or come from a social fraternity, living and working the same community or from the same religion.

2.1.2 Origin of cooperatives.

According to the (GOK 1991) records, co-operative societies began in a small city called Rochdales in Manchester England. In 1844 during the industrial revolution when economy was depressed and jobs were scarce. A group of 28 weavers from middle and lower classes who had grown tied of exploitative industry owners started a co-operative society. They started what became the first model of co-operative called the equitable...
society of the Rochdales which became the pillar of the co-operative movement. The Rochdale pioneers decided to draw up some principles which would guide their operations as a co-operative society. The seven principles currently used all over the world have evolved over time from the first principle drawn by the Rochdale pioneers. The SACCO movement spread very fast to other among the financial disadvantaged people all over the world.

The operations of a co-operative are guided by the 7 principles all over the world. These principles are:-

i) Voluntary and open membership.

ii) Democratic member control i.e. one man one vote in all matters of decision making.

iii) Member economic participation.

iv) Autonomy and independence.

v) Promotion of members’ education and awareness through constant education, training and information.

vi) Co-operation among co-operatives.

vii) Concern for community development i.e. co-operative social responsibility.

There are different types of co-operative societies based on the sectors they operate. This co-operative are:-

- The financial cooperative societies e.g. Savings and credit co-operative societies (SACCOs), service providers.

- The non-financial cooperative societies e.g. Agriculture producers’ co-operatives.

This research will be based on the savings and credit co-operative societies (SACCOs).
2.1.3 THE STRUCTURE OF SACCOS

a) The general meeting

The supreme authority of SACCOS is vested in the general meeting of members as stated by the Sacco societies Act of 2004. Such meeting includes the annual general meeting. Below the AGM is the board of directors.

b) The board of directors.

The board of directors is the supreme governing authority and subject to any directions from a general meeting directs the affair of the Sacco society. (Cooperative Society Act 2004). The board of directors consists of 9 (nine) members elected by and from members of the Sacco. They are responsible for policy formulation and guidance of the day to day management of the Sacco. Their powers and duties are prescribed by the Act. The board of directors have various committees performing specifically defined functions like the executive committee (managing) the credit committee (loans) and the supervisory committee (Audit functions).

c) The chief executive officer

Under the board of directors is the chief executive officer of the SACCO, who carries out the policies emanating from the board of directors and its sub-committees. The manager is assisted by various staff, like (the loan officer account etc), who have a functional line of management responsibilities. Each staff is assisted by other junior staff.

d) Supervisory committee

The supervisory committee is made up of three members elected by the General meeting during an AGM. It is independent from any control of the Board of directors and members should not be serving in the Board of directors. It is responsible for evaluating and verifying the work of the board of directors. The committee ensures that the Sacco transactions are carried out with accuracy and honest, and within the requirement of the co-operative societies Act, rules and by
laws. They organize regular audits of the affairs of the Sacco society. Due to the technical nature of their duties at least one of the committee members should have experience or training in auditing or book keeping.

The Ministry of Co-operative Development and Marketing (MOCDM)
SACCOS in Kenya are under the MOCDM which has the responsibility of creating a enabling environment for the SACCOS to prosper. The MOCDM has the mandate to establish an Ethics Commission for Co-operatives (ECCOS), formulating and reviewing of Co-operative polices and the establishment of SASRA with the mandate to supervise and regulate the operation of deposit taking SACCOS.

SACCO societies Regulatory Authority (SASRA) it is a semi autonomous government agency under the MOCDM formed to license SACCO societies to carry out deposit taking business, regulate and supervise deposits taking Sacco’s and levy contributions according to the act. Therefore all deposit taking Sacco’s in Kenya are operating under SASRA regulations.

2.2 Savings and Credit Co-operative Societies (SACCOs)
A savings and credit co-operative society (SACCOs) also known as a Co-operative Financial Institution (CFI) in some counties, may be defined as a member owned and controlled financial institution operated for the purpose of promoting thrift, providing credit at reasonable rates and providing other financial services to their members (Kisaka 2009).

The SACCOs offer an opportunity to the members to save their money in the SACCO through regular payment into a common pool, and later provide many benefits for members such as loans and other financial services at a reasonable rate of interest as noted by (Kuria 2006), when he argued that financial co-operatives provide low cost services and they are not profit maximizing entities and any surplus is used to offer members more affordable loans, higher returns on savings (dividends) lower fees and wide range of products. He further noted that the SACCOs main objective is to fulfill the needs of members that why most SACCOs are deeply rooted within local areas and
communities, contributing towards the sustainable development of communities as members and boards usually belong to the community in which they operate.

SACCOs are self-governing institutions, (Fonteyne, 2007). A SACCO is jointly owned by members, each member has one vote (i.e. democratic control) in the organization decision making. Therefore as mentioned earlier, the SACCO is not profit motivated but it aims providing the best possible products to its members. And in case there are any surpluses; they may be ploughed back into the SACCO or given to members as dividends which will depend on the shares subscribed by each member.

2.2.1 SACCOs in Kenya

The first co-operative in Kenya Lumbwa co-operative society was formed in 1908 by the European farmers with the main objective of purchasing fertilizer, chemicals, seeds and other farm inputs and then market their products to take advantages of economies of scale. In 1930, Kenya farmers association (KFA) was registered as a co-operative society. The African small holder farmers fought for the formation of their own co-operative and later in 1950, they were allowed to promote and register co-operatives for cash crops like coffee, and pyrethrum. According to the (GOK 1991), the first SACCO in Kenya was started in 1931 when the first ordinance to regulate the operations of co-operatives was enacted. At this time the banks were not adequately meeting the financial needs of majority of Kenyans who were low income earners specifically those in rural areas, who make the majority of Kenyans.

The SACCO movement in Kenya is being promoted and supported by the Kenya Union of Savings and Credit Cooperative Limited. (KUSCCO) and also the Kenya Rural Savings and Credit Cooperative Society Union (KERUSSU). KUSCCO is the umbrella organizations of all SACCOs in Kenya. The mission of KUSCCO is to promote and develop SACCOs in Kenya by providing unique and diversified products and services that are capable of promoting the economic interest and general welfare of their members in accordance with the cooperative principles. KUSCCO also offers advisory, advocacy and support services to its entire SACCO members. It also runs a risk management
programme and a central finance facility which is an interlending facility to which members SACCOs can access loans. KERUSSU is the umbrella national cooperative organization for rural SACCOs. It aims at contributing to improved standards of living in the rural areas of Kenya through appropriate, efficient and effective rural cooperative movement with the capacity to offer affordable financial services. It works towards capacity building, resource mobilization, member empowerment, product development and lobbying for an enabling and legislative environment.

According to a SASRA supervisor report of October 2011 it revealed that the SACCO sub sector in Kenya is the fastest growing within the co-operative sector accounting for 50% of registered co-operative societies in Kenya. Currently there are two categories of SACCO. That is:- The deposit taking (deposit- taking SACCOs) and non-deposit taking SACCOs. Deposit –taking SACCOs are those SACCOs operating a front office service Activity (FOSA). FOSA is a quasi banking activity undertaking by a licensed SACCO.

2.2.2 Achievements of SACCOs in Kenya

SACCOs in Kenya have been able to impact positively on lives especially the most vulnerable in the society. According to a research by (WOCCU, 2004) SACCOs in Kenya have become very popular especially with the low income population due to its affordable rate of interest. This could be because, the synergy credited through SACCOs is very important for economic and financial well being of SACCO members because in co-operatives, what is missing by one person, might be supplied by others. (Larserve 1997). Through SACCOs members are offered an opportunity to gain access to affordable financial services, there by reducing the widening disparity between the rich and the poor. The co-operatives enable even the poorest segment of the population to participate in economic progress, they create jobs for those who have skills but little or no capital as they provide them with loans at affordable rates to start and operate small and medium enterprises (SME’s). This enable them earn income hence reduce the income gap between the rich and the poor, one of the millennium development goal & one of the social pillars of the vision 2030.
SACCOs are also important part of the economy and economic performance participating in maintaining and increasing competition in the market. They play a significant role in sustainable development and in the creation and stabilization of jobs. The SACCOs can also be an important tool to the poverty crisis in our society; they offer feasible strategy to pool scarce resources collectively and help build sustainable and economic development. This was echoed by Ban Ki Moon during his speech on the marking of the international year of co-operatives 2012 when he said that “it is a fact that the co-operative movement has been an important vehicle of empowerment and liberation from economic misery to many poor people across the world.

SACCOs also play an important role in mobilizing savings; millions of Kenyans rely on savings and credit society for their daily needs including medical educational and development. (Nyang-Nyongo 2005). According to a SASRA supervisor report of October 2011 it revealed that the SACCO sub sector in Kenya is the fastest growing within the co-operative sector accounting for 50% of registered co-operative societies in Kenya. Currently there are two categories of SACCO. That is:-The deposit taking (deposit- taking SACCOs) and non-deposit taking SACCOs. Deposit –taking SACCOs are those SACCOs operating a front office service Activity (FOSA). FOSA is a quasi banking activity undertaking by a licensed SACCO.

The FOSA operating SACCOs have diversified into specialized bank like services which include deposit taking savings, debit card services and money transfer services. The activities of these SACCOs were not regulated as those of the banks and cases of theft and misappropriation of funds were rampant in these financial institutions that are why the government came up with the regulation to regulate the sector.

2.3. Financial Regulations

Financial regulations are rules that govern commercial behavior in the financial system (Herrings et al 1999). Regulations entail establishing a legal and ethical frame work within which business can perform well for the mutual benefit of all involved. It entails prescribing and proscribing what must be done and what may not be done in specific
areas, and in most cases the regulations tend to come from policy makers who may be attempting to solve certain challenges such as direct lending and improving financial access. Financial regulation and supervision is part of a broader interested financial safety net aimed at restoring confidence among both financial intermediaries and wider public (Sichich 2008). (Herrings et al 1999) identifies four broad rational for financial regulations. These are:-

i) Safeguard the system against systematic risks.

ii) Protecting consumers against opportunistic behaviour by suppliers of financial service.

iii) Enhancing efficiency of the financial system.

iv) Achieving a range of social objectives such as home ownership or channeling resources to particular sectors of the economy or population.

Deposit-taking SACCOS being financial institutions have to comply with co-operative rules as well as rules established by SASRA.

2.3.1 REGULATORY FRAMEWORK

Before 2009, the co-operative movement in Kenya was guided by the co-operative Act (the co-operative societies. Rules number 12 of 1997) as amended in 2004. According to the Act, operations of SACCOs were defined by their by laws which are filed by the MoCDM. The new legal frame work comprising of the SACCO societies Act of 2008 ("the ACT) and the SACCO societies (Deposit- taking business) Regulations of 2010, (The regulation) currently applies to SACCOs that conducts deposit taking business as defined by the law.

The SSA of 2008 provides for licensing supervision and regulation of Sacco’s societies and the establishment of the SACCO societies regulatory Authority (SASRA) with the mandate to enforce the new legal & regulatory frame work. The new legal & regulatory frame work was modeled along the same principles as those for the regulation of banks and deposit taking micro finance institution. This is because there was no distinction between the FOSA activities & those of the commercial banks.
The purpose of the new legal framework is to improve governance of SACCOs societies through enhancing transparency and accountability to the conduct of SACCO business. Section 3 (1) of the Sacco societies Act of 2008, provide that the Act shall apply to every deposit taking SACCO business, those SACCOs operating front office service activities (FOSA). SASRA therefore was mandated to license, regulate and supervise the FOSA operating SACCOs.

2.3.2 SASRA REGULATIONS

2.3.2.1 Licensing

According to the Sacco societies (Deposit taking SACCO business) Regulations 2010 part 4 (1) states that A Sacco society shall not carry out deposit taking business without a valid license from SASRA. Acquiring a licence will follow through a five stage process as follows: - The SACCO will submit to SASRA, the licence application form to be found in the first schedule of the regulation and the required accompanying documents. If satisfied SASRA will issue a letter of intent, upon which the SACCO, will be required to set up its business premises, put in place a management information system (MIS) and develop a comprehensive risk management frame work. Then SASRA will conduct an on-site inspection within 30 days. If satisfied SASRA will issue a letter of compliance to the SACCO within 30 days. GOK (2010)

Then the SACCO will be required to pay a licensing fee of Ksh 50,000 for a head office and Ksh 20,000 for every branch held. The licence is renewable on yearly basis, failure to which the licence will be revoked and the SACCO will seize to operate. Once the license is revoked the deposit taking SACCO cannot convert into a non-deposit taking SACCO society. GOK (2010)

2.3.2.2 Capital adequacy

Part III 4 (a) states that A SACCO society shall at all time maintain a core capital of not less than 10 million shillings, core capital of not less than 10 percentage of total deposit, institutional capital of not less than 8 percentage of total assets and core capital of not less
than 8% of total deposits as shown in their financial statement. However newly founded SACCOs have to provide this evidence through submission of bank statement. GOK (2010)

Section II (1) states that A SACCO shall prepare and submit to SASRA at the end of every month to be received by 15th day of the following month a return on capital adequacy as set our in Form 1 in the second scheduled. If a SACCO fails to comply with these regulations will face administrative sanctions as may be prescribed by the authority. GOK (2010)

2.3.2.3 Financial performance Reporting.

Section 52 provides for the reporting requirement where SACCOs are subject to adhering to monthly (capital adequacy, Liquidity and deposit), quarterly (risky classification of assets and loan provisioning, investment returns, financial performance) and annual (audited financial statements) reporting requirements to SASRA. An audit committee shall constituted by the board of directors to review the financial conditions of the SACCO society, its internal controls, performances and findings of the internal auditor and recommend remedial actions at least once in every three months. It will also ensure that accounting records and financial reports are promptly prepared to accurately reflects operations and results of the SACCOs, reviewing management reports and reports from internal and external auditors concerning deviations and weaknesses in accounting and operational controls, reviewing the SACCO society’s internal audit plan with specific reference to the procedures for identifying regulatory risks and controlling their impacts on the SACCO society. GOK(2010)

2.3.2.4 Governance of SACCO societies.

Part 10 of the SASRA Regulations provides for the Governance of SACCO which states that the supreme authority of a SACCO society shall be vested in the members who shall jointly and severally protect, preserve and exercise it in a general meeting. The members will then elect board of directors. At a minimum the Board of Directors will have to
establish an audit committee and credit committee, and appropriate policies on credit, investment, human resource, savings, liquidity information preservation, and dividend and risk management.

The members of the board of directors and the senior management are subject to vetting (Fit and proper test) by SASRA. The separation of the responsibilities of the board and management has been clearly outlined in the regulations to ensure transparency and accountability in the running of SACCOS. The board of directors shall ensure that the SACC0 society functions effectively and that adequate and effective internal control system is put in place and shall not meet more than twelve times in a financial year. It will also ensure that SACC0s make adequate provisions for the known and probable losses likely to occur, it will also establish a management committee, including an audit committee and a credit committee, and evaluate the performance, and budget for its SACC0s, gives explanations for any variance of the actual and the budgeted. GOK(2010)

2.3.2.5 Deposit Guarantee fund and other provisions.

Part 13 provides for the establishment of a deposit guarantee fund where the regulation explains that once licensed members deposits will be protected in the event of collapse of a SACC0. The law states that SASRA will in the future set up a deposit guarantee fund of up to Ksh 100,000 per member to compensate members of failed SACC0 society of any liabilities. The SACC0 shall also be required to pay annual premium of fifty Thousand shillings or 0.5 percent of total savings and deposits, whichever is higher. No SACC0 society shall be exempted from paying this fund. Failure to which the licence shall be revoked and will be reinstated once the authority is satisfied that the SACC0 society has fully complied with this regulation.

Other provision in the SASRA regulations includes the enforcement actions where SASRA has the authority to inspect the premises and the records of a SACC0 and to prescribe enforcement actions incase of deficiency. Also the board of directors shall be responsible for the establishment of an information preservation policy which shall address information preservation and business continuity.
There is also the prudential requirement where the Act and the Regulations have outlined clear standards regarding among others, capital, liquidity, the extent of external borrowing asset categorization and provisioning, maximum loan size and insider lending. Other regulations are on Branch approval where the opening, closing and relocating of branches and other places of business will require prior approval by SASRA. Also the SACCO societies will have to pay a levy (to be published in the Gazette notice) which shall be used to finance SASRA operations. Also SACCOs shall continue to operate according to co-operative principles and deal with members only, as serving members only is the main reason why interest and other income earned from loans to members is exempted from income tax. GOK(2010)

2.4 Critical review of (SASRA regulation)

Well run financial institutions backed by proper regulations and effective supervision can provide convenient secure and reliable product and services their clients of the institution. The fact that deposit taking SACCOs intermediate members savings and deposit, it therefore calls for prudential regulations and supervision in order to avoid loss of savings in particularly strict requirements for opening deposit taking SACCOs. In the SASRA regulations (Glass et al 2010) in a study of Irish C.F.I observed that an appropriate regulatory and supervisory infrastructure is a critical element in the successful development and good functioning of CFI movement. The regulatory infrastructure contextualizes the operations while the supervisory frame work ensures the financial soundness and rectitude of individual SACCO and in so doing, safe guards the movement as a whole. These specific regulations are important in the following manner as noted by various authors.

2.4.1 Capital Adequacy Requirement

According to the Sacco society (deposit taking business) regulation 2010, All deposit taking SACCOs are required to maintain a core-capital of Ksh 10 million; (Episcopos 2008) noted that capital requirement have a stabilizing effect on institutions according to the option pricing model. Capital serves as cushion/buffer to absorb unexpected losses,
thus allowing the institution to continue operations even in difficult times however (Kim & Santomaro 1988) observed that capital requirement force a reduction in leverage, reducing an institution’s expected returns forcing institutions to undertake investments with a higher return and higher risk. More often than not, however such increase in risk, will ultimately offset the intended increase in capital.

In the SACCOs permanent capital can only be accumulated through retained surpluses from operating activities unless shares are designated as permanent in nature. However the capital structure of SACCOs may be very fragile especially when members can withdraw their shares capital by not repaying their loans. When surpluses are transferred to accumulated reserves (capital) they transfers wealth from private ownership of members to communal wealth ownership. Thus the unintended consequences of capital requirement is that it forces SACCOs to focus on achieving a surplus each year (to grow the capital) regardless of whether this is in the best interest of members or not (Davis, 1994)

Dr. Brain Branch the vice president of WOCCU observed that deposit taking SACCOs should maintain a higher than Basle standard of 10 percentage of total assets because SACCOs faces a higher risk in volatile, minimal regulated market with high levels of geographical concentrated risks. Therefore capital does not only represent cushion for uncertainties, but also is provision of a base for future growth as SACCOs will have enough money for investment in facilities such as new branches, or new banking halls to provide better services to members. Also SACCOs will have the ability to meet pressure as institutional capital will provide no-cost funding for modernization of the SACCOs and the possibility to reinforce product delivery through services like Automated Teller Machines that have become necessary for members of most deposit taking SACCOs. He further said that accumulated capital will also protect the SACCOs against operating losses. And also ensures that the SACCO remain an ongoing concern as institutional capital serve as a second line of defense to absorb unobservable risks or surprise shocks to protect savings. Without sufficient capital SACCOs are comparable to soaring sky rappers on a very shaky foundation that could collapse in the advent of business risks
such as interest fluctuations, regulatory and legislative threats, taxation changes and competitive risks.

(Pasiouras et al 2009: 295) observed that prudential regulatory on capital have a positive impact on cost efficiency but a negative impact on profit efficiency. A possible explanation for positive efficiency effect is that higher capital requirements reduces the likelihood of financial distress and thus lower the need for costly risk management activities, where as the lower profit efficiency could be associated with a balance sheet tilt towards more liquid, lower return assets. That’s why the researcher needs to find out how this capital requirement is affecting SACCO operations.

2.4.2 Governance of SACCOs

According to part 8 section – 59 (1) of the SACCO societies (deposit taking business) Regulation – 2010 states that the supreme authority of a SACCO society shall be vested in the members who shall jointly and severally protect, preserve and exercise their general meeting. The members will elect board of directors who shall ensure that the Sacco society functions effectively and that an adequate and effective.

In the Agency economic theory and institutional agency theory which were originated by Stephen Ross and Barry Mitnick respectively. Mitnick concluded that institutions revolve around the relation employer, employee, where as Ross believed that this relation revolves around job incentives to the employees. Ross argued that the agency problem and incentives are identified as macroeconomic problems besides being micro-economic ones. The Agency theory observes that owners of a firm contract agents to manage their firms on their behalf thus becoming principals. The agents accept these responsibilities with the aim of maximizing their personal utility as well as the owner’s wealth. When the agency utility and shareholders wealth converge the agency problems will be considered to be absent. But if not there will be a conflict.

The managers of a SACCO are viewed as stewards in the steward’s theory. They are assumed to work efficiently and honestly in the interest of company and owners. They are self – driven and motivated by high achievements and responsibility. In discharging
their duties in this theory managers are goal-oriented and self motivated and feel constrained if they are controlled by outside directors. Therefore the Board of directors and the managers of a SACCO are required to ensure transparency and accountability in the running of the SACCOs they serve which may ensure more disclosure and accountability of their actions, but this may also bring about conflict of interest (Shleifer et al 1999). A major change on governance is that the directors and senior management are subject to vetting (fit and proper test) by SASRA. This is to ensure that those who are entrusted with the responsibilities of running the operations of a deposit-taking SACCO are competent people. The process of election and evaluating then should be fair and transparent and that logically management structure from members of the board of directors to executive management is out in place. Governance is important as people need to trust the financial institutional they trust their savings with. It follows that where there is supervision of the board of directors by SASRA this will enhance the credibility of the deposit taking SACCOs.

2.4.3 Deposits guarantee funds.

(Folkerts et al 1998) explained deposit Insurance fund as a measure taken by bank to protect bank depositors in full or in part from losses caused by a bank’s inability to pay its debts when due. Deposit insurance system is one component of a financial system safety net that it meant to promote stability but can do the opposite. It may create moral hazards, encouraging both the banks and depositors to take on excessive risks. The bank can take excessive risk because depositors do not fear for their deposits safety and therefore will not move their deposits to safer banks. The moral hazards can manifest itself in two ways, first deposit insurance fund gives insured banks to pursue added risks because they can capture any profits but shift any losses to the Government. Second, it reduces the incentives by depositors and share holders to monitor their banks as (professor William Lovert 1998) puts it that Government and modern nations do not allow most banks to (fail) so how can leaders and management of banking institutions be disciplined and avoid unduly risky, negligent or adventurous lending policies (or simple poor asset – liability management)?
(Williamson 1985) argues that moral hazards will always exist as long as expected profits from a bank’s portfolio exceeds the explicit cost of the deposit insurance funds plus the cost of regulators. However it is important for the deposit taking SACCOs to pay the deposit guarantee fund because it will protect the depositors funds as (Garcia 1999) in her survey on Actual & Best practices, noted that Banks borrows “Short” (by taking demand deposit) and lend “Long” (by making loans with long maturities). This result in a term mismatch that makes the balance sheet of banks inherently unstable. If depositors descended en masse and insist on withdrawing more cash than the bank has in the vault then the bank will not be able to liquidate its assets fast enough to satisfy depositors.

The deposit guarantee fund may also fail to protect depositors fund as (Folkerts et al 1998) argues that in the event of crisis other bank creditors and shareholders may be in a better position to pressure policy makers to extend protection to their own claims conversely the Government may be forced to find budgetary resources to pay off depositors, then the government may weaken the incentive to monitor the management of banks not only for the depositors but also other creditors and shareholders. (Cull 1998) claims that deposit guarantee fund can only reduce instability of banks in countries with a good institutional environment where the regulators can effectively offset moral hazards.

2.4.4 Financial performance Reporting.

According to the Sacco societies (deposit- taking business) regulations, deposit taking SACCOs are subjected to adhering to monthly, quarterly and annual reporting requirements by SASRA. The objectives of financial reporting is to assist interested members understand the results of operations, financial conditions and cash flow of the company. Financial reporting and co-operate disclosure is important as (Shleifer et al 1999) observed that the disclosure have the potential to change firms value by affecting managers decisions and hence altering the distribution of future cash flows. He further noted that many studies in agency theory suggested that more transparency and better corporate governance increases firms value by improving manager’s decisions or by reducing the amount that managers appropriate for themselves (Hombardo 2002) demonstrated that better disclosure reduces the amount of managerial appropriations.
This effects generally reduces a firms cost of capital, moreover better co-operate disclosure can improve managers production or investment decisions if investors and firms co-ordinate with respect to capital allocation via public disclosure. Financial reporting and disclosures also have costs. As noted by (Ribstein 2005) when he concluded that the direct cost of reporting include the preparation, certification of accounting reports and dissemination of the accounting reports.

(Feltman et al 1992) observed that the disclosures in the reports have indirect cost because information provided can be used by other parties. (eg competitors, labour unions, regulations tax authorities etc) For example detailed information about a line of business profitability can reveal proprietary information to competitors. With these financial reporting requirements deposit taking SACCOs should be preparing these reports using the international accounting standards and report using the set out forms 6, 7 and 8 in the second schedule.

Mandatory disclosure regime is costly to design, implement and enforce. (Stringler 1971). As stated the implementation and enforcing of these reporting requirement may or may not be done by the regulators. As (Stringler 1971) criticized the public interest theory of regulation. In the theory of public interest which is associated with Pigou, takes a position that unregulated markets are subject to serious market failures and that competent benevolent government can correct such failure but (Stringler 1971) came up with the capture theory when it questions the public interest theory’s main assumption that the governments are not benevolent and competent. This theory contends that regulators are often captured by those whom they are charged to regulate and even if the “do good” by acting in public interest they are generally incompetent and likely to fail.

The capture theory often models regulators as self interested agents that seek to maximize their own welfare with primary concern being their own wealth and power (peltzman 1976) with this theory we learn that in some cases regulations are set, but it becomes difficult for the regulators and supervisors to enforce these regulations that why we need to find out whether these disclosure and reporting requirements will be implemented or not.(Grossman 1981) in his study pointed out that in the absence of disclosure and
reporting standards, skeptical market participants would assume the firm is hiding bad news. Therefore reporting of firm’s performance is necessary.

2.5 Empirical Review

Various studies in the area of regulation of SACCOs have been conducted, though in broad spectrum of the co-operative sector (Markus Dister and Daniel Schmidt 2011) carried a research on assessing the sustainability of SACCOs and they observed that proper regulations and supervision of SACCO is important as it will enhance the sustainability of the SACCO sector. They further noted that the fact that SACCOs intermediate the members savings, calls for prudential regulation and external oversight was necessary in order to avoid loss of savings. Lessons may be learnt from this study in relation to the need of prudential regulations but there exist a gap in the regulations of SACCOs on how the prudential will be carried our without affecting the operations of SACCOs.

(Mudibo 2005) raised concern on the caliber of leaders who run SACCOs since they are voluntary organizations, members can elect, anybody they like who may not necessary have the skills to run a SACCO. He further noted that absence of rules that specify qualifications of board members result in then being selected based on popularity rather than appropriate skills. Now the SACCO societies (deposit taking business) Regulation 2010, providing for vetting of the board of directors (Fit and proper test) will this actually affect the members of the board of directors, and consequently influence the operations of the SACCOs.

(Kuhlengisa 2011) In his study noted that capitalization is a major constraint within the co-operative sector, and recommended that the regulators determining the minimum capital necessary to run a SACCO, places the prerogative on the membership to raise the required capital through conversion of savings into shares or increasing voluntarily shares. Provided there are conditions restricting the ability to withdraw the shares. He further recommended that in the case of external equity, amendments can allow SACCOs to raise capital through the issuance of non-membership equity both to members and non-
members. Therefore the SACCO can create a class of shares that permits a person to only that class of shares. However to ensure adherence to co-operative principles, such shares would have restrictions i.e. a holder of such shares can never control or own the SACCO and may not be allowed to vote at the annual general meeting.

According to (Ngumo 2005), he observed that in most cases there is a conflict of interest while transacting SACCO business due to corrupt practices. Corrupt committee members employ unqualified. Staff due to personal interest. With the regulation on vetting of managers and members of board by SASRA, will this rule bring about sanity in the operations of deposit taking SACCO and the whole SACCO sector.

Technology is major challenges to SACCOs as noted by (Kavulani 2006) She further noted that modern approach to business require SACCO to introduce information technology (IT) in their set up. According to her findings most SACCOs do not have standards SACCO software to make them competitive while other SACCOs are still operating manually. She recommended that the SACCOs should embrace technology, as it will help in their operations. Also (Mbui 2006) argued that customers' expectations are being driven by changing technology and business that fails to adopt information communication technology are doomed. The lesson we can learn from them is that it is necessary for the SACCOs to embrace a proper management information system. The question is will this actually held in their prudential reporting now SASRA has imposed a regulation on monthly, Quarterly and yearly financial reporting. In his study on the factors affecting the growth of SACCOs in Mombasa County (Chonga 2012) concluded that the new regulatory regime will check the perforation of privately operating and unregistered pyramid schemes that totally identified themselves with the deposit taking SACCOs.
From the conceptual framework, SACCO operations are categorized into two: That is the BOSA operations and FOSA operations. BOSA operations involve SACCOs back office departments that deal with products and services that require due process in order to access. These products include: Savings services by members, Investment by the SACCOs, Dividends, pay out to members and offering different types of loans to members. The FOSA operations deal with the services that can be accessed to members without a due process such as filling of application forms. The products and services include deposit taking, offering of different types of loans, offering utility products and
data management. These services offered above may be affected by the SASRA regulations either positively or negatively. The regulations that may affect the operations of the SACCOs include the licensing requirement, capital adequacy requirement, and governance of SACCO rules, the deposit guarantee fund requirement and the financial performance reporting requirements.

2.6 The Gaps in Literature Reviewed

From the literature reviewed one can realize that deposit taking SACCOs are very important in Kenya and has been long recognized as a key for expanding affordable financial services and products to the majority of Kenyans especially the low income household and small and medium micro-enterprises (SMEs) both in rural and urban areas. One can also note that in 2008 A Sacco societies Act 2008 (No. 4 of 2008) was enacted into law to make provisions for the licensing, regulations and supervision of Sacco societies as establish the Sacco societies Regulatory authority (SASRA). SASRA is responsible for the licensing and supervision of deposit-taking business Sacco’s. According to the Act, all deposit taking SACCOs are expected to adhere to some regulations which include; applying for a license from SASRA, maintain a co-capital of Ksh 10 million, follow a given way of reporting their financial performance, set-up a deposit guarantee fund of Ksh 100,000 for every member, and follow the governance rules for the managers of SACCO, and many more others not mentioned herein, failure to which SASRA can instigate some administrative tools to the registered SACCO, which may even go to the extent of having their license revoked and possible liquidation.

Different authors and scholars observed that there are benefits of regulations to depositors (members of SACCOs or clients of a SACCO), as the consumers of the SACCO products may benefit from the ability of a SACCO to satisfy their financial needs in one location as the banking services will be offered from their village SACCOs and at an affordable and sustainable basis. However some scholars have also observed that some regulations are burdensome to SACCOs or even the members and might sometimes affect the operations of the SACCO. These effects may be positive or negative.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
In this chapter a description of the procedure and strategies that will be used in carrying out the study is given. It covers the research design, target population, sampling procedures, data collection procedure, data analysis and presentation.

3.2 Research Design
A research design may be defined as the plan according to which one obtains subjects (unit's analysis) and collect information from them. (Welman at al 2005). This ensures that the evidence obtained allows the researcher to meet the objectives of the research as clearly as possible. The researcher administered questionnaires and also analyzed AGM reports of sampled deposit taking SACCOS. The researcher adopted descriptive design. Descriptive research design are designed to obtain pertinent and precise information concerning the status of phenomena and whenever possible draw valid general conclusion from the facts discovered. (Lockesh 1984) The design chosen was thus appropriate for accurate description of trends frequencies and statistical analysis.

3.3 Population of the Study
Population has been described by (Mugenda and Mugenda 2003) as a set of complete individuals or objects with some common characteristics that differentiate it from other population. Target population therefore refers to that population to which a researcher wants to generalize the results of the study. The population for this research comprised of all deposit taking SACCOS in Mombasa County. As at December 2011 there were fourteen (14) deposit taking SACCOS in Mombasa County. The researcher conducted a census because 14 SACCOS are too few to be sampled, the researcher targeted senior officers in the SACCOS, the chief executive officer or branch manager, FOSA officer, BOSA officer, internal Auditor and the chairman of the board of directors.
<table>
<thead>
<tr>
<th>Categories</th>
<th>Number in the county</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEOs</td>
<td>14</td>
</tr>
<tr>
<td>FOSA officer</td>
<td>14</td>
</tr>
<tr>
<td>BOSA officer</td>
<td>14</td>
</tr>
<tr>
<td>Internal Auditor</td>
<td>14</td>
</tr>
<tr>
<td>Finance officer</td>
<td>14</td>
</tr>
<tr>
<td>Chairman of Board of directors</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>84</td>
</tr>
</tbody>
</table>

Source: Mombasa County DCO’s office

3.4.1 Data Collection Method and Instrumentation

The researcher used both primary and secondary data. Semi structured questionnaires were used to collect primary data about the views and perception of the SASRA regulation and their effects on the operations of the deposit taking SACCOS. The questionnaire had different sections on general information, SASRA rules, BOSA operations and FOSA operations.

Secondary data sources are sources containing data that has been collected and compiled for another purpose (Zikmund 1998). The secondary data source consists of already compiled statements and reports whose data may be used by researchers. Before using secondary data, the researcher must see that the data possess qualities such as reliability, suitability, adequacy and authenticity (Kothari 2004). Kothari noted that without these qualities, it is very risky to use already available data because it is just possible that the data may be inadequate in the context of the problem which the researcher wants to study. The main source of data therefore will be obtained from questionnaires as well as audited annual financial statements such as balance sheet, AGM reports for the year 2010 and 2011.
3.4.2 Data Collection Procedures

The researcher obtained an introductory letter from Kenyatta University. To ensure that all respondents were found at appropriate time, the researcher visited the 14 deposit taking SACCOS in person and made prior arrangements with the management. The researcher then administered the questionnaires during working hours to the targeted respondents. After one week the filled up questionnaires were collected ready for analysis.

3.5 Validity and Reliability.

(Cooper and Schindler 2006) defines validity as the extent to which research truly measure that it was intended to measure or the truthfulness of the research results. In ensuring validity the researcher carried out a pilot study before the actual study. As suggested by (cooper and Schindler 2006) it is important as a matter of reliability and validity to check that the collection instrument is pre-tested before the final administration. Consequently the instruments were pretested to a sample of three deposit taking SACCOS is (Kilifi teachers SACCO, Malindi teachers SACCO and Lengo SACCO) in a neighboring county. Equally the researcher consulted experts in the field of research to benefit from their view in an attempt to ensure validity for the work to be done. Experts here included the researcher supervisor and other lecturers.

3.6 Data analysis

The data so collected was edited, coded, tabulated and analyzed using the Statistical Package for Social Science (SPSS). Data analysis involved both qualitative and quantitative procedures. This is because quantitative and qualitative data was gathered. Descriptive statistics such as measure of central tendency (mean), Frequency distribution tables and regression analysis will be conducted. The analyzed data was presented in form of percentages, frequency tables, pie charts and bar graphs. (Bell 1993) maintains that when making the results known to a variety of readers, percentages have a considerable advantage over more complex statistics. (Borg and Gall 1983) holds that the most widely used and understood proportion is the percentages.
4.1 Introduction

This chapter deals with the analysis of the data derived from the responses to the research instruments using Statistical Package for Social Sciences (SPSS) and a descriptive analysis of the four research questions raised in the study. The analysis involved a sample of 84 (100 percent) respondents that was involved in the process of data collection. The response rate was 70 (83.3 %) respondents who filled and returned the questionnaire while 14 (16.6 %) were non-response, this therefore means that the response was good.

Figure 4.1: Response Rate

4.1 Respondent Demographics

In this section the researcher sought to establish the demographics of the respondent’s in terms of organization, position, and years of service. This being a sample study, all the views from respondents were merged.
4.1.1 Gender
The analysis of the respondents on basis of gender shows that out the 70 respondents 55 (78.6 percent) respondents were male and 15 respondents (21.4 percent) were female.

Table 4.1 Gender

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Male</td>
<td>55</td>
<td>78.6</td>
<td>78.6</td>
<td>78.6</td>
</tr>
<tr>
<td>Female</td>
<td>15</td>
<td>21.4</td>
<td>21.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.1.2 Position in SACCO
The figure 4.1 and Table 4.2 shows the analysis of the respondents by their position in the SACCO. Out the 70 respondents 8 (14.2 percent) respondents were CEO, 14 respondents (20 percent) FOSA officer, Internal auditors and finance officer, 12 respondents (17.1 percent) BOSA officers and 6 respondents (8.5 percent) board of directors.

Table 4.2 Position in the Sacco

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid CEOs</td>
<td>10</td>
<td>14.2</td>
<td>14.2</td>
<td>14.2</td>
</tr>
<tr>
<td>FOSA officer</td>
<td>14</td>
<td>20</td>
<td>20</td>
<td>34.2</td>
</tr>
<tr>
<td>BOSA officer</td>
<td>12</td>
<td>17.1</td>
<td>17.1</td>
<td>51.3</td>
</tr>
<tr>
<td>Internal Auditor</td>
<td>14</td>
<td>20</td>
<td>14</td>
<td>65.3</td>
</tr>
<tr>
<td>Finance officer</td>
<td>14</td>
<td>20</td>
<td>14</td>
<td>79.3</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>6</td>
<td>8.5</td>
<td>8.5</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
4.1.3 Highest level of Education

The respondents were requested to state their highest level of education. Table 4.3 shows that 4 respondents (5.7 percent) had a certificate, 16 respondents (22.9 percent) had a diploma, 41 respondents (58.6 percent) had a degree and 9 (12.9 percent had masters degree.

Table 4.3 Highest level of education

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Certificate</td>
<td>4</td>
<td>5.7</td>
<td>5.7</td>
</tr>
<tr>
<td></td>
<td>Diploma</td>
<td>16</td>
<td>22.9</td>
<td>22.9</td>
</tr>
<tr>
<td></td>
<td>Degree</td>
<td>41</td>
<td>58.6</td>
<td>58.6</td>
</tr>
<tr>
<td></td>
<td>Masters</td>
<td>9</td>
<td>12.9</td>
<td>12.9</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.1.4 Professional Qualification

The analysis on the respondent’s professional qualification shows that 14 respondents (20 percent) had CPA, 29 respondents (41.4 percent) had BCOM, 17 respondents (24.3 percent) had DIP in COOP management and 10 respondents (14.3 percent) had KATC.

Table 4.4 Professional qualification

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPA</td>
<td>14</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>BCOM</td>
<td>29</td>
<td>41.4</td>
<td>61.4</td>
</tr>
<tr>
<td>DIP COOP</td>
<td>17</td>
<td>24.3</td>
<td>85.7</td>
</tr>
<tr>
<td>MGT</td>
<td>10</td>
<td>14.3</td>
<td>100.0</td>
</tr>
<tr>
<td>KATC</td>
<td>10</td>
<td>14.3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.1.5 Time served in the SACCO

The table 4.5 shows the years of service by the same employer. Out the 70 respondents 8 (11.4 percent) respondents had served below 1 year, 23 (32.9 percent) had served for 2 to 5 years, and 39 (55.7 percent) had served for more than 5 years. This therefore indicates that 87 percent of the respondents had served more than one year hence their view were current and factual.
Table 4.5 Time served in the Saccos

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Below 1 Year</td>
<td>8</td>
<td>11.4</td>
<td>11.4</td>
<td>11.4</td>
</tr>
<tr>
<td>Between 2 to 5 Years</td>
<td>23</td>
<td>32.9</td>
<td>32.9</td>
<td>44.3</td>
</tr>
<tr>
<td>Above 5 Years</td>
<td>39</td>
<td>55.7</td>
<td>55.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.3: Distribution of respondent’s year of service

4.1.6 Membership

The analysis in table 4.6 show that 20 Respondents (28.6 percent) had membership below 1000 and between 1000 and 5000, while 30 respondents (42.0 percent) had membership above 5000.
Table 4.6 Membership

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Below 1000</td>
<td>20</td>
<td>28.6</td>
<td>28.6</td>
<td>28.6</td>
</tr>
<tr>
<td>Between 1000 to 5000</td>
<td>20</td>
<td>28.6</td>
<td>28.6</td>
<td>57.1</td>
</tr>
<tr>
<td>Above 5000</td>
<td>30</td>
<td>42.9</td>
<td>42.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.1.7 Deposits

The respondents were requested to rate the membership deposits, Table 4.7 shows that 30 respondents (42.9 percent) had deposits below 1M, 13 respondents (18.6 percent) had deposits between 1M to 10M and 27 respondents (38.6 percent) had deposits above 10 M

Table 4.7 Deposits

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Below 1M</td>
<td>30</td>
<td>42.9</td>
<td>42.9</td>
<td>42.9</td>
</tr>
<tr>
<td>1 M to 10 M</td>
<td>13</td>
<td>18.6</td>
<td>18.6</td>
<td>61.4</td>
</tr>
<tr>
<td>M</td>
<td>27</td>
<td>38.6</td>
<td>38.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.2 Licensing requirement.

The respondents were requested to rate the areas of operation they think will most benefit from on-site inspection using the 5-point Likert scale. The questionnaire comprised 6
options which the respondents were required to rate. The options were captioned as in the table 4.8 below.

Table 4.8 Institution; assessment

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Management</td>
<td>70</td>
<td>2.7714</td>
<td>.42294</td>
</tr>
<tr>
<td>Governance</td>
<td>70</td>
<td>2.8857</td>
<td>.32046</td>
</tr>
<tr>
<td>Compliance</td>
<td>70</td>
<td>2.8857</td>
<td>.32046</td>
</tr>
<tr>
<td>Capital</td>
<td>70</td>
<td>2.6143</td>
<td>.59692</td>
</tr>
<tr>
<td>Credit loans</td>
<td>70</td>
<td>2.6571</td>
<td>.63442</td>
</tr>
<tr>
<td>Management Information Systems</td>
<td>70</td>
<td>2.8714</td>
<td>.33714</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>70</td>
<td>2.7809</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.8 shows that the average mean was 2.78 which implies a positively skewed very necessary level of agreement, given that the scale range form 3 very necessary and 1 unnecessary. Mean for each element range from 2.6 to 2.8. Table 4.8 indicates that credit loans and Capital were ranked to benefit the least from the inspection, while Governance, Compliance and Financial Management were ranked to benefit the most from the inspection.

4.3 Capital adequacy Regulations

The respondents were requested to rate the options for SASRA regulations using the 3-point Likert scale. The questionnaire comprised 4 options which the respondents were required to rate.
4.3.1 Prudential information

The options for Saccos meeting prudent information elements were captioned as in the table 4.8 below.

Table 4.9 SASRA Regulations

| Core-Capital of not less than 10 Million Shillings | 70 | 2.9429 | .33560 |
| Core-Capital of not less than 10% of Total Assets | 70 | 2.9143 | .37078 |
| Institution Capital of not less than 8% of Total Assets | 70 | 2.9429 | .33560 |
| Core Capital of not less than 8% of Total Deposits | 70 | 2.9429 | .33560 |
| Valid N (listwise) | 70 | 2.9358 |

Table 4.9 show that the average mean response was 2.9 which implies an above limit level of agreement given the scale range from 3 to 1, 3 being above limit while 1 being below limit. Means for each questions ranged from 2.91 to 2.94. Table 4.9 indicates that Institution Capital of not less than 8% of Total Assets, Core-Capital of not less than 10 Million Shillings and Core Capital of not less than 8% of Total Deposits were ranked the highest while Core-Capital of not less than 10% of Total Assets was ranked the lowest.

4.3 Corporate governance requirement.

The respondents were requested to rate the options for enhancing the ability to operate effectively using the 4-point likert scale. The questionnaire comprised 5 options which the respondents were required to rate. The options were captioned as Management
Information System, Audit Committee, Credit Committee, Business Plan, and Internal Control Systems as represented in the table 4.10 below.

Table 4.10 Ability to operate

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>70</td>
<td>3.9143</td>
<td>.28196</td>
</tr>
<tr>
<td>Information System</td>
<td>70</td>
<td>3.8857</td>
<td>.32046</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>70</td>
<td>3.8143</td>
<td>.39168</td>
</tr>
<tr>
<td>Credit Committee</td>
<td>70</td>
<td>3.9714</td>
<td>.16780</td>
</tr>
<tr>
<td>Business Plan</td>
<td>70</td>
<td>3.9714</td>
<td>.16780</td>
</tr>
<tr>
<td>Internal Control Systems</td>
<td>70</td>
<td>3.9114</td>
<td>-</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>70</td>
<td>3.9114</td>
<td>-</td>
</tr>
</tbody>
</table>

From table 4.10 the average mean response was 3.915 which implies a very relevant level of agreement given the scale range from 4 to 1, 4 being very relevant while 1 being very unnecessary. Means for each questions ranged from 3.8 to 3.9. Table 4.10 indicates that Internal Control Systems, Business Plan and Management Information System were ranked the highest while Audit Committee and Credit Committee were ranked the lowest.

4.3.1 Fit and proper test

The analysis in table 4.11 shows that 54 respondents (77.1 percent) agreed that fit and proper test for the board of director necessary for the effective and efficiency in operations of Saccos activities.
Table 4.11 Fit and proper test

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid</th>
<th>Percent</th>
<th>Cumulative</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>54</td>
<td>77.1</td>
<td>77.1</td>
<td>77.1</td>
<td>77.1</td>
<td>77.1</td>
</tr>
<tr>
<td>No</td>
<td>16</td>
<td>22.9</td>
<td>22.9</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4 Deposit guarantee fund

The analysis on the deposit guarantee fund making the member gain confidence saving more with the SACCO shows that 14 respondents (20 percent) agreeing while 56 respondents (80 percent) disagreed.

The analysis in table 4.11 shows that 14 respondents agreed that the deposit guarantee fund has made the members gain confidence and save more with the SACCO, while 56 strongly agreed that deposit fund has made members gain confidence.

Table 4.12 Members confidence

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid</th>
<th>Percent</th>
<th>Cumulative</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Agree</td>
<td>14</td>
<td>20.0</td>
<td>20.0</td>
<td>20.0</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Strongly</td>
<td>56</td>
<td>80.0</td>
<td>80.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The analysis in table 4.13 shows that 56 respondents strongly agreed that the SACCOS will invest in risky businesses and depositers will result to monitoring the activities of Saccos.
Table 4.13 SASRA regulations

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Agree</td>
<td>14</td>
<td>20.0</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>56</td>
<td>80.0</td>
<td>80.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.5 Financial performance reporting

The respondents were requested to rate the ability to submit reports in prescribed format using the 4-point likert scale. The questionnaire comprised of 4 options which the respondents were required to rate. The options were captioned as Return on Capital Adequacy, Statement of Income and Expenditure, Report on prudential requirements and Credit Risk as represented in the table 4.14 below.

Table 4.14 Report submission

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Capital Adequacy</td>
<td>70</td>
<td>3.8000</td>
<td>.40289</td>
</tr>
<tr>
<td>Statement of Income and Expenditure</td>
<td>70</td>
<td>3.4571</td>
<td>.97335</td>
</tr>
<tr>
<td>Report on prudential requirements</td>
<td>70</td>
<td>3.3714</td>
<td>.80165</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>70</td>
<td>3.3857</td>
<td>.64365</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>70</td>
<td>3.5036</td>
<td></td>
</tr>
</tbody>
</table>

From table 4.14 the average mean response was 3.5 which implies a semi-quarterly submission of reports given the scale ranged from 4 being yearly submission and 1 monthly submission. Means for each questions ranged from 3.3 to 3.8 . Table 4.13 shows that Return on Capital Adequacy and Statement of Income and Expenditure were ranked
the highest while, Report on prudential requirements, Statement of Income and Expenditure and Credit Risk were ranked the lowest with individual means of 3.37, 3.45 and 3.3 respectively.

4.4.1 Reporting Accurately
The analysis in table 4.15 show that 54 respondents (77 percent) were able to prepare the reports accurately within the given time frame, while 16 respondents (22.9) were not able to prepare reports within the given time frame.

Table 4.15 Reporting accurately

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>54</td>
<td>77.1</td>
<td>77.1</td>
</tr>
<tr>
<td>No</td>
<td>16</td>
<td>22.9</td>
<td>22.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.4.2 Increase in cost of operation.
The analysis in table 4.16 shows that 37 respondents (52.9 percent) suggested that there was an increase in the cost of operation as a result of adhering to SASRA regulations.

Table 4.16 Increase in cost of operation

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>37</td>
<td>52.9</td>
<td>52.9</td>
</tr>
<tr>
<td>No</td>
<td>33</td>
<td>47.1</td>
<td>47.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
4.4.3 Financing the cost of operation.

The respondents were requested to rate the options to be done to increase the cost of operation using the 5-point likert scale. The questionnaire comprised of 4 options which the respondents were required to rate.

<table>
<thead>
<tr>
<th>Financing increased cost of operation</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Sacco will charge higher interest on loans</td>
<td>70</td>
<td>2.2857</td>
<td>1.05147</td>
</tr>
<tr>
<td>Members will pay service charge for all services rendered to them</td>
<td>70</td>
<td>2.1000</td>
<td>0.66267</td>
</tr>
<tr>
<td>Will have to reduce the dividend payout</td>
<td>70</td>
<td>2.8000</td>
<td>1.28085</td>
</tr>
<tr>
<td>Reduce the Interest earned on deposits</td>
<td>70</td>
<td>2.6143</td>
<td>1.09403</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>70</td>
<td>2.45</td>
<td></td>
</tr>
</tbody>
</table>

From table 4.17 the average mean response was 2.45 which implies a neutral level of agreement with the parameters provided. Means for each questions ranged from 2.1 to 2.8. Table 4.17 shows that Members will pay service charge for all services rendered to them, and The Sacco will charge higher interest on loans were ranked the lowest with individual means of 2.1 and 2.2 respectively while Reduce the Interest earned on deposits and Will have to reduce the dividend payout were ranked the highest with means of 2.6 and 2.8 respectively.

4.6 BOSA Operation

The respondents were requested to rate how the SASRA regulations affect the operation of the SACCO using the 3-point likert scale. The questionnaire comprised of 7 options which the respondents were required to rate as captioned in table 4.18 below.
Table 4.18 BOSA operation.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>70</td>
<td>1.3143</td>
<td>.67121</td>
</tr>
<tr>
<td>Decisions</td>
<td>70</td>
<td>1.4857</td>
<td>.67551</td>
</tr>
<tr>
<td>Dividend Payout</td>
<td>70</td>
<td>1.1143</td>
<td>.32046</td>
</tr>
<tr>
<td>Data Management</td>
<td>70</td>
<td>1.4571</td>
<td>.55653</td>
</tr>
<tr>
<td>Interest Charged on Loans</td>
<td>70</td>
<td>1.1429</td>
<td>.42684</td>
</tr>
<tr>
<td>Savings by Members</td>
<td>70</td>
<td>1.7571</td>
<td>.66889</td>
</tr>
<tr>
<td>More Deposits by Member (Compulsory)</td>
<td>70</td>
<td>1.3286</td>
<td>.47309</td>
</tr>
<tr>
<td>More conditions for loan acquisition</td>
<td>70</td>
<td>1.3714</td>
<td></td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>70</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From Table 4.18 the average mean response was 1.37 which implies SASRA regulations have a neutral effect on SACCOs. Table 4.18 shows that More Deposits by Member (Compulsory), Interest Charged on Loans, Dividend Payout, SASRA regulations affects Saccos the most. While Data Management, Savings by Members SASRA regulations affects Sacco’s the least.

4.7 FOSA Operations

The respondents were required to state the types of loan products Sacco’s offers to members.
4.7.1 FOSA Operation

The analysis in table 4.19 shows that 30 respondents (42.9 percent) had normal loans. 36 respondents (51.4 percent) had emergency loan facility and 4 respondents (5.7 percent) had school fees loan facility.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Normal</td>
<td>30</td>
<td>42.9</td>
<td>42.9</td>
<td>42.9</td>
</tr>
<tr>
<td>Emergency</td>
<td>36</td>
<td>51.4</td>
<td>51.4</td>
<td>94.3</td>
</tr>
<tr>
<td>School Fees</td>
<td>4</td>
<td>5.7</td>
<td>5.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.4.2 Loan interests

Table 4.20 shows that Normal loan and school fees loan s had an interest rate of 1 % while emergency loan had and interest of 1.5%.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal</td>
<td>1%</td>
<td>31</td>
<td>44.28571</td>
<td>44.28571</td>
</tr>
<tr>
<td>Emergency</td>
<td>1.5%</td>
<td>13</td>
<td>18.57143</td>
<td>62.85714286</td>
</tr>
<tr>
<td>School Fees</td>
<td>1%</td>
<td>26</td>
<td>37.14286</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>
4.7.2 Time to Process loan

The analysis on the time taken by Sacco’s to process loans shows that 4 respondents (5.7 percent) had their loans processed between 3-5 hours, 28 respondents (40 percent) had loans processed between 1-3 hours.

Table 4.21 processing of loan for a member?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid others</td>
<td>27</td>
<td>38.6</td>
<td>38.6</td>
<td>38.6</td>
</tr>
<tr>
<td>3-5 hours</td>
<td>4</td>
<td>5.7</td>
<td>5.7</td>
<td>44.3</td>
</tr>
<tr>
<td>1-3 hours</td>
<td>28</td>
<td>40.0</td>
<td>40.0</td>
<td>84.3</td>
</tr>
<tr>
<td>Less than 1 hour</td>
<td>11</td>
<td>15.7</td>
<td>15.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter discusses the summary of the findings in relation to the research objectives. It also draws the conclusions, recommendations and suggests areas for further study.

5.2 Summary
The research study sought to investigate the effects of Sacco society regulatory authority’s regulations on the operations of deposit taking Saccos in Mombas county. Specifically the study explored the research objectives provided in chapter one. The study employed descriptive data analysis.

The first part of the objective was to investigate the effect of the licensing requirements on the operations of deposit taking SACCOs. There was high level of acceptance that areas of operation in the Saccos will benefit from onsite inspection, with governance, compliance and financial management benefiting the most.

The second part of analysis was to establish the effects of capital adequacy requirements on the operations of deposit taking SACCOs. There was a high level of agreement that Sacco’s met prudential requirement, with Core-Capital of not less than 10 Million Shillings being ranked the highest.

The third part of analysis was to establish the effects of corporate governance requirements on the operations of deposit taking SACCOs. Majority of the respondents agreed that establishing Internal Control Systems, Business Plan and Management Information System will enhance the Sacco ability to operate effectively and efficiently.

The fourth part of the analysis was to establish the effects of deposit guarantee fund requirement on the operations of deposit taking SACCOs. Majority of the respondents
agreed that the deposit guarantee fund has made the members gain confidence and save more with the Sacco’s and Sacco’s will also be tempted to invest in risky businesses without any fear because even if the investment fails they will be compensated.

The last part of the analysis was to establish the effects of financial performance reporting requirements on the operations of deposit taking. Most of the respondents agreed that they had the ability to complete reports on return on capital adequacy, Statement of Income and Expenditure in the prescribed format. While the respondents agreed that they could present all the requirements within the stipulated time, this led to an increase in the cost of operations. They however reported that the increase in costs could be financed by: decreasing the dividend payout rate, decreasing the interest on savings, and also starting asking members to pay service charge for services rendered to them.

5.3 Conclusions

The broad research questions relating to the effects of Sacco society regulatory authorities regulations on the operations of deposit taking Sacco’s in Mombasa County was studied and the finding analyzed so as to draw conclusions. From the results the researcher concluded that SASRA regulations have positive effects on the operations of deposit taking Sacco’s. These effects are the ability of the Sacco’s to be able to serve their members within a very short time as well as enabling the Sacco’s be able to invest in without fear of failure of liquidation. The members of Sacco’s also have increased their savings with the Sacco’s because they have confidence with the management of the Sacco’s; this has made it possible for the Sacco’s be able to meet the capital requirement with a lot of ease.

The researcher also concluded that although adhering to the SASRA rules has many benefits especially to the members, it however will lead to the increase in cost of operations which make the Sacco’s opt to cover these cost by either reduce the dividend payout ratios, decrease on interest earned on deposit or even be made to pay service charge for services gendered to them.
5.4 Recommendations

In order to gain benefits from regulating financial activities of SACCOS by SASRA so as to meet vision 2030, the following recommendations are made for policy

- To ensure that all the rules are adhered to, SASRA should organize workshops and seminars to educate the SACCO staff and members on the importance of the regulations to them and to the whole financial sector in the country.
- The SACCO management should also accept change and find better ways to cope up with these new regulations.

5.5 Suggestions for further Research.

This study has implications for future research. The limitations already discussed may justify further research. The first limitation is related with the predictive validity of the results, and these limitations can be addressed principally, replicating this research in different organizations, and with different stakeholders. Preferably, new studies should be conducted in Public, government and not for profit organizations to see if the results can be extended to them.
APPENDIX I

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The Sessional Paper no 10 of 1965 GOK.


LETTER OF INTRODUCTION

Dear Sir/madam,

Thank you for agreeing to participate in this study. The researcher is a post graduate MBA student at Kenyatta University and undertaking a study on the effects of Sacco society regulatory authority (SASRA) regulations on the operations of SACCO. The questions are meant to assist the researcher obtain information that will enable her conduct the study kindly respond to the issues in the questions as truly as possible. All the information collected will be treated with utmost confidentiality. Thank you for your co-operation.

Yours faithfully

Irene Dama Kadenge
QUESTIONNAIRE FOR THE SACCO STAFF AND THE BOARD OF DIRECTORS

The purpose of this questionnaire is to collect data regarding the effects of SASRA regulation on the operation of SACCOS. You are kindly required to produce answers to the questions as honestly and precisely as possible. The information gathered will be treated with utmost confidentiality and only for the purpose of this study. Please tick where appropriately fill in the required information.

General information

1. Gender.
   Male ( )
   Female ( )

2. State your position in the Sacco society..........................

3. Please indicate the highest level of education
   Phd ( )
   Masters ( )
   Degree ( )
   Diploma ( )
   Certificate ( )

4. Please state your professional qualification.
   ............................................................

5. How long have you served in your position as stated in 2 above. .................

6. Please indicate the following for your SACCO.
   Membership ..............................................
   Deposits ...................................................
   Loan port folio...........................................

SECTION 2

7. Effect of the licensing requirements on the operations of deposit
   During the on-site inspection the supervisors will carry out a detailed assessment of the institution. Please highlight which areas of operations you think will most benefit from the inspection.
<table>
<thead>
<tr>
<th>Requirement</th>
<th>Very necessary</th>
<th>Necessary</th>
<th>Unnecessary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management information system</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. Capital adequacy requirement

To what extent does your SACCO meet the following prudential requirement (please tick the appropriate box)

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Above limit</th>
<th>Same as limit</th>
<th>Below limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core- capital of not less than 10 million shillings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core-capital of not less than 10% of total Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institution capital of not less than 8% of total assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core capital of not less than 8% of total deposits</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
9. Cooperate governance

In your opinion do you think establishing the following will enhance ability operate effectively and efficiently. (please tick the appropriate box)

<table>
<thead>
<tr>
<th>Items</th>
<th>Very relevant</th>
<th>Relevant</th>
<th>Unnecessary</th>
<th>Very unnecessary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management information system</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit committee</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit committee</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal control systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. What is your opinion about the “Fit and proper test” Vetting by SASRA.

Yes ( ) No ( )

Explain your answer.

11. Effects of deposit guarantee fund requirement on the operations

The deposit guarantee fund has made the members gain confidence and therefore save more with the SACCO.

Strongly agree ( )
Agree ( )
Disagree ( )
Strongly disagree ( )

12. Financial performance reporting requirements on the operations of deposit

SASRA requires all registered deposit taking SACCOS to submit final reports in prescribed format. Please indicate your ability to complete the following returns as indicated. (please tick the appropriate box)
13. What is your opinion about the time frame when you are required to submit the report?

14. The following will be done to finance the increased cost of operations

(Please tick the appropriate box)

<table>
<thead>
<tr>
<th>Action</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Sacco will charge a higher interest on loans.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members will pay service charge for all services rendered to them.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Will have to reduce the dividend payout</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduced the interest earned on deposits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION THREE BOSA OPERATIONS

15. Generally how are the SASRA regulations affecting your following operations?

<table>
<thead>
<tr>
<th>Operations</th>
<th>Negatively</th>
<th>Neutral</th>
<th>Positively</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Investment decisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Dividend payout</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Data management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Interest charged on loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Savings by members</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. More deposits from members <em>(Compulsory)</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. More conditions for loan acquisition</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16. When dividends are declared, how long does it take for members to access them from their accounts?
APPENDIX IV

LIST OF DEPOSIT TAKING SACCOs IN MOMBASA COUNTY

1. Bamburi SACCO
2. Stima SACCO society LTD
3. Bandari SACCO society LTD
4. Mombasa Teachers SACCO society LTD
5. Mombasa port SACCO society LTD
6. KMFRI SACCO society LTD
7. Harambee SACCO society LTD
8. Washa SACCO society LTD
9. Kenversity SACCO society LTD
10. Mwalimu SACCO society LTD
11. Wanaanga SACCO society LTD
12. Jitegemee SACCO society LTD
13. Poly SACCO society LTD
14. PCEA SACCO society LTD

Source: Mombasa County DCOs Office.