EFFECT OF THE FINANCIAL REGULATIONS ON THE PROFITABILITY OF SACCOS.

A CASE STUDY OF SACCOS IN NYERI TOWN.

BY

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D53/20101/2010

A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE), SCHOOL OF BUSINESS, KENYATTA UNIVERSITY

OCTOBER 2012

Wachira, Esther
Effects of financial regulations on the
DECLARATION

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

Signature: ................................................. Date: .............................................

Wachira Wanjiru Esther

D53/2010/2010

This research project has been submitted for examination with my approval as the University supervisor.

Signature: ................................................. Date: .............................................

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Signature: ................................................. Date: .............................................

Chairman, Department of Accounting and Finance

School of Business, Kenyatta University
ACKNOWLEDGEMENT

First and foremost, thanks to the Almighty Lord for his unfailing love, provision, protection and unmerited mercy, certainly He is the source of all knowledge. My warmest gratitude goes to my supervisor Mr. J.M Theuri for his unwavering support and advice. Special thanks go my boss Mrs. Rosemary Kagondu who made it possible for me to meet my supervisor regularly by allowing me time off the busy office schedule. My sincere thanks goes to my entire family for their encouragements, support and care in my academic work and all lectures and staff at Kenyatta University School of Business for their support throughout the MBA program in general and in particular this research proposal. Special thanks to all my friends for their support and encouragement.
DEDICATION

This study is dedicated to my parents Mr. and Mrs Stephen Wachira for their lovely care and support throughout my education period and to my sisters Joyce and Carol.
ABSTRACT

The SACCO movement provides financial services to large numbers of people throughout Kenya. Over the last ten years there has been significant growth and innovation with new services offered to an expanding membership base. However, this development has been accompanied by various challenges such as an increasing level of risk and concern that the institutional capacity of many SACCOs to manage risk has not developed at the same pace. Increasing levels of competition from a more vibrant banking system are set to increase the potential threat faced by the SACCO movement. These challenges therefore prompted the government to come up with a policy to regulate the Sacco sub sector in order to promote financial soundness in the industry. The Saccos Societies Act 2008 was enacted into law and was operationalized in 2010 with an aim of regulating all deposit taking Saccos. The purpose of this study was to investigate the effect of the financial regulations on the profitability of Saccos in Nyeri Town. The specific objectives of this study included, establishing if capital adequacy requirement has affected profitability of Saccos, to determine the effect of licensing on the profitability of Saccos and to identify whether credit management requirement has affected the profitability of Saccos. The study is considered important to various stakeholders including the government, Saccos, researchers, academic etc. The literature review identified what other researchers have done in the area of financial regulations and performance in terms of profitability of Saccos. The study was conceptualized to determine the relationship between the dependent and independent variables and the influence of the intervening variables on the relationship between the dependent and the independent variables. The study consisted of 30 out of 35 Sacco Societies registered in Nyeri town and was conducted on top and middle level managers of Saccos in Nyeri town. The respondents were issued with self-administered questionnaires to collect primary data. The researcher used descriptive research design with stratified random sampling technique for primary data and secondary data was obtained from researched work and articles, economic surveys CBK annual report. Data collected was analyzed by use of descriptive statistics, Statistical Program for Social Sciences (SPSS).
<table>
<thead>
<tr>
<th>Abbreviation</th>
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<tr>
<td>ATMs</td>
<td>Automated Teller Machines</td>
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<td>CARs</td>
<td>Capital Adequacy ratios</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>DGF</td>
<td>Deposit Guarantee Fund</td>
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<td>FOSA</td>
<td>Front Office Service Activities</td>
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<td>Minimum Capital Requirement</td>
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<td>Microfinance Institutions</td>
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<td>MoCDM</td>
<td>Ministry of Cooperative Development and Marketing.</td>
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<td>SACCOS</td>
<td>Savings and Credit cooperative societies</td>
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<td>SARSA</td>
<td>Sacco Society Regulatory Authority</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<td>SSA</td>
<td>Sacco Societies Act</td>
</tr>
<tr>
<td>UNHSP</td>
<td>United Nations Human Settlement Program.</td>
</tr>
</tbody>
</table>
TABLE OF CONTENT

Declaration............................................................................................................................................. ii
Acknowledgement .................................................................................................................................. iii
Dedication ............................................................................................................................................... iv
Abstract ................................................................................................................................................ v
Abbreviations ....................................................................................................................................... vi
List of Tables ......................................................................................................................................... xiii
List of Figures ....................................................................................................................................... xv

CHAPTER ONE: INTRODUCTION

1.0 Introduction..................................................................................................................................... 1

1.1 Background of the study .................................................................................................................. 1

1.1.2 Role of SACCOs in Kenya’s economy ....................................................................................... 3

1.1.3 Role of Government in promoting SACCOs in Kenya .............................................................. 3

1.2 Statement of the problem ............................................................................................................... 4

1.3 Objective of the study ...................................................................................................................... 5

1.3.1 General objective ....................................................................................................................... 5

1.3.2 Specific objectives ..................................................................................................................... 5

1.4 Research questions ......................................................................................................................... 6
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction .................................................................................................................. 9

2.2 Theoretical review ........................................................................................................ 9

2.2.1 Public interest theory .............................................................................................. 9

2.2.2 Regulatory Capture theory .................................................................................... 10

2.2.3 Overview of Saccos ............................................................................................... 10

2.2.4 History of Saccos ................................................................................................... 11

2.2.5 Formation and membership of Saccos ................................................................. 12

2.2.6 Categories of Saccos ............................................................................................. 13

2.2.6.1 Employer based Saccos ...................................................................................... 13

2.2.6.2 Rural Based Saccos .......................................................................................... 14

2.2.7 Ownership Categories and Asset base in Deposit Taking Saccos ......................... 14

2.2.8 Performance of Deposit Taking Saccos in Kenya ................................................ 15

2.2.9 Financial Regulations covered by the Saccos Societies Act 2008 ......................... 16

2.2.9.1 Capital Adequacy requirement ........................................................................... 16

2.2.9.2 Licensing ............................................................................................................ 17
2.2.9.3 Liquidity and asset liability management
2.2.9.4 Shares, savings and deposits
2.2.9.5 Credit Management
2.2.9.6 Risk Classification of Assets and Provisioning
2.2.9.7 Investments
2.2.9.8 Financial Performance Reporting

2.3 Empirical Review
2.3.1 Financial Regulations
2.3.2 Prudential Regulation of Sacco societies
2.3.3 Contribution of Saccos towards socio-economic development in Kenya
2.3.4 Significance of the new regulations on the performance and profitability of Saccos
2.3.5 Challenges faced during the implementation of the new regulations

2.4 Summary and Gaps to be filled

2.5 Conceptual framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction
3.2 Research Design
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.0 Data analysis and presentation

4.1 Introduction

4.2 Results and Discussion

4.2.1 Background information of respondents and financial requirements

4.2.1.1 Management position in the Sacco

4.2.1.2 Years of experience

4.2.1.3 Level of education
5.3 Conclusions............................................................................................................60

5.4 Recommendations..................................................................................................60

5.5 Areas for further research......................................................................................61

REFERENCES..................................................................................................................62

APPENDIX I: Covering Letter.......................................................................................67

APPENDIX II: Questionnaire........................................................................................68

APPENDIX III: Budget....................................................................................................74

APPENDIX IV: Work plan...............................................................................................75

APPENDIX V: List of all registered Saccos operating in Nyeri town..............................76
LIST OF TABLES

Table 2.0: Membership Trend in Deposit taking Saccos .......................................................... 13
Table 2.1: Ownership Categories for Deposit Taking Sacco Societies in Kenya ......................... 14
Table 2.3: Performance of Deposit Taking Saccos in Kenya ...................................................... 15
Table 3.0: Classification and distribution of Saccos across the Nyeri town ............................... 33
Table 3.1: Sample Size Determinants ....................................................................................... 34
Table 4.0 Management Position in the Sacco ............................................................................ 38
Table 4.1 Years of experience .................................................................................................... 39
Table 4.5 Profitability of Saccos after the introduction of capital adequacy requirement .......... 43
Table 4.7 Type of product offered to members ......................................................................... 45
Table 4.9 : Amount of long-term loans approved to members .................................................. 47
Table 4.14: If yes indicate how the requirement has affected profitability ................................. 52
Table 4.16 Sacco turnover per month ...................................................................................... 54
Table 4.19 Challenges experienced in implementing the regulations ......................................... 57
LIST OF FIGURES

Figure 1.0: Conceptual Framework of the Study ................................................................. 31

Figure 4.0 Management Position in the Sacco ................................................................. 38

Figure 4.2 Level of education ............................................................................................ 40

Figure 4.4 Profitability of Saccos before the introduction of capital adequacy requirement .... 42

Figure 4.6 Is the profitability difference related to capital adequacy requirement .......... 44

Figure 4.8: Amount of short-term loans approved to members ......................................... 46

Figure 4.10 In your opinion has credit management requirement affected profitability of Saccos positively ...................................................................................... 48

Figure 4.11 Type of Saccos ................................................................................................. 49

Figure 4.12 Is the Sacco licensed/registered by the Sacco Society Regulatory Authority ...... 50

Figure 4.13 Has licensing requirement affected the profitability of saccos ..................... 51

Figure 4.15 Does your sacco have a policy for management of liquidity risk ................. 53

Figure 4.17 How has liquidity management affected the performance of Sacco .............. 55

Figure 4.18 How would you rate the profitability of saccos .............................................. 56
CHAPTER ONE

1.0 Introduction.

This chapter gives details on the background information on the SACCOs, the statement of the problem, objective of the study, research questions, significant of the study, assumptions, scope of the study as well as limitations of the study.

1.1 Background of the study.

Financial co-operatives or Saccos are formed by individual members with the primary purpose of pooling savings and lending to each other as per the registered Bylaws. In the early 1990s, Kenya experienced difficult economic times forcing commercial banks to demand higher minimum operating balances for individual accounts to sustain their businesses. This saw many middle and low income persons unable to operate bank accounts. Saccos thus became popular among employed persons who had been unable to maintain or operate bank accounts (SARSA 2010).

According to Brian Branch an executive vice president of WOCC, the Kenyan SACCO system has grown at a tremendous rate in the past several year but lacked any kind of regulatory oversight and supervision that would enable SACCOs to really evoke trust in their communities and compete against banks and Microfinance institutions. In December 2008, the Government enacted into law the Sacco Societies Act 2008 (No. 14 of 2008) to make provision for the licensing, regulation and supervision of the Sacco Societies, (CBK 2009).

The SACCO Societies Act was operationalized in June 2010 through the publication of Sacco Societies (deposit taking Sacco business) Regulations. The Act empowers SASRA to license and supervise Sacco Societies operating Front Office Service Activities (FOSA) also known as
Deposit Taking Sacco (D.T Sacco). Front Office Service Activity (FOSA) offers quasi banking services at competitive rates opening a new chapter in the Sacco business. The quasi banking services and products including salary and business accounts (demand deposits), salary processing, short-term loans/advances, ATMs, and mobile phone enabled services have positioned FOSA operating Sacco favorably in the market by enabling them to provide new and competitive products and services to members. (SARSA 2010).

The FOSA operating Saccos range from large urban based serving the professionals to small unsophisticated rural based serving the farmers but they have all distinguished themselves as convenient vehicles for savings and credit for personal and enterprise development. (Peter Gakunu 2011). 215 out of the 3,280 active Saccos are deposit taking (FOSA operating) Saccos while the balance of 3,065 operate as Back Office Savings Activity (BOSA) only (SSR 2011).

SASRA through effective implementation of the operational standards and prudential standards predicts a vibrant and sound Sacco subsector capable of effectively competing in the financial market through demand driven products and services (SARSA 2010). The Sacco societies Act and the Regulations anticipates changes in the way of doing Sacco business for the benefit of members and the national economy. Thus as democratic institutions, Sacco societies must embrace policies and business practices that promote good corporate governance, accountability and transparency (Peter Gakunu 2011).
1.1.2 Role of SACCOs in Kenya’s economy.

The Sacco movement in Kenya has played a very big role in the development of the economy by pooling resource for investments and wealth creation. The movement remains one of the most important vehicle through which poor Kenyans can pull resources (SASRA 2010).

Saccos play a vital role in the economic development of a country by providing access to services to all members of the population with a particular focus on the lowest income members and increase microfinance outreach and capacity (Umurenge Sacco’s Strategy 2010).

The critical role of SACCOs has been recognized under vision 2030 of mobilization of savings for investment. The Sacco movement has entrenched the culture of savings to Kenyans which is a pre-requisite for wealth creation (SASRA 2010).

1.1.3 Role of Government in promoting SACCOs in Kenya.

The Government continues to encourage the formation of SACCOs and recognize them for their contribution to the mobilization of savings in the country. In Sessional paper 4 (1987) the union banking sections of cooperative unions were folded under the SACCOs which was the Government’s intention to encourage formation of SACCOs among those people working in the informal sector (Paul Gamba 2010).

The Government has also put in place an appropriate regulatory framework for SACCOs. This will recognize the heterogeneity of this subsector and the need for a realistic and risk-based approach. Very small community based SACCOs present no systemic threat, cannot be prudentially supervised cost-effectively and members usually take an active role in management and can more directly look after their interests. By contrast the largest SACCOs in Kenya are the
size of mid-sized commercial banks in terms of assets and have a membership which would put them in the top ten financial institutions by market share. Prudential supervision of these institutions is essential to protect members and the wider financial system (Sukhwinder Arora et al. 2007).

Since Kenya has the most vibrant and dynamic Sacco sectors in Africa, Government and donor agencies are scaling up their support for an increase in participation of the citizen in the financial systems and services operating in the country (Okoye 2009).

1.2 Statement of the problem

According to SARSA (2010), the policy objective of establishing prudential regulation of deposit taking Sacco societies is to enhance transparency and accountability in the Sacco subsector. The introduction of a Sacco specific law is recognition of the unique financial intermediation function that Sacco societies play in an economy. Thus the operational regulations and performance standards are specific and prescriptive; not to make Sacco societies non-competitive and stifle their growth but to ensure that they operate and grow within a framework that promotes sound financial and business management practices. However, in an interview with Kenneth Kwama, Vitalis Lukiri who is Afya Sacco Chairman says that although the leadership of the movement is not opposed to regulations that enforce good governance considering the volume of cash and assets involved, certain sections of the regulations were penalizing (Kenneth Kwama 2011).
While regulation of Saccos is considered a necessary intervention to protect depositors and promote economic growth, it should not limit the capacity of the financial sector to evolve. That is, the costs of regulations should be weighed against the benefits so that it does not turn out to be more costly to regulate than not to regulate (Okumu 2007).

A minimum capital requirement can limit entrance into the industry. Capital requirements might also restrict future operations in terms of cost and outreach. These requirements can limit the start-up of a new Sacco to service clients and can limit existing Saccos in terms of how widely they can operate. These limitations can reduce the reach of Saccos and may reduce the competition in the industry, preventing potential borrowers from receiving financial services or making financial services more expensive (Austin Harris 2010). This study therefore sought to investigate the effect of financial regulation on the profitability of Saccos, a case of SACCOS in Nyeri town.

1.3 Objective of the study

1.3.1 General objective

The main objective of the study was to investigate the effect of financial regulation on the profitability of Saccos.

1.3.2 Specific objectives.

The study was based on the following objectives:

i. To establish if capital adequacy requirement has affected profitability of saccos.

ii. To determine the effect of Licensing on the profitability of Saccos.
iii. To identify whether credit management requirement has affected the profitability of Saccos.
iv. To establish if liquidity and asset management has led to an increase in the profitability of Saccos.

1.4 Research questions

i. How has the capital adequacy requirement affected profitability of Saccos?
ii. What is the effect of Licensing on the profitability of Saccos?
iii. How has the credit management requirement affected the profitability of Saccos?
iv. Has the liquidity and asset management led to an increase in the profitability of Saccos?

1.5 Significance of the study

The study will be of significance to the government especially the Ministry of Cooperative development the study will come up with recommendations that will assist the regulatory authority on educating Sacco officials and members on the benefits of a regulated Sacco-sub sector in Kenya.

In addition the study will be useful to the deposit taking Saccos that are yet to be licensed by the Regulatory authority since it outlines the importance for Saccos to be registered and licensed.

The study will add value to the body of knowledge on role and importance of the Sacco Societies Act which was enacted in 2010.

Finally, the study will benefit future researchers and academicians who would like to further the research in the area. The study will provide them with findings and relevant literature.
1.6 Scope of the Study

The researcher carried out the study focusing on various Saccos in Nyeri Town. Nyeri Town falls in Nyeri Central district and is situated in the Central Highlands of Kenya. Following the dissolution of the former provinces by the Kenya's constitution in 2010, Nyeri is now the largest town in the newly create Nyeri county (Wikimedia 2012). The town is situated about 150km north of Nairobi. The town's population according to the 2009 census was 119,273 with 36,412 households.

According to the information from the District Cooperatives office, Nyeri Central District has a total of 35 registered Saccos operating in Nyeri town which are categorized into three: Urban Based Saccos, Rural Based Saccos and Transport Saccos.

The scope of the study was the various Saccos operating in Nyeri Central District. However due to limitation in time and financial implications the study covered a sample of Saccos in Nyeri town.

1.7 Limitations of the Study

The Researcher's effort to carry out the research as exhaustively as possible was limited by the following:-

The researcher faced low response rate and cooperation from respondents due to the veil of secrecy placed upon operation of financial institutions hence respondents were reluctant to answer the research questionnaire. However, the researcher tried to curb this limitation by administering questionnaire in person, hence a lot of travel time and transport expenses incurred.
The sample population was also limited, as the study targeted only the top and middle level managers in Saccos and thus excluding other staff and the members of the Sacco society.
CHAPTER TWO

2.0 Literature Review

2.1 Introduction

The literature review has been reviewed as follows. The first part covers the introduction part of the literature review, part two covers the theoretical review which includes an overview and history of Saccos in Kenya, formation and membership of Saccos, categories of Saccos, performance of deposit taking Saccos and the financial regulations covered by the Sacco Societies Act, part three covers the empirical review which includes financial regulations, prudential regulations of Sacco societies, the significance of the new regulations on performance and profitability of Saccos and the challenges faced during the implementation of the new Saccos regulations, part four covers the summary and gaps to be filled while part five covers the conceptual framework.

2.2 Theoretical Review

According to (Jordaan 1997), reasons for financial regulations can be grouped under two theories: Public interest theory and the private interest (Regulatory capture theory).

2.2.1 Public interest theory

This theory was first developed by Arthur Cecil Pigou in (1932). It holds that the regulation is supplied in response to the demand of the public for the correction of inefficient or inequitable market practices. This theory views financial regulations as an attempt to create a “second best” market to improve on the stability of the financial systems and protect small depositors (AMFIU 2005). Regulation is assumed initially to benefit society as whole rather than particular vested
interests. The regulatory body is considered to represent the interest of the society in which it operates rather than private interest regulators (Richard Posner 1974).

2.2.2 Regulatory Capture theory

This theory on the other hand results from the interplay of political and economic interests in the regulated industry (Jordaan 1997). The theory states that the regulation is the outcome of a struggle between various groups, each of which seeks to ultimately maximize its own economic benefits. These benefits take various forms including profits that go to the regulated institutions, votes and states in the regulated firms that go to the regulators or law makers (Okumu 2007). The theory refers to a situation when the imbalance of focused resources devoted to a particular policy outcome is successful at capturing influence with the staff or commission members of the regulating agency (Wikimedia 2010). The outcome occurs because groups or individuals with high stake interest in the outcome of policy or regulatory decisions can be expected to focus their resources and energies in attempting to gain the policy outcomes (Timothy Lee 2006).

2.2.3 Overview of Saccos

SACCOs can be defined as associations of people who come up together with common goals geared at improving their livelihood economically. They are financial cooperatives distributed geographically across Kenya (SASRA 2010). A Sacco can also be defined as a financial institution under cooperative form which operates in the financial system and it is a legal entity in which individuals save their money and can get loans in order to invest in various activities. (CGAP: Brian Branch, WOCCU 2005).

The Sacco subsector is part of the massive Kenyan Co-operative movement comprising of both financial and non financial cooperatives. According to Hon. Joseph Nyaga’s speech in 2010, the Sacco subsector has witnessed rapid growth in the last few years at the rate of about 25% p.a.
and now boasts of a saving mobilization of Ksh 180 billion and an asset base of Ksh 200 billion. The savings mobilization represents 31% of the national savings. However, the financial regulations can affect this upward Savings mobilization due to the introduction of capital adequacy requirement.

The SACCO societies represent a considerable part of the Kenyan Financial sector accounting for 3.3 million accounts worth $ 2.2 billion and outstanding loans of $ 1.5 billion as at the end of December 2008 (CBK 2009). The sector controls 67% of total assets and 62% of total deposits for the entire continent (SASRA 2010).

The Sacco societies have famed themselves as suitable vehicles for savings mobilization and credit extension to members for both personal and enterprise development. With their diverse products and services, SACCOs have given a new meaning to the financial sector in Kenya (Paul Gamba 2010). Of the 20 million Kenyan adult population, 22.5% are served by commercial banks and MFIs while 17.6% are served by Saccos (Kenya Economic Report 2009).

2.2.4 History of Saccos.

In 1849 in Germany, Herman Schulze and William Raiffersen started the first Sacco to assist people to overcome economic problems during the time of famine. In 1850 in England, workers in a mill factory started savings and making loans, to help each other. Saccos spread to North America to Canada and then to USA in 1901 and in 1970, the World Council of Credit Unions was formed with their headquarters in USA, to provide an International Forum for discussion and Association and provide assistance to new and developed movements. (Billy Ng’ombe et.al 2004).
The first Sacco was introduced in Africa by Father John Ncnulty in 1959 in Ghana to assist villagers improve their economic conditions. In 1965 the African Federation of Cooperative society Savings and Credit Associations was formed in Nairobi Kenya as a pan African body. It was formed to promote Sacco principles, provide forum for discussion, offer insurance to Sacco members on life savings and loan protection and to educate affiliate members on a wide variety of credit union issues. (Edward Mikwamba et.al 2004)

Saccos in Kenya started as a Cooperative movement which dated back to 1931 when the first rule to regularize the operations of the cooperatives in the country was enacted (Billy Ng’ombe et.al 2004). Sacco societies were first registered in Kenya as thrift licensees in 1964 with the objective of mobilizing savings from their members. However it was not until 1969 that the Government encouraged the registration of Saccos to mobilize savings and give credit to employed people who had a common bond (Njang’ombe 2010)

2.2.5 Formation and membership of Saccos.

Saccos are mainly formed by low income earners and the society has objectives of financial status. The main requirement across all Saccos is that their members have to have some source of income before qualifying to join the Sacco (KUSCCO 2009).

Saccos have been able to retain their membership and attract new members through natural affiliation, stemming from common bond among members. With increased competition from other financial service providers and other factors such as retrenchment, Sacco membership was on the decline promoting the Saccos to come up with strategies and products to assist them cope with these challenges such as extending to alternative markets and diversifying their product range (SARSA 2010).
Table 2.0: Membership Trend in Deposit taking Saccos

<table>
<thead>
<tr>
<th>Item</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership</td>
<td>981,830</td>
<td>955,162</td>
<td>1,061,348</td>
<td>1,583,994</td>
<td>1,546,966</td>
</tr>
</tbody>
</table>

(Source: SSR 2011)

The table above shows the membership trend in deposit taking Saccos from 2006 to 2011. This clearly indicates that there is an upward trend in the membership base of Saccos. The Sacco Societies Act prohibits Saccos from transacting with non members in line with the principle of cooperatives and the cooperative law. Thus according to the Sacco Supervisory Report (2011), the membership trend is likely to increase significantly as deposit taking Saccos seek to comply with the law by recognizing the FOSA customers as members with limited rights. However this upward trend can be affected by the introduction of the capital adequacy requirement.

2.2.6 Categories of Saccos.

2.2.6.1 Employer based Saccos.

These Saccos are also known as urban based Saccos who cater for employed people in the society. These Saccos were operational in the country before 1990s with employment as a common bond. Societies formed by teachers on district basis were particularly successful (MFHL 2006).

This category also includes Country wide Societies which are normally based in Nairobi but have members throughout the country, following the pattern of their employment. Largest Sacco is the Harambee which is for civil servants and has a membership of over 75,245 with over 413 million shares and 311 million outstanding in loans (Paul Gamba 2010).
2.2.6.2 Rural Based Saccos

The employment based system locked out a large group of people who were self employed and farmers. Rural based Saccos serve farmers with an aim of helping them to improve their savings and enable them to borrow for different purposes such as school fees and funding Micro enterprises (Peter Gakunu 2011).

2.2.7 Ownership Categories and Asset base in Deposit Taking Saccos

Saccos being co-operatives are formed based on a common bond which could be employment, geographical location or economic activity. The members of the Sacco are thus bound together through the common economic undertaking. Membership or ownership is structured based on this argument and the table below is a summary of the broad categories of the Sacco societies (SARSA 2010).

Table 2.1: Ownership Categories for Deposit Taking Sacco Societies in Kenya.

<table>
<thead>
<tr>
<th>Membership base</th>
<th>Number</th>
<th>%</th>
<th>Total Assets</th>
<th>%</th>
<th>Deposits</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teachers</td>
<td>46</td>
<td>21%</td>
<td>57,414,278,904</td>
<td>34%</td>
<td>42,018,505,184</td>
<td>34</td>
</tr>
<tr>
<td>Government employees</td>
<td>44</td>
<td>20%</td>
<td>62,605,901,117</td>
<td>37%</td>
<td>48,123,121,459</td>
<td>39</td>
</tr>
<tr>
<td>Farmers</td>
<td>74</td>
<td>34%</td>
<td>22,901,536,491</td>
<td>13%</td>
<td>16,085,789,160</td>
<td>14</td>
</tr>
<tr>
<td>Private Sector employees</td>
<td>26</td>
<td>12%</td>
<td>11,189,416,623</td>
<td>7%</td>
<td>13,049,776,424</td>
<td>10</td>
</tr>
<tr>
<td>Others</td>
<td>25</td>
<td>12%</td>
<td>17,268,724,529</td>
<td>10%</td>
<td>4,180,198,327</td>
<td>3</td>
</tr>
</tbody>
</table>
I

(Traders, Transport and Housing)

| TOTAL | 215 | 100% | 171,379,857,664 | 100% | 123,137,390,554 | 100 |

(Source: SSR 2011)

2.2.8 Performance of Deposit Taking Saccos in Kenya.

The Kenyan Sacco sub-sector comprises both deposits taking and non-deposit taking Saccos. Deposit taking Saccos commands a significant market share in the Sacco subsector. These Saccos also comprise the large Saccos in terms of key indicators including membership, assets and deposits. Therefore, their trend performance will tend to reflect the growth trend expected by the Sacco subsector as a whole (SSR 2011). The table below provides performance statistics for deposit taking Sacco societies over the period 2006 to 2010 (before and after the regulations).

Table 2.3: Performance of Deposit Taking Saccos in Kenya.

<table>
<thead>
<tr>
<th>Performance item</th>
<th>2006</th>
<th>2007</th>
<th>%</th>
<th>2008</th>
<th>%</th>
<th>2009</th>
<th>%</th>
<th>2010</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>105,533</td>
<td>115,900</td>
<td>10</td>
<td>134,018</td>
<td>16</td>
<td>146,167</td>
<td>9</td>
<td>171,345</td>
<td>17</td>
</tr>
<tr>
<td>Loans/Advances</td>
<td>68,302</td>
<td>77,356</td>
<td>13</td>
<td>90,984</td>
<td>18</td>
<td>102,514</td>
<td>13</td>
<td>123,492</td>
<td>20</td>
</tr>
<tr>
<td>Deposits/savings</td>
<td>51,113</td>
<td>61,753</td>
<td>21</td>
<td>71,110</td>
<td>15</td>
<td>105,929</td>
<td>49</td>
<td>123,137</td>
<td>16</td>
</tr>
</tbody>
</table>
From the table above, Saccos have improved performance in 2010, in terms of total assets, Loans, total deposits, turnover and Share capital. This improved performance may be accredited to the introduction of the new regulations introduced by the Government through the Saccos Society Act 2008.

2.2.9 Financial Regulations covered by the Saccos Societies Act 2008.

2.2.9.1 Capital Adequacy requirement

According to Okumu (2007), Capital adequacy requirement operates at two levels: Minimum Capital Requirement (MCR) and Capital Adequacy ratios (CARs). MCR is the amount of money that an applicant must have in a specified form, is one of the preconditions for getting a license to establish a financial institution. Once a Sacco has obtained a license, it has to adhere to a certain CAR, the level of capital that must be available in the institution to cover unexpected risk. CAR determines the maximum level of debt verses equity that a financial institution can have (Ledgerwood 1999).
The Sacco Societies Act refers that every Sacco operating as a FOSA Sacco to maintain a Sh10 million minimum core share capital requirement, they must also maintain a core capital of not less than eight per cent of the total deposits and 10% of total assets (Geoffrey Njang’ombe 2010). A monthly Capital adequacy return will be required of every licensed Sacco society and Sanctions may be applied to defaulting Sacco societies not only in submitting return but also in maintaining the required minimums (Laws and Regulatory Framework of SACCOs Kenya’s 2010). Maintenance of minimum capital adequacy is calculated at a rate of 10% of the Saccos total liabilities. The liquidity ratio of 10% must be kept in cash with a bank duly registered under the banking Act (Njang’ombe 2010).

2.2.9.2 Licensing

According to the Act, A Sacco Society shall not carry out deposit-taking business without a valid license from the Authority. A Sacco Society intending to operate deposit-taking Sacco Society business shall make an application to the Authority for a license. A Sacco Society shall apply for renewal of a license at least ninety days before the expiry of its operating license in respect of its head office and any other place of business renewal of license (Kenya Gazette Supplement No. 39 18th June, 2010).

In the new regulatory regime, Saccos are also required to pay a license fee of Sh30, 000. This amount is not refundable and doesn’t depend on whether the application is approved or not (Kenneth Kwama 2011).

2.2.9.3 Liquidity and Asset Liability Management

Liquidity is traditionally defined as the ability to meet obligations as they come due. It is the institution’s ability to accommodate decreases in funding sources and increases in assets and to
pay expenses at a reasonable cost (Saltzman et al 1998). Liquidity management evaluates the ability of an institution to cope with inflows and outflows of funds without causing any panic, mostly among depositors. It is assessed by the movements and the composition of assets and liability structures and cash flow projections (Okumu 2007).

This part of the Act provides that the board of directors of the Sacco shall be responsible for formulating, reviewing and adjusting the liquidity policy of the Sacco Societies on an annual basis, maintenance of 15% of savings deposits and short term liabilities in liquid assets, and putting in place a liquidity contingency plan to handle liquidity crises. It also provides for weekly monitoring of liquidity but requires submission of a monthly statement of liquidity return to the Authority (Accosca Saccos Leaders’ Forum2010).

According to the Act, A Sacco Society shall not open a branch or new place of business without the prior written approval of the Authority. A Sacco Society shall notify the Authority of its intention to open and operate a branch and shall invite the Authority to inspect the premises before commencing operations. The Authority shall undertake the inspection of the branch premises and examine compliance with the standards and the operational readiness of the Sacco Society for commencing operations. (Kenya Gazette Supplement No. 39 18th June, 2010).

2.2.9.4 Shares, Savings and Deposits

According to the Act, A Sacco Society shall prescribe a minimum number of shares at a par value for which an individual shall subscribe to become a member. A member shall not pledge shares as collateral or security for a loan granted by the Sacco Society. A member may transfer shares to other members on leaving membership of a Sacco Society, but the Sacco Society shall not refund shares. Shares may earn dividends paid from net surplus after required transfers to
reserves at the end of a financial year in accordance with the dividend policy of a Sacco Society. A Sacco Society shall not pay dividends unless it has complied with the prescribed capital adequacy and any other requirements that the Authority may impose (Kenya Gazette Supplement No. 39 18th June, 2010).

This part also provides for Sacco societies to: establish a deposit mobilization policy, submit a monthly deposit return, maintain member accounts in relation to shares, savings and deposits, disclose terms for savings, and treatment of dormant accounts (Laws and Regulatory Framework of SACCos Kenya’s 2010).

2.2.9.5 Credit Management

According to the Act, A Sacco Society shall have a written credit policy consistent with the relevant provisions of the Act, these regulations and any other applicable laws. A member may repay a credit facility prior to its maturity in whole or in part on any business day without being charged full-term interest. The board of directors of a Sacco Society shall be responsible for ensuring that the written credit policy remains up-to date and reflect current lending practices. A Sacco Society shall provide a sixty days’ written notice to every member affected by a change in any term disclosed in the loan contract. When a loan application is rejected, the Sacco Society shall communicate to the applicant in writing the reasons for the rejection within fourteen days (Kenya Gazette Supplement No. 39 18th June, 2010).

This part also provides for Sacco societies to disclose lending terms and legal obligations between parties, the board of directors should establish interest rates and impose a late charge for delinquent loans. A Sacco society should to retain a 10% interest of the face value of a member’s
loan products approval by the Authority and external borrowings limited to 25% of total assets requirements for grant of a loan, loan types and maximum loan approval levels. (Accosca Saccos Leaders’ Forum 2010).

2.2.9.6 Risk Classification of Assets and Provisioning.
A Sacco Society shall undertake a review of its credit portfolio at least once every quarter, loans and advances will be classified into five categories on the basis of performance, that is, Performing, Watch, Substandard, Doubtful and Loss. And shall ensure that: loan granting and lending conforms to the approved credit policy, problem accounts are adequately identified and classified in accordance with the classification criteria prescribed in these regulations and appropriate and adequate level of provisioning for potential loss are made and maintained at all times (SSA 2008).

This Part also provides for proposed rates for loan loss provisions as 0% for a performing loan, 25% for a loan classified as watch, 50% for a loan classified as substandard, 75% for a loan classified as doubtful and 100% for a loan classified as loss all within twelve months. Classification and provisioning will be reported on a quarterly basis. As the facility slides down from performing to loss, the Sacco society should increase collection efforts but at the same time prepare for eventual loss by providing for loan losses (Laws and Regulatory Framework of SACCOs Kenya’s 2010).

2.2.9.7 Investments
A Sacco Society’s board of directors shall be responsible for formulating, reviewing and amending the investment policy that is consistent with the Act, these regulations and any other
applicable laws. A Sacco Society shall submit to the Authority a return on its investments at the end of every quarter to be received on or before the 15th day of the following month as set out in Form 5 in the Second Schedule (Kenya Gazette Supplement No. 39 18th June, 2010).

2.2.9.8 Financial Performance Reporting

A Sacco Society shall submit to the Authority by the 15th day of each month a return of the Statement of income and expenditure and a Statement of financial position showing results of its operations for the preceding month. A Sacco Society shall as of the 31st March, 30th June, 30th September, 31st December, submit to the Authority financial statements in the prescribed format for the month, the quarter to date and the year to date. A Sacco Society shall present its accounts and associated descriptions without deviation as set out in Forms 6, 7 and 8 in the Second Schedule. These formats will ensure that reporting is uniform and therefore one can make comparison of one Sacco society with another. A Sacco Society shall within three months after the end of the financial year submit for approval to the Authority its audited financial statements, before publication and presentation to the Annual General Meeting (Kenya Gazette Supplement No. 39 18th June, 2010).

This part provides for mandatory internal and external auditing of financial statements, responsibilities of the internal auditor, external auditor and the audit committee to the Authority, board and members. An analysis of Saccos financial performance will provide an early warning signal of a Sacco society in distress and thus remedies can be prescribed early enough (Accosca Saccos Leaders’ Forum 2010).
2.3 Empirical Review

2.3.1 Financial Regulations

Financial regulation is defined to be a set of enforceable rules that restrict or direct the actions of market participants and as a result, alter the outcome of those actions (Okumu 2007). It may also be defined as rules that govern commercial behavior in the financial system according to Carmicheal et al. (2002), while Ledgerwood (1999), defines financial regulation as a body of principles, rules, standards, and compliance procedures that apply to financial institutions. Financial regulations can be broken down into two broad categories: Prudential regulations and protective regulations.

2.3.2 Prudential Regulation of Sacco Societies

According to Chaves et al. (1994), prudential financial regulations are a set of general rules or legal rules that aim to contribute to the stable and efficient performance of the financial institutions and markets. AMFIU (2005), on the other hand, defines protective regulations as those that offer protection to depositors or the intermediaries taking the deposits. Such protection takes the form of a deposit insurance fund and emergency assistance and bailout.

The MoCDM commenced the development of a Sacco specific legislation in 2004 culminating in the Sacco Societies Act (SSA) and establishment of the Sacco Societies Regulatory Authority (SASRA) with the mandate to enforce the new legal and regulatory framework. In addition to prudential regulation, the Act also establishes the Deposit Guarantee Fund (DGF) which shall provide protection to members’ deposits up to Ksh.100,000 per member. The SSA commenced
in 2009 but SASRA started operations in June 2010 upon publication of the Sacco Societies (Deposit Taking Sacco Business) Regulations (SARSA 2010).

The new law requires that every registered society and new applicants must pay an annual fee of Sh50,000 and Sh20,000 for every branch that offers Front Office Savings Accounts (Fosa) services. If the society operates or is planning to offer such services in any part of the country, every FOSA branch must be registered and licensed independently and is supposed to pay charges annually to the regulator (Kenneth Kwama 2011).

2.3.3 Contributions of Saccos towards socio-economic development in Kenya.

Financial cooperative societies (Saccos) promote a saving culture amongst its members as a recent research reveals (Edward Mwesigye 2008). This is crucial because increased savings lead to increased capital accumulation leading to increased investment which leads to employment and increase in incomes ultimately breaking the vicious cycle of poverty (Fredrick Mwesigye 2008). The critical role of Saccos has been recognized under vision 2030 of mobilization of savings for investments. The Sacco movement has entrenched the culture of savings to Kenyans which is a pre-requisite for wealth creation. On retirement, employees of various organizations walk home smiling with accumulated funds in their Saccos during their employment period (SARSA 2010).

Saccos acts as a source of direct employment for the members and staff of the Saccos and indirectly impacting the lives of many households who depend on the members and staff of the Saccos (Gilbert Okoye 2009). According to Nyakenyanya during the 39th annual delegates meeting of the Chai Sacco society, Saccos plays a big role in employment creation especially in rural areas which lack industries (Ronald Njoroge 2012). Cooperatives have employed over
300,000 people besides providing opportunities for self employment to many more. (Kuria 2009),

Saccos have played an important role in the development of the Kenyan economy which has led to the uplifting of the standards of living of the people. Through their Sacco, members are able to access quality education and Medicare, funds for enterprise development, home purchase or construction and many other financial benefits (SARSA 2010). Saccos also provide an opportunity for self determination and empowerment for poor people. They foster a culture of good citizenship and enable their members to have a voice and participate in a democratic process thus having empowering development effects beyond their economic benefits (Kuria 2009).

2.3.4 Significance of the new regulations on the performance and profitability of Saccos.

Sacco regulation is widely viewed as a vehicle for rising funding from commercial sources to be able to cope with expanding demand arising from the huge and growing demand for financial services, while simultaneously ensuring institutional sustainability (Christen 2002). Effective supervision leads to improved quality of operations of the supervised Saccos and thus the industry (Okulu 2007). The effects of this on the profitability of Saccos could be significantly positive.

Licensing will bring confidence in the Saccos, which is a prerequisite for the Sacco subsector to attract new members and professionals who have shied away due to perceived bad governance practices. A prudentially regulated and financially sound Sacco business attracts new business, offers better financial services, effective governance mechanisms and lower risks of failure, for instance a number of government initiatives have approached SASRA to issue them with a
comprehensive list of licensed Saccos through which they can channel devolved funds (SMR2010). This will enable Saccos to maintain a competitive edge over main stream banks which have started offering specially designed products like loans that are aimed at attracting Sacco members. Through licensing the performance of Saccos in terms of profitability will increase.

Government and donor communities believe that regulations will promote and improve the Sacco business and the operations through adopting standards of good practice contained in the regulatory instruments, thereby creating an environment of emergence of sustainable Saccos through deposit mobilization and prudent lending (Ledgerwood et al 2006).

The advantages of regulation in the Sacco movement for the customers and financial markets are numerous. Regulation serves to ensure the financial soundness of the Sacco subsector, reducing the chance of failure and reinforcing the public’s trust in these financial institutions. According to (Austin Harris 2010), Regulations in the form of capital adequacy requirements, reserve requirements, loan loss provisions, and loan documentation are all examples of measures to ensure that Saccos will be able to maintain its operations profitably.

The capital adequacy requirement is a key measure of safety and soundness of a Sacco and serves to protect or cushion member deposits and creditors against losses resulting from business risks that the Sacco, as a financial institution faces. The need for such measures can be justified on the grounds that a number of negative externalities may exist in Saccos that can cause risk to be systematically underpriced. It also aims to increase the stability of a Sacco by decreasing the likelihood of failure. This move is also seen to promote public confidence in the institution (SARSA 2010). Sacco’s performance is also deemed to improve in terms of total income earned.
due to the high level of public confidence which will lead to more members and thus more income to the society. An increase in the membership base of Saccos will lead to an increase in profits realized by the Saccos at the end of financial period.

Capital Adequacy Ratios measure the financial solvency or sustainability of Saccos. They also limit the proportion of assets that can be financed by debt and ensure that organization mobilize their own funds for investment rather than borrowing. As a result, CAR enhances caution in management and investment of institutional resources (Okumu 2007).

The analysis of returns (Statement of the income and expenditure and a Statement of financial position) will assist in monitoring the financial performance of the Sacco and address any financial risks early enough. Another key output from the periodic financial returns will also be data and information on the performance of the Sacco subsector to the policy makers and the public in general. This will vastly enhance the transparency and accountability in the financial management of the Sacco unlike in the past where members had to wait for one year to get the audited accounts (SMR 2010). Transparency and accountability in any organization leads to improved performance and profitability since the members of the organization are well informed on the running of the organization. In the case of Saccos, this will lead to increase in the membership base and thus an increase in total deposits thus an increase in profitability of Saccos.

A good regulatory framework protects interest of consumers by preventing exploitative practices, Prevent fraud and ensure ethical practices are followed, development of trust between the public and banks and develop the Sacco industry and improve its outreach (Feheemeen 2010) Regulations also serve to protect borrowers by preventing profit maximization at the client’s expense. Saccos can often have considerable local market power which can result in
monopolistic lending practices. In addition, regulation and supervision may promote the development of the Sacco industry, attracting greater borrowing and more deposits from the public (Harris 2010). This move will lead to an improved performance of Saccos in terms of sustainability and profitability.

2.3.5 Challenges faced during the implementation of the new regulations.

SASRA has noted that the challenges to the successful implementation of the new regulatory framework differ significantly both because of the size and diversity of the Sacco societies. However, inadequate technical skills, both at board and management levels remain the key challenge since the effective implementation of the new legal and regulatory framework requires a new set of skills and knowledge (SSR 2011).

Low understanding of the Act and Regulations: There is limited in-depth understanding of the Act and the Regulations in most Saccos to integrate the regulatory requirements in the operational policies for the day-to-day running of the Sacco business (SARSA 2010).

Governance structure: The historical practice where the management committee (now called Board of directors) comprising of elected officers are heavily involved in the operational affairs of the Sacco to the exclusion of the technical staff is deeply entrenched limiting the effectiveness of the Act and Regulations in licensed Sacco societies (SMR 2011).

Reporting frequency is poor given poor ICT adoption in most Saccos is also a major challenge in the implementation of the new regulations (Carilus Ademba 2010). The operating regulations and prudential standards define new ways of doing business thus requiring heavy investments by
the Sacco societies in upgrading the existing information systems for effective compliance (SARSA 2010). The pace of changes by the Saccos is slow thus acting as a barrier for effective implementations of the prudent regulations.

Costs of regulation: Given the variety of Sacco types in the country, supervision can often be costly. These costs are partly passed on to Saccos in the form of licensing fees, making it more expensive for the Saccos to operate. The Sacco movement already endures high operating expenses and these additional costs add greater difficulty to maintaining operations. The administration and reporting requirements for the Saccos involve high levels of supervision and can be burdensome and expensive. This added work and expense will partly be borne by the clients in the form of higher interest rates and fees. In addition, higher costs may slow the growth of financial services offered to disadvantaged groups. (Austin Harris 2010). This coupled with the above mentioned challenges acts as a hindrance to the regulated entities to commit resources and time for faster compliance (SSR 2011).

2.4 Summary and Gaps to be filled.

The SACCO movement provides financial services to large numbers of people throughout Kenya. Over the last ten years there has been significant growth and innovation with new services offered to an expanding membership base. However this development has been accompanied by various challenges such as an increasing level of risk and concern that the institutional capacity of many SACCOs to manage risk has not developed at the same pace. Increasing levels of competition from a more vibrant banking system are set to increase the potential threat faced by the SACCO movement. (FSD 2008).
In response to these challenges, the MoCDM recognized the need for a legislation specific to the Sacco subsector. A Sacco Society Act was enacted and assented to which aims at improving financial condition and soundness of these Sacco Societies, thereby protecting member deposits. This will enhance public confidence and increase the level of savings and credit to members and SMEs, a key goal of Vision 2030 blueprint (SSR 2011). A strong and well governed Sacco subsector will also be better prepared to compete with the other players in the financial sector providing wider choices for the savers and borrowers. However, there are fears that the regulations and the requirements set by the regulatory body could disrupt operations and performance of several Sacco societies and by extension destabilizes the economy.

Leading operators in the movement have also expressed fears that the regulations may adversely affect the Sacco sub-sector and force many members to migrate to banks or other financial institutions which already anticipate that the new regulations could create discontent within the movement (Kenneth Kwama 2011).

Joshua Ojall, Mwalimu Sacco CEO, in an interview with Joshua Okoth argues that Saccos are not commercial banks and therefore a requirement that they make provisions for bad and doubtful debts, equivalent to one per cent of the loan book, is "too" high. "This requirement eats into our ability to pay dividends. It is also unnecessary for a Sacco that does not have any non-performing loans. Unlike banks, those taking loans from Saccos are guaranteed by fellow members" Joshua Okoth (2012). According to Kenneth (2011), payment of dividends to Sacco members has been a key motivator of savings in the sub-sector and a reduction of the pay-out or its total elimination could trigger panic withdrawals. The beneficiary in case of such a scenario will be the commercial banks. Harambee Sacco Chairman Macloud Malonza in an interview
with Kenneth Kawama says the situation is worsened by the fact that the new regulations also empower the authority to deny Saccos the ability to pay dividends if the authority deems any of the Saccos to have contravened laid down regulations.

According to SARSA (2010), the new Saccos Act and regulations are prerequisite to integration and mainstreaming of the Sacco societies in the Kenya financial sector. The researcher therefore sought to investigate if really the introduction of the Saccos regulations under the Saccos Act 2008 had any effect on the profitability of the Saccos.

2.5 Conceptual Framework

Henderson (1994) urged that the major aim of research should be to “either relate data to a theory or to generate a theory from data”. In order to hold existing and new knowledge; theory should provide a conceptual framework, so that knowledge can be interpreted for empirical application in a comprehensive manner.

Figure 1— shows the conceptualization of the dependent and independent variables of the study related. The independent variables for this study indicate the financial regulations of Saccos in Kenya which includes the Capital adequacy requirement, credit management, liquidity and asset management and licensing. The dependent variable indicates the performance of Saccos in terms of profitability. There are uncontrollable or intervening factors which include economic conditions, political environment, natural environment, government policies.
The Capital adequacy requirement is aimed at increasing the stability of a Sacco by decreasing the likelihood of failure. The requirement also will ensure that Saccos are able to mobilize their own funds for investments. Investments lead to an increase in asset base of the Sacco which will enable them to compete effectively with banks. Licensing requirement aims at instilling confidence to the public and this will lead to an increase in profitability through an increase in membership base. Credit management requirement will lead to a faster and more complete debt recovery and better cash flow management through increasing the recovery rates and lowering debt collection costs.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives a detailed outline of how the study was carried out. It describes the research design, the target population, the sample and sampling procedure, research instruments, validity and reliability of instruments, data collection and data analysis procedure.

3.2 Research Design

The research design that was adopted in conducting this study was descriptive research design. According to Philliber et al (1980), Research design is considered as a "blueprint" for research, Descriptive research design was appropriate because it involved collecting data in order to answer questions on current status of subjects of the study. According to Kothari (2004), descriptive design allows the researcher to describe, analyze and report conditions that exist or existed. The design also allowed the researcher to generate both numerical and descriptive data.

3.3 The Target Population

A target population can be defined as a large population from who sample population will be selected. The target population of the study was made up of all the thirty five registered Saccos operating in Nyeri town. According to the information from the District Cooperative Officer in Nyeri town, Saccos have been categorized into three groups based on their economic activity of their members. Rural Saccos serve the farmers, Urban Saccos cater for the employed people.
while Transport Saccos serve members in the transport industry. The table below shows their classification and distribution across Nyeri town.

Table 3.0: Classification and distribution of Saccos across the Nyeri town

<table>
<thead>
<tr>
<th>Type of Sacco</th>
<th>Total number of Saccos</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>3</td>
</tr>
<tr>
<td>Urban</td>
<td>11</td>
</tr>
<tr>
<td>Transport</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
</tr>
</tbody>
</table>

(Source: District Cooperatives Officer)

3.4 Sample Design and Sampling Procedure

3.4.1 Sample Design

Stratified random sampling with proportional allocation was used to come up with a representative proportion of sample. The researcher divided the population in smaller groups called the strata. Each division of the Saccos in target formed the strata and therefore a sample was drawn from each stratum by random sampling to ensure that every item in the population had an equal chance of being included in the sample. This method was appropriate as all the existing subgroups will be represented.
3.4.2 Sample size

The researcher sampled thirty out of the thirty five which is about 85% of registered Saccos operating in Nyeri town. Stratified random sampling technique was used and therefore stratification by proportional allocation method was appropriate to classify the various Saccos into small subgroups called strata. In every stratum, samples of respondents were selected by simple random sampling method. The study respondents were the top and middle level management of the selected Saccos in Nyeri town. The figure below shows how samples were selected from the stratified stratum.

Table 3.1: Sample Size Determinants

<table>
<thead>
<tr>
<th>Type of target Saccos</th>
<th>Total number of Saccos (N)</th>
<th>Sample (%) (Wi)</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>3</td>
<td>85%</td>
<td>3</td>
</tr>
<tr>
<td>Urban</td>
<td>11</td>
<td>85%</td>
<td>9</td>
</tr>
<tr>
<td>Transport</td>
<td>21</td>
<td>85%</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>85%</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Researcher (2012)

3.5 Data Collection Procedures and Instruments

The research work was carried out mainly by use of open ended semi structured questionnaire. The tool was selected because it is easy to administer and respondent can fill in required data in...
the absence of the researcher. A questionnaire and a cover letter were administered by the researcher to the selected sample size. Each respondent received a letter requesting their assistance in filling the questionnaire. The letter to the respondent on the instrument was to provide information about the purpose of the study, general instructions on how to respond to each question and an assurance of strict confidentiality for the respondent and the Sacco.

3.5.1 Instrument Validity

Validity is often defined as the extent to which an instrument measures what it purports to measure. Validity requires that an instrument is reliable, but an instrument can be reliable without being valid. (Carole L. Kimberlin et al 2008). Also according to Mugenda and Mugenda (2003), validity can be defined as the accuracy and meaningful of inferences which are based on the research results. Validity is the degree to which results obtained from analysis of the data actually represent the phenomenon under study.

3.5.2 Instrument Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials it is the stability of measurement and relates to the absence of random errors of measurement and demonstrates that the operations of the study such as data collection procedures would be repeated with the same results, therefore instrument reliability is a way of ensuring that any instrument used for measuring experimental variables gives the same results very time (Martyn Shuttleworth 2009)

In order to ensure accuracy and completeness of all entries and likely passive response from officials, some measures such as assuring the respondents of the confidentiality of their responses were taken in attempt to increase the number and quality of responses.
3.6 Data Analysis

According to Orodho (2003) the simplest way to present data is in frequency or percentage table, which summarizes data about a single variable. Data was tabulated and classified into subsamples for common characteristics with responses being coded to facilitate basic statistical analysis. Descriptive statistics was used to answer the research questions and objectives in relation to the research area. The Statistical Package of Social Sciences (SPSS) was used to analyze data. The data was presented using tables, pie chart, and bar graph. To measure the effect of financial regulations on the profitability of Saccos, the researcher compared the performance of Saccos in terms of profitability before and after the introduction of the financial regulations.
CHAPTER FOUR

4.0 Data analysis and presentation

4.1 Introduction

This chapter presents the findings of the data collected from the sampled Saccos registered in Nyeri town on the effect of the financial regulation on profitability. The questionnaires yielded 60 usable responses out of 90 respondents that the study targeted representing 66.67% response rate. The data was interpreted according to the research questions. The analysis was done through descriptive statistics and findings of the study were presented in form of tables, frequency distribution, percentage charts and graphs. The discussion of the outcomes is based on the outputs from the statistical packages for social science (SPSS).

4.2 Results and Discussion

This section provides results and discussions of the findings and data analysis of the study. The discussion is linked to the questions of the study and research objectives. To establish whether capital adequacy requirement, licensing, credit management and liquidity and asset management requirements have an effect on the profitability of Saccos registered in Nyeri town.

4.2.1 Background information of respondents and financial requirements

4.2.1.1 Management position in the Sacco

The table 4.0 below reveals the distribution of respondents in terms of position occupied in the Sacco. The study revealed that 36.7% of the total respondents occupy top management positions in the Sacco while 63.3% occupy the middle level management in the Saccos.
Figure 4.0 Management Position in the Sacco.
4.2.1.2 Years of experience

Table 4.1 Years of experience

<table>
<thead>
<tr>
<th>Years of experience</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid 5-10 years</td>
<td>7</td>
<td>11.7</td>
<td>11.7</td>
<td>11.7</td>
</tr>
<tr>
<td>11-15 years</td>
<td>13</td>
<td>21.7</td>
<td>21.7</td>
<td>33.3</td>
</tr>
<tr>
<td>16-20 years</td>
<td>13</td>
<td>21.7</td>
<td>21.7</td>
<td>55.0</td>
</tr>
<tr>
<td>21-25 years</td>
<td>18</td>
<td>30.0</td>
<td>30.0</td>
<td>85.0</td>
</tr>
<tr>
<td>26 years and above</td>
<td>9</td>
<td>15.0</td>
<td>15.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The study sought to investigate the years of experience of the respondents occupying management positions in the Saccos. 11.7% of the respondents have 5-10 years experience in Sacco management, 21.7% had 11-15 years, 21.7% had 16-20 years, 30% had 21-25 years while only 15% had 26 years and above years of experience in the management of Saccos as indicated in the table above and the pie chart below.
4.2.1.3 Level of education

Table 4.3 displays the distribution of level of education of the respondents. The table reveals that 25% of the respondents attained diploma level while 70% of the respondents held various professional certificates and only 5% holding degree certificates. This therefore indicates that the Sacco movement needed to train more personnel of efficient and effective running of the Saccos.

Figure 4.2 level of education
4.2.2 Capital Adequacy Requirement.

4.2.2.1 Management strategies used to increase capital

The study sought to investigate the management strategies used by the various Saccos registered in Nyeri town in order to fulfill the Capital adequacy requirement set by the Sacco Society Regulatory Authority. The table below shows that 28.3% increase their capital through the sale of shares, 30% through new membership, and 25% through attracting customers while only 16.7% of the Saccos use innovation.

Table 4.3 Management strategies

<table>
<thead>
<tr>
<th>Management strategies</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell of shares</td>
<td>17</td>
<td>28.3</td>
<td>28.3</td>
<td>28.3</td>
</tr>
<tr>
<td>New member</td>
<td>18</td>
<td>30.0</td>
<td>30.0</td>
<td>58.3</td>
</tr>
<tr>
<td>Attractive Customers</td>
<td>15</td>
<td>25.0</td>
<td>25.0</td>
<td>83.3</td>
</tr>
<tr>
<td>Innovations</td>
<td>10</td>
<td>16.7</td>
<td>16.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
4.2.2.2 Rating of profitability before introduction of capital adequacy requirement.

Before the introduction of the Capital Adequacy requirement, 3.3% of the respondents rated their Saccos profitability at 75%, 13.3% rated their profitability at 50%, 51.7% rated their profitability at 25% while 25% of the respondents rated the Sacco profitability below 25%. 6.7% of the respondents however did not respond to the question as indicated in the table below.

Figure 4.4: Rating of profitability before introduction of capital adequacy
4.2.2.3 Rating of profitability after the introduction of capital adequacy requirement.

8.3% of the respondents rated their Saccos profitability at 75% after the introduction of the Capital Adequacy requirement, 31.7% rated their profitability at 50%, 28.3% rated their profitability at 25% while 20% of the respondents rated the Sacco profitability below 25%. 11.7% of the respondents however did not respond to the question as indicated in the table below.

**Table 4.5: Rating of profitability after the introduction of capital adequacy**

<table>
<thead>
<tr>
<th>Rating of profitability after the introduction of capital adequacy</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid 75%</td>
<td>5</td>
<td>8.3</td>
<td>9.4</td>
<td>9.4</td>
</tr>
<tr>
<td>50%</td>
<td>19</td>
<td>31.7</td>
<td>35.8</td>
<td>45.3</td>
</tr>
<tr>
<td>25%</td>
<td>17</td>
<td>28.3</td>
<td>32.1</td>
<td>77.4</td>
</tr>
<tr>
<td>Below 25%</td>
<td>12</td>
<td>20.0</td>
<td>22.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>88.3</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>7</td>
<td>11.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.2.2.4 *Is the percentage difference related to capital adequacy requirement?*

Asked on whether the respondents believed that the introduction of the capital requirement has an effect on the profitability of the Sacco, 71.7% of the respondents agreed that the requirement has had an effect on the profitability, 21.7% of the respondents said that the requirement has not had an effect on the profitability while 6.7% of the respondents did not respond to the question as indicated in the table below.

**Figure 4.6: Is the percentage related to capital adequacy requirement**

![Bar chart showing the percentage relationship to capital adequacy requirement](image)
4.2.3 Credit Management Requirement.

4.2.3.1 Type of products offered to members

The study sought to investigate the type of products offered by the Saccos to their members and found out that 1.7% of the Saccos offer emergency loans, 30% offer school fees loans, 11.7% offer normal loans while 43.3% offer more than one product to their members and another 13.3% offers other products such as development loans and FOSA pride loan

Table 4.7 Products offered by the Saccos

<table>
<thead>
<tr>
<th>Type of product</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>1</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Emergency loans</td>
<td>18</td>
<td>30.0</td>
<td>30.0</td>
<td>31.7</td>
</tr>
<tr>
<td>School fees</td>
<td>7</td>
<td>11.7</td>
<td>11.7</td>
<td>43.3</td>
</tr>
<tr>
<td>Normal loans</td>
<td>26</td>
<td>43.3</td>
<td>43.3</td>
<td>86.7</td>
</tr>
<tr>
<td>more than one product</td>
<td>8</td>
<td>13.3</td>
<td>13.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
4.2.3.2 Amount of Short-term loans approved to members

The table below shows the amount of the short-term loans approved to members which indicates that 18.3% approve below 50,000 shillings, 30% approve between 50,001-100,000 shillings, 1.7% of the Saccos approve between 200,001-300,000 shillings and 50% of the saccos approve over 400,000 shillings to members.

Figure 4.8 Amount of Short-term loans approved to members
4.2.3.3 Amount of long-term loans approved to members

The table below shows the amount of the long-term loans approved to members which indicates that 3.3% approve between 300,001-500,000 shillings, 13.3% approve between 50,001-700,000 shillings, 1.7% of the Saccos approve between 700,001-900,000 shillings and 81.7% of the Saccos approve over 1,000,000 shillings to members.

Table 4.9 Amount of Long-term loans approved to members

<table>
<thead>
<tr>
<th>Amount of long term loans approved to members</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid 300,001-500,000</td>
<td>2</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>500,001-700,000</td>
<td>8</td>
<td>13.3</td>
<td>13.3</td>
<td>16.7</td>
</tr>
<tr>
<td>700,001-900,000</td>
<td>1</td>
<td>1.7</td>
<td>1.7</td>
<td>18.3</td>
</tr>
<tr>
<td>Over 1,000,000</td>
<td>49</td>
<td>81.7</td>
<td>81.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
4.2.3.4 In your opinion has credit management requirement affected profitability of Saccos positively.

According to the table below, 68.3% of the respondents are of the opinion that the introduction of the credit management requirement has had a positive effect on the profitability of their Sacco while 21.7% of the respondents believe that the requirement has negatively affected the profitability of the Sacco. 10% of the respondents did not respond to the question.

Figure 4.10 in your opinion has credit management requirement affected profitability
4.2.4 Licensing Requirement.

4.2.4.1 Type of Saccos

The table below shows that 8.3% of the Saccos registered in Nyeri town operates as FOSA, 28.3% as BOSA and 63.3% operate both as FOSA and BOSA

Figure 4.11 : Type of Sacco
4.2.4.2 Sacco licensed/ registration by the Sacco Society Regulatory Authority

The table below shows that 71.7% of the Saccos in Nyeri town are registered by the Sacco Society Regulatory Authority while 28.3% are not.

Figure 4.12: Is the Sacco registered by the Sacco Society Regulatory Authority

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>20</td>
</tr>
</tbody>
</table>

IstheSaccoregisteredbytheSaccoSocietyRegulatoryAuthority

<table>
<thead>
<tr>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
</tr>
<tr>
<td>40</td>
</tr>
<tr>
<td>30</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
4.2.4.3 Has licensing requirement affected the profitability of saccos

According to the table below, 68.3% of the respondents are of the opinion that the introduction of the credit management requirement has had a positive effect on the profitability of their Sacco while 21.7% of the respondents believe that the requirement has negatively affected the profitability of the Sacco. 10% of the respondents did not respond to the question.

Figure 4.13: Has licensing requirement affected the profitability of saccos
4.2.4.4 If yes indicate how the requirement has affected profitability

Asked of how the licensing requirement has affected the profitability of Saccos, 50% of the respondents said there is an increase in the membership base which has led to an increase in profitability, 21.7% said that the requirement has led to member satisfaction, 11.7% has lead to an increase in the Asset base of the Sacco while 10% of the respondents indicated that the requirement has had an effect on all the parameters thus an increase in the profitability of the Saccos.

Table 4.14: If yes indicate how the requirement has affected profitability

<table>
<thead>
<tr>
<th>If yes indicate how the requirement has affected profitability</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid increased membership</td>
<td>30</td>
<td>50.0</td>
<td>53.6</td>
<td>53.6</td>
</tr>
<tr>
<td>membership satisfaction</td>
<td>13</td>
<td>21.7</td>
<td>23.2</td>
<td>76.8</td>
</tr>
<tr>
<td>increased assets base</td>
<td>7</td>
<td>11.7</td>
<td>12.5</td>
<td>89.3</td>
</tr>
<tr>
<td>all the above</td>
<td>6</td>
<td>10.0</td>
<td>10.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>93.3</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>4</td>
<td>6.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.2.5 Asset and liquidity Requirement.

4.2.5.1 Liquidity risk policy

68.3% of the respondents said that their Saccos had put in place a policy for management of liquidity risk, 21.7% of the respondents do not have a policy in place for liquidity risk management while 10% did not respond to the question as indicated in the table below.

Figure 4.15: Does your sacco have a policy for management of liquidity risk

![Liquidity Risk Policy Chart]

---

**Figure 4.15: Does your sacco have a policy for management of liquidity risk**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>40</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
</tr>
</tbody>
</table>
4.2.5.2 Sacco turnover per month

The table below indicates the Sacco turnover per month reflecting that 25% of the Saccos have a turnover ranging between ksh 50,000-100,000 per month. 1.7% ranging between 100,001-200,000 shillings per month, 3.3 between 300,001-400,000 and 70% of the Saccos ranging between 400,001 and above shillings per month. This clearly indicates that majority of the Saccos registered in Nyeri town have a high turnover.

Table 4.16 Sacco turnover per month

<table>
<thead>
<tr>
<th>Sacco turnover</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>50,000-100,000</td>
<td>15</td>
<td>25.0</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>100,001-200,000</td>
<td>1</td>
<td>1.7</td>
<td>1.7</td>
<td>26.7</td>
</tr>
<tr>
<td>300,001-400,000</td>
<td>2</td>
<td>3.3</td>
<td>3.3</td>
<td>30.0</td>
</tr>
<tr>
<td>400,001 and above</td>
<td>42</td>
<td>70.0</td>
<td>70.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.2.5.3 How has liquidity management affected the performance of saccos

15% of the respondents indicated that the introduction of the liquidity management requirement has affected the performance of Saccos through increased membership, 6.7% said increased asset base of the Sacco while 53.3% of the respondents indicated that the requirement has led to an increase in profits of the Sacco as indicated in the table below.

Figure 4.17: How has liquidity management affected the performance of saccos
4.2.6 General rating of the effect of the regulations and challenges of implementing the regulations

4.2.6.1 Rating of the overall profitability of Saccos in relation to financial regulation

Asked on the rating of the overall profitability of Saccos in relation to financial regulation, 10% termed the profitability as very good, 30% as good and 60% as average as indicated in the table below.

Figure 4.18 How would you rate the profitability of saccos
4.2.6.2 Challenges experienced in implementing the regulations

21.7% of the respondents identified the challenge of low investments during the implementation of the regulations by the Sacco, 15% of the respondents identified competition as a major challenge, 20% identified technology while 15% identified lack of core capacity and 21.7% did not identify any challenge faced. This is clearly seen in the table below.

Table 4.19 Challenges experienced in implementing the 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</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>low investment</td>
<td>13</td>
<td>21.7</td>
<td>23.2</td>
<td>23.2</td>
</tr>
<tr>
<td>Competition</td>
<td>9</td>
<td>15.0</td>
<td>16.1</td>
<td>39.3</td>
</tr>
<tr>
<td>Technology</td>
<td>12</td>
<td>20.0</td>
<td>21.4</td>
<td>60.7</td>
</tr>
<tr>
<td>lack of core capacity</td>
<td>9</td>
<td>15.0</td>
<td>16.1</td>
<td>76.8</td>
</tr>
<tr>
<td>None</td>
<td>13</td>
<td>21.7</td>
<td>23.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>93.3</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System</td>
<td>4</td>
<td>6.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER FIVE

5.0 SUMMARY OF MAJOR FINDING, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of the finding, conclusions reached and more so give the recommendations as per the response from the respondents.

5.2 Summary of Major findings

The main goal of the study was to find out the effects of the financial regulations on the profitability of Saccos registered in Nyeri town. In order to investigate the relationship between financial regulations and profitability, the researcher used primary data in the form of questionnaire.

Majority of the respondents have had a longer experience in the Sacco society with 30% of the respondents indicated that they have 21-25 years of experience, however in the level of education, 70% of the respondents hold various professional certificates while only 5% of the respondents hold a bachelors degree.

From the study it was noted that most of the management strategies used by the Saccos in order to increase capital is registering new members which stood at 30% while others used the strategy of selling more shares in order to meet with the capital adequacy requirement set by Sacco Society Regulatory Authority. 71.7% of the respondents indicated that the introduction of the capital adequacy requirement has had an effect on the profitability of Saccos.
The study revealed that 50% of the Saccos approve an amount of over KSh 400,000 on short term loans while 81.7% of the Saccos approve long-term loans of over Ksh 1,000,000 to their members. 68.3% of the respondents were of the opinion that the credit management requirement has had a positive effect on the profitability of Saccos registered and operating in Nyeri town.

The study revealed that most Saccos operating in Nyeri town conduct both the FOSA and BOSA activities with a 63.3% of the respondents supporting the same. 43% of the sampled Saccos indicated that the Saccos have been licensed by the Sacco Society Regulatory Authority. The study also revealed that 68.3% of the respondents were of the opinion that the licensing requirement has had an effect on the profitability of Saccos mainly through increased membership base of the Saccos which was one of the parameters rated highly by the respondents at 50%.

The study revealed that 68.3% of the Saccos have in place a policy for management of liquidity risk while 70% of the Saccos have a monthly turnover of Kshs 400,001 and above. 53.3% of the respondents were of the opinion that the introduction of the liquidity and assets management requirement has led to an increase in the profits and thus affect the performance of the Saccos.

The study revealed that the respondents general rating of the profitability of Saccos in relation to financial regulation as average with 51.7% of the respondents. However the study revealed various challenges experienced by the Saccos in implementing the new regulations such as low investments which was rated the highest at 21.7% by the respondents, inadequate technology which was rated at 20% while competition from other financial institutions was rated at 15%.

Saccos have taken various steps to overcome the challenges faced such as increased efficiency and effective delivery to members and marketing of the society's financial products and its
advantages in order to gain a competitive edge, changing in some of the Sacco policies and strategies, adopting new technology for reporting and benchmarking with other advanced financial institutions.

5.3 Conclusions
The introduction of the financial regulation of Saccos in Kenya was meant to enhance public confidence and increase the level of savings and credit to members and SMEs, a key goal of Vision 2030 blueprint (SSR 2011). A strong and well governed Sacco subsector will also be better prepared to compete with the other players in the financial sector providing wider choices for the savers and borrowers.

According to the study financial regulations have a positive effect of the profitability of Saccos through increased membership due to the improved public image of the Saccos by the public. This is brought about by the licensing requirement set by the Sacco Society Regulatory Authority, increased asset base due to the liquidity and assessment management requirement which provides that the board of directors of the Sacco shall be responsible for formulating, reviewing and adjusting the liquidity policy of the Sacco Societies on an annual basis, maintenance of 15% of savings deposits and short term liabilities in liquid assets, and putting in place a liquidity contingency plan to handle liquidity crises.

5.4 Recommendations
On the basis of the above findings, this study suggests some key issues for policy consideration. First, policy makers should encourage the Sacco movement to investment technology which will then lead to innovation of products that will improve financial performance in terms of profitability. The researcher's observation is that even though most of the Saccos have developed
other products other than the traditional savings and current deposit accounts that could induce savings, many of such products have not been brought to the knowledge of the public.

The study also revealed that benefits of a regulated Sacco subsector and therefore the Government and the regulatory Authority should come up with ways of educating the Sacco management on the importance of regulating the Saccos.

The Government should also come up with a policy which will be used in regulating those Saccos which operate BOSA activities so as to harmonize the Sacco sub sector as a whole and make the subsector more competitive.

5.5 Areas for further research

A number of issues have emerged from the research as bases for further investigations. First, this study hopes to serve as a starting point for a more rigorous study on the effect of financial regulation on profitability of Saccos in Kenya in the future. The results obtained point to the need for a continued research into the nature of financial regulations and their effect on other parameters affecting the performance of Saccos. Further research can be done to analyze how competition and low investment affect the implementation of the financial regulations and performance of Saccos.

The business community needs to participate in research activities and also make information more accessible to researchers. One of the difficulties this study encountered was in getting the Sacco top officials to respond to the instruments. Also, an extended study could be undertaken to cover other qualitative factors such as the reactions of users of these products as to how they influence their savings habits.
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Dear Respondent,

RE: RESEARCH PROPOSAL

I am a student of Kenyatta University pursuing a Masters degree in Business Administration, Finance option. I'm intending to conduct a research study on the Effect of the Financial Regulations on Profitability of Saccos in Nyeri town. I request you to complete the questionnaire openly and honestly. Your opinions are important to the study and any information you provide will be treated as confidential and for academic purposes only.

Thanks for your help

Esther Wanjiru Wachira
APPENDIX II

QUESTIONNAIRE

The questionnaire has been divided into sections based on the objectives of the study. Section A solicits general information about the management of Saccos. Section B – Section asks questions on the research objectives.

Section A: General Information

1) State your position in the Sacco
   a) Top management ( )
   b) Middle management ( )

2) Years of experience in the Sacco movement
   a) 5-10 yrs ( )
   b) 11-15 yrs ( )
   c) 16-20 yrs ( )
   d) 21-25 yrs ( )
   e) 26 yrs and above ( )

3) Level of education
   a) Diploma ( )
   b) Degree ( )
   c) Masters ( )
   d) Professionals ( )
   e) Others ( )
Section B:

Capital Adequacy

4) In your organization, which of the following management strategies do you use to increase capital in order to maintain the capital Adequacy requirement?

a) Sell of shares
b) Licensing
c) New member
d) Attractive customers
e) Innovations

5) How would you rate the profitability of Sacco in percentage before the introduction of the capital adequacy requirement?

a) 100%
b) 75%
c) 50%
d) 25%
e) Below 25%

6) How would you rate the profitability of Sacco in percentage after capital adequacy requirement?

a) 100%
b) 75%
c) 50%
d) 25%
7. Is the profitability percentage difference related to the financial capital adequacy requirement?
   a) Yes
   b) No

Credit Management

8. What types of products do you offer to your members?
   a) Emergency loans
   b) School fees loans
   c) Normal loans
   d) All of the above
   e) Others (Specify)

9. Amount of short-term loans approved to members in Ksh
   a) Below 50,000
   b) 50,001-100,000
   c) 100,001-200,000
   d) 200,001-300,000
   e) 300,001-400,000
   f) Over 400,000

10. Amount of long-term loans approved to members in Ksh
    g) Below 100,000
    h) 100,001-300,000
    i) 300,001-500,000
11) In your opinion has credit management requirement affected the profitability of the Sacco positively?
   - Yes ( )
   - No ( )

Licensing

12) Type of Sacco
   - a) FOSA ( )
   - b) BOSA ( )
   - c) Both ( )

13) Is the Sacco licensed by the Sacco Society Regulatory Authority?
   - a) Yes ( )
   - b) No ( )

14) In your opinion, has the licensing requirement affected the profitability of the Sacco
   - a) Yes ( )
   - b) No ( )

15) If yes in question 14 above, indicate how the requirement has affected profitability of Saccos
   - a) Increased membership ( )
   - b) Membership satisfaction ( )
   - c) Increased Asset base ( )
d) All of the above ( )
e) Others .................................................................

Asset and Liquidity management

16) Does your Sacco have a policy for the management of liquidity risk?
   a) Yes ( )
b) No ( )

17) What is the Sacco turnover per month in Ksh
   a) Less than 50,000 ( )
b) 50,001-100,000 ( )
c) 100,001-200,000 ( )
d) 300,001-400,000 ( )
e) 400,001 and above ( )

18) How has the introduction of the liquidity and assets management requirement affected the
    performance of the Sacco?
   a) Increased membership ( )
b) Increased Asset base ( )
c) Increased profits ( )
d) All of the above ( )
e) None of the above ( )
Section C: The general rating of the effect of the regulations and challenges of implementing the financial regulations.

19) How would you rate the profitability of the Sacco in relation to the financial regulations?
   a) Excellent
   b) Very Good
   c) Good
   d) Average
   e) Poor

20) What challenges have you experienced in implementing the new Sacco regulations?
   a) Low investment
   b) Lack of credit transactions
   c) Competition
   d) Technology
   e) Lack of core capacity
   f) Others (Specify)

21) What steps has the Sacco undertaken to overcome the challenges faced?
<table>
<thead>
<tr>
<th>Item Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stationery</td>
<td>8,000</td>
</tr>
<tr>
<td>Travelling expenses</td>
<td>20,000</td>
</tr>
<tr>
<td>Typing and Printing</td>
<td>10,000</td>
</tr>
<tr>
<td>Binding</td>
<td>3,000</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51,000</strong></td>
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</table>
# APPENDIX IV

## WORK PLAN

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time Allocated</th>
</tr>
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<tbody>
<tr>
<td>Proposal writing</td>
<td>4 months (March-June)</td>
</tr>
<tr>
<td>Proposal presentation</td>
<td>1 month (July)</td>
</tr>
<tr>
<td>Field work and data collection</td>
<td>1 month (August)</td>
</tr>
<tr>
<td>Data analysis and presentation</td>
<td>1 month (September)</td>
</tr>
<tr>
<td>Report writing (chapter 4 &amp; 5)</td>
<td>1 month (October)</td>
</tr>
<tr>
<td>Binding and presentation</td>
<td>1 week (November)</td>
</tr>
</tbody>
</table>
APPENDIX V

LIST OF ALL REGISTERED SACCOS OPERATING IN NYERI TOWN

1. Biashara Sacco
2. Maish Sacco
3. Nyeri Teachers Sacco
4. Taifa Sacco
5. Nyewasco Sacco
6. Nyeri Business Women Sacco
7. Mwalimu Sacco
8. Ngao Yetu Sacco
9. Wananchi Sacco
10. Ruare Sacco
11. Moukenbot Sacco
12. Ack! Mount Kenya West Sacco
13. Mugi Sacco
14. 2MGIN Sacco
15. 2NK Sacco
16. Nyena Sacco
17. Nyenya Sacco
18. Wananchi Sacco
19. Gakanango Sacco
20. Gathuthi Sacco
21. NIM Sacco
22. Muganye Sacco
23. Nyegamu Sacco
24. 3NCK Sacco
25. Kakika Sacco
26. Kinunga Sacco
27. Mwenyeri Sacco
28. Chakana Sacco
29. Nyemu Sacco
30. Mahiga Sacco
31. Nyechaka Sacco
32. Nyesuma Sacco
33. Central line Sacco
34. Nyekicha Sacco
35. 2KGT Sacco

(Source: District Cooperative Officer)