

**EFFECTS OF FINANCING STRATEGIES ON OPERATIONAL EFFICIENCY OF
DEPOSIT TAKING SAVINGS AND CREDIT CO-OPERATIVES IN NAIROBI
COUNTY**

**BY
JULIET KAVALA**

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DECLARATION

STUDENT'S DECLARATION

I hereby declare that this research project is my own work and effort and it has not been presented in any other University anywhere for academic award.

JULIET KAVALA D63/77728/2015

Sign:Date:.....

This Research project has been submitted for examination with my approval as the candidate's University Supervisor

SUPERVISOR NAME

Signed:Date:.....

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DEDICATION

This research project is dedicated to my parents for their unending support and also showing me how to dream and to my lecturers for making the dream come true.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
LIST OF TABLES	vii
LIST OF FIGURES	viii
LIST OF ABBREVIATIONS	ix
ABSTRACT	x
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background Study.....	1
1.1.1 Financing Strategies for Sacco's.....	4
1.1.2 Financial Stability of Saccos in Kenya	4
1.1.3 Deposit Taking Saccos in Kenya	6
1.2 Research Problem	7
1.3 Research Objective	9
1.4 Research Hypothesis.....	9
1.5 Value of the Study	9
CHAPTER TWO	11
LITERATURE REVIEW	11
2.1 Introduction.....	11
2.2 Theoretical Framework.....	11
2.2.1 The Trade- Off Theory.....	11
2.2.2The Theory of Pecking Order	12
2.2.3 Stakeholder Theory	13
2.3 Conceptual Framework.....	13
2.3 Determinants of Operational Growth of Deposit Taking Saccos	14
2.3.1 Member Contribution.....	14
2.3.2 Institutional Capital.....	15
2.3.3 External Financing	16
2.3.4 Sacco Operational Efficiency	17
2.4 Empirical Review.....	17
2.5 Research Gaps and Summary	19
CHAPTER THREE	20
RESEARCH METHODOLOGY	20
3.1 Introduction.....	20
3.2 Research Design.....	20

3.3	Population and sampling.....	21
3.4	Sampling Frame.....	21
3.5	Data Collection.....	21
3.6	Validity and Reliability.....	21
3.7	Data Analysis and Presentation.....	22
3.7.1	Analytical Model.....	22
3.7.2	Test of Significance.....	23
	CHAPTER FOUR.....	24
	DATA ANALYSIS, RESULTS AND DISCUSSION.....	24
4.1	Introduction.....	24
4.2	Response Rate.....	24
4.3	Descriptive Statistics.....	24
4.4	Regression Analysis.....	25
	Regression analysis.....	26
4.5	Correlation Analysis.....	28
4.6	Hypothesis Statistics.....	29
	Hypothesis 1:.....	29
	Hypothesis 2:.....	30
	Hypothesis 3:.....	30
4.7	Discussion of Research Findings.....	30
	CHAPTER FIVE.....	33
	SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	33
5.1	Introduction.....	33
5.2	Summary of Findings.....	33
5.3	Conclusion.....	34
5.4	Recommendations.....	35
5.5	Limitations of the Study.....	35
5.6	Suggestions for Further Research.....	36
	APPENDIX ONE.....	41
	APPENDIX TWO.....	42
	FINANCIAL DATA.....	42

LIST OF TABLES

Table 1: Operation Definition of Variables	22
Table 2: Descriptive Data	25
Table 3: Measurement of Variables	25
Table 4: Regression Summary	27
Table 5: Model Summary	28

LIST OF FIGURES

Figure 2.1: Conceptual Framework	14
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LIST OF ABBREVIATIONS

ATM	Automatic Teller Machines
DTS	Deposit Taking Sacco
FOSA	Front Office Savings Account
FOSA	Front office Services Account
FSD	Financial Sector Deepening
GDP	Gross Domestic Product
GOK	Government of Kenya
ICA	International Cooperative Alliance
IMF	International Monetary Fund
KUSCCO	Kenya National Union of Cooperatives
SACCO	Savings and Credit Cooperative Organizations
SASRA	Sacco Society Regulatory Authority
SMES	Small and Medium Enterprises
USD	United States Dollar
WOCCU	World Council of Credit Unions

ABSTRACT

The purpose of the academic research was to investigate how the operational efficiency of Saccos licensed by SASRA in Nairobi County are influenced by their financing strategies. Though deposit taking Sacco contribute immensely to economic development their input in economy has been constrained by some factors which influence their operational efficiency. These factors led to the researcher formulating a topic that guided the research process and the final results were used to evaluate the effects of financing strategies on operational efficiency of the cooperative societies in Nairobi County registered with SASRA based on the following objective; To determine the effects of financing strategies on operational efficiency of cooperative societies in Nairobi County registered with SASRA. The review of Theoretical framework was done in line with the research variable and a conceptual framework developed in line with the research objectives. Operational efficiency was the dependent variable while members' funds, institutional capital, and external borrowing were the independent variables. The study adopted a descriptive research design. According to (Kothari, 2004), descriptive study is concerned with finding out the what, where and how of a phenomenon. The total population of cooperative societies in Nairobi County registered with SASRA as at 2016 was 39. Census methodology was used to identify the 36 Sacco's used in data collection. The major source of data used was secondary data collected from SASRA audited financial statements on the deposit taking Saccos in Nairobi County. The data collected was analyzed using SPSS since it allows statistical tools such as regression, correlation which was further presented in tables. All the study variables were found to be having relative significance on operational efficiency of deposit taking Saccos. It was suggested that the study could be explored as a comparative study comparing financing strategies for both urban and rural Saccos and their influence on operational efficiency in both cases. The study established that members funds significantly influences financing strategies and therefore recommends that deposit taking Saccos should adopt new financing strategies in order to increase core capital and members deposits. This reduces the burden of Saccos borrowing to invest in lending which in turn can make the members less efficient in terms of operation. In addition, the study found out that external borrowing significantly influences the financing strategies of the deposit taking Saccos and therefore recommends that managers of Saccos need to determine different sources of external borrowing in order to ensure the capital structure of the Deposit taking Saccos remain optimal.

CHAPTER ONE

INTRODUCTION

1.1 Background Study

Globally cooperatives play a very important role in ensuring financial inclusion to majority of people who had been sidelined in the formal banking institutions. Based on its model world over of membership rather than customers in banks, they are perceived as better placed to play a very important part in ensuring maximization of the wealth of its members is attained through savings and cheaper loans that are guaranteed by members rather than assets acting as collateral. Savings and credit society that is also known as a credit union refers to a cooperative financial institution whose ownership, control lies within its membership is also established for the aim of offering cheaper finances to its customers as well as other financial benefits in order to ensure that their financial wealth is improved through savings, cheaper loans and also return in form of dividends. Globally there are variations in these institutions in terms of their organizational systems that differ a little or considerably in terms of savings, deposit taking, asset pricing as well as regulations. All of it this varies from organizations with low turnover to large institutions with huge turnover ratio as well as high membership. World Council of Credit Unions(WOCCU),(2008), approximately the USA credit unions had about USD 93 billion asset valuation by 2008 as compared to other financial institutions which had an approximately \$ 2.1 billion.(WOCCU) describe these institutions as a not for profit institutions whose main purpose is not to maximize on profitability but to improve the welfare of its members. This explains why these institutions are democratically controlled by its members (WOCCU, 2007).

Globally, there are however variations in legal provisions relating to these institutions which differ by their mandate. For instance, in North American states these institutions are categorized under non-profit making organizations, their function is seen as that of making logical revenues in order to improve their aim of providing services to their affiliates while also ensuring their stability. This similar objection was applicable in the country up to late 90's when there was liberalization of credit unions by sessional paper Number 6. of 1997 which allowed these institutions to operate as the profit making organizations and the books of accounts to be presented

using same financial reporting benchmarks as other commercial entities within the financial sector. This was in line with global accounting standards that are geared towards ensuring accountability and transparency since there are several different parties who are interested in the financial statements of such organizations. In addition, the same cooperative institutions are supposed to be audited just like other financial institutions in order to check whether the financial statement presented followed the internationally accepted standards of reporting while ascertaining that they reflect a true and fair view (Opala, 2014).

World over Sacco's have been perceived as important avenues of ensuring there is growth in the economy. Their contribution in different country's economic gross domestic product in both developed and developing countries cannot be ignored. This can be accredited to the fact that a bigger percentage of the world population are associated with the cooperative movement in one way or another, direct or indirect as attested in the global membership of the International Cooperative Alliance (I.C.A) which is the top most body worldwide in the cooperative movement. Several nations which have experienced growth in their economy are known to possess working as well as vibrant credit unions movement contributing significantly to the nation's economic progress. For instance, some African countries specifically those in the East African region example Kenya boasts of a vibrant and progressive Savings and Credit Cooperative Organization (SACCO). They range from primary cooperatives such as farmers cooperatives which are dominant mostly in the rural areas and SACCOS which are mostly dominant in the rural and urban areas (ICA Report, 2006).

For these institutions to be sustainable in both financial and service aspect to its members, it is important to have a body in charge to ensure proper legislations and regulations in this sector. Absence of these regulations makes it challenging for some sectors in different countries to be able to attain its core mandate. For instance in most nations in African continent channel their the focus to regulation of micro, small and medium enterprises as well as non-deposit taking organizations, several organizations have resulted to wise level of investment particular to Sacco's though some use prevailing regulations to control Sacco's. Therefore, many nations in continent of Africa, apply these rules to control their Sacco's which are currently categorized under Authority for Banking regulatory, CBK. This is quite different in Kenya since the regulation of deposit taking SACCOS are licensed with Sacco Society Regulatory Authority (SASRA). These body was created in Kenya with a mission of effectively

regulating, supervising and developing the Sacco sector through enhancing healthy operating environment for Sacco's in order to boost their growth. Kenya is believed to be a leading example in this sector as it boasts of the huge and arguably the most dynamic Sacco's in the continent with a ratio of 0.62 in total savings as well as 0.67 in terms of assets. The Kenya Sacco movement comprises Saccos registered by SASRA and SACCOS not registered by SASRA which are not in taking deposits as their main business. The total Sacco movement in the country was valued at \$ 2.1 billion by the end of 2011 as those with additional jurisdiction were valued at approximately \$ 1.71billions.the total numbers of registered Sacco's were 5,797 by the end of the year 2011.The number of Sacco's that were operationally active was 4,021 in the country,7 percent function front office services account (FOSAs)meaning they are deposit taking institutions. Remaining figure of percentage is deposit taking institution. Sacco's are institutions which have key role in the growth of the economy as they pool funds which are in turn advanced to individuals and institutions for flagship investment projects. These institutions are popular especially among the low income earners as they are closer to them as well as they are specially designed to meet their needs which in turn boosts growth of different areas. In the East and central African region' Kenya is believed to have a robust financial institutions as well as the Sacco's. Sacco society regulatory authority (SASRA) purpose is to make sure that stringent laws are followed to the later to ensure good corporate governance,(SASRA, 2011).

Sacco's have a history of promoting economic growth in Kenya through improving earning per capita of people in both urban and rural areas .For instance in Kenya, nearly all public service vehicles belong to a Sacco hence increasing the role of Saccos in many urban areas since the owners of these vehicle and the employees are made to save in the Sacco sector. Through their Sacco's individuals especially those affiliated to the institutions have access to excellent education for themselves as well as their dependents through savings and cheaper loans, Medical facilities, capital for startup businesses, home appliances or building among other advantages associated with Sacco's and it is thorough these faster economic growth, that Government is committed to establishing the aforesaid regulation, apply the internationally accepted financial reporting as well as their controlling order to achieve their purpose which boost their performance. Due to the immense importance of Sacco's it has been recognized in the vision 2030flagship project as well as millennium development

goals as stated in the economic pillar. Due to this factor, Sacco's are expected to rapidly grow and its financial stability guaranteed. Government of Kenya (GOK, 2007)

1.1.1 Financing Strategies for Sacco's

The SACCO Societies' enacted in 2008 to ease on the process of issuing licenses, Sacco's jurisdiction as well as control concerning depository function by implementation of both prudent and non-prudent policies. One of the prudential guidelines is on capital adequacy of the Deposit Taking SACCOS (DTS) SACCOS in order to ensure SACCOS are financially stable and hence grow. SACCO ownership composition whose high proportion consists of debt has a propensity to raise the probability of a firm's bankruptcy; this occurs when SACCOS' assets are proportionate to their liabilities (Liaqat, 2011). Free cash flow represents the total sum a SACCO can produce after setting aside the minimum capital requirement. It also allows SACCO to be able to follow their income from their business ventures in order to increase the value of the shareholder investments. Their investment decisions are generally influenced by the prospective income from those investments. Some SACCOS experience either payment of funds to the members or income as payment from members in either scenario it will have impact on capital structure. Therefore the founding of SASRA was due to the directive by the government for reforms initiative in this sector. This can also be attributed to Kenya's vision of being the dominant in financial terms in East and central Africa. The continuing reforms aim at protecting Sacco's shareholders to make sure that people have assurance about their funds as well as boosting growth of economy in Kenya through provident investment of the members' contribution (Mugo, 2013).

1.1.2 Financial Stability of Saccos in Kenya

Financial stability of Saccos is very important to ensure these institutions will be able to contribute to the economy and also improve the welfare of its members. In line with SASRA is supposed to issue licenses to Saccos that have complied and also regulates the already licensed Saccos in Kenya. The number of Saccos keeps on changing from one period to the other. For instance in Kenya there were 219 Sacco's which had been authorized to operate front office savings account (FOSA), out of which 199 applied for a license from SASRA, 13 wrote to SASRA indicating their

intention to discontinue offering FOSA while the remaining 7 Sacco's did not apply for the license by the deadline of June 17, 2011. As of January 1, 2014 there were 135 Sacco's licensed to operate deposit taking business by SASRA to the year ending December 31, 2014 (SASRA, 2014)

The growth of the Sacco's in Kenya has hugely contributed to the growth of savings among individuals which is directly proportional to investments. Workers contribute towards these institutions throughout their employment which they are refunded their savings and accrued interest as pension. SASRA immensely contributes to the flagship projects and support initiatives of the national co-operative sector in a broad spectrum of different activities such as promoting and expanding significant programs as well as how the institutions are run, in order to safeguard the deposits of members, automation of processes of the sector, innovation and technological advancement in the sector and providing civic education among Sacco members and among the registered Sacco's. By benchmarking Sacco's with other financial institutions across the globe by making sure Sacco's operate in accordance with internationally accepted regulations, SASRA aims at improving the performance of Sacco's through introduction of regulations to achieve members' requirements. The body was created due to rapid Sacco's growth and lack of viable regulation to direct and steer their Progression.

The Sacco industry total assets grew by 12.17 per cent in 2015 with loans being the single largest balance sheet asset at recorded at 73.5 per cent. The Sacco Society Regulatory Authority (SASRA) renewed practice licenses for 181 deposit taking Sacco societies authorized to operate in 2015. The deposit taking Sacco societies still continue to grow above the 12 per cent mark in all the key performance indicators, accounting for about 75 per cent total income of Sacco sub-sector. These societies' net assets exceed KSh.5 billion, that accounting for 51 per cent net assets. Increasing demand for a prudential regulatory compliance coupled with acknowledgement of the fact that majority of these small Sacco societies are financially and technically constrained, remains a major challenge especially for this category of deposit taking SACCOS. The growth momentum of the large and medium sized deposit taking SACCOS is expected to exert some competitive pressure on the small SACCOS, which may consider opting out of the deposit taking Sacco business so as to concentrate in the non-deposit taking Sacco business or encourage mergers. (GOK, 2016)

1.1.3 Deposit Taking Saccos in Kenya

Sacco's as a subsector of financial sector contributes substantially to the economy, contributing slightly over 40 percent of the Gross Domestic Product (GDP). According to the IMF report in 2011, deposits taking Sacco's have a relatively larger controlling stake in form of total deposits and assets of the overall Sacco sector in Kenya, enjoying a stake of 78 percent. The Saccos in the country are under the Ministry of Industrialization and enterprise development that administers registration and compliance. However, 2008 SACCO ACT as well as consequent introduction of the SACCO Society Regulatory Authority (SASRA), the deposit taking organizations was moved to SASRA for supervision and regulation. The SACCO ACT of 2008 was published in June 2010 and required all Sacco's operating FOSA to apply for licenses from SASRA (SASRA, 2014).

The main objective of the enactment of various necessary prudential regulations on the deposit taking Sacco's was to promote existence of a transparent and accountable Sacco sub-sector in the country. This is in line with the ongoing financial sector reforms that aim at expanding access to financial services, fostering effectiveness as well as increasing economic performance in these institutions. The difficulties that face enforcement of SACCO legislation vary significantly due to the variety and size of the Sacco's. However, the aspect of inadequate technical skills at the management and board level has been identified as the key challenge. Other grey areas that need continuous attention and assessment are managerial capacity, matters' governance, automation and management of credit. Particularly, SASRA regulates and supervisors the following key operational aspects of deposit taking Sacco's; matters' licensing, their capital adequacy, liquidity and asset liability management, member shares, savings and deposits, credit management practices, classification of assets as per their risk element and providing adequate provisions, investments, performance of the SACCOS financially as per their reporting practices, governance, information preservation, business continuity of the institutions and deposit guarantee fund (SASRA, 2012).

Deposit taking Sacco's account for less than 10% of all Sacco's in the country, but make up about 80% entire value of Sacco movement. Sacco's in Nairobi County are

located in different sub-counties and they are 39 in number as per the latest SASRA report (SASRA, 2016).

The Deposit-taking Sacco Societies (DTSS) is part of the larger circle of Sacco societies in the country which make the DTSS Sacco Societies. The non-deposit taking segment is composed of those Sacco Societies whose operate for only taking members' funds which aren't withdraw able but for the aim of advancing funds to its members. Deposits are non-withdraw able in that they may be used as collaterals for loans only and can only be refunded upon the member's withdrawal. (SASRA, 2014). The Deposit-taking Sacco Societies apart from advancing funds to its members further also offer essential banking services. The Act ensures financial stability of the DTSS is guaranteed as well as protecting the investments and deposits of the members. This is in line with financial stability to ensure Liquidity in the SACCOS in order to ensure demand of member's advances.

1.2 Research Problem

Sacco's as a subsector of financial sector contributes substantially to the economy, contributing slightly over 40 percent of the Gross Domestic Product (GDP). According to the IMF Report (2011), deposits taking Sacco's have a relatively larger controlling stake in the entire composition of the sector in Kenya with a stake of 78 percent. The Saccos' enactment made sure there is provision for the vital investment standards and prerequisite which DTSS are required to fully comply with in order to maintain financial stability. These include SACCO core capital that enhances its safety and soundness, boosts revenues, soaks up costs, and sustains other services like financial assistance. It also ensures Sacco's remain competitive in unforeseeable future. Sacco's are required to sustain a particular amount of assets which will provide assurance to their members which in turn guarantee security of members 'funds. (SASRA, 2014).

In Kenya, SACCOS are vital in offering necessary financial services which are believed to offer their clients wide range of services as compared to other institutions operate in the same industry (ICA, 2002). They contribute 45 % of the country's GDP. A report (FSD, 2009)observed the major challenge that Sacco's face is issue of liquidity as most of time they find it difficult in meeting their financial obligations.

Failure to address this situation, many Kenyans may experience wealth destruction as a result of collapse of many SACCOS. In addition, lack of funding has been identified as a main challenge to SACCOS. KUSCCO (2009) revealed that cash pulling out of funds by members and demand for loan advances are proving to be a real challenge to these institutions. SACCOS need to adopt financial strategies in order for them to satisfy high needs of cash advances to the members apart from the normal savings by the SACCO members which may be inadequate source of financing since majority of Kenyans are turning to SACCOS because of high interest rates offered by the commercial banks hence creating funding deficit in SACCOS. For a long period, the Sacco' shave put tremendous effort attempting to solve the issue of their clients increasing appetite for loans and advances. Though, these Sacco's have faced a major difficulty in growing their assets well enough through accruing enough savings in order to offer members some security especially when the Sacco's are experiencing financial difficulties.

(Asher, 2007; Gerda 2007) observed that stagnation of Sacco's has threatened the existence of these institutions to an extent they are not in position to recover from financial difficulties. A situation has arisen whereby members' contributions have been often used to meet the losses incurred by the Sacco's. Several other studies have been conducted in SACCOS; Kimathi (2014) did a study on the effect of the financing strategies on the liquidity of savings and co-operative societies licensed by SASRA, Okundi (2011) conducted a study to investigate the difficulties faced by Sacco's within Nairobi County. Opala (2014) conducted a study in to determine impact of financial stability among the Sacco's in Nairobi County. The study found out that there was a positive relationship between the variables; including liquidity, wealth accumulation and size of the SACCO and management quality.

Many of the above studies have investigated the financial performance and financial stability of SACCOS and none investigated the financing strategies adopted by DTS in Kenya that will ensure DTS are able to meet the demand for loans for its members without violating the capital adequacy as required by SASRA. My research will endeavor to meet the objectives, *effects of financing strategies on operational efficiency of deposit taking Sacco 's in Kenya*

1.3 Research Objective

This research was based on general objective which was stated as follows; to establish the effects of financing strategies on operational efficiency of SACCOS registered by SASRA in Nairobi County.

1.4 Research Hypothesis

The hypothesized relationship between variables was as shown in the following research hypotheses;

H₀₁: There is no significant relationship between Operational Efficiency and Members funds.

H_{A1}: There is significant relationship between Operational Efficiency and Members funds.

H₀₂: There is no significant relationship between Operational Efficiency and Institutional capital.

H_{A2}: There is significant relationship between Operational Efficiency and Institutional capital.

H₀₃: There is no significant relationship between Operational Efficiency and External borrowing.

H_{A3}: There is significant relationship between Operational Efficiency and External borrowing.

1.5 Value of the Study

In any business or industry, finance plays an important role for its good performance and prevents business failure which results from financial distress. SACCOs are also in the financial sector and currently there has been an increased significant growth in the financial institutions, some transforming from building societies to commercial banks and one factor that can be explained by this growth is the financing strategies adopted by the firms.

The study will be of value in the following areas:

The management of deposit Taking Sacco's while trying to implement the recommendations of the study, this will ensure that their Sacco funding is within the required level and hence ensure growth in terms of profitability and general membership.

To the Government and its agencies such as the Sacco regulatory authority (SASRA) since they will be able to gain insight on how financing strategies relates to SACCO growth Which will help in the process of developing regulatory requirements and policies especially on capital adequacy in order to minimize risk and achieving goals of financial access and inclusion.

The academicians and other researchers will find in the study relevant information regarding the effect of financing strategies on the growth of SACCOS regulated by SASRA in Kenya. Thus the research study will contribute immensely to the general body of knowledge and also form a basis of further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review highlights theories and work that has been carried out by other scholars in the past on the topic under study. The researcher will also bring forth the study gap in the topic under study in spite of the past studies.

2.2 Theoretical Framework

The theoretical literature was reviewed using various theories relevant to this study such as trade off theory, the pecking order theory and the stakeholders' theory.

2.2.1 The Trade- Off Theory

Trade-off theory as described by various researchers and scholars refers to a group of similar theories or hypothesis. When the financial analysts operating in a particular company does the cost benefit analysis (CBA) associated with various projects, there is an assumption that internal factor is considered so as to determine the variations in costs as well as benefits. This theory originally emanated from M & M hypothesis. As the firms 'income taxes were compared with the overall earnings of the firm, it was revealed that the final tax obligation of the firm was significantly reduced. Given that there is a linear objective function, cost of borrowing was zero; the statement meant a firm can be fully financed through debt.

There are various definitions of this theory specifically on its advantages by different scholars. Foremost, there is not straight forward observation of the objective. Again, the target may be attributed to the facts.

Various studies discuss this statement in various ways. Next, the analysis of the tax is relatively different as compared to the one discussed earlier on in the theory. Depending on the tax targets of the analysis, various inferences on the tax can be arrived at Graham (2003)

Thirdly, the way the losses are handled is wrong as they should be inform of irrecoverable losses instead of being absorbed from a claimant to another. Their nature is also significant. Haugen and Senbet (1978) provide an important way of analyzing these factors.

Fourthly, cost of the transactions must have a particular way of analysis to make it easy for the analysis. In order to experience steady changes instead of sudden changes, rate of changes in costs must increase at an increasing rate. This theory brings the concept of leverage and cost which is critical in financing decisions.

2.2.2 The Theory of Pecking Order

This theory is vital when it comes to theories and hypothesis on corporate finance on capital analysis. Efficient management of finances as well as the factors which affect equity composition of the firm is significant in order to guarantee the going concern of the firm. A contrary judgment concerning equity composition may leave the firm experiencing difficulties or even lead to its closure. This theory dictates that the optimal firm should have a capital structure being financed more by internal sources rather than external fund which will make the firm levered. If firms are using more of debt capital it becomes more expensive because of the additional cost because of the interest charged on borrowing.

This theory is important to many firms as it perfectly fits with various factors concerning the way firms apply debt capital. The external finance in a business firm form a small ratio in the capital composition therefore they the equity finances are insignificant, with high ratio of these finances being debt. The statement above doesn't meet those for DTS. Debt financing is important to the firms but most people don't realize it as long as it's not higher than the equity financing. Members' funds in a SACCO form a higher percentage of the internal financing. In many cases, equity finances usually form a higher percentage of firms financing than debt financing. Equity financing usually off-set company's losses than the debt financing does.

There are several studies done to analyze the better financial predictor between the two theories. Empirical research reveals the importance of both theories in financing

strategies of the firm. This theory is important for this research since it is guiding on both equity and debt capital which are important strategies in financing SACCOS.

2.2.3 Stakeholder Theory

This theory holds that the interest of the stockholders need not harm stakeholders (Freeman, 2008). It also holds that an organization can enhance the interests of its stakeholders without damaging the interest of its wider stockholders. This theory grew in response to the economic theory of the firm. Applied to SACCOS, the SACCOS' investment decision maker has a responsibility to provide the stakeholders with the reports on the operations of the SACCOS' risk management, control and financial management processes as well as the SACCOS' spending plans. This theory was considered relevant in guiding this study because it makes prediction about the role of investment decision in capital adequacy of a firm.

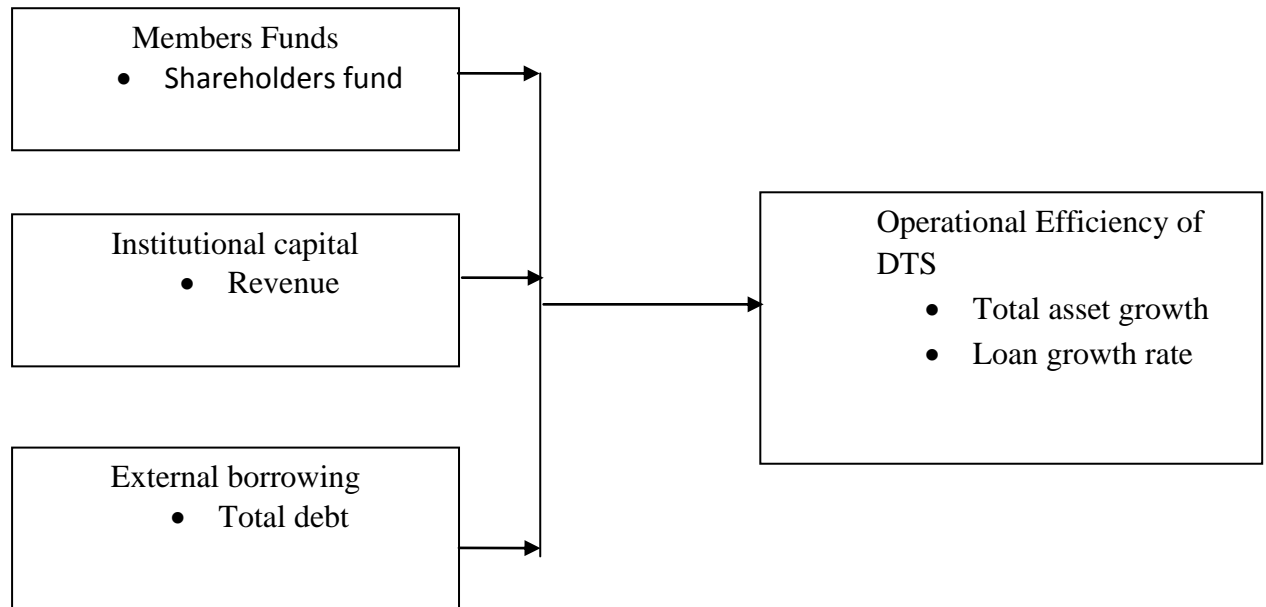
2.3 Conceptual Framework

The research study was seeking to examine the financing strategies adopted by SACCOS registered by SASRA in Nairobi County which are operating deposits for their members. The research dependent variable was growth of DTS while its independent variables included; members funds, institutional capital and external borrowing. This relationship between the research dependent variable and the independent variables can be illustrated in the conceptual framework in the figure 2.1 below.

Figure 2.1: Conceptual Framework

Independent variables variable

Dependent



2.3 Determinants of Operational Growth of Deposit Taking Saccos

2.3.1 Member Contribution

Sacco's function is to improve their members' financial position and precisely, by encouraging it's members to improve their savings through providing them with a chance to accumulate funds through savings with a promise of pay them in the future a certain the accumulated savings on top of the accrued rate of interest. Sacco's invest their members savings on viable investment projects in order to be able to advance loans to its members who are in dire need to invest those funds which they have to repay in the near future at a fair interest with flexible repayment terms, constantly train Sacco members on various ways of improving their savings as well offering some financial advices to their members. Sacco's also help in fighting poverty by providing funds to their members especially those with low income which provide capital for their business hence improving their standards of living among its members, they also help in tackling the issue of exploitation usually by large financial

institutions like banks as Sacco members feel like they own the Sacco's which exist because of their funds. Sacco's have many benefits to its members among them being; they are closer to its members hence propensity to save is high, they provide better rates of interest to members savings as well as the members borrowings, they also educate their members on how to manage their money in order to increase their wealth through savings. Sacco's also insure their loans to reduce on their risk though; this is not common among all Sacco's. In addition; to their savings and loans advancement function, they also provide social relations among its members (Kabuga and Batarinyebwa, 1995).

SACCOs offer loans to their members from the deposits that they hold. This is one of the main motivation towards membership. SACCOs play an integral role in financial inclusion offering loans to individuals who do not meet the requirements of commercial banks. In addition, they offer these loans at rates lower than commercial banks with less stringent terms and conditions (Kibui & Moronge, 2014).

Members borrowing funds from their SACCOs provide their own share as security for the loan as well as sworn declaration of guarantors – also members of the SACCO together guaranteeing the loan amount against their own shares in the institution. Given the close knit structure of the SACOs, more often than not members guarantee each other against loan default whereas they take up loans themselves for which their fellow members guarantee them creating a contagion in which one default could lead to several others (Procasur Africa, 2012).

This can be prevented by closer monitoring and placing threshold of maximum amounts that can be guaranteed by each member based on the deposits that they hold.

2.3.2 Institutional Capital

SACCOS have to comply with the institutional capital requirement of 8 % of the total asset as per the SASRA regulations of 2010. The SACCOs are in a difficult situation of cutting down the payouts to its members who are used to receiving relatively high proceeds from their savings.

Institutional capital is that part of an individual savings that always remains in the account. Institutional capital threshold is usually set at a minimum of 8% of the assets but as at the end of 2015 the industry average was five per cent. Prior to the Act coming into effect, most of the annual earnings of the SACCO were distributed among its members. One of the main ways SACCOs raise institutional capital is by

retaining surpluses. These surpluses are as a result of gains from various investment ventures. In a bid to retain surpluses members' dividends are forfeited. This is due to the inverse relationship between retention ratio and dividend pay-out ratio. The SACCOs find themselves facing a difficult decision when considering decreasing the members' payment as they've always been getting higher returns for their savings. Sacco's had not introduced the minimum capital threshold before 2010 (Olando et al, 2013).

In addition, the SACCO Act Sec 21(5), states that "a SACCO society shall not pay dividends unless it has fully complied with the prescribed capital adequacy". Given that institutional capital has proved more difficult to raise than share capital, and that institutional capital is raised primarily from reserves, SACCOs have been forced to reduce and in some extreme cases do away with dividends in order to ensure compliance with SASRA regulations and guarantee another year of licensing to continue operations (Kenya Law Reports, 2008).

To increase their institutional capital, a part of the SACCO's income should be reserved to counter the eventful losses that may arise in the future. Capital reservation is significant to Sacco's because they fully possess them without any claim by a particular individual which helps strengthen their financial position as well as have funds available advancing loans to its members and at a cheaper interest rate.

Allocation of reserves, in effect reduces the amount of earnings available for pay-out to members usually in the form of dividends. The reserve ratio refers to the percentage of earnings reserved in relation to total earnings and is inversely proportional to the dividend pay-out ratio (Saunders and Cornett, 2011). Thus in order, to increase institutional capital, a SACCO may reserve more earnings increasing their reserve ratio.

It's wise for all Sacco's to maintain minimum reserve threshold which guarantee the institution is able to deal with the losses which may occur in the future (Evans, 2001). The minimum reserve which helps the Sacco's to improve on its capital composition, (Ombado, 2010).

2.3.3 External Financing

This refers to that proportion of Sacco's financial composition which comes from private banks and other institutions outside or inside the country. According to the Consultative Group to Assist the Poor (2012) report, the phenomenon of cross

borrowing is almost omnipresent as it has presence across the world. The Cross borrowing practice has brought conflicting propositions across the financial industry with some advocating for the option of cross borrowing while others viewing it as a cycle of debt. This leads to inability to service leading to rising levels of delinquency and default. A recent study conducted by the Financial Sector Deepening (FSD) in 2009 revealed that SACCOs are facing severe problems with their ability to meet obligations as and when they fall due and several of the SACCOS are unable to meet the demand of their members in terms of loans and also in case of savings withdrawal and because of these situations Sacco members are perplexed on the future of the SACCOs. For the SACCOS to be able to deal with these there is an urgent need to incorporate external borrowing strategies such as inter SACCO borrowing, borrowing from KUSCCO which will ensure that they will be able to meet their Member's needs.

Financing through debt needs to be managed well and the intention of the funds should be well discussed. Debt financing is an easy way of financing but it carries a huge risk with it especially when a firm is unable to meet the set terms and conditions of the loan (KUSCCO, 2006).

2.3.4 Sacco Operational Efficiency

This is a vital determinant of financial performance of the firm. It's presented by various financial ratios such as growth of assets, revenues growth as well as growth of advancement of credit. It's however a challenging factor to determine (Halling & Hayden, 2006).

2.4 Empirical Review

Butagira & Mashoo, (2009) conducted a study in Uganda and found out that poor use of funds is a factor that may influence Sacco performance. In his study it was discovered that Sacco's in that country were experiencing difficulties in getting loans. Though, this seemed like an isolated case usually influenced by embezzlement of funds by management. During the study it was discovered that most Sacco's had advanced loans from banking institutions but the finances were channeled towards financing recurrent expenses rather than being prudently invested.

Gerda (2007) conducted a study on linking Sacco's expansion of advancing loans to marginalized areas in Tanzania and he found out that that Sacco's have been making effort to advance loans to its members in the marginalized areas as they aim to meet

their demands. Though, SACCOs have not achieved their aim of accumulating enough funds to be able to deal with the uncertainties of financial difficulties which may arise in the future. In his study it was revealed that many losses incurred by these institutions have not been able to recover them. Due to such developments, many financial losses have in many cases been soaked up by member's contributions.

Okundi (2011) carried out a study on the financial challenges facing SACCOS in Nairobi where he concluded that SACCOS have entered into agreements which take long to yield return hence increasing the Sacco's difficulties to meet the excess demand for finances by its members. This led to loss of some of its clients to the commercial banks partly due to the speed in which they were disbursed and the fact that the loan is not pegged on savings as is the case with SACCOS.

Muriuki (2010) studied the factors affecting SACCOs' financial performance in Meru County. The broad research aimed at determining the impact of management variables on SACCO's financial performance in the TNT SACCO. The research used descriptive research approach. Since the data wasn't homogeneous. The results show that governance, education and training play a major role on influencing investment decision in SACCOs.

Wasike (2012) conducted a study on the effects of management of Sacco's in Bungoma County and reported that despite adopting governance strategies, many SACCOs were yet to reap maximum returns.

Ndubi (2006) carried out a research on the responses of the Sacco's to increased competitiveness in Nyandarua County and found out that they have adopted different methods in order to counter the ever increasing competition from commercial banks and among the Sacco's as well.

Opala (2014) conducted a research on the impact of financial stability on profitability of DTS in Nairobi County. This study's population comprised all the 34 DTS which have complied with SASRA regulations by December 2013. The data was extracted from the Sacco's books of accounts between the periods 2001 to 2014 was analyzed to find out if there is any relation linking financial performance and financial stability. The findings of the study, it was revealed there was a positive relation influencing the financial performance of Deposit taking Sacco's in Nairobi County, including liquidity, capital adequacy, which influenced financial position of the Sacco's.

Njama (2014) conducted research to investigate impact of starting capital to the firms and how they influence growth of MSMEs. The researcher noted that this is a critical

area especially to their members who are need to access funds for investment especially those in MSMEs as this business ventures experience an increasing returns to scale. This institutions should custom their services in such a way they differ from their competitors in order to meet the increasing appetite for funds to their members. He suggested that Sacco's have a vital role to play in growth of economy through availing funds to the Micro, small And Medium Enterprises (MSMEs) which has a direct relation to investment.

According to SASRA Report (2013) though many Sacco's adhered to the minimum reserve threshold set at about \$ 100,000 most were still struggling to cope with the minimum capital ratio obligation. The report further observed there was still a need for the Sacco's to maintain the minimum reserve ratio and put more effort in gaining more members hence high contribution. SASRA strives to ensure these regulations are followed to the later in order to ensure management of the highest level in these Sacco's to avoid financial distress in the sector.

2.5 Research Gaps and Summary

From the above past studies the researchers focused on financial stability of SACCOS in general. There has also been little research on the capital adequacy of deposit taking Sacco's in Kenya. Most of the recent studies concentrated on capital adequacy as determinant of financial stability. Capital adequacy is important variable which is regulated by SASRA to ensure DTS compliance. For the DTS to be able to comply with Capital adequacy requirements as well as meeting the demand for members' loans there is need to come up with financing strategies that will ensure capital adequacy of the DTS is attained in Kenya. In summary this study therefore was seeking to fill the Knowledge gap by establishing the effects of financing strategies on capital adequacy of deposit taking Sacco's in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter entails; research design, population and sampling, sampling frame, data collection, validity and reliability, Data analysis and presentation, Test of significance and analytical model.

3.2 Research Design

The researcher employed a descriptive method. Descriptive study focuses on analyzing the character of an individual object or set of object or people. According to Garg & Kothari (2014) descriptive survey are for research which focuses on explaining the behavior of the characters under study. This type of research design is the best for accurately describing a situation or an association between variables that minimizes biases and maximizes the reliability of evidence. The research design of this nature basically focuses on particular forecast, having explanation of truth and characters focusing on specific cases, groups and other observable cases which are deemed relevant to a research problem of the study. The advantage of the design is that gives room for different ways of collecting data besides the common way of collecting data through the questionnaires which gives respondents a chance to give additional data as they are free and their decisions can't be making influenced.

Kothari (2005), states that descriptive study approach is broad and can be used to carry out studies of diverse nature. This approach aims at providing different depiction of the states of nature as they occur. This approach entails clear description of how the researchers aim at achieving their study variables as well as the study target from a collection of variables. The approaches of those studies are relatively inflexible. Awareness should be directed towards the following: formulating the study's objectives, coming up with the perfect method of collecting data for the study, selection of the study sample, data collection, coding the data and analyzing it so that it can be reported as the findings of the study.

The method of the study provided the researcher with time to investigate the financing strategies adopted cooperative societies registered with SASRA in Kenya by collecting and analyzing the research data in order to describe the situation of the research problem in its original position.

3.3 Population and sampling

The research population consisted of the DTS which are licensed and regulated by SASRA in Nairobi County. According to the SASRA (2016) there are 39 licensed deposits taking SACCOs in Nairobi County.(List attached at the appendix) Thus this research will targeted all 39 Sacco's in County of Nairobi.

3.4 Sampling Frame

The research study adopted the census methodology which assisted the researcher to gather complete and reliable data for this research. Census methodology is a sample design where all the cases in study are be considered during data collection. This is because the number of DTS which are registered and controlled by SASRA in Nairobi County are not many. County of Nairobi was considered as a case study since it has more deposit taking Saccos licensed by SASRA than any other County in Kenya. In addition, its Saccos are the biggest in terms of deposits, total assets, total loans and revenue which were important measures in this research.

3.5 Data Collection

The researcher used secondary data constituting the published financial statements from the SACCOS and annual reports for the four year time period from 2011 to 2014 available from SASRA. The period was chosen because it offers a recent time series observations and also because it coincidentally coincided with era of regulation by SASRA. The data for the research study was treated confidentially and specifically for the research. Secondary data sources such as journals, financial reports, internet, Act for the Saccos and research projects were used to review the study literature review.

3.6 Validity and Reliability

These are the key indicators associated with measurements of soundness and dependability of data collected. The aim of performing this process is to ensure the data is free from error which usually occurs during measurement of variables. Reliability entails evaluating the extent to which the data can be dependent on by the researcher. **Validity** on the other hand, basically analyses the soundness of the data collected which usually is influenced by where the researcher aims at using the data in. This research since secondary Data was used and specifically audited financial

statements then reliability tests might not be necessary. Analysis was carried out to test if the chosen data analysis tools were appropriate.

3.7 Data Analysis and Presentation.

The study used secondary data which was processed systematically by applying statistical and logical techniques to explain, summarize concisely and for data comparison. The data collected was utilized in order to analyze the effects of financing strategies on the operational efficiency of deposit taking Saccos licensed by SASRA in Kenya. The researcher checked the raw data for legibility, consistency, completeness and uniformity of the figures given by the SASRA and the existing reports. Computer package SPSS (Statistical Package for the Social Sciences) was used in data analysis since it allowed the use of statistical tools such as regression and correlation. The data was presented into tables for better presentation and clarity.

3.7.1 Analytical Model

The regression model was as follows:

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \epsilon$$

Where: Y = Sacco operational efficiency measured in terms of total asset growth and loan growth rate.

α = Constant Term

β_1 to β_3 = Regression Coefficients

X1 = Member funds

X2 = Institutional capital

X3 = External borrowing

ϵ = Error

The operation definition of variables as contained in this model were explained in table 3.1.

Table 1: Operation Definition of Variables

Variables	Definition	Measurement
Y	Operational Efficiency	This was measured in terms of total asset growth and loan growth rate for several years

X1	Members funds	This was measured using the level of members funds for several years
X2	Institutional capital	This was measured using the level of income that determined the retained earnings and thus the institutional capital for several years
X3	External borrowing	This will be measured using the level of debt capital for several years

Source. Researcher, 2016

3.7.2 Test of Significance

The coefficient of determination (R squared) was used to measure the extent to which the variation in efficiency was explained by variation in its determinants. F – Statistics will also be computed at 95 % confidence level to test whether there is any significant relationship between financing strategies and Deposit Taking Sacco operational efficiency.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter contains data analysis, response rate, correlation analysis, hypothesis testing, regression analysis and discussion of the research findings.

4.2 Response Rate

The purpose of the study was to investigate the effects of financing strategies on operational efficiency of deposit taking Saccos licensed by SASRA. The census methodology was used which ensured a response rate of 87.17 % in 2011 and 2012 and a response of 92.30% in 2013 and 2014. This is because the Saccos are not licensed permanently some are removed and others are added depending on indicator requirement by SASRA. According to Chandran (2014) a response rate of 75% and above is deemed representative and fit for analysis. Hence the response rate in this study for all the years was acceptable for analysis.

4.3 Descriptive Statistics

The data collected on different research variables indicated that it was highest during the year 2014 and lowest during the year 2011 in all the variables as indicated in table 4.1;

Table 2: Descriptive Data

	2011	2012	2013	2014
	MILLIONS	MILLIONS	MILLIONS	MILLIONS
CORE	KES	KES	KES	KES
CAPITAL	2,697.00	10,281.00	14,364.00	17,480.00
TURNOVER	KES	KES	KES	KES
	11,256.00	14,629.00	17,732.00	20,650.00
TOTAL	KES	KES	KES	KES
ASSETS	109,043.00	122,457.00	143,045.00	173,575.00
TOTAL	KES	KES	KES	KES
DEPOSITS	82,262.00	92,990.00	107,869.00	125,004.00
TOTAL	KES	KES	KES	KES
LOANS	87,772.00	98,971.00	111,142.00	135,052.00
TOTAL	KES	KES	KES	KES
DEBT	11,020.00	11,962.00	16,546.00	20,096.00

Source: Researcher, 2016

4.4 Regression Analysis

The regression model was as follows:

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \epsilon$$

Where: Y = Sacco operational efficiency measured in terms of total asset growth and loan growth rate.

α = Constant Term

β_1 to β_3 = Regression Coefficients

X1 = Members funds

X2 = Institutional capital

X3 = External borrowing

ϵ = Error

The measurement of both independent and dependent variables as indicated in the regression model were measured as indicated in the table 4.2

Table 3: Measurement of Variables

Variables	Definition	Measurement
------------------	-------------------	--------------------

Y	Operational Efficiency	This was measured in terms of Total asset growth and Total loan growth rate.
X1	Members funds	This was measured using the level of members (Total deposits and Core capital) funds for several years
X2	Institutional capital	This was measured using the level turnover which determines retained earnings for several years
X3	External borrowing	This was measured using the level of Debt capital for several years

Source: Researcher, 2016

Regression analysis

The study involved a multiple regression analysis to test the level of influence among predictor variables. The research used the statistical package for social sciences (SPSS V20) to code, enter and compute the measurements of the multiple regressions.

Collinearity diagnosis statistics showed a Tolerance level of .895. Tolerance level measures the influence of one independent variable on all other independent variables of the study. The tolerance is basically calculated with an initial linear regression analysis. Tolerance is defined as $T = 1 - R^2$ in the first step of regression analysis. A Tolerance value of less than one indicates multicollinearity. A Tolerance level of .895 (which is more than 1) proves presence of multicollinearity in the model.

It was established that there is significant correlation between the dependent and independent variables that were investigated and measured in this study. The Pearson test showed a strong correlation between the Sacco's Operational Efficiency and Institutional capital (.067), Member funds (.052), and External borrowing (.074). However, the correlation trends between the Sacco's Operational Efficiency and External borrowing at (.074) brought a new dimension of understanding on how the nature of external borrowing tendencies significantly influence the Sacco's Operational Efficiency. The results of the analysis are interpreted to mean that the Sacco's potential for increasing its Operational Efficiency predominantly lies within ensuring the Sacco increases its borrowing capacity and stock of debt capital in order to ensure that the demand for loans is satisfied.

Table 4: Regression Summary

Model	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
I				
(Constant)	2.313	0.213	0.902	0.032
Member funds	1.17	0.021	2.519	0.049
Institutional capital	0.62	0.011	1.526	0.041
External borrowing	0.73	0.909	1.652	0.024

According to the analysis, the equation for the regression line transformed to;

$$y = 2.313 + 1.17(X1) + 0.62(X2) + 0.73(X3)$$

Where: Y = Sacco operational efficiency measured in terms of total asset growth, loan growth rate and earnings growth rate, X1 = Member funds, X2 = Institutional capital and X3 = External borrowing.

From the above regression equation, it can be concluded that, holding the levels of Member funds, Institutional Capital Land External borrowing at constant, the level of operational efficiency of deposit taking savings and credit co-operatives in Nairobi County amounts to 2.313 units of influence. Variances in Member funds would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by 1.17 units. Variances in Institutional capital would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by 0.62 units. Variances in External borrowing would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by of 0.73 units.

4.5 Correlation Analysis

Table 4.4: ANOVA

	Model	Sum of squares	df	Mean Square	F	Sig.
1	Regression	3.209	2	0.344	2.325	.162a
	Residual	0.453	7	0.328		
	Total	3.662	9			

Analysis of variance (ANOVA) is a method of testing the null hypothesis that several group means are equal in the population, by comparing the sample variance estimated from the group means to that estimated within the groups. Sum of squares measures the variability of a data set. Given our regression model on the sum of squares of 3.209, is bigger than residual of 0.453, we can conclude that our model sufficiently accounts for most of the variation on the dependent model, which means most of the variation operational efficiency of deposit taking savings and credit co-operatives in Nairobi County are as a result of structural adjustments in core capital, turnover, total assets, total deposits, total loans and total debt. We use the F statistic and significance level to measure if the regression model fits well. Pegging the significance level at 5%, the critical value was smaller than the calculated p ($1.232 < 2.325$) we see that Members' funds, Institutional capital and external borrowing significantly determine the levels of Operational Efficiency in the deposit taking institutions licensed by SASRA in Nairobi County.

Table 5: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.958 ^a	.924	.804	.02137

R is the correlation coefficient whose output shows the relationship between the study variables. R output of 0.958 indicated in the table above exhibits a strong positive relationship between the study variables. R Square shows the goodness of fit i.e. how well the independent variable explains the dependent variable. Adjusted R squared is the coefficient of determination which tells us the variation in the dependent variable

due to the changes in the independent variable. R^2 of 0.804 implied that a variation of 80.4% on operational efficiency of deposit taking savings and credit co-operatives in Nairobi County is determined by changes in core capital, turnover, total assets, total deposits, total loans and total debt, at 95% confidence interval. 19.6% variations on operational efficiency of DTS and credit co-operatives within Nairobi County are determined by variations of other variables outside this model. This is a good fit because it explains satisfactorily, between the variables. A good fit takes values between 0.75- 1.

4.6 Hypothesis Statistics

The researcher tested the significance of the OLS parameter estimates based on the following conditions;

Accept H_0 if $t_{=0.05} > t_{Statistics}$

Reject H_0 and accept H_A if $t_{=0.05} < t_{Statistics}$

Hypothesis 1:

H_{O1} : There is no significant relationship between Operational Efficiency and Members funds.

H_{A1} : There is significant relationship between Operational Efficiency and Members funds.

$$T_{0.05} = 1.206$$

$$t_{Statistics} = 2.519$$

$$1.206 < 2.519$$

Therefore, the researcher accepts the H_A and concludes that the nature and stock of Members funds dictated by the SACCOs' Core capital and Total deposits between 2011 and 2014 had a significant relationship to the SACCOs' Operational Efficiency levels within the same period.

Hypothesis 2:

H_{O2}: There is no significant relationship between Operational Efficiency and Institutional capital.

H_{A2}: There is significant relationship between Operational Efficiency and Institutional capital.

$$t_{0.05} = 1.206$$

$$t_{\text{Statistics}} = 1.526$$

$$1.206 < 1.526$$

Therefore, the researcher accepts the H_A and concludes that the prevailing stock of Institutional capital as exhibited by the SACCOs' annual turnovers between 2011 and 2014 had a significant relationship to the SACCOs' Operational Efficiency levels within the same period.

Hypothesis 3:

H_{O3}: There is no significant relationship between Operational Efficiency and External borrowing.

H_{A3}: There is significant relationship between Operational Efficiency and External borrowing.

$$T_{0.05} = 1.206$$

$$t_{\text{Statistics}} = 1.652$$

$$1.206 < 1.652$$

Therefore, the researcher accepts the H_A and concludes that the SACCOs' Operational Efficiency levels between 2011-2014 had a significant relationship to the nature of External borrowing defined by Debt capital stock within the same period.

4.7 Discussion of Research Findings

From the regression equation of $Y = 2.313 + 1.17(X1) + 0.62(X2) + 0.73(X3)$, it can be concluded that, holding the levels of Member funds, Institutional capital and External borrowing at constant, the level of operational efficiency of deposit taking savings and credit co-operatives in Nairobi County amounts to 2.313 units of influence. Variances in Member funds would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by 1.17 units. Variances in Institutional capital would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by 0.62 units. Variances in External borrowing would trigger an increase in operational efficiency of deposit taking

savings and credit co-operatives by of 0.73 units. The beta coefficients indicated the relative importance of each of the independent variables (members' funds, institutional capital and external borrowing) in influencing the dependent variable Deposit taking Saccos operational efficiency. Members funds as measured by core capital and deposits was the most important factor influencing Sacco operational efficiency with a beta coefficient of 1.17, followed by external borrowing 0.73 and institutional capital at 0.62.

This resonates with SASRA report of 2014 which indicated Sacco's core capital is important since it enhances safety and soundness, improves earnings, absorbs losses and supports new member services and assists in meeting pressures in future. In addition, it also confirms the KUSCCO report of 2009 which indicated that Saccos may be unable to meet the demand of loans and advances in future. In addition, the study results indicated that the level of total loans was slightly higher than total deposits indicating that the borrowing was more than depositing during the research period. The total assets are increasing from the year 2011 to the year 2014 and this could be attributed to the increased demand for loans because its being the single largest balance sheet asset at over then 70%. This confirms the government report of 2016 that indicated the total assets grew by 12.17% in 2015 with the loans being the single largest balance sheet asset recorded at 73.5%.

The high beta coefficient for external borrowing indicates Saccos are financing their assets with external funds. This supports the pecking order theory that indicates that for optimal capital structure you can finance using both equity and debt capital. This indicates that if the internal funds are not enough to finance investment opportunities, firms may or may not acquire external funds financing and if they do there is need raise it using different external sources in such a way as to minimize additional cost of information asymmetry. This is because more debt capital will increase the riskiness of the Saccos and the survival hence affecting other parties with interest in Saccos. This confirms the stakeholders' theory which holds that the interest of the stockholders and in this case Sacco members need not to harm other stakeholders. It also holds that an organization can enhance the interests of its stockholders without damaging the interests of its other stakeholders.

In conclusion, all these measures relates to capital adequacy which is important to ensure Saccos are operational efficient and able to meet the demand for members loans and advances. This is in line with study by Opala (2014) which indicated that

capital adequacy was an important factor influencing financial performance of deposit taking Saccos.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary the entire research project, thus forming a basis for conclusion and recommendation. The researcher summarizes various findings that have been established during the research. The summary of major findings, conclusion are drawn and recommendations that would help determine the effects of financing strategies on operational efficiency of deposit taking Saccos licensed by SASRA in Nairobi County.

5.2 Summary of Findings

On Sacco members funds as measured by core capital and members deposits indicated variances in Member funds would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by 1.17 units. This beta coefficient indicated that members' funds was the most relative important factor influencing deposit taking Sacco operational efficiency.

Sacco external borrowing was the second relative important factor with a beta coefficient of 0.73. Variances in External borrowing and would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by of 0.73 units.

Variances in Institutional capital would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by 0.62 units.

The research R^2 of 0.804 implied that a variation of 80.4% on operational efficiency of the deposit taking savings and credit co-operatives in Nairobi County was determined by changes in core capital, turnover, total assets, total deposits, total loans and total debt, at 95% confidence interval. 19.6% variations on operational efficiency

of DTS and credit co-operatives within Nairobi County are determined by variations of other variables outside this model. This was a good fit because it explained satisfactorily, between the variables.

5.3 Conclusion

On Sacco members funds as measured by core capital and members deposits indicated variances in Member funds would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by 1.17 units. This beta coefficient indicated that members' funds was the most relative important factor influencing deposit taking Sacco operational efficiency. There is need for the deposit taking Saccos to determine strategies to raise capital using members' funds as this is considered the most safe way of reducing capital structure risk. Member's funds also reduce the cost of raising funds as compared to external sources of finance. This is one of ways to ensuring members' increase their deposits and this is determined by the perception of the members on safety of their Sacco and the level of products and services offered to the members.

Sacco external borrowing was the second relative important factor with a beta coefficient of 0.73. Variances in External borrowing and would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by of 0.73 units. This indicates that Saccos finance their assets with external borrowings. The highest percentages of total assets are loans and this could mean that Saccos are borrowing to lend to their members to ensure that their members don't wait for long when they apply loans.

Variances in Institutional capital would trigger an increase in operational efficiency of deposit taking savings and credit co-operatives by 0.62 units. This was the least relative important variable but it significantly influences operational efficiency of

deposit taking Saccos efficiency. This is likely to affect the dividend payments since Saccos are required by SASRA to maintain their institutional capital at 8% of the total assets.

5.4 Recommendations

The study found out that member funds significantly influences financing strategies and therefore recommends that deposit taking Saccos should adopt new financing strategies in order to increase core capital and members deposits. This reduces the burden of Saccos borrowing to invest in lending which in turn can make the members less efficiency in terms of operation.

In addition, the study found out external borrowing significantly influences the financing strategies of the deposit taking Saccos and therefore recommends that managers of Sacco needs to determine different sources of external borrowing in order to ensure the capital structure of the Deposit taking Saccos remain optimal.

Lastly, the study found out that institutional capital influences financing strategies of deposit taking Saccos. The Saccos are required to maintain institutional capital of 8 per cent of total asset. In order to maintain this rate the deposit Saccos will be forced to reduce on payments of dividends in order to comply, the study therefore recommends that deposit Saccos needs to diversify in order to increase their revenue which is an important determinant of the Sacco institutional capital. This could be either increasing investment or diversifying their products and services in order to broaden their income base.

5.5 Limitations of the Study

A major limitation of this research was on data collection. The secondary data that was the main source of data required audited financial statements maintained by SASRA. Getting this data however was not easy. This study challenge was overcome by the researcher through acquiring a letter of introduction from the School of

business at the University of Nairobi and also promising SASRA that the research data will be used confidentially and specifically for academic purpose.

5.6 Suggestions for Further Research

The findings in this study were not conclusive but they are open for some areas of investigation. The researcher felt that the study could be explored as a comparative study comparing the financing strategies for both urban and rural deposit Saccos in order to determine whether the findings of the study are comparable in terms of operational efficiency.

In addition, this study looked at the external borrowing in general in relation to operational efficiency of deposit taking Saccos. Future studies can be conducted to investigate the effects of different sources of external borrowing on lending efficiency of deposit taking Saccos in Nairobi County.

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APPENDIX ONE

List of Licensed Deposit Taking Sacco's in Nairobi County as at April 2016

1. AFYA SACCO
 2. ARDHI SACCO
 3. ASILI SACCO
 4. CHAI SACCO
 5. CHUNA SACCO
 6. ELIMU SACCO
 7. FUNDILIMA SACCO
 8. HARAMBEE SACCO
 9. HAZINA SACCO
 10. JAMII SACCO
 11. KENPIPE SACCO
 12. KENVERSITY SACCO
 13. KENYA BANKERS SACCO
 14. KENYA POLICE SACCO
 15. KINGDOM SACCO
 16. MAGEREZA SACCO
 17. MAISHA BORA SACCO
 18. MILIKI SACCO
 19. MWALIMU NATIONAL SACCO
 20. MWITO SACCO
 21. NACICO SACCO
 22. NAFAKA SACCO
 23. NASEFU SACCO
 24. NATION STAFF SACCO
 25. NYATI SACCO
 26. SAFARICOM SACCO
 27. SHERIA SACCO
 28. STIMA SACCO
 29. COMOCO SACCO
 30. SHIRIKA SACCO
 31. UFANISI SACCO
 32. UKRISTO NA UFANISI WA ANGLIKANA SACCO
 33. UNAITAS SACCO
 34. TEMBO SACCO
 35. UKULIMA SACCO
 36. UNITED NATIONS SACCO
 37. WANAANGA SACCO
 38. WANANDEGE SACCO
 39. WAUMINI SACCO
- Source: SASRA (2016)**

APPENDIX TWO
FINANCIAL DATA

Juliet Kamene Kavala
University of Nairobi
P.O BOX 30197-00100
NAIROBI

The Chief Executive Officer
SASRA
P.O BOX 25089-00100
NAIROBI

Dear Sir,

REF: REQUEST FOR ACADEMIC RESEARCH DATA

I am a student at the University of Nairobi pursuing Master of Science in Finance and I am currently doing a research project on effects of financing strategies on operational efficiency of deposit taking Saccos in Nairobi County.

I am kindly requesting for your assistance in data collection. Please assist me with data for deposit taking Saccos in Nairobi County for total assets, Total loans, members' funds, profitability, total deposits, total revenue and total debt for 2011, 2012, 2013 and 2014. I am assure you that the data will be used solely for academic purpose. Attached, Kindly find the introduction letter from the University of Nairobi.

Looking forward to a positive feedback.

Yours Sincerely,

Juliet Kamene Kavala

		2011	2012	2013	2014
		MILLIONS	MILLIONS	MILLIONS	MILLIONS
1	CORE CAPITAL	KES 2,697.00	KES 10,281.00	KES 14,364.00	KES 17,480.00
2	TURNOVER	KES 11,256.00	KES 14,629.00	KES 17,732.00	KES 20,650.00
3	TOTAL ASSETS	KES 109,043.00	KES122,457.00	KES 143,045.00	KES 173,575.00
4	TOTAL DEPOSITS	KES 82,262.00	KES 92,990.00	KES 107,869.00	KES 125,004.00
5	TOTAL LOANS	KES 87,772.00	KES 98,971.00	KES 111,142.00	KES 135,052.00
6	TOTAL DEBT	KES 11,020.00	KES 11,962.00	KES 16,546.00	KES 20,096.00

		2011	
	ASSETS	DEPOSITS	LOANS AND ADVANCES
	MILLIONS	MILLIONS	MILLIONS
1. AFYA SACCO	10248	7127	7086
2. ARDHI SACCO	985	895	884
3. ASILI SACCO	1219	869	979
4. CHAI SACCO	1267	948	1026
5. CHUNA SACCO	1536	1234	1422
6. ELIMU SACCO	603	555	457
7. FUNDILIMA SACCO	447	370	387
8. HARAMBEE SACCO	15909	10661	13029
9. HAZINA SACCO	2010	1735	1660
10. JAMII SACCO	1271	920	1065
11. KENPIPE SACCO	1134	893	1051
12. KENVERSITY SACCO	958	794	754
13. KENYA BANKERS SACCO	4287	3741	3176
14. KENYA POLICE SACCO	7862	6359	6063
15. KINGDOM SACCO	195	167	146
16. MAGEREZA SACCO	3350	2100	2539
17. MAISHA BORA SACCO			
18. MILIKI SACCO			
19. MWALIMU NATIONAL SACCO	19305	15420	17606
20. MWITO SACCO	617	535	549
21. NACICO SACCO	2343	880	1374
22. NAFKA SACCO			
23. NASEFU SACCO	1026	583	784

24. NATION STAFF SACCO	677	591	556
25. NYATI SACCO			
26. SAFARICOM SACCO	958	643	858
27. SHERIA SACCO	1634	1439	1410
28. STIMA SACCO	7703	5469	6293
29. SHOPPERS SACCO			
30. SHIRIKA SACCO			
31. UFANISI SACCO	111	86	85
32. UKRISTO NA UFANISI WA ANGLIKANA SACCO	263	239	235
33. UNAITAS SACCO	3170	2317	1510
34. TEMBO SACCO	493	400	357
35. UKULIMA SACCO	5080	4165	4093
36. UNITED NATIONS SACCO	5610	4724	4832
37. WANAANGA SACCO	812	686	647
38. WANANDEGE SACCO	1206	1036	586
39. WAUMINI SACCO	1386	1186	1103
40.COMOCO SACCO	520	407	405
TOTAL	109043	82262	87772

		2012	
	ASSETS	DEPOSITS	LOANS AND ADVANCES
	MILLIONS	MILLIONS	MILLIONS
1. AFYA SACCO	10848	8277	7829
2. ARDHI SACCO	1102	980	981
3. ASILI SACCO	1429	1030	1042
4. CHAI SACCO	1308	1039	1101
5. CHUNA SACCO	1414	1034	1338
6. ELIMU SACCO	630	556	438
7. FUNDILIMA SACCO	514	410	416
8. HARAMBEE SACCO	16911	11523	14312
9. HAZINA SACCO	2977	2520	2621
10. JAMII SACCO	1521	100	1285
11. KENPIPE SACCO	1267	1033	1157
12. KENVERSITY SACCO	454	281	318
13. KENYA BANKERS SACCO	4849	4087	3491
14. KENYA POLICE SACCO	9053	7499	7518
15. KINGDOM SACCO	293	257	198
16. MAGEREZA SACCO	3707	2818	2126
17. MAISHA BORA SACCO	1276	1033	1154
18. MILIKI SACCO			

19. MWALIMU NATIONAL SACCO	22008	16660	18980
20. MWITO SACCO	726	624	663
21. NACICO SACCO	2364	992	1329
22. NAFKA SACCO	281	226	218
23. NASEFU SACCO	981	628	810
24. NATION STAFF SACCO	739	636	655
25. NYATI SACCO			
26. SAFARICOM SACCO	1064	848	917
27. SHERIA SACCO	2324	1789	1845
28. STIMA SACCO	9402	7045	8109
29. SHOPPERS SACCO			
30. SHIRIKA SACCO			
31. UFANISI SACCO	105	81	
32. UKRISTO NA UFANISI WA ANGLIKANA SACCO	528	488	441
33. UNAITAS SACCO	3918	2716	2346
34. TEMBO SACCO	674	535	436
35. UKULIMA SACCO	6160	5131	5308
36. UNITED NATIONS SACCO	6547	5374	5840
37. WANAANGA SACCO			
38. WANANDEGE SACCO	1204	990	607
39. WAUMINI SACCO	1648	1301	1298
40.COMOCO SACCO	526	409	414

		2013	
	ASSETS	DEPOSITS	LOANS AND ADVANCES
	MILLIONS	MILLIONS	MILLIONS
1. AFYA SACCO	11885	9369	8705
2. ARDHI SACCO	1290	1148	36
3. ASILI SACCO	1577	1176	1124
4. CHAI SACCO	1534	1212	1413
5. CHUNA SACCO	1740	1192	1723
6. ELIMU SACCO	738	650	27
7. FUNDILIMA SACCO	554	448	459
8. HARAMBEE SACCO	17633	12463	14454
9. HAZINA SACCO	3575	3006	3032
10. JAMII SACCO	1802	1313	1588
11. KENPIPE SACCO	1462	1171	1275
12. KENVERSITY SACCO	1101	912	984

13. KENYA BANKERS SACCO	5021	4150	3431
14. KENYA POLICE SACCO	11523	8463	10181
15. KINGDOM SACCO	538	474	378
16. MAGEREZA SACCO	4322	3138	2677
17. MAISHA BORA SACCO	1504	1235	1366
18. MILIKI SACCO	75	34	47
19. MWALIMU NATIONAL SACCO	24540	18557	21053
20. MWITO SACCO			
21. NACICO SACCO	2565	1247	1614
22. NAFKA SACCO	295	236	183
23. NASEFU SACCO	937	628	740
24. NATION STAFF SACCO	925	787	789
25. NYATI SACCO			
26. SAFARICOM SACCO	1535	1355	1299
27. SHERIA SACCO	2836	2107	2312
28. STIMA SACCO	12402	8985	10619
29. SHOPPERS SACCO			
30. SHIRIKA SACCO	1110	922	
31. UFANISI SACCO	115	89	99
32. UKRISTO NA UFANISI WA ANGLIKANA SACCO	783	709	784
33. UNAITAS SACCO	5551	3699	3798
34. TEMBO SACCO	926	721	681
35. UKULIMA SACCO	7321	5514	5681
36. UNITED NATIONS SACCO	7369	6188	6505
37. WANAANGA SACCO	987	859	790
38. WANANDEGE SACCO	1179	972	582
39. WAUMINI SACCO	2131	1824	1637
40.COMOCO SACCO	578	444	448
TOTAL	143045	107869	111142

		2014	
	ASSETS	DEPOSITS	LOANS AND ADVANCES
	MILLIONS	MILLIONS	MILLIONS
1. AFYA SACCO	12682	10301	10051
2. ARDHI SACCO	1343	1125	1153
3. ASILI SACCO	1691	1237	1103
4. CHAI SACCO	1981	1416	1805
5. CHUNA SACCO	1925	1296	1870
6. ELIMU SACCO	909	625	583
7. FUNDILIMA SACCO	562	453	447

8. HARAMBEE SACCO	19919	12811	15988
9. HAZINA SACCO	4317	3526	3571
10. JAMII SACCO	2156	1532	1819
11. KENPIPE SACCO	1633	1302	1363
12. KENVERSITY SACCO	1290	1054	1099
13. KENYA BANKERS SACCO	5530	4391	3658
14. KENYA POLICE SACCO	15691	10185	12653
15. KINGDOM SACCO	580	462	436
16. MAGEREZA SACCO	4429	2829	2548
17. MAISHA BORA SACCO	1729	1432	1559
18. MILIKI SACCO	81	35	33
19. MWALIMU NATIONAL SACCO	28,600	19903	22114
20. MWITO SACCO	1001	862	917
21. NACICO SACCO	2474	1466	1210
22. NAFKA SACCO	347	265	284
23. NASEFU SACCO	1058	705	832
24. NATION STAFF SACCO	1087	887	1007
25. NYATI SACCO			
26. SAFARICOM SACCO	2207	1891	1996
27. SHERIA SACCO	3412	2511	2641
28. STIMA SACCO	16354	12624	13770
29. SHOPPERS SACCO			
30. SHIRIKA SACCO	1564	1341	1236
31. UFANISI SACCO	139	100	120
32. UKRISTO NA UFANISI WA ANGLIKANA SACCO	931	801	867
33. UNAITAS SACCO	6881	4260	5049
34. TEMBO SACCO	1101	825	874
35. UKULIMA SACCO	8294	6004	6211
36. UNITED NATIONS SACCO	8828	7158	7133
37. WANAANGA SACCO	1079	929	813
38. WANANDEGE SACCO	1340	1091	702
39. WAUMINI SACCO	2564	1856	2065
40.COMOCO SACCO	655	509	525
41. UFUNDI	1285	333	251
TOTAL	173575	125004	135052