# THE IMPACT OF SACCO REGULATORY AUTHORITY GUIDELINES ON SACCO OPERATIONS IN KENYA- THE CASE OF NAIROBI DEPOSIT TAKING SACCOs.

BY

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## DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit.

Signed:________________________________Date ZOM

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**D61/75227/2009**

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

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## DEDICATION

To my family for their understanding during this period of study.

## ABSTRACT

The SACCO regulatory Authority (SASRA) was established by the act of government in 2008 under the SACCO Societies Act of 2008 and came into effect in September 2009. The authority is mandated with the following mandate: License SACCO Societies to carry out deposit taking business; Regulate and supervise deposit taking SACCO Societies; Manage the Deposit Guarantee Fund under the trustees appointed under the Act; Advise the Minister on national policy on deposit taking SACCO Societies in Kenya.

The aim of this study was to look at the impact SASRA has had on Sacco performance since its inception. The study was conducted on the 50 deposit taking Saccos in Nairobi. Data was collected from primary source on structured questionnaires as well as secondary sources. In administering the research instruments, the researcher used self administered survey by use of mails and drops and pick letters.

Based on this study, it can be concluded that, SASRA has greatly impacted on the Sacco performance in terms of outreach and sustainability and performance of SACCOs in Kenya. Most Saccos reported recent improvement in their performance both in membership, portfolio and loan cycle and general efficiency. Even though this was attributed to a number of factors ranging from increased membership, high efficiency, high demand and quick recoveries, one can easily attribute this to be as a result of SASRA regulatory framework. Most Saccos were complying with the regulator so as not to be locked out of business by the operator. It was also clear from the study that all SACCOs are conversant with the contents of the proposed SASRA guidelines

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## LIST OF ABBREVIATIONS

| | | |
|---|---|---|
| BOSA | - | Back office savings activities |
| CBK | - | Central bank of Kenya |
| FOSA | - | Front Office Saving Activities |
| GOK | - | Government of Kenya |
| ICA | - | International C-operative Alliance |
| KUSSCO | - | Kenya union of Savings and credit co-operatives. |
| MFI | - | Microfinance Institutions |
| MIS | - | Management Information Systems |
| MoCDM | - | Ministry of Co-operative Development and Marketing |
| ROSCA | - | Rotating Savings and Credit Association |
| SACCOs | - | Savings and Credits Co-operatives Societies |
| SASRA | - | Sacco Societies Regulatory Authority |
| SPSS | - | Statistical Package for Social Scientists |
| WOCCU | - | World Credit Council of Credit Union. |

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# CHAPTER ONE

# *INTRODUCTION*

## *1.1 Background of the Study*

The International Cooperative Alliance (ICA 2004) defines a cooperative as "…an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise". A cooperative is meant to embody the values of self-help, honesty, openness, self-responsibility, social responsibility, democracy, equality, equity, solidarity, mutual caring, efficiency, effectiveness, transparency and accountability. ICA identifies seven principles that ought to guide the formation, organization and activities of cooperatives, namely: (a) Voluntary and open membership (b) Democratic member control (c) Member economic participation, (d) Autonomy and independence, (e) Education, training and information, (f) Cooperation among Cooperatives, (g) Concern for Community.

### 1.1.1 SACCOs IN KENYA

A good number of co-operatives in Kenya are SACCOs. They offer the following services to their members: normal loans, emergency loans, school fees loans and front office services. In addition to the above, FOSA's offer the following products to their members: payment of salaries, salary advances, bank cheques, safe keeping of documents, and ATMs.

According to the Minister for co-operatives Development in Kenya, Hon. Nyaga, SACCOs are one of the leading sources of rural finance and in many rural areas the local SACCO is the only provider of financial services. While the exact number of SACCOs operating in Kenya is not known, estimates range from almost 4,000 up to 5,000. About 200 of these are considered deposit-taking SACCOs, offering front office savings activities (FOSA). Efforts have been undertaken by the Kenyan Ministry of Cooperative Development and Marketing (MoCDM) to reform the enabling environment for SACCOs.

The Kenyan Cooperative sector is rated the best with the highest resource mobilization in Africa and 7th in the world according to survey carried out by the International Co-operative Alliance

(ICA). Currently, Kenya is the Chair of ICA Africa Inter-Ministerial Committee (WOCCU, statistical report 2009).

According to Nyagah (2010), the co-operative values and principles have withstood the test of times and offer the best model for fighting poverty and inequality in society. Cooperatives are therefore the best vehicle for driving socio-economic development in Kenya.

In Kenya, the SACCO sub-sector has witnessed rapid growth in the last few years at the rate of about 25% per annum and now boasts of a savings mobilization of Shs.180 billion and an asset base of over KShs.200 billion. The savings mobilized by SACCOs represent 31% of the national savings. SACCOs have therefore played a key role in mobilization of financial resources and will be a major player in realization of the national Vision 2030. This sub-sector occupies a strategic position in the socio-economic development of Kenya.

SACCOs are different from Banks and cannot operate under the same legislation. For instance, SACCOs are often formed by individuals who are the depositors, borrowers & owners to provide financial services hitherto inaccessible to those individuals; are not for-profit institutions and have no external shareholders thus have limited ability to raise capital and no access to capital markets. The SACCO Board of directors is democratically elected from amongst the members.

SACCOs are also different from MFI in the sense that SACCOs have an intermediate broad array of financial services beyond credit. Unlike MFIs, they mobilize voluntary public deposits from their members on a much greater scale and are community-owned by individuals with equal ownership.

And because of the kind services SACCOs offer they are different from other co-operatives. Unlike other co-operatives societies SACCOs specialize in financial intermediation, which necessitates adherence to prudential financial standards and supervisory oversight. They require access to liquidity mechanisms (Central bank or legal mechanisms as well as to payment, settlement and clearing networks and they are required to maintain capital base from retained earnings from operations (Njuguna, 2011).

SACCO Societies have for a long time been managed under the Co-operative Societies Act Cap 490. However, the rapid growth of the SACCO Sub-sector created the need for SACCO Specific legislation hence the enactment of the SACCO Societies Act (2008) to specifically regulate and supervise their operations. The enactment of the SACCO Societies Act, made provisions for licensing, regulation, supervision, promotion of SACCO Societies and establishment the SACCO Societies Regulatory Authority (SASRA).

Under the Act, SASRA was given the mandate to provide guidelines for protection of member's deposits by creating a Deposit Guarantee Fund. The Act is intended to enhance transparency, accountability and good corporate governance in the management of SACCOs. The Cooperative movement played a great role in lobbying for the enactment of the SACCO Societies Act, 2008, which reflects the wishes and aspirations of the SACCO movement.

SASRA was enacted into full force in the past one year. SACCOs operating FOSAs were given until July 2011 to conform to these the regulations. SASRA is now in charge of licensing deposit taking SACCOs, regulating and supervising the SACCOs, holding and managing the general fund of the Authority and levy contributions according to the act. Basically, SASRA is in charge of licensing, supervising and regulating of the SACCOs operating the FOSAs.

Under the act, SACCOs are required to comply with and maintain minimum capital adequacy requirements, maintain minimum requirement of liquid assets of its member borrowings, engage in businesses as prescribed by the authority, conform to financial reporting as per the society. The Act and Regulations include clear standards regarding, among others, capital, liquidity, the extent of external borrowing, asset categorization and provisioning, giaximum loan size, and insider lending. SACCOs are also subject to adhering to monthly (capital adequacy, liquidity, and deposits) reporting, quarterly (risk classification of assets and loan loss provisioning, investment returns, financial performance) and annual (audited financial statements) reporting requirements to SASRA.

The Board of the SACCO Societies Regulatory Authority which is responsible for the implementation of the Act is already in place and was launched in November 2009, and chaired by Mr. Peter Gakunu. The Board consists of seven members who are well versed in financial regulations, cooperative management and practice, law and other leadership talents. Among the Board members is the Commissioner for Cooperative Development, the Permanent Secretary Treasury, and Governor, CBK.

## 1.2 Research Problem

Lack of financial regulation and supervision has been the biggest weakness of the Kenyan SACCO system. This has partially been responsible for the absence of standardized policies and procedures for SACCOs, and the absence of an accounting system appropriate to the needs of SACCOs.

Studies carried out earlier on effects of liberalization in the banking industry were limited on factors affecting Sacco financial performance. Chege (2006) studied the effects of non-remittance of member deductions by employers to the SACCOs.
Tokei (2009) carried out a study on effects of liberalization in the banking industry on SACCO performance and the study concluded that SACCO performance is affected by poor corporate governance.

Gamba and Komo (2005) carried out a study on evolution, growth and decline of the co-operative sector; a paper prepared for the centre of governance and found out that SACCO performance was affected by poor and inefficient management systems, lack of government protection, political interference and inadequate legal reforms.

On a positive note however, the enactment of the new SACCO bill that led to the formation of SASRA is expected to take care of this. The proposed SACCO Bill provides for: a) Registration and licensing of SACCOs, b) Prudential rules and guidelines, c) Standard forms of accounts, d) Amalgamations, divisions and liquidations, e) a SACCO Regulatory Authority, f) Savings Protection Insurance, g) Central Liquidity Fund, and h) Disclosure norms.

The major challenge to the SACCOs is the implementation of these new rules and regulations while at the same time staying afloat of the competition amongst themselves as well as competition from Banks and MFIs as they make efforts to increase outreach among low and middle income clients in both rural and urban areas.

According to Mbogo (2010), the cost of running deposit-taking SACCOs is set to go up significantly with these new set regulations in effect threatening the low interest rates regime that has for decades given the co-operative movement an edge over commercial banks in the lending market. The regulations covering 220 deposit taking SACCOs, also known as FOSAs, with an estimated membership of five million and assets worth Shi50 billion, demands that societies converting from the non-deposit taking to the deposit-taking platform invest in new banking halls and install sophisticated security equipment, including armed security personnel from the Administration Police and private security guards. This will definitely increase the operational costs of the SACCOs.

"SACCOs must now start thinking business, not just the welfare of members," said Peter Njuguna, the Chief Supervisory Manager at SASRA during a workshop ACCOSCA workshop in Nairobi, June 2011. SACCO managers said the challenge is to ensure they bring the cost of operations to a minimum within the four years.

There is therefore need to address the following major questions: What major challenges hinder outreach and sustainability of SACCOs in Kenya? What policies and practices exist in the FOSAs? What knowledge and understanding have SACCOs in respect to the SASRA proposed regulations and supervision? How are the SACCOs coping with the new regulatory framework? In general, are the new SACCO regulations adding value economically and overall to the SACCO industry? This study aims to establish the impact SASRA regulations in relation to the above concerns

## 1.3 Objective of the Study

To identify the impact that SASRA regulatory framework has had on the outreach and sustainability and performance of SACCOs in Kenya with a special focus on the deposit taking SACCOs commonly known as FOSAs.

Specific objectives of this research study are as follows:

i) To examine the level knowledge and understanding that SACCOs have in respect to the SASRA proposed regulations and supervision.
ii) To establish how SACCOs are coping with the new regulatory framework and determine if there is an improvement in the performance of the FOSA's as a result of the new SASRA regulations.

## 1.5 Value of the study

The following group of users will benefit from the findings of this study.

**SACCOs**

Through this study, already established SACCOs as well as those that are to be registered will have a premeditated option to assist them to be in business now and in future. SACCOs, especially deposit taking SACCOs will be able to understand the need to be abreast with the SASRA guidelines and put in place mechanism that will be helpful in their operations so as not to be locked out in business. SACCOs which are not yet operating as deposit taking institutions will have a reference point when they opt to do so.

**Academicians/ Researchers**

The study will contribute to the body of knowledge through suggesting areas of improvement. It will also be helpful to other academicians and practitioners in the co-operatives industry who will want to understand the role of SASRA regulation on SACCOs as an extra mode of financial markets regulations in Kenya as opposed to earlier on when CBK was solely charged with such responsibility. SASRA should be seen as an indicator of financial sector deepening in Kenya,

Through this research finding, researchers will have a doorway to investigate more on the role of regulations on SACCO's operations in Kenya and more so in Africa.

**Government/ Treasury**

The study will be of interest to the Government through the Treasury. The government's interest is to protect its citizenship from exploitation and malpractices of individuals. In most cases, the government is compelled to intervene from to time to intervene on consumer rights and protection. From the study, the government will be able to determine the extent of success in implementation of the new regulations as well as identify inherent deficiencies in the system in order to come up solutions geared towards high levels of efficiency in the SACCOs. This is more so because the SACCO regulation body is relatively new in itself. The government might even be able to compare SASRA's performance to other regulators in the market i.e. banks through the CBK and the capital markets through the CM A.

**SASRA**

The study will be of interest to SASRA since SASRA is the body mandated by the Government to provide a supervisory role to deposit-taking SACCOs. This study will be helpful to the institution through provision of firsthand information that regards to challenges faced by SACCOs as they cope with the new regulations and thus help develop measures that will address the identified areas. This is so because even as SASRA endeavors to enhance compliance, care should be taken so as not to edge out the industry from the financial markets.

SASRA may also be able to develop similar guidelines in future to address issues regarding non-deposit taking SACCOs, which form a greater chunk of the total SACCOs.

**Customers/ Depositors/ Members of the public**

The study will be of interest to the customers and prospective depositors/members of the SACCOs. Through the findings of the studies, the depositors and customers will have adequate information to enable them make an informed decision on which SACCOs they are willing to take membership. They will also be able to appreciate the role of regulations on businesses and particularly on financial institutions.

## CHAPTER TWO

# *LITERATURE REVIEW*

### 2.1. Introduction

This chapter will look at the existing literature on SACCOs reviewing theories existing in financial regulations on SACCOs in Kenya, SASRA framework and previous work done on SACCOs. The chapter is divided in two parts. The first part will deal with the theoretical framework on financial sector regulations and SACCOs with a special focus on SASRA and the second part will deals with empirical evidence then the conclusion.

### 2.2. Theoretical Review

The Palgrave Dictionary of Finance defines regulation as action that 'command and control' the individual decisions of firms, in an effort to prevent private decision-making that would take inadequate account of the 'public interest'. Regulation may be self-imposed, or as is usual, by a third party. The Government may intervene in a market or industry in the form of law, administrative rules, taxation or moral suasion. Self-regulation could be imposed through industry associations and codes of conduct.

There are a few theories that attempt to explain the existence and forms of regulation, including:

**The competition for regulation theory** which_suggests that there exist a market for regulation, in which consumers and producers compete. Regulation will serve the interests of those who are willing to offer the most for the regulation. Since regulation can be regarded as a public good,



the free-rider problem suggests that the benefit to the individual consumer is likely to be small relative to the producer. Therefore producers will have more incentive to try and obtain favorable regulation through industry associations. A countervailing force is therefore the consumer lobby; and **Capture theory** which suggests that producers capture regulatory agencies and control them in their own interests. Vested interests reinforce the regulatory framework to support their interests, but the danger is that such behavior would result in non-competitiveness in the international market, leading to long-run social loss.

The above theories, assume that regulations impose ultimately a cost on the consumer or taxpayer, it may be in the public interest to remove regulations and allow greater competition. This is the primary driving force behind current **market deregulation policies** prevalent in markets.

A recent example of the deregulation drive to "make markets work better" is the report of the Australian Financial System Inquiry (Wallis Report), whose recommendations seek to create a flexible regulatory structure which will be more responsive to the forces for change operating on the financial system; clarify regulatory goals; increase the accountability of the agencies charged with meeting those goals; ensure that the regulation of similar financial products to be more consistent and promote competition by improving comparability; introduce greater competitive neutrality across the financial system; establish more contestable, efficient and fair financial markets resulting in reduced costs to consumers; provide more effective regulation for financial conglomerates which will also facilitate competition and efficiency; and facilitate the international competitiveness of the Australian financial system.

The **public interest theory** argues that regulation is an attempt to correct for market failures, such as monopoly, externalities and lack of information. For example, the social cost of the failure of a financial institution may be much higher than the private cost to the institution itself Therefore, financial institutions left to themselves will accept more risk than is optimal from a systemic point of view, thus forming the basic case for government regulation of banking activity and the establishment of capital requirements (Martin Feldstein 1996).

On this basis, we can justify the case for external regulations on private sector behaviour on four broad grounds which all relate to market failure: First, the **moral hazard argument.** If a market participant believes that the state will underwrite his losses, then behaviour will change. A good example is how deposit insurance encourages depositors and bankers to engage in risky behaviour that forces the state to pay in the end, thus undermining market discipline and entailing regulation. *Second*, the **widows and orphans** argument. These regulations provide protection to poorly (asymmetrically) informed clients, based on the view that small depositors and investors cannot assess properly the riskiness of financial institutions they deal with. Third is the **public policy** argument. In free market economies, public policy arguments call for competition and free trade. An example would be anti-trust laws in some countries to prevent monopolization of certain markets. *Fourth,* the **systemic risk** issue, which allows the state to prevent the failure of one participant to destabilize the whole system. This justifies the regulation, for example, of the payment system and the banking sector.

Regulation therefore has two important dimensions that must always be borne in mind. First, regulation is a cost that is like taxation: someone bears the cost of regulation and the public must always ask whether the benefits outweigh the costs. Secondly, regulation has a time element - regulations must change with the times. Old regulations may prevent or impede market growth. As markets change, so must regulations. Thirdly, regulation should not prevent the effective working of the market force. For example bank failures should be avoided not to prevent all bank failures. Chairman Alan Greenspan of the US Fed (1997) said "our goal as supervisors should not be to prevent all bank failures, but to maintain sufficient prudential standards so that banking problems that do occur do not become widespread."

Functional regulation is generally conducted by two separate regulatory bodies, an investor protection arm and a systemic stability arm. The investor protection arm deals with retail depositors and small investors to ensure fair conduct, equitable competition and customer protection.

The systemic stability agency, on the other hand, looks at the larger players and wholesale activities. It would also be responsible for the safety, structure and functioning of all payment systems and financial markets. Preventive measures include capital adequacy requirement; constraints on connected lending and other rules aimed at preventing insolvency; and an official safety net such as lender of last resort or deposit insurance.

This approach follows the **Goodhart (1995) model,** which suggests that the difference in focus and function of investor protection and systemic stability is large enough to justify two separate regulatory bodies in each country to share the regulatory responsibilities. According to Goodhart, the formulation of rules for the safety of the system should be the responsibility of the systemic stability arm. On the other hand, the monitoring and operation of the system should be divided between the two arms on the basis of their size.

Another regulatory framework, which developed historically, takes the form of institutional regulation. It reflects institutional segmentation within each country, with insurance companies, securities houses, mortgage lending companies and banks becoming the concern of differing regulatory bodies. Institutional regulation becomes less practicable as the barriers between operating in differing functional and geographical financial markets have been eroded.

In between, the regulatory system may be organized along mixed functional/institutional lines. As banks, securities houses and insurance companies compete in each other's turf, there is now a less meaningful difference between institutions and functions. One model, colloquially known as "Twin Peaks", consists a Financial Stability Commission, with responsibility for systemic risk, the prudential supervision of all major institutions, and conduct of business regulation of wholesale activities, and a Consumer Protection Commission, which could be in charge of conduct of business regulation in retail markets, as well as detecting market manipulation and insider dealing. It would also carry out prudential supervision of those stock brokers and fund managers who deal with private clients, and of independent intermediaries.

The first line of protection against bank failure must be internal management's own risk controls. The growing complexity and variety of banking business suggests that neither the authorities nor informed customers can prevent internal management from making mistakes if internal controls do not work. The best defense against mistakes and fraud are proper internal governance, or checks and balances. Internal dual controls, together with both internal and external auditors, plus a proper disclosure policy would give the best incentives for internal management to perform according to proper rules of behaviour.

Public disclosure rather than private channels of information would be cheaper and reduce unwarranted expectations of what a regulator or supervisor can actually achieve. However, it is difficult, if not impossible, to guarantee full disclosure. It is doubtful whether free markets work well enough in conditions where information is partial and asymmetrically distributed and externalities exist. Thus it is not really possible for the authorities to shift entirely to reliance on disclosure and to abandon their specialized supervisory function.

Increasingly, therefore, the public oversight function is one of monitoring and surveillance, to ensure that systemic risks are not incurred at excessive public costs. When best practices and market standards are applied, any behaviour by regulators that deviate from the norm would be subject to public scrutiny. There is therefore greater pressure for establishing international norms of performance, such as capital adequacy standards and risk management tools. The Basle Committee recently established "Core Principles" to guide the regulation of banks.



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The application of certain regulatory tools, such as required capital ratios, exposure limits, constraints on self-dealing and CAMEL ratings are designed to ensure that market participants comply with minimal standards of capital and risk exposures. It should be emphasized that effective regulation requires proper compliance and enforcement. However, increasingly it is recognized that such rules should be kept simple and broad-brushed, in order to allow a rule-based environment to function. Too many rules imposed too heavy a regulatory cost, with redundant or excessive information burdens.

However, given very rapidly changing market conditions, some degree of discretion can be more practical than rigid rules. On the other hand, excessive discretion can lead to systematic forbearance (time inconsistency) that undermine rules and could even be subject to corruption and abuse. Therefore, the time inconsistency problem can be solved by authorities pre-committing to a sequence of automatic, graduated responses, giving the market time to adjust to rule changes or rule application.

However, it must be true that the incentive or pay-off structure is one that must not be overlooked. One of the main reasons why agents do not abide by established control procedures is because it is not in their own perceived interest to do so (Goodhart, 1996). The best way to control risks is the market incentive to do so. For the market to work there must be adequate information transparency, and adequate pay (or penalty) structure that causes the private sector or market to regulate itself. Low pay for internal auditors relative to dealers may prevent them from raising the alarm bell. Internal audit committees of financial institutions should signify that they have considered the implications for the risk preferences of key personnel of their pay structures.

### 2.2.1 The Sacco Regulatory Framework

The Sacco Societies Regulatory Authority (SASRA) is a creation of the Sacco Societies Act 2008. SASRA is a regulatory body that was constituted and inaugurated in 2009. It is charged with the prime responsibility to license, supervise and to regulate all deposit taking Sacco Societies in Kenya.

The establishment of SASRA falls within the Government of Kenya's reform process in the financial sector which has the dual objectives of protecting the interests of Sacco members and ensuring that there is confidence in the public towards the Sacco sector and spurring Kenya's economic growth through the mobilization of domestic savings.

Different countries have adopted different models in regulating in regulating SACCOs. The mode of regulation applied depend s on the development phase of the SACCOs in a particular country. Most African countries are in the initial stages or approaching maturity. At the initial stages of development, regulation simply entails registration of SACCOs to conduct business. As SACCOs approach maturity stage, regulations focuses on prudential standards which establishes a risk assessment process focusing on liquidity, capital and governance.
At the maturity stage, regulation establishes Deposit guarantee system for explicit comfort to members that their funds are safe.

### 2.2.2 Policies and Regulation

The main objective of the financial sector reforms is to enhance the environment for private savings and investment, lower interest rate levels and spreads. The reforms address poor governance, and market structure be established a regulatory framework and enhancing competitiveness.

The legal framework for SACCOs is to effectively subject deposits collecting to rigorous licensing standards and prudential guidelines by the CBK. This will help avoid possible misperception about status of non-supervised SACCOs compared to that of banks and reduce the risk of regulatory arbitrage.

The original legal framework for SACCOs in Kenya was provided by the Cooperative Act of 1966. This Act gave the State extended powers to get involved in the day to day management of co-operatives. Following economic liberalization, the Co-operative Societies Act was revised in 1997 and went into effect on June 1st 1998. The revised Act envisaged government giving up control of cooperatives, thereby enable more autonomy to members. According to the Cooperative Act, operations of a cooperative are defined by their bylaws which are filed with the Ministry of Cooperatives. The supreme decision-making body of a cooperative is its General-body, consisting of all members. All co-operatives are required to conduct an Annual General Meeting (AGM), Annual Delegate Meeting (ADM), during which important policy decisions are made and the annual audit reports approved, and a managing board elected. The legislation does not provide any legal authority for the federations or network structures over the primary societies.

For a long time, there has been no specialized legal, regulatory and supervisory framework for SACCOs. All SACCOs and their apex structures/federations were governed by the Co-operative Societies Act of 1997. The absence of a regulatory without prudential regulations and financial supervision resulted in several weaknesses in the system. Absence of rules that specify qualifications of board members resulted in them being selected based upon popularity rather than on appropriate skills. There have been no prudential guidelines and rules that limit risk exposure and specify disclosure norms, and no liquidity reserves. Audit reports have been extremely weak with no provisioning or writing off loans for non-performing loans. As a result, portfolio quality has either not been monitored at all or has been very poorly monitored. The result has been tremendous losses of members' funds and even collapse of some SACCOs. Without proper guideline on financial reporting standards, financial statements of SACCOs often have overstated revenues and assets giving improper information.

### 2.2.3 Guiding Principles for SACCO Law

A strong supervisory framework for financial institutions is built upon legislation that is predictable, proportional, and prudential and that recognizes that financial institutions are run by human beings. Predictable legislation provides a SACCO the clarity and certainty it needs to plan and invest for the future. Prudential legislation establishes financial standards to which SACCO must adhere to protect the institution and safeguard member deposits while proportional legislation recognizes the risks a SACCO presents to depositors and the financial system as a whole and establishes appropriate rules to mitigate those risks.

The Sacco difference must be taken into account when enacting legislation or regulations because SACCOs are different from banks and MFIs and cannot operate under the same legal framework (Njuguna 2011).

### 2.2.4 Importance of Regulation

A report presented by the SASRA CEO pointed out that many countries in Africa have focused their attention on legislation of microfmance and non banking financial institutions. Some have adopted prudential standards specific to SACCOs and Kenya is one of those countries. Mr. Ademba pointed out that it is important to regulate the SACCOs because of their large coverage and focus on small income classes. According to him, the benefits that accrue from a regulated SACCO industry include: Integrating the SACCOs into the formal sector; enhancing confidence- leadership and management of SACCOs, members and sector; encourage fair competition; create new business opportunities for SACCOs- agency and government development funds and finally regulation shifts focus to institutional development rather than individual leaders & managers

### 2.2.5 Challenges in Regulations

It appears that, policy implication resulting from large scale deposit mobilization is the regulation and supervision of SACCOs, as in the case of formal financial intermediaries. The legal aspect on the other hand by the appropriate authorized and supervisory framework is essential to maintain assurance among all sets of stakeholder's that is, the poor savers and the governmentj Ademba (20(19) in his report on the major challenges facing regulators outlined the following to be the major, challenges: Low capacity of regulators due to limited financial resources and limited skilled and competent manpower who fully understand SACCO operations; Low adoption of technology- from SACCOs and regulators; Different growth phases of SACCOs-some easily meet the prudential standards where others struggle; Legal tussle between regulators and SACCOs ;Change resistance and Complex multifunctional institutions which border between a SACCO, MFI and a bank.

Mbogo (Business Daily June 2010) points out that the cost of running deposit-taking SACCOs is set to go up significantly due to the new regulations threatening the low interest rates regime that has for decades given the co-operative movement an edge over commercial banks in the lending market. The regulations covering 220 deposit taking SACCOs, also known as FOSAs, with an estimated membership of five million and assets worth over Shi 50 billion, demands that societies converting from the non-deposit taking to the deposit-taking platform invest in new banking halls and install sophisticated security equipment, including armed security personnel from the Administration Police and private security guards.

### 2.2.6 Experience and Knowledge in Policies and Regulations

Individuals in senior management in SACCOs though being experienced, (some of them) lack conventional banking backgrounds. In several instances, key personnel had to be changed (Gaama, 2006) before their request were approved by the officials in the regulating banks. Liew (1997) suggests that decisions on intervening in local markets should not be taken without prior knowledge of the working of those markets. Schemes should be designed to serve the needs they are required to serve. Market based SACCO programs should be developed out of comprehensive feasibility studies. These should be done to ascertain the business potential, scheme's demand and the program ability to meet the said needs.

SACCOs are likely to continue to have owners and managers who do not fit standard expectations. They do not, however, automatically fail the "fit and proper" test, as many bring compensating factors to the table, in terms of specialized knowledge, deep long-term commitment, reputation risk, etc. This is an area where flexibility is appropriate, and as regulators become more familiar with the SACCOs sector, they are likely to become more comfortable making judgments about the suitability of individual players (Rhyne, 2002).

## 2.3 SASRA- Securing SACCO Funds

The SACCO Societies Act (The Act) commenced on 26th September 2009 as per legal notice number L.N 153/2009 Gazette Supplement No. 67of 2009. The SACCO regulatory Authority (SASRA) was established by the act of government in 2008 under the SACCO Societies Act of 2008 and came into effect in September 2009. The authority is mandated with the following mandate: License SACCO Societies to carry out deposit taking business; Regulate and supervise deposit taking SACCO Societies; Manage the Deposit Guarantee Fund under the trustees appointed under the Act; Advise the Minister on national policy on deposit taking SACCO Societies in Kenya.

The specific requirements exist under the following categories:

**Capital adequacy** where SACCOs have to provide a minimum core capital of KShs 10 million as shown in their financial statements and newly founded SACCOs have to provide this evidence through submission of bank statements. All SACCOs have to comply with three capital adequacy ratios as stipulated in the Regulations. SACCOs that were already operating FOSA's by June 2010 have been granted a four-year transition period to comply with these capital adequacy requirements.

**Fit and proper test:** Both directors and senior management (or departmental heads) of the SACCOs will be subject to a "fit and proper" test, vetting their moral and professional suitability to be on the board and to manage the SACCO society, respectively.

**Business plan:** SACCOs are now required to provide a detailed four-year business plan and feasibility study including projected financial statements to SASRA.

**Governance rules:** At a minimum, SACCO Board of Directors (elected at the Annual General Meeting) will establish an audit committee and credit committee. It will also be their responsibility to establish appropriate policies on credit, investment, human resource, savings, liquidity, information preservation, dividend, and risk management. A major change on governance is that directors and senior management are subject to vetting (fit and proper test) by SASRA. Separation of the responsibilities of the Board and the management has been clearly outlined in the Regulations to ensure transparency and accountability in the running of the SACCO.

**Prudential standards:** The Act and Regulations include clear standards regarding, among others, capital, liquidity, the extent of external borrowing, asset categorization and provisioning, maximum loan size, and insider lending. **Reporting requirements:** SACCOs are now subject to adhering to monthly (capital adequacy, liquidity, and deposits), quarterly (risk classification of assets and loan loss provisioning, investment returns, financial performance) and annual (audited financial statements) reporting requirements to SASRA.

**Deposit insurance scheme** .Once licensed, member deposits will be protected in the event of collapse of a SACCO. SASRA will set up a Deposit Guarantee Fund just like the one set up by CBK for banks and SACCOs will be expected to contribute to this.

**Branch approval.** Opening, closing, and relocating branches and other places of business will require prior approval by SASRA.

**Services to members.** SACCOs shall continue to operate according to co-operative principles and deal with members only.

**Enforcement actions SASRA** has the authority to inspect the premises and the records of a SACCO and to prescribe enforcement actions in case of deficiencies including the appointment of a statutory manager. Non-compliance with legal requirements carries clearly specified penalties and includes removal from office of directors and other responsible officers

### 2.4 SACCO Efficiency and Financial Performance

Efficiency is key to profitability and related to the SACCOs' internal structure — which is different than the structure of commercial banking operations. The challenge for most SACCOs is to reduce their operational costs by using methodological, organizational, and technological innovations. While all banks are concerned about portfolio quality, SACCOs require greater and more aggressive follow up on delinquent loans as well as incentive programs for staff responsible for collecting repayments. Portfolio yield is synonymous with revenue generation. To be profitable, SACCOs must source for cheap funds and charge interest rates that cover relatively high administrative costs associated with doing lending (WOCCU, 1998). SACCOs requires an expensive cost structure that is completely different from the internal structure of most commercial banking operations. In addition, SACCOs must pay a high cost for the technology, technical assistance, and infrastructure needed to reach a dispersed and low density population.

Additionally, for SACCOs to achieve high profitability levels requires attention to five key elements: cheap source of funds, client demand, efficient operations, high portfolio quality and yield on portfolio (WOCCU, 1999). WOCCU report continues to add that, Successful SACCOs should keep loan losses to about 1.2 to 1.4 percent of ongoing expenses; this must be covered by interest rates. Maintaining a high portfolio quality requires a lot of effort, with immediate follow-up on delinquencies and the ability to track them instantly. An effective management information system (MIS) can be essential. Oji (2005) also found out that if SACCOs acquire the necessary technologies, equipment and machinery for their operations they will enhance their productivity; increase their rate of output, competitiveness, and profitability. Consequently, they will repay their loans, expand their operations, employ more resources (including labor) and thereby request for bigger loans.

#### 2.4.1 Improved Customer Service and MIS

A report carried out by Accenture for FSD Kenya in march 2010 on 'Automation of SACCOs: Assessment of potential solutions' found out that there was need for SACCOs to upgrade their technology in order for them to operate effectively as a result of the new regulations. For instance, the report noted that SACCOs would now require special softwares for FOSA, BOSA and reporting

However having the status of regulated financial institutions, SACCOs will also be able to offer a range of services and products to meet the various need of their clients.

Most SACCOs have just gone through or are going through an exercise of improving their MIS systems, some with more problems than others. Although MIS is no longer a major gap, it will be important to monitor needs, regularly update systems and to use the data to build sector knowledge

### 2.4.2 Improved Financial Transparency and Accountability

Regulation of financial institutions typically involves higher reporting requirements. This is expected to improve the financial transparency and accountability of the SACCOs. This depends on effectiveness of other regulations in that country. In cases where corruption is rampant there have been cases of formal private banks collapsing (Gaama, 2006).in the same, there has been many incidences where members have lost their hard earned contributions through corrupt and inept leaders.

### 2.4.3 Products Diversification

Loans are provided by all the formal and informal providers of financial services and they all levy an interest. Interest rates are quoted in many different ways. The standard banking way is to quote annual interest rates based on the reducing balance method. Non-bank financial institutions and parastatals also use this method. However, SACCOs and moneylenders tend to quote their interest rates based on monthly flat rates. This tends to reflect their interest rates as lower than the formal providers of financial services, although this is not in fact the case (Hospes et. al, 2002). In the US AID (1999) proceedings, Bankers noted that products that allow for small minimum deposits and extensive outreach to reduce savers' transaction costs are key to attracting large numbers of low-income clients. Rutherford (2000) advocates that going beyond micro-financial usually has been termed as including micro-financial services other than credit for micro-enterprises: savings, consumption loans and insurance in particular.

## 2.5 Empirical Studies

A study was carried out by Accenture on behalf of FSD (March 2010) on assessment of solutions for SACCO automation.

The project team considered the full range of regulatory requirements that can be expected based on the Act, spanning across the SACCOs' operating model but focused in particular on capital structure, liquidity and credit management. In addition to these areas, the study reviewed possible needs to build a reporting and risk management capability system to be used to support the SACCO governance model. The expectation was that SACCOs will utilize and be dependent on an appropriate system in line with the new regulatory framework that SACCOs expect to be subject to based on the SACCO Societies Act 2008. The purpose of the study was to understand how SACCOs need to change their operations in order to comply with regulations while remaining competitive and sustainable, and what role information technology solutions will play in that process.

The project team considered the full range of regulatory requirements based on the Act, spanning across the SACCOs' operating model but focus in particular on capital structure, liquidity and credit management. In addition to these areas, it also reviewed possible needs to build a reporting and risk management capability and how the system is used to support the SACCO governance model. The expectation is that the SACCO will utilize and be the most dependent on an appropriate system.

Mudibo (2005), carried out a study on co-operative governance in the East African experience and found out that structures, continuity, balance the composition of and accountability are factors affecting performance in SACCOs and results in service satisfaction leading towards stimulation of better financial performance.

Chege (2006) in his study found out that the non-remittance of members' deductions by employers to the SACCOs has a negative impact on the SACCO performance. According to his findings, the negative effects include: liquidity problems leading to low turn around for loans, lack of funds for SACCO operations for example lack of salaries, lack of dividends to members.

Tokei (2009), studied the impact of liberalization in the banking industry on the SACCO's, found that there was need for SACCOs to adopt a corporate governance strategy for them to remain competitive in the industry.

Gamba and Komo (2005) in their paper on evolution, growth and decline of the co-operative sector, found out that Sacco performance was adversely affected by poor and inefficient management systems, loss of government protection, political interference and inadequate legal reforms.

Mburu (2010) carried out a study on the determinants of performance of the SACCOs in Kenya. According to his findings, lack of business planning, conflict of interest and absence of stringent monitoring and evaluation measures are among the causes of business failure in the Sacco industry. Some of his recommendations were that the government a policy in guiding the SACCOs on strategic planning, policy to ensure that qualified staff members were employed in the SACCOs and regular audit of the SACCO.

Mbogo (Business Daily June 2010) explains that the cost of running deposit-taking SACCOs is set to go up significantly due to the new regulations threatening the low interest rates regime that has for decades given the co-operative movement an edge over commercial banks in the lending market. The regulations covering 220 deposit taking SACCOs, also known as FOSAs, with an estimated membership of five million and assets worth Shi 50 billion, demands that societies converting from the non-deposit taking to the deposit-taking platform invest in new banking halls and install sophisticated security equipment, including armed security personnel from the Administration Police and private security guards.

Tumaini (2010) carried out a study on the role of SACCOs in facilitating rural savings in Tanzania. The main objective of the study was to assess the role of SACCOs in facilitating rural financing. The study analyzed the type s products and of financial services offered by SACCOs, examined the regulatory framework, and the effectiveness to which SACCOs facilitate rural financing. The study found that a good number of SACCOs experienced mismanagement, low membership and high default.

Kidanu (2008) carried out a study on the status of RUSACCOs in Ethiopia on credit risk management policies. The study findings concluded that risks in SACCOs are mitigated by incompetent personnel, uncertainty and unavailability of funds for the members. A similar study carried out in Kenya by Gaitho (2010) founded that majority of SACCOs used credit risk management practices as a basis for objective credit risk appraisal.

Ireri (2010) carried out a study on the effects of working capital policies on profitability of the SACCOs in Nairobi. Ireri used a causal-effect design. The study carried out on a sample of 30 SACCOs found concluded that working capita management on profitability and consequently and risk of the SACCOs and consequently on the value.

## *2.5 Summary*

In the chapter, the literature review, theoretical framework on financial regulations is discussed. Literature on financial regulations is reviewed as well as literature on the factors leading to the development of SASRA. The next section of the chapter discussed knowledge and understanding of SACCOs on regulatory issues. The section then provided an overview of the proposed SASRA guidelines on SACCOs.

The empirical evidence gives out prior studies carried out on SACCOs both locally and externally. Studies have been carried out to examine the issues that affect SACCO performance. The issues ranged from corporate governance (Ademba 2006) to issues of mismanagement and non remittance of SACCO funds.

In the past, management of many co-operative societies in Africa was a great cause of concern. The institutions have been badly mismanaged some resulting in losses to the members and the general public due to vices such as fraud, corruption, nepotism, agency problems and political interference.

SASRA is a new entrant in the financial markets and it is important to establish the impact it has in the industry especially to the respective stakeholders, mainly in the SACCO industry. A study conducted by Accenture (2010) on behalf of FSD on assessment of potential solutions for Automation of SACCOs, established that there was an urgent need for SACCOs to change their operations (management and automation) in order for them to comply with the regulations, stay competitive and sustainable.

Mbogo (Business Daily June 2010) noted that the cost of running deposit-taking SACCOs is set to go up significantly due to the new regulations because the regulations are threatening the low interest rates regime that has for decades given the co-operative movement an edge over commercial banks in the lending market.

It is on this basis that this study was carried out, to establish if SASRA has had tremendous impact on the SACCO operations and if there are challenges, how are they managing them?

# CHAPTER THREE

## *RESEARCH METHODOLOGY*

### 3.1 Introduction

This chapter presents a brief description of the methodology was used in the study. The chapter is organized in five parts; the research design, population and sampling design, data collection methods, research procedure and data analysis methods.

### 3.2 Research Design

Research design used in this study was descriptive research. Saunders, Lewis and Thornhill (2000), argue that descriptive method is used to identify and obtain information on the characteristics of a particular issue and data collected are quantitative and statistical techniques are used to summarize the information. Descriptive design was used in this study to enable the researcher collect comprehensive data on the population under study and thus provide relevant and specific information. According to Zikmund (2003), the major purpose of using descriptive research is to provide information on characteristics of a population or phenomenon.

### 3.3 Population and Sampling Design

#### 3.3.1 Population

Cooper and Schindler (2003) define population as the total collection of elements about which the researcher wishes to make inferences. The population under study was of similar characteristics and consisted of 230 deposits taking SACCOs.

#### 3.3.2 Sampling Design

The research model adopted a census mode of study. There exist 230 SACCOs which operate FOSAs of which 50 of them are based in Nairobi. Sacco Managers, auditors and accountants of the 50 SACCOs were interviewed.

#### 3.3.2.1 Sampling Frame

A sample frame refers to a list of elements from which the sample is actually drawn and is closely related to the population (Cooper and Schindler, 2003). The sampling frame in this study was a list of SACCOs operating FOSAs.

#### 3.3.2.2 Sampling Technique

Saunders, et al (2003) define stratified random sampling as a technique used whereby the population into two or more strata based on some relevant attributes. A stratum is a subset of the population that shares at least one common characteristic. Babbie (2001) argues that; stratified sampling as a sampling method produces a higher degree of representation. Stratified random sampling technique was used to select the sample size.

According to Sekaran (2003), stratified random sampling is the most efficient among all probability design because all groups are adequately sampled and represented and comparison among the groups is possible. However, the population of SACCOs operating FOSAs in Nairobi is 50 hence the researcher adopted a census study.

### 3.3.3 Sample Size

The sample size is a list that includes every member of the population. A sample size must be carefully selected to be representative of the population so as to eliminate biasness that may arise. Currently there exists 50 deposit taking SACCOs in Nairobi. The 50 SACCOs as indicated formed a 23% sample size as shown in table 1.1. The 50 Saccos formed a representative sample size because most FOSAs are headquartered in Nairobi and that is where the major SACCOs operate from.

Table 1.1; Sample Size

| Category | Distribution | | |
|---|---|---|---|
| | **Total Population** | **Actual Size** | **% Sample Size** |
| SACCO Institutions | 230 | 50 | 23% |

## 3.4 Data Collection

Data was collected from primary source on structured questionnaires as well as secondary sources. In administering the research instruments, the researcher used self administered survey by use drop and pick mail method. The questions were categorized into three sections based on the research questions. Part one sought information on outreach and sustainability about respondents. Part two policies and issues regarding regulation of respondents. The final part was on knowledge and understanding of respondents.

## 3.5 Research Procedure

Before administering the questionnaires, the research instruments were pre-tested by the researcher to ascertain the suitability of the tool before carrying out the research. The researcher then carried out a pilot test to pretest and validate the questionnaire. To establish **validity** of the research instrument, the researcher sought expert opinion in field of study especially the supervisors and the lecturers in the department of finance and SASRA officials. This facilitated the necessary modifications on the research instrument.

The researcher intends to select a pilot group of 5 SACCO of officials from the target population to test the **reliability** of the research instrument.

The Questionnaires were then administered through distribution to managers and directors in the SACCOs and SACCO officials. Employees (accountants and auditors) in these SACCOs deemed to knowledgeable will also be included in the study.

## 3.6 Data Analysis

The data was sorted and coded and checked for completeness. Then quantitative analyses were applied using descriptive statistics, which are the mean, mode and median. Data was analyzed using SPSS version 17.0 and presented using frequency tables and pie charts. Mugenda (2008) defines SPSS as a computer package used to analyze data including descriptive statistics to generate frequencies, percentages tables and graphs as well as inferential and multivariate statistical analysis. To analyze quantitative data, frequency distribution and percentages were used in this case. Qualitative data was organized into major themes and used to draw conclusions. The data was then organized by the use of frequency tables.

A multivariate regression model was applied to determine the impact SASRA regulation to SACCO in Kenya. The researcher used the regression model since the problem of interest is the nature of the relationship itself between the dependent variable (response) and the (explanatory) independent variable. The analysis consisted of choosing and fitting an appropriate model, with a view to exploiting the relationship between the variables to help estimate the expected response for a given value of the independent variable.

The regression model below was used in determining the relationship

$Y = p_0 + PiX, + p_2X_2 + p_3X_3 + P4X4 + e$

Where, Y = Dependent Variables

X 1 -n = Independent variable

PO = the constant

B1 -n = the regression coefficient or change included in Y by each %

e = error term

Y= SACCO perfomance indicators (Safety of member savings, Accessibility of funds, cost of loans, growth in terms of membership, assets and services offered.)

(XI; X2; X3)= (Protection guidelines, Sacco operations guidelines, regulatory guidelines.)

The means of the Sacco indicators were regressed against the independent variables.

Since the purpose of the research was establish the dependent variable (SACCO performance) from a set of predictor variables (SASRA guidelines and growth and sustainability); multicollinearity was tested through the use of SPSS software.

# CHAPTER FOUR

# DATA ANALYSIS, FINDINGS AND DISCUSSION

## 4.1: Introduction

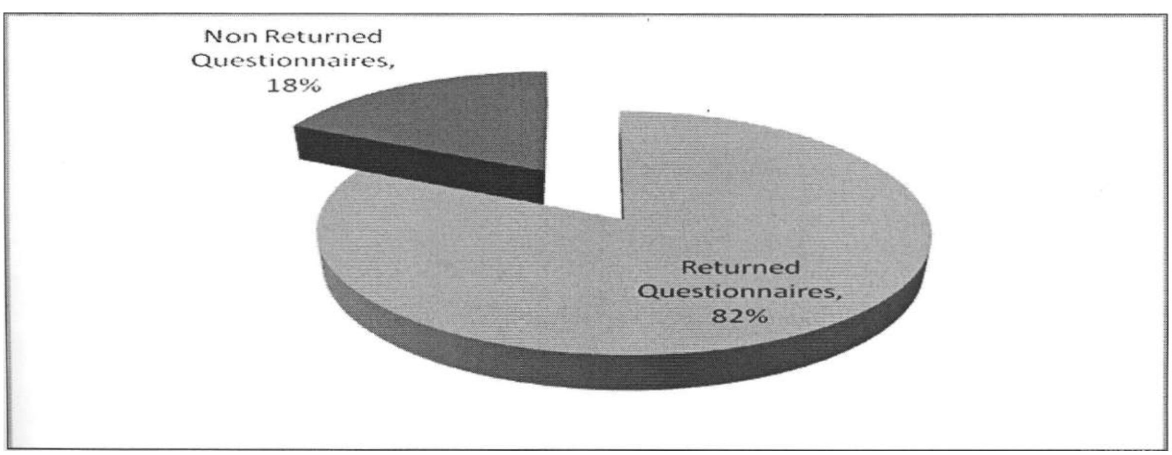
The chapter presents the findings of the study. The research objectives were to explore the current policies and practices in the FOSAs, to examine the level knowledge and understanding that SACCOs have in respect to the SASRA proposed regulations and supervision and to establish how SACCOs are coping with the new regulatory framework and determine if there is an improvement in the performance of the FOSA's as a result of the new SASRA regulations. The data was collected from a sample of 50 respondents. The findings are presented in percentages and frequency distributions, mean, standard deviations, graphs, tables, regression and correlation outputs.

## 4.2 Institutions Biodata

### 4.2.1 Response rate

A total of 50 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 50 Questionnaires used in the sample, 41 were returned. The remaining 9 were not returned. The returned questionnaires' represented a response rate of 82%, which the study considered adequate for analysis.

**Figure 4.2.1 Response Rate**

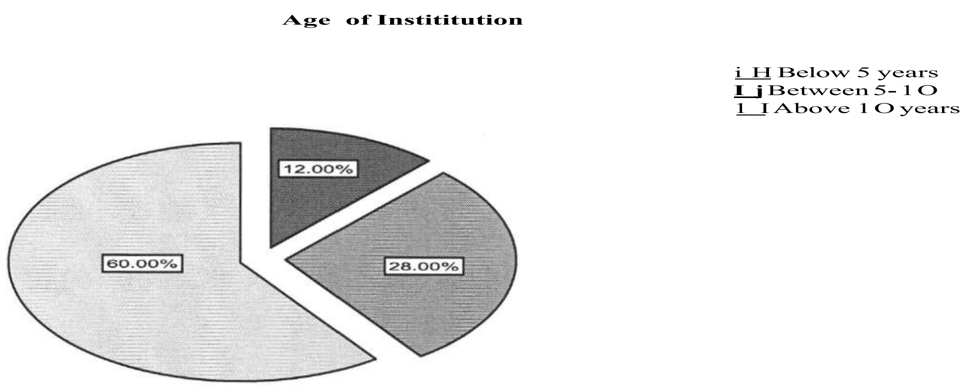



Source: Survey data (2011)

### 4.2.2 Years of Operations of Institutions

In regard to period the institution had been existence, the analysis was summarized in the chart below.

Figure 4.2.2 Years of operations




Source: Survey data (2011)

The figure 4.2.2 shows that 60% of the respondents who participated in the study have been existence for more than ten years, 28% have been in existence between 5-10 years and only 12% have less than 5 years. This shows that most Saccos operating FOSA have over 10 years of existence.

### 4.2.3 Clients Size

On clients' size, the analysis was as in table 4.2.3

**Table 4.2.3 Total Client Size**

| Client Size | Distribution | |
|---|---|---|
| | Frequency | Percent (%) |
| Below 10,000 | 8 | 20.0 |
| Between 10,001-20,000 | 12 | 29.0 |
| Between 20,001-50,000 | 11 | 27.0 |
| Between 50,001-100,000 | 5 | 12.0 |
| Above 100,001 | 5 | 12.0 |
| Total | 41 | 100.0 |

Source: Survey data (2011)

### 4.2.4 Number of Employees

In terms of number employees the institutions had, the data was analyzed and summarized in the table 4.2.4 provided below.

**Table 4.2.4 Number of Employees**

| No. of Employees | Distribution | |
|---|---|---|
| | Frequency | Percent (%) |
| Below 10 | 0 | 0 |
| Between 11-50 | 31 | 76.0 |
| Above 50 | 10 | 24.0 |
| Total | 41 | 100.0 |

Source: Survey data (2011)

Table 4.2.4 indicates that 76.3% of the respondents had between 11-50 employees. 23.7.0% of the respondents had over 50 employees.

### 4.2.5 Goal of Institutions

On inquiry about the major goals of the Saccos were found to have more than just one goal with some having all the goals. It was therefore not possible for the researcher to rank this aspect.

## *4.3 Financial Viability*

### 4.3.1 Raising Funds

Various aspects regarding financial viability of SACCOs were analyzed and presented as; In terms of raising funds by the institutions, the analysis from respondents was as follows;

**Table 4.3.1 Raising Funds**

| Raising Funds | Distribution | |
|---|---|---|
| | Frequency | Percent (%) |
| Membership fee | 7 | 16.0 |
| Interests | 11 | 28.0 |
| Transaction fees | 13 | 32.0 |
| Bank loans | 5 | 12.0 |
| Soft loans | 5 | 12.0 |
| Total | 41 | 100.0 |

Source: Survey data (2011)

Table 4.3.1 indicates that 32.0% of the respondents' institutions in SACCOs raise funds through transaction fees 28% raise funds through interest fees, the remaining raise funds through loans and membership subscriptions.

### 4.3.2 Total Loan Portfolio

On total loan portfolio of the institutions, the analysis from respondents was as summarized as follows;

**Table 4.3.2 Total Loan Portfolio**

| Loan Portfolio | Distribution | |
|---|---|---|
| | Frequency | Percent (%) |
| Between 10,000,001-20,000,000 | 0 | 0.0 |
| Between 20,000,001-50,000,000 | 1 | 3.0 |
| Between 50,000,000-100,000,000 | 16 | 39.0 |
| Above 100,000,001 | 24 | 58.0 |
| Total | 41 | 100.0 |

Source: Survey data (2011)

Table 4.3.2 indicates that 58.0% of the respondent SACCOs have a loan portfolio of over Ksh. 100M, 39% have between Ksh. 50-100 millions; only 3% have a loan portfolio of less than Ksh. 50 Million. On inquiring whether there has been recent growth, the answer was yes in all the Saccos. The explanations given for most Saccos was for the fact that there has been improved efficiency in management, increase in availability of funds ( cash flow), growth in products and increase in demand for credit facilities by members. One Sacco indicated that it had conducted an active recruitment exercise

### 4.3.3 Saving Portfolio

On total saving portfolio of the institutions, the analysis was as follows;

**Table 4.3.3 Saving Portfolio**

| Savings Portfolio | Distribution | |
|---|---|---|
| | Frequency | Percent (%) |
| Below 10,000,00 | 1 | 3.0 |
| Between 10,000,001-20,000,000 | 6 | 16.0 |
| Between 20,000,001-50,000,000 | 10 | 23.0 |
| Between 50,000,000-100,000,000 | 3 | 8.0 |
| Above 100,000,001 | 21 | 50.0 |
| Total | 41 | 100.0 |

Source: Survey data (2011)

Table 4.3.3 indicates that 50.0% of the respondents SACCO have a savings portfolio of over Ksh. 100M, 8% have between Ksh. 50-100 millions; the remaining 42% have a savings portfolio of less than Ksh. 50 Million. On inquiring if there was a recent growth, all Saccos responded in affirmative. The reasons for the growth included: growth in member incomes, trust in Sacco management, ease of funds accessibility and need to access higher loans by members. One Sacco indicated that the growth was as a result of growth in dividends.

### 4.3.4 Monthly Disbursement

In terms of total monthly disbursement by the institutions, the respondents feedback was analyzed was as follows;

**Table 4.3.4 Monthly Disbursements**

| Monthly Disbursements | Distribution | |
|---|---|---|
| | Frequency | Percent (%) |
| Below 10,000,000 | 0 | 0.0 |
| Between 10,00,001-20,000,000 | 16 | 39.0 |
| Between 20,000,001-50,000,000 | 3 | 8.0 |
| Above 50,000,000 | 22 | 53.0 |
| Total | 41 | 100.0 |

Source: Survey data (2011)

Table 4.3.4 indicates that 53.0% of the respondents SACCO disburse over 50 Million, 8 % disburse over Ksh. Between 20,000,001-50,000,000 the remaining 39% have a monthly disbursement of less than Ksh. 20 Million. All respondents agreed that there has been a growth in amount disbursed. The major reason for this being that: there has been increased availability of funds due to increased savings and effective recoveries and growth in membership. One Sacco attributed the growth this to high cost of bank loans.

### 4.3.5 Monthly recoveries

In terms of total monthly collections by the institutions, the respondents' feedback was analyzed as follows;

**Table 4.3.5 Monthly Loan recoveries**

| Monthly Collections | Distribution | |
|---|---|---|
| | Frequency | Percent (%) |
| Below 10,000,000 | 0 | 0.0 |
| Between 10,00,001-20,000,000 | 14 | 34.0 |
| Between 20,000,001-50,000,000 | 1 | 3.0 |
| Between above 50,000,000 | 26 | 63.0 |
| Total size | 41 | 100.00 |

Source: Survey data (2011)

Table 4.3.5 indicates that 63.0% of the respondent institutions in SACCO collect on average per month Ksh. above 50 Million, 3% collect over Ksh. 20-50 Million, the remaining 34% have a monthly collection of less than Ksh. 20 Million. All respondents affirmed that there has been an increased recovery in terms of volumes due to higher efficiency among the Sacco employees.

### 4.3.6 Average Loan Cycle

In terms of average loan cycle of the institutions, the analysis found that most Saccos have a varied range of loan products which have a repayment starting from 4 weeks to over 1 year. It was therefore not possible to classify the respondents on this basis.

### 4.3.7 Average Monthly Lending Interest Rates

In terms of average lending interest rates of the institutions, the analysis was as follows;

**Table 4.3.7 Average Monthly Lending Interest Rates**

| Average Monthly Lending Interest Rates | Distribution | |
|---|---|---|
| | Frequency | Percent (%) |
| Below 1% | 2 | 5.0 |
| Between 1.1-1.5% | 38 | 87.0 |
| Between 1.6-2.0% | 3 | 8.0 |
| Above 2% | 0 | 0.0 |
| Total | 41 | 100.0 |

Source: Survey data (2011)

Table 4.3.7 indicates that most Saccos offer loans of interest rates between 1.1-1.5% (87%).

## 4.4 Sacco Management Guidelines and Interpretation of Findings

### 4.4.1 Rating With Respect To Staff Offenses

The respondents were asked to rate the extents to which staff cases are normally treated as serious offenses if they occurred. The results are shown in table 4.4.1. From the findings to agree/strongly agree; In-adherence to disciplinary actions (Mean of 4.3250), having incomplete customer information file (mean of 4.2500), inadequate written procedures by staff (mean of 4.2000), Lack management exception report (mean of 3.9000), Lack inspections (audits) periodically (mean of 3.8750) and Problems due to lack of communication between branches (mean of 3.8250).

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**Table 4.4.1: Rating of staff offenses**

| Staff offenses | Mean | Std. Dev |
|---|---|---|
| Having incomplete customer information file | 4.2500 | 1.33493 |
| Inadequate written procedures by staff | 4.2000 | 1.24447 |
| Lack of one on one supervision | 3.0750 | 1.34712 |
| Problems due to lack of communication between branches | 3.8250 | 1.51721 |
| Lack inspections (audits) periodically. | 3.8750 | 1.53902 |
| Lack of periodical trainings on various aspects of SACCOs. | 3.2000 | 1.58842 |
| In-adherence to disciplinary actions | 4.3250 | 1.24833 |
| Lack of updated products reviews | 3.3750 | 1.35282 |
| Lack management exception report | 3.9000 | 1.31656 |

Source: Survey data (2011)

### 4.4.2: Extent to Which SASRA Regulations Have Impacted On the Following Issues at Sacco.

The respondents were asked to state the extent to which extend has SASRA regulations have an impact on the predetermined ownership, governance, accountability and Sacco image in their SACCO. The results are shown in table 4.4.2. The respondents unanimously rated the following as having been of high/very high impact of SASRA regulations on their SACCO; Accountability (mean of 4.3500), Governance (mean of 4.3000) and Sacco's image (mean of 3.8500).

**Table 4.4.2: Extent to which SASRA regulations have impacted on the following issues at Sacco (Protection)**

| | Mean | Std. Deviation |
|---|---|---|
| Ownership | 3.2750 | 1.53569 |
| Governance | 4.3000 | .64847 |
| Accountability | 4.3500 | .66216 |
| SACCOs image | 3.8500 | 1.21000 |

Source: Survey data (2011)

### 4.4.3: Effect of Current Policy and Regulatory Environment on Sacco Operations

The respondents were to rate the effect of current policy and regulatory environment on Sacco operations. The results are shown in table 4.4.5. From the findings to Very high/High impact; Performance standards (Mean of 4.4500), Supervision (mean of 4.2500), Governance (mean of 3.8750), SACCOs image (mean of 3.6750 and Management capacity (mean of 3.6500)

**Table 4.4.3: Extent to which current policy and regulation affect Sacco Operations.**

| | Mean | Std. Deviation |
|---|---|---|
| Diversity of institutional form | 2.9500 | 1.19722 |
| Governance | 3.8750 | .79057 |
| Management capacity | 3.6500 | .97534 |
| SACCOs image | 3.6750 | 1.22762 |
| Outreach | 2.9500 | 1.10824 |
| Competition | 2.8500 | 1.18862 |
| access of funds | 2.8500 | 1.09895 |
| Supervision | 4.2500 | .80861 |
| Performance standards | 4.4500 | .67748 |

Source: Survey data (2011)

### ,4.4.4: Key Areas on Proposed SASRA Prudential Guidelines Addressing the Current Challenges

The respondents were to rate the Key areas on proposed SASRA prudential guidelines addressing the current challenges. The results are shown in table 4.4.4. From the findings, Regulation on liquidity management(mean of 1.4500), Licensing (Mean of 1.5500), Regulation on internal audit controls (mean of 1.6250), Regulation on corporate governance (mean of 1.6750), Regulation on capital adequacy (mean of 1.7000), Regulation on prohibited business and restricted activities(mean of 1.8750), Regulation on money laundering and proceeds of crimes(mean of 1.8750) and Regulation on risk classification of assets and provisions (mean of

1.9750) have been completely/moderately addressed by the proposed SASRA prudential guidelines.

**Table 4.4.4: Extent to which regulatory guidelines address current challenges**

| | Mean | Std. Dev |
|---|---|---|
| Licensing | 1.5500 | .74936 |
| Opening, closing and change of business | 2.8250 | 1.27877 |
| Regulation on corporate governance | 1.6750 | 1.09515 |
| Regulation on internal audit controls | 1.6250 | .92508 |
| Regulation on prohibited business and restricted activities | 1.8750 | .93883 |
| Regulation on capital adequacy | 1.7000 | .88289 |
| Regulation on liquidity management | 1.4500 | .78283 |
| Regulation on risk classification of assets and provisions | 1.9750 | 1.27073 |
| Regulation on money laundering and proceeds of crimes | 1.8750 | 1.11373 |
| Regulation on appointment of duties and responsibilities of external auditors | 2.6250 | 1.35282 |
| Regulation on reporting/publication of financial statements/other disclosures | 2.0000 | .98710 |
| Regulation on supervisory enforcement actions | 1.6000 | .90014 |

Source: Survey data (2011)

**4.4.5: Overall Performance of the Sacco Improvement since SASRA Legislation**

The respondents unanimously agreed that high/very high improvement on overall Sacco performance as a result of the implementation of SASRA were in the areas of; Legal and regulatory framework compliance (mean of 4.2222), Contribution to the national goals (mean of 4.1389), Safety of member savings (mean of 4.1111), Speed of getting the loans (mean of 3.6944), Growth in terms of services offered (mean of 3.6111) and Accessibility of funds (mean of 3.6111).

**Table 4.4.5: Sacco indicators of performance improvement**

| | Mean | Std. Dev |
|---|---|---|
| Safety of member savings | 4.1111 | 1.32617 |
| Accessibility of funds | 3.6111 | 1.20185 |
| Cost of loans | 2.8611 | .99003 |
| Speed of getting the loans | 3.6944 | .95077 |
| Good salary and benefits for the employee | 2.4444 | 1.22927 |
| Good working environment for the employee | 3.0000 | 1.43427 |
| Growth of Sacco in terms of membership | 2.6111 | 1.22539 |
| Growth of Sacco in terms of assets | 2.3611 | 1.24563 |
| Growth in terms of services offered | 3.6111 | 1.20185 |
| Legal and regulatory framework compliance | 4.2222 | .98883 |
| Contribution to the national goals | 4.1389 | .99003 |

Source: Survey data (2011)

## 4.5: Analysis and Summary of Findings

### 4.5.1 Correlation analysis

As shown in table 4.5.1 there is a moderate positive correlation between the independent and dependent variable. Amongst the independent variables none is correlated to each other as such a three predictor model can be used to forecast Sacco performance.

**Table 4.5.1: Pearson correlation**

| | SACCO performance | Protection guidelines | Operational guidelines | Regulatory guidelines |
|---|---|---|---|---|
| SACCO performance | 1.000 | | | |
| Management practices | .324 | 1.000 | | |
| Operations | .367 | .443 | 1.000 | |
| Sacco regulatory challenges | .191 | -.229 | .018 | 1.000 |

Source: Author Computation.

Analysis in table 4.5.2 shows that the coefficient of correlation equals 0.823 (strong positive correlation) while coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) $R^2$ equals 0.678, that is, receivables explain 67.8 percent of Sacco performance can be explained by the changes in the SASRA protection guidelines, operational guidelines, SASRA regulatory guidelines leaving only 32.2 percent unexplained. The P- value of 0.000< 0.05, implies that the model of Sacco performance is significant at the 5 percent level of significance

**Table 4.5.2: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | R Square Change | F Change | df1 | d£2 | Sig.F Change |
| 1 | .823[a] | .678 | .614 | 1.00287 | .678 | 10.198 | 3 | 36 | .000 |

a. Predictors: (Constant), (SASRA protection guidelines, operational guidelines, SASRA regulatory guidelines)

**Table 4.5.3: ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| | Regression | 30.768 | 3 | 10.256 | 10.198 | ,000[a] |
| | Residual | 36.207 | 36 | 1.006 | | |
| | Total | 66.975 | 39 | | | |

a. Predictors: (Constant), SASRA protection guidelines, operational guidelines, SASRA regulatory guidelines)

b. Dependent Variable: SACCO performance indicators

Source: Author Computation

The probability value (p-value) of a statistical hypothesis test is the probability of getting a value of the test statistic as extreme as or more extreme than that observed by chance alone, if the null hypothesis HO is true. The p-value is compared with the actual significance level of the test and, if it is smaller, the result is significant. The smaller it is, the more convincing is the rejection of the null hypothesis. ANOVA findings in table 4.5.3 shows that there is correlation between the predictor variables (SASRA protection guidelines, operational guidelines, SASRA regulatory guidelines)) and response variable (Sacco Performance) since P- value of 0.0000.05.

### 4.5.2: Regression Analysis

The established multiple linear regression equation becomes:

Sacco Performance = 2.660 - 1.348Xi + 1.830$X_2$ + 0.344$X_3$

**Where**

$a_0$ = 2.660, shows that if all independent variables were rated zero, Sacco Performance rating would be 2.660

ai = -1.348, shows that one unit change in protection guidelines results in 1.384 units decrease in Sacco Performance other factors held constant.

0C2 = 1.830, shows that one unit change in operational results in 1.830 units increase in Sacco Performance other factors held constant.

$a_3$ = 0.344, shows that one unit change in regulatory guidelines results in 0.344units increase in Sacco Performance other factors held constant.

**Table 4.5.4: Coefficients of regression equation**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | do | 2.660 | 1.436 | | 1.852 | .072 |
| | ai | -1.348 | .306 | -.751 | -4.399 | .000 |
| | $a_2$ | 1.830 | .377 | .703 | 4.856 | .000 |
| | $a_3$ | -.344 | .141 | -.219 | -2.440 | .001 |

Source: Author Computation

**Table 4.5.5: Individual statistical significance (Hypothesis testing)**

| Hypothesis | P-Value | Significance level | Conclusion |
|---|---|---|---|
| Hi: There is no significant relationship between protection guidelines and Sacco Performance<br>$Hi_a$: There is a significant relationship between protection guidelines and Sacco Performance | .000 | 0.05 | Reject Hi, |
| Hi: There is no significant relationship between operational guidelines and Sacco Performance<br>$Hi_a$: There is a significant relationship between operational guidelines and Sacco Performance | .000 | 0.05 | Reject Hi, |
| Hi: There is no significant relationship between SASRA regulatory guideline and Sacco Performance<br>$Hi_a$: There is a significant relationship between SASRA regulatory and Sacco Performance | .001 | 0.05 | Reject Hi, |

Source: Author Computation.

Since all the P-Values for the individual predictor variables less than 0.05, there is enough evidence to support Hi,, thus there is a significant relationship between the Sacco performance and each predictor variable (SASRA protection, operational and regulatory guidelines).

## 4.6 Discussion of Findings

The purpose of the study was to identify whether SASRA regulatory framework has had any effect on the Sacco performance of deposit taking Sacco in Kenya. Out of 50 questionnaires sent 41 were returned giving a response rate of 82%. Most respondents had been in operation for over five years.

Respondents were asked if they had experienced recent growth in terms of portfolio loan, disbursements and recoveries. The answer was yes in all the Saccos. The explanations given for this was that most Saccos was that there has been improved efficiency in management of the Saccos, increased availability of funds ( cash flow), growth in products and increased in demand for credit facilities by members. One Sacco indicated that it had recently conducted an active recruitment exercise. While this growth may not all be directly related to the introduction of the SASRA regulations, the explanations given by the members do affirm the Policies advocated by SASRA guidelines.

On inquiry if SASRA has had any impact on the savings portfolio, there was a general affirmative response with most respondents acknowledging recent growth in Savings. The reasons for the growth included: growth in member incomes, trust in Sacco management, ease of funds accessibility and need to access higher loans by members. One Sacco indicated that the growth was as a result of growth in dividends.

The respondents were also asked to rate the extent to which SASRA regulations has an impact on ownership, governance, and accountability and Sacco image. From the results shown in table 4.4.2., the respondents unanimously rated them as having had a high/very high impact from SASRA regulations with Accountability (mean of 4.3500), Governance (mean of 4.3000) and Sacco's image (mean of 3.8500).

The respondents unanimously agreed that high/very high improvement on overall Sacco performance as a result of the implementation of SASRA were in the areas of; Legal and regulatory framework compliance (mean of 4.2222), Contribution to the national goals (mean of 4.1389), Safety of member savings (mean of 4.1111), Speed of getting the loans (mean of 3.6944), Growth in terms of services offered (mean of 3.6111) and Accessibility of funds (mean of 3.6111).

Basing on the findings of the predictor model from the analysis, the study found that there is significant relationship between Sacco performance indicators and SASRA protection and regulatory guidelines as well as operational guidelines. The study therefore concludes that SASRA regulatory guidelines do have impact on the Sacco performance as shown by the predictor model.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

fhe purpose of this research was to identify whether SASRA regulatory framework has had any :ffect on the Sacco performance of deposit taking SACCOs in Kenya the case Nairobi. Data was :ollected via questionnaires which were dropped and picked to the respondents. The data was •orted, coded and analyzed.

## 5.2 Conclusion

The following are the major conclusions based on the findings and discussions.

'rom the study, it can be concluded that, SASRA has greatly impacted on the Sacco performance n terms of outreach and sustainability and performance of SACCOs in Kenya. Most Saccos eported recent improvement in their performance both in membership, portfolio and loan cycle ind general efficiency. Even though this was attributed to a number of factors ranging from ncreased membership, high efficiency, high demand and quick recoveries, one can easily ittribute this to be as a result of SASRA regulatory framework. Most Saccos were complying vith the regulator so as not to be locked out of business by the operator.

t is clear from the respondents almost all SACCOs are conversant with the contents of the >roposed SASRA guidelines and they are working hard to comply. Most of the Saccos had icquired the operational license while a few were in the process of acquiring and were operating >rovisional licenses.

rhe current tools that are in place to disseminate information on prudential guidelines seem to be effective. SASRA periodicals were the most common among all Saccos with Seminars, meetings ind WOCCU contributing to other form of information.

t was notable that among most of the respondents, there was a feeling that there will no mprovement in the cost of loans, speed of getting loans and employee benefits and salary. The researcher took time to call on some of the respondents to inquire why, and the feedback was that due the capital adequacy requirements, Saccos are likely to experience liquidity challenges hence a need to cut on costs (employee benefits) and the cost of loan had to go up slightly to raise the income levels for the Saccos.

It can also be concluded that SASRA regulatory environment will highly impact on their operations basing on the means in table 4.4.3.

There is also a general belief that SASRA prudential guidelines will completely address current Sacco challenges as seen from the study. Respondents rated the SASRA highly with respect to addressing their current challenges as seen in table 4.4.4.

## 5.3 Policy Recommendations

There is a strong need for the Sacco officials to come up with measures to assist them increase their income levels so as to meet their current liquidity needs.
Also to be considered are ways on which to maintain Sacco employee salaries so as not to compromise the service levels in the Sacco.
There is also a need for SASRA carry out there on in-depth survey on assessing the impact of their regulations on the Sacco industry to establish if their objectives as a regulatory institution are being met and at what cost because even as they strife to achieve to protect the member funds, Saccos should also be able to meet their goals.

## 5.4 Limitations of the Study

The biggest challenge the researcher encountered was during data collection. There were 50 respondents spread out across Nairobi. Due to time limitation, the researcher used the pick and drop of questionnaires method which is also time involving. Some respondents were quite not co-operative making the researcher back to the institution for more than 4 times.

A few of the respondents were quite suspicious of the researcher because they thought it was a SASRA official investigating them. This probably explains the non-response rate.

There was also a challenge in terms of obtaining information/material relating directly to the same study mainly because SASRA is a fairly new regulatory body in the country and little work in terms of study has been conducted before.

## 5.5. Suggestions for Further Research

The study recommends that a similar study be carried out in the near future to assess the impact the SASRA prudential guidelines basing on the Sacco financial statements.
Further study could also be conducted on whether all SACCOs (both deposit taking and non-deposit taking) can operate efficiently under the same umbrella regulations.

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# APPENDICES

## APPENDIX 1: COVER PAGE - QUESTIONNAIRE

## QUESTIONNAIRE ON IMPACT OF PROPOSED CBK PRUDENTIAL GUIDELINES ON DEPOSIT TAKING SACCOs,

Dear Sir/ madam,

My names are **Lucy Ngaira** a Masters student in Business Administration (Finance) at The University of Nairobi
I am conducting a study on the impact of SASRA guidelines on SACCOs operations in Kenya. It is my hope that the results of this study will assist stakeholders in SACCOs industry on the importance of a regulatory framework; highlight the major challenges facing the industry's outreach and sustainability as a result of these regulations and if possible give suggestions on how to cope with these challenges.

Please take note of that:

- Your responses to the questionnaire are **confidential** and will not be disclosed to any party.
- Overall results will be made available, and not those of specific individual comments.

I will be very glad for your assistance in completing this questionnaire. Thanking you in advance,

Lucy Ngaira
(MBA, Finance; UoN)

## APPENDIX 2: QUESTIONNAIRE

### A. INSTITUTIONS BIODATA

1 What is the age of this SACCO in years? (Tick)

Below 5 years [ ] between 5-10 [ ] above 10 years [ ]

2 Total client number (tick)

Below 10,000 [ ] Between 10,001-20,000 [ ] Between 20,001-50,000 [ ]

Between 50,001-100,000 [ ] Above 100,000[ ]

3 How many employees do you have(tick)

Below 10 [ ] Between 11 -50 [ ] Above 51 [ ]

4 Location of the institution (tick)

Nairobi [ ] Kisumu City [ ] Mombasa [ ] others [ ]

5 What are the main goals of this SACCO? (tick)

Profit Motive [ ] Poverty Eradication [ ] Easy Credit access [ ]

Resource Mobilization [ ] Others [ ] Specify

### B. LIQUIDITY/ASSETS

i) **FINANCIAL VIABILITY**

6 What are the main sources of finances for this organization?

Membership subscription [ ] Interest [ ] Transaction fee [ ] Bank loans [ ]

other (Please specify) [ ]

7 What is your current loan portfolio Kshs (Approx.)...(tick)

Below 10, 000, 0000................[ ] Between 10,000,001-20,000.......[ ]

Between 20,000,001-50,000,000 [ ] Between 50,000,001-100,000,000 [ ]

Above 100,000,001................[]

(i) Would you say that it has improved growth lately?

Yes [ ] No [ ]

(ii) If yes in above, explain why

8 What is your total savings portfolio Kshs (Approx.)....(tick)

Below 10, 000,000................[ ] Between 10,000,001-20,000,000 [ ]

Between 20,000,001-50,000,000 [ ] Between 50,000,001-100,000,000 [ ]

Above 100,000,001...............[]

(i) Would you say that it has improved growth lately?

Yes [ 1 No [ ]

(ii) If yes in above, explain why

9 What is the average loan disbursed in your program (tick)

Below 10,000 [] Between 10,001-50,000 [] Above 50,000 [ ]

10 Total Average monthly Disbursement (tick)

Below 1,000,000..................[] Between 1,000,001-20,000,000 [ ]

Between 20,000,001 -50,000,000 [ ] Above 50,000,000 [ 1

(i) Would you say that it has improved grown lately?

Yes [ ] No [ ]

(ii) If yes in above, explain why

13. Total Average monthly recoveries/collection (tick)

Below 1,000,000...................[ ] Between 1,000,001-20,000,000 [ ]

Between 20,000,001-50,000,000 [ ] Above 50,000,000 [ ]

(i) Would you say that it has improved grown lately?

Yes [ 1 No [ 1

(ii) If yes in above, explain why

14. What duration accounts for average loan cycle in weeks

Below 12 weeks [ ] Between 13 -24 weeks [ ]

25- 52 weeks... [ ] More Than 1 year Repayments [ ]

15. The average program's lending Monthly interest Rate is

Below 1%[] Between 1.1-1.5% [] 1.6-2.0% [] Above 2.0 [ ]

ii) **NON-FINANCIAL VIABILITY ISSUES (PROTECTION)**

16. The following staff cases if they occur are normally treated as serious offenses; In a range of 1 to 5 (tick where appropriate as shown below )

[1] Strongly disagree [2] Disagree [3] neither agree or disagree
[4] Agree [5] Strongly Agree

| | **Staff offenses** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|---|
| I | Having incomplete customer information file | | | | | |
| Ii | Inadequate written procedures by staff | | | | | |
| Iii | Lack of one on one supervision | | | | | |
| iv | Problems due to lack of communication between branches | | | | | |
| V | Lack inspections (audits) periodically. | | | | | |
| Vi | Lack of periodical trainings on various aspects of SACCOs. | | | | | |
| Vii | In-adherence to disciplinary actions | | | | | |
| Viii | Lack of updated products reviews | | | | | |
| Ix | Lack management exception report | | | | | |

## C. POLICY AND REGULATIONS (

16. Do you operate a FOSA?

Yes [ ] No [ ] Explain why

If yes above, have been licensed by SASRA?

17. To what extend has SASRA regulations have an impact on the following in your SACCO (Tick the appropriate degree of influence)

[1] No impact [2] Low Impact [3] Moderate Impact [4] High Impact [5] Very High Impact

| | Impact on: | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| I | Ownership | | | | | |
| ii | Governance | | | | | |
| iii | Accountability | | | | | |
| iv | SACCOs image | | | | | |

18. How has the current policy and regulatory environment affected your Operations (Tick the appropriate degree of influence)

[1] No impact [2] Low Impact [3] Moderate Impact [4] High Impact [5] Very High Impact

| | Impact on: | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| **I** | Diversity of institutional form | | | | | |
| ii | Governance | | | | | |
| iii | Management capacity | | | | | |
| iv | SACCOs image | | | | | |
| vi | Outreach | | | | | |
| vii | Competition | | | | | |
| viii | access of funds | | | | | |
| ix | Supervision | | | | | |
| x | Performance standards | | | | | |

19. SASRA role in helping the institution in the regulations policies can be termed as (tick) [1] Poor [2] Fair [3] good [4] Very good [5] Excellent

20. The Current Government support for SACCOs operations can be termed as (tick)

[1] Poor [2] Fair [3] good [4] Very good [5] Excellent

## D. KNOWLEDGE AND UNDERSTANDING

21. The following methods and tools are in place to exchange dialogue, knowledge and skills on regulations with other SACCOs and current regulator(s)?

SASRA periodicals [ ] Seminars and workshops [ ]

Universities [ ] Research Institutions [ ]

Global Bodies e.g. World Bank/IMF, UNDP [ ]

Others [ ] Specify

22. The following methods and tools are in place to assess the quality of knowledge and skills on regulations gained between SACCOs and current regulators

Professional/Industry Examinations [ ] External Audit [ ]

Internal Examination [ ] Continuous staff assessment [ ]

Others [ ] specify

23. The following key areas on proposed SASRA prudential guidelines will address our current challenges

[ 1 ] completely [ 2 ] moderately [ 3 ] Just a little [ 4 ] not at all [ 5 ] don't know.

| | **Guidelines on;** | **1** | **2** | **3** | **4** | **5** | **3** |
|---|---|---|---|---|---|---|---|
| I | Licensing | | | | | | |
| ii | Opening, closing and change of business | | | | | | |
| iii | Regulation on corporate governance | | | | | | |
| iv | Regulation on internal audit controls | | | | | | |
| vi | Regulation on prohibited business and restricted activities | | | | | | |
| vii | Regulation on capital adequacy | | | | | | |
| viii | Regulation on liquidity management | | | | | | |
| ix | Regulation on risk classification of assets and provisions | | | | | | |
| x | Regulation on money laundering and proceeds of crimes | | | | | | |
| xi | Regulation on appointment of duties and responsibilities of external auditors | | | | | | |
| xii | Regulation on reporting/publication of financial statements/other disclosures | | | | | | |
| xiii | Regulation on supervisory enforcement actions | | | | | | |

24. On a scale of 1 to 5 please rate the overall performance of the SACCO improvement in terms of the following aspects since SASRA legislation. (Where 1 **is no improvement** and 5 **is very high improvement).**

| | **Performance indicator** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|---|
| i | Safety of member savings | | | | | |
| ii | Accessibility of funds | | | | | |
| iii | Cost of loans | | | | | |
| iv | Speed of getting the loans | | | | | |
| vi | Good salary and benefits for the employee | | | | | |
| vii | Good working environment for the employee | | | | | |
| viii | Growth of Sacco in terms of membership | | | | | |
| ix | Growth of Sacco in terms of assets | | | | | |
| X | Growth in terms of services offered | | | | | |
| xi | Legal and regulatory framework compliance | | | | | |
| xii | Contribution to the national goals | | | | | |
| | | | | | | |

25. Does your Sacco completely adhere to the PEARLS model of operation?

Yes [ ] No [ ]

(ii) Why

26. Do you think your organization would consider a merger to conform to these regulations?

Yes [ ] No [ ]

(ii) Why

**APPENDIX 3:** KENYA SACCO SUBSECTOR

| | Members | Assets | Deposits | Loans | MSC | Turnover |
|---|---|---|---|---|---|---|
| FOSAS | 230 | 1546966 | 81% | 88% | 86% | 81% |
| NON-FOSAS | 1983 | 327690 | 19% | 12% | 14% | 19% |
| TOTAL | 2,213 | 1,874656 | 100% | 100% | 100% | 100% |

*Source: 2010 audited accounts (Sasra)*

List of Saccos with FOSA in Nairobi

| | LOCATION | CONTACT |
|---|---|---|
| AFYA | AFYA CENTRE | |
| ARDHI | SURVEY OFF THIKA RD | |
| ASILI | NGARA | |
| CHAI | KTDA BUILDING MOI AVENUE | 2214406 |
| CHUNA | MOI UNIVERSITY | 212034/316209 |
| COMOCO | LUSAKA RD CMC BLDING 1ST FL | 650794 |
| ELIMU | SOUTH B | 554653 |
| FINNLEM | | |
| FUNDILIMA | | 523111 |
| GURUDUMU | | |
| HARAMBEE | HARAMBEE PLAZA | 242085/343822 |
| JAM II | SOUTH B, DUNGA RD | 552448/552664 |
| KENVERSITY | KAHAWA SUKARI, THIKA ROAD | 812781/810901 |
| KENYA BANKERS | COMMUNITY, 3RD NGONG AVE | 2720231/2733635 |
| KENYA POLICE | UTUMISHI HSE, 3RD FLR | 2725592/27255801 |
| KINGDOM | | |
| LENGA TUMAINI | | |
| MAGEREZA | MOI AVENUE, MAGESO BUILDNG | 318457/244138 |
| MAISHA BORA | UNILEVER, COMMERCIAL STREET | 69022337/8 |
| MATER | MATER HOSPITAL | 531199/0722828629 |
| MWALIMU | MOI AVENUE, MWALIMU COOP HSE | 249980/247790 |
| MWITO | NEXT TO KIE | 6764196 |
| NACICO | NACICO PLAZA, NEXT TO MACHAKOS BUS STATION | |
| NASCA | | |
| NASSEFU | | |
| NATION STAFF | NATION CENTRE, 2ND FL | 32088441 |
| NEST | | |
| NGP BAMBURI | | |
| NJIWA | NYATI HOUSE, LOITA STREET | 249703/222293 |
| PCEA | | |
| RELI | | |
| SHERIA | MATUMBATO RD UPPERHILL | 722745156 |
| SHIRIKA | NGARA, SHIRIKA HOUSE | 3740625 |
| STIMA | STIMA PLAZA, NGARA NEXT TO KPLC | |
| TELEPOST | | 222711/2 |
| TEMBO | | |
| TRANSCOM | TRANSCOM HOUSE, BEHIND ODEON CINEMA IN TOWN | 217564/219418 |
| UFANISI | | 246383 |
| UFUNDI | MOI AVENUE, UFUNDI HSE, 5TH FL | 223480/220376 |
| UKRISTO NA UFANISI | | |
| UKULIMA | UKULIMA PLAZA, HAILLE SELLASIE NEXT | 227710 |
| UNITED NATION | UN HEAQUARTERS GIGIRI | 621234 |
| WANAANGA | | |
| WANANDEGE | WANANDEGE PLAZA, EMBAKASI | 820119/823019 |
| WAUMINI | | |

*Source: KUSSCO Data 2011*