THE CHALLENGES FACING DEPOSIT-TAKING SAVINGS AND CREDIT COOPERATIVE SOCIETIES' REGULATORY COMPLIANCE IN KENYA. A CASE OF THE GUSII REGION

JARED MAKORI[1]

DR. CHARLES MUNENE[2]

DR. WILLY MUTURI[1]

1. JKUAT

Jomo Kenyatta University of Agriculture and Technology

2. MAASAI MARA UNIVERSITY

ABSTRACT

This study was aimed at establishing the challenges facing deposit -taking Savings and Credit cooperative societies in complying with their regulatory requirements as provided for in Kenya with a particular focus on Gusii region which encompasses Kisii and Nyamira counties. Various players in the financial sector are under regulatory oversight that is vested in the various Authority arms. These financial institutions include listed companies under the CMA, insurance companies under the IRA, the Retirement funds under the RBA, the commercial banks which form the largest subpart of the financial institutions being regulated by the Central Bank of Kenya and lately the SACCO Societies have been under regulation since December 2008 being the latest to be brought to the regulatory fold under the SASRA. This is a sector that had not been under regulation up till 2008 and given that they have been recently brought under regulation, there appeared to be challenges facing these institutions in meeting their regulatory requirements and the purpose of this study was to explore the various challenges in a bid to find out the possible solutions to the same. The objectives of this study included determining the challenges facing SACCOs' regulatory compliance in Kenya. The research was carried out using various methodologies which included structured questionnaires, interviews, observations, focused discussions with selected persons and available documentation in the selected institutions. The data in this study was analyzed using statistical package for social sciences. The study found out that the various challenges facing compliance in these institutions included non-separation of shares from deposits, high dependence on short-term external borrowing, lack of liquidity monitoring system, high investment in non-earning assets, inadequate ICT system, inadequate managerial competencies and political interference among others. The study realized that even with the challenges opportunities were available for compliant Saccos including capital accumulation and agency business largely arising from access to Government funds for on-ward transmission to youth and women groups. The findings of this study are important for the particular organizations under study to address the challenges so as to improve regulatory compliance, the industry to anticipate and endeavor to overcome the challenges and also aid the regulatory Authorities to enhance on their mandate.

Keywords: CHALLENGES ; FACING ; DEPOSIT-TAKING SAVINGS ; CREDIT COOPERATIVE SOCIETIES; REGULATORY COMPLIANCE ; KENYA

INTRODUCTION

Background Information

A savings and credit society also known as a credit union is a cooperative financial institution that is owned and controlled by its members and operated for the purposes of promoting thrift, providing credit at low interest rates and providing other financial services to its members. World over, systems in these organizations vary from slightly to significantly in terms of total system assets, average institutions' asset price and regulatory control. This ranges from volunteer operations with a few members' organizations to the institutions with several billion asset value. For instance, according to report by the World Council of Credit Unions, 2008, the average credit unions in the United States of America had USD 93million worth of assets in 2007 as against an average commercial bank average of USD 1.5 billion.

The world council of credit unions (WOCCU) defines a credit union as a non-profit making cooperative institution. In real practice however legal provisions relating to these institutions vary by jurisdiction. For example in Canada credit unions are referred to those that are regulated as non-profit making institutions and view their mandate as earning a reasonable profit to enhance services to members to ensure stability just the same view as was shared in Kenya till the year 1997 whereby these institutions were liberalized by sessional paper NO 6. to be run as commercially viable institutions that saw their financial accounts being prepared as the ones of the other commercial entities within the financial sector.

These institutions have a relatively unique structure in that agency problems exist given that the owners of the institutions and users of the services are the same people as captured by one of their universal principles of "democratic member control". World over some other acronyms used to refer to these institutions include: "savings and credit cooperatives" (SACCOs) which term is common in Africa, "Cooperativas de ahorro y credito" in Spanish speaking countries , "caja popular" in Mexico "caisse populaire" and 'banque populaire' in French terms and "Islamic investment and finance cooperatives"(IIFCS) in Afghanistan among other names.

Savings and credit cooperative societies have a departure from other financial institutions a majority of whom are banks in that, the members who hold accounts in the SACCOS are at the same time the owners, and they conduct their voting mandate on the one member - one vote basis irrespective of the members' shareholding. This means that only the members of these institutions can deposit and borrow from them.

Statement of the problem

The Kenyan SACCO sector has been observed to contribute greatly to the total financial industry and consequently the economy. It contributes to over forty five percent of the nation's Gross Domestic Product (MOCD&M 2010). With the enactment of the SACCO Act, 2008 (SSA) and the subsequent establishment of the SACCO Societies Regulatory Authority (SASRA), SACCOs have been brought under regulation and supervision.

These deposit taking SACCOs are actually observed to be controlling more than 78% of the total deposits and assets of the SACCO industry, IMF (2011),"Financial stability issues in emerging markets and developing Economies" The SSA and the Regulations requires SACCOs already operating Front Office Services Activity (FOSA) as at the date of publication of the regulations which was June 2010 to apply for license with SASRA. Out of the 219 Sacco societies that were authorized to operate FOSA, 199 applied for license, 13 communicated their decision to discontinue FOSA while 7 did not submit license application by the deadline of 17th June 2011 (SASRA Press Release, 2011). The policy objective of establishing prudential regulation of deposit taking SACCO societies was to enhance transparency and accountability in the SACCO sub-sector, which is consistent with the ongoing reforms in the financial sector whose ultimate aim is to expand financial access, encourage efficiency and enhance financial stability of financial service providers in Kenya. Challenges to the successful implementation of the new regulatory framework differ significantly both because of the size and diversity of the SACCO societies, with inadequate technical skills, both at board and management levels being identified as the key challenge (SASRA Press Release, 2011). Other key areas, identified by SASRA that need to be continually addressed include governance, management capacity, financial management, credit management and automation. While it must be appreciated that prudential regulation is a prerequisite to integration and mainstreaming of the SACCO societies in the Kenya financial sector, the challenges facing deposit-taking SACCOs in regulatory compliance need to be identified and addressed to ensure that licensed SACCOs exploit their full potential and deepen financial access in the country. This study therefore seeks to provide more insight into the challenges facing deposit-taking SACCOs regulatory compliance.

Objectives of the study

The main objective of the study was to assess the challenges that face SACCOs in meeting their regulatory requirements with a focus on SACCOs in Gusii region. The specific objectives that were entailed in this study included:

1.Assessing the challenges of meeting the capital adequacy requirements in the SACCOs in the Gusii Region.

2.Assessing the challenges to effective liquidity management in SACCOs in Gusii region, Kenya.

3.Assessing the challenges of implementing efficient and effective Management Information systems for SACCOs in Gusii region, Kenya.

4. Establishing the governance challenges that impede regulatory compliance in SACCOs in the Gusii region. Research questions

The following questions were used to guide this study:

1. What are the challenges to meeting the capital adequacy requirements by SACCOs in Gusii region?
2. What are the challenges to effective liquidity management for SACCOs in Gusii region?

3. What are the challenges of implementing efficient and effective management information systems by SACCOs in Gusii region?
4. What are the governance challenges impeding regulatory compliance for SACCOs in Gusii region?

Significance of the study

This study was intended to come up with information on the challenges facing SACCOs in achieving regulatory compliance. The findings of this study will provide the necessary information to the SACCO movement and its various stakeholders for purposes of meeting their current and long-term regulatory demands. It will also enhance on the existing information and enable further researchers in their various studies. The cooperative sector in Kenya plays a significant role in the Kenyan economy currently contributing to over 31% of the national savings and over 40% of the Gross Domestic product supporting over 60% of the nation's population either directly or indirectly(MOCD&M 2011). However, this sector has remained unregulated for long up till the year 2010 and very little literature exists especially on the area of its regulation.

Assumptions of the study

This study was based on the assumptions that regulations and having a regulator is key in the development of any industry and subsequently in any nation. The study also assumed that in meeting the initial entry requirements into any particular industry and also other requirements as regularly demanded by the regulatory authorities, there are challenges that the various players face and subsequently opportunities sometimes arise there from and deposit taking SACCOs are not an exception. The study further assumed that the sample to be taken would be representative and the respondents to the instruments of data collection were both objective and truthful.

Limitations of the study

The study was narrowed to focus on establishing the challenges and opportunities available for Savings and credit societies in meeting their regulatory requirements as required by their financial regulator in Kenya. The study was confined to Nyamira and Kisii counties out of 47 counties in Kenya due to limited time and funds. Tied to the same notions, only 5 out of 9 SACCOs were considered. The total sample was 49 out of 92 employees and only 40 successfully completed and submitted back the questionnaires. These participants provided relevant data upon which generalization and conclusion were made.

Scope of the Study

Kisii and Nyamira Counties were chosen for this study, since the researcher resided in Kisii and hence in terms of logistics, the researcher could access every part of the two counties while doing the research. The counties were chosen since the area has a reasonable number of SACCOs hence the data obtained could be representative. The area chosen has an estimated total population of 1,750,534 with a total area of 2,216.6

KM square thus being densely populated at about 790 people per kilometer square. In terms of road network, the counties have fair roads that made many parts to be accessible by the researcher. Kenya being wide, large amounts of money was required to navigate the whole country by the researcher hence the choice of representative counties. The research was confined to SACCOs in Nyamira and Kisii Counties, Kenya. Employees of sample selected SACCOs participated in this research. This research was conducted between December 2012 and February 2013.

LITERATURE REVIEW

Introduction

The literature tended to look previous research studies carried out on: journals, seminar papers, conference reports, books, Government of Kenya Legislation in relation to the objectives of the study with the hope of providing more insight.

Cooperatives

The International Cooperative Alliance 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 (Birchall 2004). Cooperatives differ from joint-stock companies primarily in their governance in that voting rights are based on membership rather than size of the shareholding and they also differ from philanthropic foundations in that they are set up to benefit the needs of their members rather than the needs of others.

There are several types of Cooperatives most focus on a particular economic sector, but others focus on the nature of membership. Major types include agricultural cooperatives, financial cooperatives, housing cooperatives, health and social care cooperatives, consumer cooperatives, and worker cooperatives. The cooperative form of organization has been around for a long time, though the modern form of cooperatives emerged in the nineteenth century. The cooperative sector is a major economic force in many countries, with agricultural cooperatives being the most dominant. Financial cooperatives (FC) (including cooperative banks) have large market shares in many countries. Most FCs in developing countries offer savings and credit services. Several FCs also offer more sophisticated financial services such as leasing, payments, and insurance services, often in collaboration with partners. For example, credit unions in Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, and Mexico receive remittances from credit unions in the United States through the International Remittance Network set up by the World Council of Credit Unions (WOCCU).

Financial Cooperatives

Depending on the phase of development of financial cooperatives in a country, they may range from formal cooperative banks to semiformal financial cooperatives and credit unions to informal village-based savings and loan entities. They are owned by members and follow a one-member one-vote principle as provided for by ICA (2004). The higher-level financial cooperatives at the regional or state and national levels are owned by member cooperatives and voting is often according to share capital invested by the member organizations. Small local cooperatives are usually managed by voluntary members on a part-time basis. Bigger cooperatives have paid managers and staff, but the members still elect among themselves the management organs of the cooperative.

Services provided by Financial Cooperatives

In their original form and still nowadays, locally-based small financial cooperatives provide only basic products, that is, loans and savings. These products are often the most important financial services for low-income households. However, the range of services needed by the membership, and provided by more advanced financial cooperatives even in developing countries, can be much larger, including payment services, such as money transfers and remittances, insurance, and term savings. Although financial cooperatives were originally established to facilitate credit for poor households, savings services are also very important. Financial cooperatives provide safe facilities for savings, enabling savers to smooth consumption, prepare for emergencies, gradually accumulate financial resources, self-finance the purchase of durable goods, and make investments (Turtiainen, 2008).

Savings and Credit Cooperatives and Credit Unions

Financial cooperatives can be divided into two distinct groups, that is, (a) savings and credit cooperatives and their networks (also referred to as cooperative banking), and (b) credit unions (Turtiainen, 2008). Both are member-based organizations, but they have differences arising from their historical origins and main target groups. They also have associated themselves into different national and international organizations. However, as these organizations have aged, become larger, and developed nearly the same services as ordinary banks, the differences between them have become more blurred.

Savings and Credit Cooperative Societies

Savings and credit cooperatives are the far most common financial cooperatives in rural areas both in developed and developing countries. They belong to a group of cooperatives that are commonly called Raiffeisen cooperatives due to the German originator of this movement in the 1800s (Tache, 2006). Their original purpose was to provide small loans to poor farmers or small entrepreneurs, but especially in the developed world they have grown to become everybody's banks. Although originally serving only their members, they now are open also to non members. Borrowers must, however, usually become members and buy at least one share. In this respect then SACCOs as they are commonly referred to act as intermediaries as observed by Magill (1994) between surplus and deficit members which proposition is also shared by Cox (1996).

While savings and credit cooperatives in developing countries often are small and village-based, their counterparts in advanced countries have grown from village-based organizations to full-scale banks. These institutions generally furnish their members with convenient and secure means of saving money and obtaining credit at reasonable rates of interest (Kabuga and Batarinyebwa 1995). This observation is further supported by Bailey, (2001) .These banks now are in most developed countries under central bank supervision although supervision is usually delegated to the national level federation or apex bank. This role, sometimes seen as a burden by the financial cooperatives, has been accompanied by broad authorization to enter the financial markets. Cooperative banks can now provide almost all financial services, and they are especially strong in collecting savings, which are the principal source of their funds for lending operations, so much so that they manage in some countries from 20-40 percent of the funds in the deposit markets (Germany, The Netherlands, Ireland, Finland, etc.). The cooperative banks are nearly always federated and/or have joined an apex bank in their respective countries (such as DZ Bank in Germany, Rebobank in the Netherlands, Credit Agricole in France, and Desjardins in Canada.) Internationally they belong to the International Cooperative Banking Association, a Raiffeisen organization based in Switzerland.

An apex bank is typically a national level cooperative bank, owned by the primary financial cooperatives and occasionally also by other shareholders. In federated countries, secondary-level cooperatives may appear at the state level. An example of the expansion of activities is the Finnish cooperative banking movement. In the early 1960s, it consisted of some 450 cooperative savings and credit societies and their apex bank. The societies transformed into cooperative banks in the mid-1960s, expanding their operations into all activities allowed for banks. The movement now controls about 32 percent of financial markets in Finland. Having met all the prudential and legal requirements of the banking law and being very profitable, the movement even purchased the largest insurance company in the country in 2005.

Credit Unions

Credit unions are entirely member-based organizations, only serving people who do belong to the credit union. The common bond, that is the basis for a credit union, ties members together and is expected to make them more responsible for their own and their peers' affairs. This bond is usually the place of employment or a profession (large companies, teachers, etc.), but it can also be a geographic area, though this has been quite rare until recently. Although savings and credit cooperatives also talk about having a common bond, it is usually based geographically on a village, group of villages, or a town and its surroundings (Kabuga and Batarinyebwa, 1995).

The credit unions originated in Ireland, where they were promoted by labour unions for employees of different working places. They came to the American continent with Irish immigrants and found there a ―fruitful soil. For instance, the USA is now the most prominent country in terms of credit unions, with about 9,500 credit unions and nearly 90 million members (WOCCU, 2008). Because of the Irish origin and Catholic connection, Catholic priests have promoted credit unions effectively in developing countries to provide financial services to the working poor. They were later joined in this work by labour unions, led by the International Labour Organization (ILO), and large credit-union countries, such as the USA, and their international organization, WOCCU.

Because credit unions in developing countries have not been controlled by the central banks (any more than savings and credit societies), they do not need to comply with prudential ratios enforced on formal financial institutions, their product scope, that is, the services they have been allowed to offer, has been limited, usually to one or two forms of savings (besides shares all members have to buy) and, similarly, to one or two types of loans. Particularly in developing countries, the credit unions have had simple but clear internal regulations, including rules for the minimum deposit a borrower must have and how long he/she must have been a member before being entitled to a loan. For the sake of simplicity the interest rates were originally uniformly determined, and for instance for loans they were one percentage point for each month. This internal regulation or guideline had to be changed when high-level inflation hit most countries in the 1970s and 1980, and since then the credit unions have determined their interest rates according to their profitability targets (Bailey, 2001).

In countries where there are a substantial number of credit unions, they are affiliated to their own apex organizations, such as the Credit Unions National Association in the United States. Internationally nearly all credit unions are affiliated to the World Council of Credit Unions (WOCCU), usually through their national federations. It is important to note that larger credit unions, especially in the developed countries, have been able to expand their operations and services to resemble those provided by banks, including the cooperative banks. However, although very important for their members, very rarely have they become an important player in the financial markets. For instance, the savings in the US credit unions represent only a few percentage points of the country's total savings.

Key Issues facing Financial Cooperatives

FCs are a special case of cooperatives because of the nature of the commodity they handle (Nair and Kloeppinger, 2007). Financial markets have certain unique characteristics that make these markets different from other markets and justify a more enhanced role for governments. FCs face a specific set of issues that arise from their ownership form (cooperative) and their generally small size. FCs in developing countries are typically constrained by the lack of autonomy from government interference, anachronistic legal frameworks, lack of an appropriate regulatory framework, and poor supervisory capacity of the entity responsible for supervising FCs. Legal frameworks often prevent the adoption of better corporate governance practices; hinder the mergers, acquisitions, or splits needed to operate competitively in the market; and inhibit broader diversification. Regulatory frameworks often lack the prudential regulations that are critical for regulating financial institutions, and supervisory agencies often lack the skills and the financial resources to effectively supervise FCs. (ACCOSCA, 2012)

Cuevas and Fisher (2006) identify a set of key issues on which, they argue, an agreement is necessary, because its absence has constrained the development of the Cooperative Financial Institutions (CFIs) and the realization of their full potential to serve low-income clients. These issues include the strengths and weaknesses of CFIs, the benefits of networks, and the role of legal frameworks to encourage this potential; whether legal framework should be uniform for all CFI or whether it should be tiered; and the effects of different supervisory arrangements on the performance of CFIs.

The SACCO Movement in Kenya

SACCOs were first introduced in Kenya in 1964. Although most SACCOs initially were based on common bonds linked to residence, occupation, and churches, in 1969 the government decided to require SACCOs to be based on a secure crop or employment relationship. In this 'check-off system,' SACCOs received payments directly from employers, processors (cooperatives, parastatals, or private companies), or marketing organizations. As a result, in rural areas, several commodity-based SACCOs (primarily dairy, coffee, tea, and pyrethrum) emerged, and District Unions of these SACCOs included Union Banking Sections that provided financial services to members, including payment points. The Union Banking Sections were essentially Raiffeisen-type financial cooperatives because they were part of unions that operated at the provincial level and had branches at each of the member cooperatives.

Following widespread bank failures in Kenya in the 1980s and 1990s, rural SACCOs thrived further as the banks generally withdrew from these rural areas. Many rural SACCOs later became associated with the Co-operative Bank. Unlike in many other countries, Kenya's SACCOs play a significant role not only in the rural financial sector but also in Kenya's overall financial sector.Accorrding to the Cooperative Bank of Kenya Report (2008), the deposit and loan portfolio in SACCOs amounts to about 34 percent of national savings and about 24 percent of outstanding domestic credit. The World Council of Credit Unions (WOCCU) estimates that the Kenyan SACCO sector is the largest in Africa; in 2005, SACCOs had an estimated membership of more than 2.5 million, share capital and deposits of US$1.66 billion, and a loan portfolio of US$1.24 billion (WOCCU 2005).

The Kenyan SACCO sector is clearly segmented into two categories: one category consists of SACCOs with large memberships (more than 10,000), strong balance sheets, and income generation adequate to attract quality staff and use modern accounting and MIS systems; the second category consists of SACCOs with small memberships (less than 1000), weak balance sheets, and low incomes. SACCOs in Nairobi account for nearly 40 percent of the total SACCO membership in Kenya. The former category, which includes nearly 20 percent of the SACCOs in Kenya, holds 80 percent of total savings in Kenyan SACCOs. The distinction between rural and urban SACCOs, however, is increasingly blurred. A number of the more progressive employment-based SACCOs have opened up their bond to farmers, livestock producers, and SMEs, realizing the need to diversify their membership in rural areas. Conversely, rural SACCOs formed around commodities are opening their bond and diversifying their membership to include salaried members and members from other business sectors. The distinction is further blurred because of the nature of Kenyan society in which wage earners effectively have two residences, one in the village or town from which they come and another where they are working. Thus, a wage earner may take a development loan from his or her "urban SACCO," which is in fact used to finance building or productive uses in rural areas.

The SACCO movement in Kenya is billed as the largest in Africa and among the top 10 globally (Wanyama, 2009). With over KES 230 Billion in assets and a savings portfolio estimated at KES 190 Billion, the SACCO movement in Kenya constitutes a significant proportion of about 20% of the country's savings. SACCOs have thus become vital components of Kenya's economy and social development. Kenya has a long history of cooperative development that has been characterized by strong growth, thus making a significant contribution to the overall economy. Cooperatives are recognized by the government to be the major contributor to national development, as co-operatives are found in all sectors of the economy. With a total population of Kenya at approximately 37.2 Million (Republic of Kenya, 2008a:13), it is estimated that 63% of Kenya's population participate directly or indirectly in cooperative based enterprises (MOCD&M 2008:4). Indeed, the MOCD&M estimates that 80% of Kenya's population derives their income either directly or indirectly for cooperative activities.

Empirical evidence shows that cooperatives play an important role in Kenya's economy, the greatest contribution being in the financial cooperatives (SACCOs, KUSCCO, Co-operative Bank and CIC) holding substantial savings portfolio's (Wanyama, 2009).

Cooperative development in Kenya, like in most African countries has generally traversed two main eras, namely, the era of state control and that of liberalization. In the era of liberalization, the role of the government was redefined from one that sought to control the cooperatives development to one that seeks to regulate and facilitate autonomy. The monopoly of the cooperatives in the agricultural sector, which made them the sole marketers of cash crops in Kenya, was removed. The consequence of this meant that cooperatives now had to compete with other enterprises in marketing of agricultural produce.

Over time, the ministry has put in place policies, for example, the Kenya Cooperative Development Policy 2008, whose main theme was to expand the economic space for sustainable cooperative growth in Kenya. Its main focus was on restructuring and transforming cooperatives into vibrant economic entities that can confront the challenges of wealth creation, employment creation and poverty reduction as private loan ventures.

The Kenya Co-operative Legislation

The Cooperative Societies (Amendment) Act of 2004 (Republic of Kenya, 2004a) is the current basic legislation that guides the formation and management of cooperatives in Kenya. It has its origins in the Cooperatives Societies Act, Cap 490 of 1966, which was revised in 1977 into the Cooperatives Societies Act Number 12 of 1997 (Republic of Kenya, 1997b). The reforms contained in the revised act sought to reduce the strict state supervision of cooperatives in order to support the liberalization of cooperatives enterprises. The 1997 Act empowered the members to be responsible for the running of their own cooperatives, through elected management committees. Nevertheless, cooperatives were not prepared for this freedom. Consequently, the immediate impact of liberalization on cooperatives was primarily negative. To the detriment of primary cooperatives the newly acquired freedom was dangerously abused by elected leaders. This saw many cooperatives report cases of corruption and mismanagement such as gross mismanagement by officials, theft of cooperative resources, split of viable cooperatives into smaller ineffectual units, and failure of employers to surrender members' deposits to cooperatives particularly SACCOs which situation precipitated regulation as regulatory requirements and compliance would serve to as a mitigation to depositor losses (Thomson ,1991).

In response to these, the 1997 Act was amended in 2004. The main content of the Cooperative Societies (Amendment) Act of 2004 reinforces state regulation of the cooperatives movement through the office of the commissioner of cooperatives development. The legislation stipulates the roles to be undertaken by the government to include: creating the policy and legal framework for development of cooperatives, improving the growth and development of cooperatives by providing requisite services for their organization, registration, operation, advancement and dissolution; and development of partnerships which cooperatives through consultative processes that are focused on policy, legislation and regulation.

In addition to this, there is the SACCO Societies Act of 2008 (Republic of Kenya, 2008b), that provides for the licensing, regulation, supervision and promotion of SACCOs by the SACCO Societies Regulatory Authority (SASRA). The functions of the Authority include licensing of SACCOs to carry out deposit taking SACCO business as well as regulating and supervising them. With regard to licensing, SACCOs will first of all have to be registered as cooperatives under the Cooperative Societies Act, 1997, and thereafter they will have to obtain a license from the Authority to carry out FOSA after meeting a raft of requirements, which include meeting the minimum capital requirements as prescribed by the Authority.

While carrying out that business, the SACCO shall be governed in accordance with provisions of the SACCO Societies Act and will be supervised, inspected, advised and generally be regulated by the authority. The Authority has the power to intervene in the management of a SACCO that is deemed to be mismanaged. The Act also provides for the establishment of the deposit guarantee fund, which secures each SACCO members deposits (not including shares) up to an amount of KES 100,000. Though the Act provides a framework for sound management of SACCOs as financial institutions and makes them effective competitors in the financial market some of the provisions in the Act such as the minimum capital requirement are so stringent that some SACCOs may not be able to operate the FOSA.

Licensing Process - Kenyan Case

Main Steps for Acquiring a License

Acquiring a licence follows through a five-stage process sequenced as follows: 1) the SACCO will submit to SASRA, the licence application forms found in the First Schedule of the Regulations and the required accompanying documents; 2) if satisfied, SASRA will issue a Letter of Intent, upon which the SACCO will be required to set up its business premises, put in place a management information system (MIS), and develop a comprehensive risk management framework; 3) once the SACCO has completed 2) above, SASRA will then conduct an on-site inspection within 30 days, and; 4) if satisfied, SASRA will issue a Letter of Compliance to the SACCO within another 30 days; 5) SASRA will then issue a licence upon payment of the licensing fee of KES 50,000 for a head office and KES 20,000 for every branch held (SACCO Societies Regulations, 2010). The license to conduct deposit-taking business is to be renewed annually.

Specific Licensing Requirements for SACCOs

The Act (Section 24) and Regulations (Section 4) detail the information required for licensing. The following is a non-exhaustive list of the major requirements:

Capital: SACCOs have to provide a minimum core capital of not less than KES 10 million as shown in their financial statements. However, 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) 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**:** A detailed four-year business plan and feasibility study including projected financial statements is required.

Main Regulatory Provisions a SACCO will be subject to after licensing

Similar to other deposit-taking financial institutions in Kenya, SACCOs have to comply with a wide range of regulatory provisions in their day-to-day operations. These include but not limited to:

Governance rules

- At a minimum, the Board of Directors (elected at the Annual General Meeting) have to establish an audit committee and credit committee. It will also be their responsibility to establish appropriate policies on credit, investment, human resource, savings, liquidity, information preservation, dividend, and risk management.

- A major change on governance is that directors and senior management are subject to vetting (fit and proper test) by SASRA.
- The separation of the responsibilities of the Board and the management has been clearly outlined in the Regulations to ensure transparency and accountability in the running of the SACCO.

Prudential standards**:** The Act and Regulations include clear standards regarding, among others, capital, liquidity, the extent of external borrowing, asset categorisation and provisioning, maximum loan size, and insider lending.

Reporting requirements**:** SACCOs are 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.

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.

Deposit insurance scheme: Once licensed, member deposits will be protected in the event of collapse of a SACCO. SACCOs are expected to contribute a percentage of the members deposits held towards the Deposit Guarantee Fund.

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

Services to members only: SACCOs shall continue to operate according to co-operative principles and deal with members only. Serving members only is the main reason why interest and other income earned from loans to members is exempt from income tax.

Levy: SACCOs will have to pay a levy (published in the Gazette notice), which shall be used to finance the operations of SASRA.

Challenges and Benefits of Regulation in Kenya

Introduction of new issues into an already existing system ordinarily poses challenges of adapting to the same. Laws and government regulations change from time to time and form the observation that almost to the end of the period given to the deposit taking Saccos to apply for license not all Saccos in this category have been licensed then challenges abound. Mudibo .K.E of the KUSCCO (2005) in “Corporate governance in Cooperatives in Africa” observed that the main issues affecting cooperative in East Africa included governance, inadequate human resource, weak regulation and inadequate supervision which was shared by Mwangi K.J(2006) in a Sacco leaders' forum on "Enhancing sound Sacco governance" whereby it was observed that limited product diversity, inadequate governance and management, unfavourable image ,lack of performance standards and weak official supervision and regulation. Ondieki (2011) in "The effects of external financing on the performance of SACCOs in Kisii District" observed that major challenges inherent in the cooperative movement in Kenya included: poor governance, limited transparency in management of cooperatives, weak capital base and infrastructure weakness including ICT.The same opinion is shared by Karim (2012) " African Sacco Regulatory framework" whereby it was observed that leadership or governance of a CFI determines to a large extent how the CFI responds to regulatory issues and how it operates within the regulatory framework. This requires that the BOD members file personal information return with the regulators.

Why Regulate SACCOs?

Governments monitor and regulate the solvency of financial intermediaries to protect depositors and foster financial systems stability. Given the option-like nature of limited liability stock, it follows that owners of stock banks are motivated to invest in high-risk assets and to speculate on risky positions (Interest, foreign exchange, off-balance sheet). The likelihood of repayment to those small investors is thus not assured. The central agency conflict that drives failure in an investor-owned bank is this conflict between depositors who prefer safe assets, and shareholders who prefer risky assets. It is this understanding of the banking industry that motivates the dominant regulatory structure worldwide. Government intervention through licensing, require minimum capital and solvency ratios, control amount of risky assets and other risk position on and off balance sheet, and through (deposit) insurance schemes aimed at increasing the likelihood that depositor's funds will be available as promised (Cuevas et. al 2006).This largely is seen to be drawn from the notion that government controlled economic units have a presumed lesser risk as against free economic units (Nagy 1984).

The SACCO Regulation Models

Different countries have adopted different models in regulating SACCOs. The mode of regulation applied depends on the development phase of the SACCOs in a particular country. 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, governance etc. At the **maturity stage**, regulation establishes Deposit guarantee system for explicit comfort to members that their funds are safe. Most of the Africa countries are in the initial stages or approaching maturity; thus applies a combination of simple registration of SACCOs and enforcement of prudential standards models and Kenya appears to be in this category (ACCOSCA, 2011).

In South Africa for instance, the Twin Peaks Model is used. This entails separating the oversight of market conduct regulation from prudential regulation. Market conduct regulation focuses on how firms conduct their business, price their products and treat their customers while prudential regulation focuses on regulation of liquidity, solvency and capital adequacy and structure.

a) Direct Supervision

This entails direct supervision of all SACCOs by a prudential government backed regulator with statutory responsibility. The responsibility of the regulator is to design and implement prudential standards

b) Selective Supervision

The regulator, mostly Central Bank, focus only on the country's largest SACCOs based on asset size or deposit base. Smaller SACCOs not supervised by regulator is overseen by government agency such as a ministry's department

c) Delegated Supervision

Supervisory powers are formally assigned to a third party through regulations. Usually, the third party can be a SACCO umbrella body or its arm.

Benefits of Regulations in Kenya

The policy objective of establishing prudential regulation of deposit taking SACCO societies is to enhance transparency and accountability in the SACCO sub-sector, which is consistent with the ongoing reforms in the financial sector whose ultimate aim is to expand financial access, encourage efficiency and enhance financial stability of financial service providers in Kenya (SASRA Press Release, 2011). Thus financially strong well governed deposit taking SACCO societies are necessary to expand financial access through deposit services and credit provision for personal and enterprise development.

While there have been several reform initiatives in SACCO sub sector in the past, the introduction of a SACCO specific law is recognition of the unique financial intermediation function that SACCO societies play in an economy. Thus the operational regulations and performance standards are specific and prescriptive; not to make SACCO societies non competitive and stifle their growth but to ensure that they operate and grow within a framework that promotes sound financial and business management practices.

Firstly, the licensing requirements are designed to ensure that a SACCO society commencing FOSA operations has the minimum financial, systems and operational policies to enhance prudential management of the deposit taking business and thereby protect the member funds. These requirements are not new and it is evident from the license applications submitted to SASRA that majority of the SACCO societies have the systems and operational policies but they require to upgrade and align them to the Act and Regulations to enhance sound business practices (SASRA Press Release, 2011). The licensing requirements are such that the past experiences where unscrupulous individuals started pyramid schemes in the name of FOSAs cannot recur.

Secondly, licensing also brings confidence in the SACCOs, which is a prerequisite for the SACCO sub sector to attract new members and professionals who have shied away due to perceived bad governance practices. A prudentially regulated and financially sound SACCO business attracts new business, offers better financial services, effective governance mechanisms and lower risks of failure, for instance a number of government initiatives have approached SASRA to issue them with a comprehensive list of licensed SACCOs through which they can channel devolved funds (SACCO Briefs, 2011).

Thirdly, the capital adequacy requirement is a key measure of safety and soundness of a SACCO and serves to protect or cushion member deposits and creditors against losses resulting from business risks that the SACCO, as a financial institution faces. The need for such measures can be justified on the grounds that a number of negative externalities may exist in SACCOs that can cause risk to be systematically under-priced. The minimum capital adequacy requirement of Ksh.10 million to start FOSA is the lowest among the deposit taking institutions in Kenya as the law recognizes the member owned nature of SACCO societies. This is not new to FOSA operating SACCO societies as Rule 52(3b) of Cooperative Society Rules, 2004 required SACCO societies operating FOSAs to maintain a capital adequacy of 10% of total liabilities. Capital adequacy requirements generally aim to increase the stability of a SACCO by decreasing the likelihood of failure, this move is also seen to promote public confidence in the institution.

Fourthly, the regulations, in recognition of the financial demands due to the prudential standards on capital and diversification from non-core businesses, provide a four year transitional period within which a SACCO should fully comply with the prudential standards. This period is long enough for the SACCO societies to gradually adjust their financial and operational strategies to comply capital and other prudential requirements while retaining their competitive edge in the financial market (SASRA Press Release, 2011). It is prudent for SACCO leaders to evaluate their current financial and business reality against the prudential standards and develop business strategies to comply.

The four year period provides room for the SACCO societies to gradually comply without losing their competitive advantage in respect of returns to member deposits and interest rates on loans. This in effect minimizes the risk of members migrating to banks. In addition, licensed SACCO societies that are financially sound and well managed will leverage on their licensed status to growth business by recruiting new members.

Conceptual Framework of the Study

Conceptual framework involves forming an idea about the relationship between variables in the study and showing relationship graphically or diagrammatically (Mugenda & Mugenda, 2003).The conceptual frame work of this study is based on an idea that the regulatory body will enforce some laws that govern the SACCOs before, during and after their registration. The SACCOs implementing the laws before, during and after their registration will face some challenges in their implementation. The SACCOs will then form mechanisms to overcome these challenges. After overcoming the challenges the SACCOs will then benefits from the opportunities that come with the regulations of SACCOs.

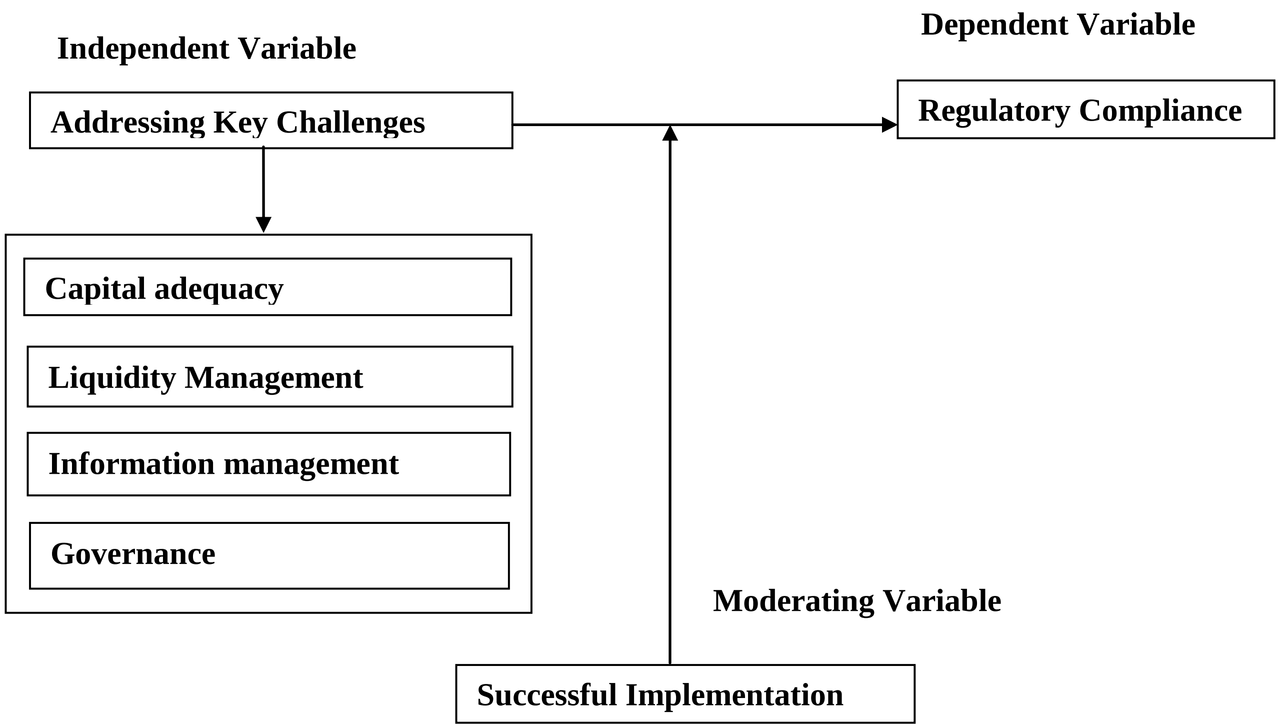


Figure 1: Conceptual Framework

METHODOLOGY

Introduction

Research design and methodology is essential in this study as it contains information on how the research process was designed and conducted in a manner that was believed to cover both basic and advanced concepts in a clear and concrete manner. It was also believed to give an insight to the variables and methodical approaches and assessment strategies on interpretations and other considerations. This chapter contains the research design, population and sampling design, data collection methodology, research procedures and data analysis methods.

Research Design

The study adopted a descriptive survey design. According to Gay (1981) descriptive research is a process of collecting data in order to test hypothesis or to answer questions concerning the current status of the subject in the study. Borge and Gall (1989) stated that descriptive survey designs are used in preliminary and exploratory studies to allow researchers to gather information, summarize, present and interpret for the purpose of clarification. The survey research is useful because of the economy of taking a sample of the population to generalize results for the whole population.

Descriptive survey design was employed because it guarantees breadth of information and accurate descriptive analysis of characteristics of a sample which can be used to make inferences about population (Kerlinger, 1993). Orodho (2002) said that descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. It can be used when collecting information about people's attitudes, opinions, habits or any of the variety of education or social issues (Kombo and Tromp, 2001).

The researcher employed a descriptive survey research design. It focused on explanations of why certain things happen in a given social setting. This study was conducted using a descriptive survey which studies a population by taking samples to analyze occurrences. This design was more preferable given the large population involved in this study and because of its descriptive nature and ability to support data collection fast.

Study Population

The target population refers to a group of individuals, objects or items from which samples are taken for measurement (Mugenda and Mugenda, 2003). The target population comprised of all deposit taking SACCOs in Gusii region, Kenya. SACCOs in this region have a population of 92 management employees and a total of 9 SACCOs with 4 from Nyamira County and 5 from Kisii County.

Sample Population

Orodho (2004) defines sampling as; “the process of selecting a sub set of cases in order to draw conclusion about the entire set”. According to Gay (1976) a researcher selects a sample due to various limitations that may not allow researching for the whole population. In this research, the researcher utilized management employees who were sampled from 5 SACCOs that had been sampled out of the 8 SACCOs in the two counties. This was based on a model that was believed to be objective by providing a sample large enough to reduce on random sampling error by applying the formula below.

$$n = \frac{NC^2}{C^2 + (N-1)e^2} = \frac{\mathbf{92 \times 0.5^2}}{\mathbf{0.5^2 + (91)0.05^2}} = 48 \text{ respondents}$$

Where n is the sample size

N is the population

C is the Coefficient of variation (0.5)

e is the level of precision (0.05)

(Nassiuma, 2000)

Sampling Procedure

Purposive sampling was to sample 5 SACCOs from the two counties and this was to ensure that all the five SACCOs were not drawn from Kisii County alone since it has 5 SACCOs out of a total of 9 in the two counties. However, simple random sampling was used to draw employees from each of sampled SACCOs upon which the above formula was applied. The bank manager for each SACCO was among the interviewed. Simple random sampling technique was an appropriate technique because it would ensure that all employees of the sampled SACCOs had an equal chance of being included in the samples that would yield the data that could be generalized within margin of error that can be determined statistically (Borg, 1987; Mugenda and Mugenda, 1999).

Research Instruments

According to Mugenda (1999) research instruments are the means by which primary data is collected. The study being a descriptive survey made use of the instruments that apply to social sciences. The study in particular made use questionnaires and interviews. A questionnaire is a research tool whereby the respondents give the responses to the questions asked through written mode. Closed ended questions which were accompanied by a list of all possible alternatives from the respondents who selected the answer that best describes their situation were used. The questionnaires sought to obtain data on the assessment of the various challenges facing these SACCOs in meeting their regulatory requirements with a particular focus on SACCOs in the Gusii region.

In order to reinforce and confirm the responses given by the employees, the researcher interviewed the SACCO managers of the sampled SACCOs. In this case, structural interviews were used and the researcher made use of face to face contact (personal investigation) with the managers.

The researcher further used a questionnaire and personal interviews to selected respondents. According to Gauthier (1979), the questionnaire works as an essential communication means between the researcher and the respondents. Selltiz (1977) stated that the questionnaires that have a chance to come back are those of attractive presentation, short, clear and easy to fill. In addition, questionnaires are more convenient; and they can be administered to a large number of individuals simultaneously (Tuckman, 1999). Based on these ideas, the researcher developed an own questionnaire after critically examining questionnaires used by other researchers with related studies. The questionnaires comprised of both the closed and open ended questions. Interviews were used by the researcher to gather information from SACCO managers.

Validity and reliability of Data collection instruments

For research data to be reliable, data collection instruments must be reliable. This means that the tools must have the ability to consistently yield the same results when repeated measurements are taken under same conditions (Lokesh, 1992) Validity refers to the degree to which an instrument measures what it is supposed to measure. According to Kothari (2004), validity can be determined by using a panel of persons who shall judge how well the measuring instrument meets the standards.

The researcher conducted a pre-testing of the instruments on 10 respondents sampled from two SACCOs in Gusii region before the actual data collection exercise was done in a bid to ensure consistency and comprehensiveness. Two of the ten respondents were SACCO managers while the rest were employees of the sampled SACCOs. The pre-testing was to help detect weaknesses and ambiguities for purposes of being corrected. This was specifically to ensure that the questions were sound and in line with the study in question.

In this research, the results of the pilot study were compiled and test retest method was used. The data collected was coded and Statistical Package for Social Sciences (SPSS) used to generate the necessary tabulations to aid in generating required information about the study. Also, the supervisors and other specialists in the department of business administration in JKUAT were instrumental in verifying the validity of the instruments. The advice sought was used to modify the questions accordingly.

Data Collection Procedures

Before proceeding to the area of study, SACCOs in Kisii and Nyamira Counties, the researcher sought to obtain the necessary documents for the research with the assistance of the school of Business Administration JKUAT University. The researcher also notified the managers of sampled SACCOs in the Gusii region or their representatives by sending letters to them to ask for permission to carry out the research in their SACCOs.

Data Analysis and Presentation

Data collected was edited first to identify the items that would have been wrongly responded to and any blank spaces left unfilled, the information was categorized into topics. Responses received were thereafter coded and processed by computer through the Statistical Package for Social Science (SPSS) software. Data was analyzed using descriptive statistics. Descriptive statistics helps to summarize the overall tendencies in data, provide an understanding of how varied scores might be, and provide insight into where one score stands in comparison with others (Creswell, 2005). Descriptive statistics (frequency, mean, percentage) were largely applied for research objectives 1-5. The data was represented in a tabular form, bar graphs and pie charts.

FINDINGS AND DISCUSSIONS

Response to questionnaire

In the research conducted a total of 49 questionnaires were issued out and the response yielded 40 questionnaires successfully responded to. This translated to 81.6% of the sample taken. In view of the response the researcher had representative data to proceed with the analysis of the findings. The table below provides an overall tabular presentation of the questionnaire response extent during the research

Composition of the respondents

Compositions of the respondents in the sampled Saccos were presumed to be critical in determining their level of exposure and information as to the overall operations and regulatory requirements of the deposit taking Saccos. Characteristics taken in this section included gender, period of service in the institution and level of education.

Table 1: Composition of the respondents

	Frequency	**Valid Percent**	**Cumulative Percent**
KISII	26	65.0	65.0
NYAMIRA	14	35.0	100.0
Total	40	100.0	

Gender of the respondents

This was specifically sought for to establish the representation of either gender in this study. There were respondents of both genders in this study that is male and female. Data as regards the gender of the respondents was accordingly collected, analyzed and presented in table 2;

Table 2: Demographic information

	Frequency	Valid Percent	Cumulative Percent
male	29	72.5	72.5
female	11	27.5	100.0
Total	40	100.0	

The results of the study as presented in the table above shows that 29 of the respondents representing 72.5% of the respondents were male while 11 of the respondents translating to 27.5% of the respondents were female. This was an indication that within the sample Saccos the workforce had more male employees than female. This difference between male and female employees could indicate a lesser level of participation of females than male in cooperative matters or in formal employment. Further, the one third gender rule advocated for and lately entrenched in the Kenyan constitution is apparently yet to take toll.

Respondents highest level of education

The researcher also sought to establish the highest level of education of the respondents. The findings to that were analyzed and presented as contained in table 3.

Table 3: Level of education of the respondent

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
certificate	2	5.0	5.0	5.0
diploma	7	17.5	17.5	22.5
University	23	12.5	57.5	80.0
Masters	8	20.0	20.0	100.0
Total	40	100.0	100.0	

The above table indicates that 5% were certificate holders 17.5% were diploma holders57.5% had their bachelor's degrees while 20% had their master's degrees. Further to the above other qualifications reported by the respondents included CPA, CPS and Human Resources Management. This result indicated that all the respondents had education beyond ordinary level an indication that the cooperative movement valued training for service delivery and management position in this period of regulation.

Location of Sacco Head office

This study also sought to find out the county where the head office commonly referred to as the registered office of the sampled Saccos was. The research established that 65% of the respondents head office was located in Kisii County while 35% of the respondents head offices were located in Nyamira County. This accordingly was necessitated by the fact that the Saccos were sampled in a stratified manner purposefully so that the sample Saccos was not drawn from one county.

INSTITUTIONAL INFORMATION

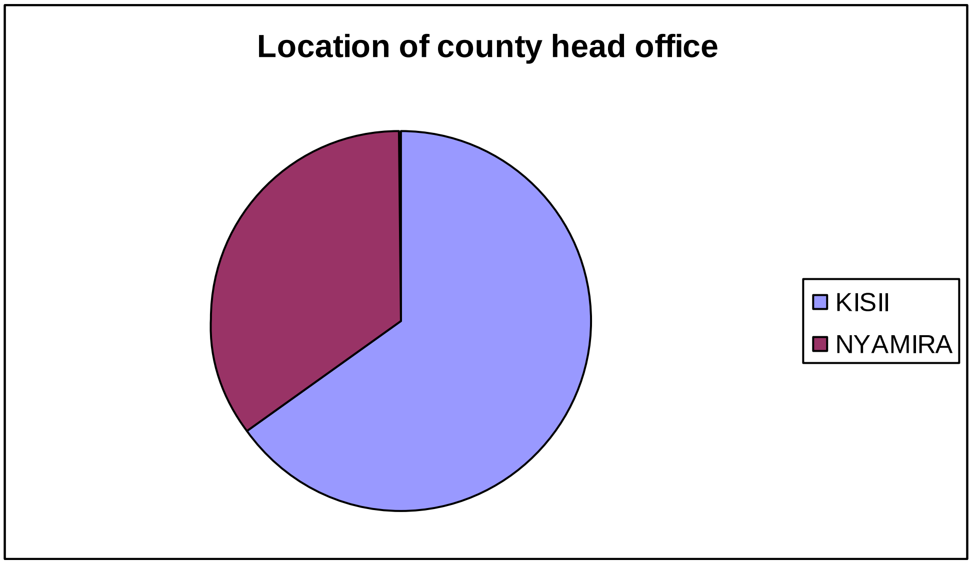


Figure 2; Percentages in location representation

Number of branches of the Saccos

The study also inquired into the number of branches the sampled Saccos operated. The study established that each of the five Saccos sampled had a different number of branches ranging from two being the least and fourteen being the highest. With the range of twelve and going by the rate of participation the average number of branches was established at 6.83 branches per Sacco which is effectively seven branches per Sacco.

Form of common bond of the Saccos

The researcher sought to establish the common bond of the respondents Saccos which appeared to fall largely into two categories. Fifteen of the respondents translating to 37.5% belonged to employer based Saccos while twenty five respondents translating to 62.5% hailed from agricultural based Saccos.All the sampled Saccos operated Front office Savings Activity which had operated for between eight and twenty one years. Further, all the sampled Saccos had valid license to operate the same business as at the time of conducting the study.

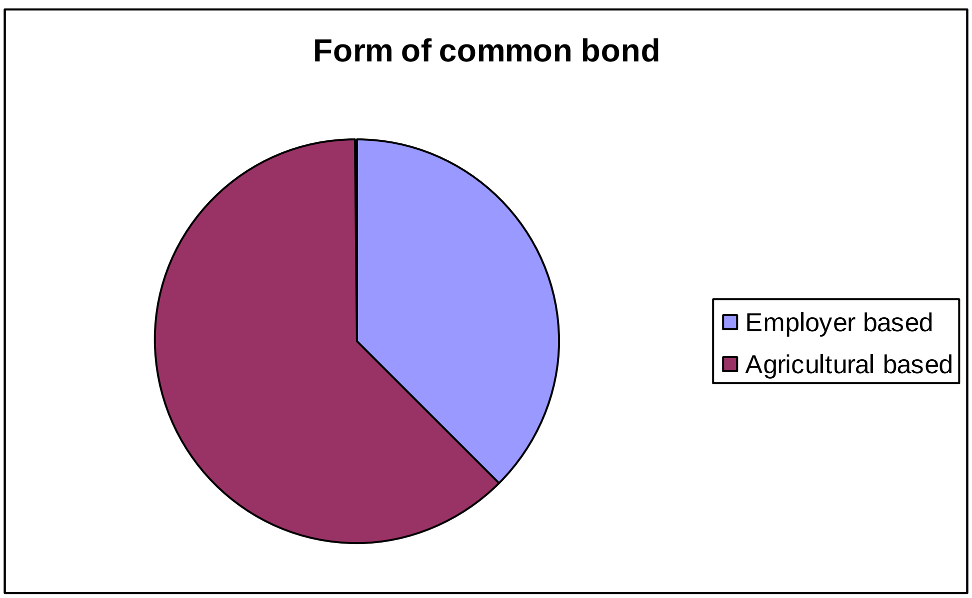


Figure 3; Forms of common Bond

Descriptive statistics and findings on challenges to meeting capital requirements

This section presents the descriptive findings and statistics of the study in line with the first objective that sought to assess the challenges of meeting the capital adequacy requirements for the Saccos in Gusii region. As per the Sacco Societies' Regulatory Authority, SASRA, deposits taking Saccos are supposed to accumulate the necessary capital to sustain their operation. This capital is in the form of both core capital and Institutional capital. The Sacco Societies Deposit-Taking Sacco Business Regulations, 2010, defines core capital to mean the fully paid-up members shares, capital issued, disclosed reserves, retained earnings, grants and donations all of which are not meant to be expended unless on liquidation of the Sacco society. The same Regulations define institutional capital to mean disclosed reserves, retained earnings ,grants and donations all of which are not meant to be expended unless on liquidation of the Sacco society. The Regulatory requirements on these are that the Saccos are to have and maintain at all times a core capital of not less than Kshs. 10,000,000.00 (Ten Million), a core capital of not less than ten percent of total assets, an institutional capital of not less than eight per cent of total assets and a core capital of not less than eight per cent of total deposits. As earlier indicated the deposit taking Saccos were given a period of four years to fully comply with these requirements a period that had not expired but challenges were experienced in this. The researcher asked the respondents to rate the extent to which various variables affected the achievement of the capital adequacy.12 of the respondents indicated that shares had not been separated from deposits at all while 17 of the respondents replied that shares had been separated from deposits to a negligible extent, 6 were neutral while 3 responded that shares had been separated fro deposits to a large extent. The remaining 2 indicated that shares had been separated from deposits to a very large extent. This is tabulated in the table as follows:

Table 4: Shares have not been separated from members' deposits

	Frequency	Percent	Valid Percent	Cumulative Percent
To no extent at all	12	30.0	30.0	30.0
To negligible extent	17	42.5	42.5	72.5
neutral	6	15.0	15.0	87.5
To large extent	3	7.5	7.5	95.0
To very large extent	2	5.0	5.0	100.0
Total	40	100.0	100.0	

These research findings agree with ACCOSCA (2012) that in the non-separation of share capital from member deposits in Saccos was a challenge facing Sacco Regulation in Africa where Kenya is part. On the influence of the difficulties in comprehending the constitution of necessary capital and calculation of ratios 5% responded that there was no difficulties, 47.5% responded that they had difficulties to negligible extent, 25% were neutral while 22.5% had difficulties to a large extent.

Descriptive statistics and findings on the challenges to effective liquidity management in Saccos in Gusii region.

This section presents descriptive findings and statistical information on the study in line with the second objective of this study" assessing the challenges to effective liquidity management deposit taking Saccos in Gusii region, Kenya".

The relevant Regulatory requirements for deposit taking Saccos is to maintain at least 15% of their savings deposits and short term liabilities in liquid assets which are stated to include notes and coins, Treasury bills, balances with other institutions and deposits in other Saccos.

High dependence on short term external borrowing

Respondents were asked on the extent to which high dependence on short term external borrowing affected effective liquidity management in the Saccos and 12.5% responded that it had no effect at all while 7.5% responded that its effect was negligible.15% of the respondents were neutral about its effect but 47.5% responded that it had an effect to a large extent. The remaining 17.5% felt indicated that high dependence on short term external borrowing affected Saccos' effective liquidity management as per regulatory requirement to a very large extent.

Table 5: High dependence on short term external borrowing

	Frequency	Percent	Valid Percent	Cumulative Percent
To no extent at all	5	12.5	12.5	12.5
To negligible extent	3	7.5	7.5	20.0
Neutral	6	15.0	15.0	35.0
To a large extent	19	47.5	47.5	82.5
To very large extent	7	17.5	17.5	100.0
Total	40	100.0	100.0	

A total of 65% of the respondents said that high dependence on short-term external was a challenge for Saccos meeting the regulatory liquidity threshold which view echoes the findings by Ondieki (2011) in a study carried in Kisii Central District in Kenya, who established that 88.9% of Saccos relied on external sources of funding largely to meet the capital needs and for onward lending to the members some of which had recovery challenges hence affecting liquidity.

Lack of a good liquidity monitoring system

On the effect of lack of a good liquidity monitoring system as a challenge to meeting the set liquidity levels the participants responded as follows: 7.5% felt it had an effect to a negligible extent, 40% were neutral on its effect, 50% responded that it had a large effect while2.5% felt it had a very large effect. With a greater percentage indicating that lack of a good liquidity monitoring and management system being a challenge, the findings contradicted Waweru, (2011) on his study on cash balance management challenges in Saccos a study conducted in Nakuru County which concluded that there was no relationship between cash or liquidity challenges and management policies.

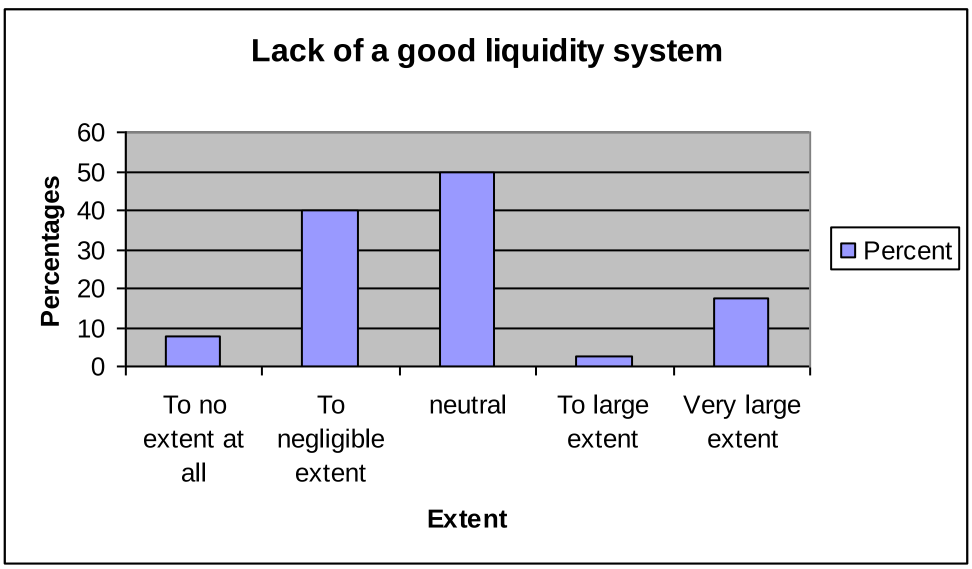


Figure 4: Effect of lack of a good liquidity monitoring system

High investment in non-earning assets

The research sought to also establish the effect of high investment in non-earning assets on liquidity challenges and to this 5% responded that it had no effect, 15% responded that the effect was negligible2.5% were neutral 42.5% felt that it had a large effect while 35% felt it had an effect to a very large extent. Most of these assets were in terms of land, buildings, motor vehicles and other machinery that do not regularly generate cash. Tied to that and with regard to the fact that amounts committed to these assets are usually substantial, normal operations are mostly affected. These findings supported earlier assertion by ACCOSCA (2012) as a challenge to investment that most Saccos in the region had focused on investing in properties and buildings which is not their mandate.

. Table 6: High investment in non-earning assets

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
To no extent at all	2	5.0	5.0	5.0
To negligible extent	6	15.0	15.0	20.0
Neutral	1	2.5	2.5.	22.5
To large extent	17	42.5	42.5	65.0
To a very large extent	14	35	35	100.0
Total	**40**	**100.0**	**100.0**	

Lack of comprehensive loan policy

On lack of a comprehensive credit policy, 2.5% felt that it had no effect, 17.5% felt that it had e negligible effect.5% were neutral while 35% responded that it had a large effect.40% respondents felt that its effect was to a very large extent. This was in line with Onchangwa (2012) who recommended that Sacco managers should have robust policy framework in their areas of operation including credit policy.

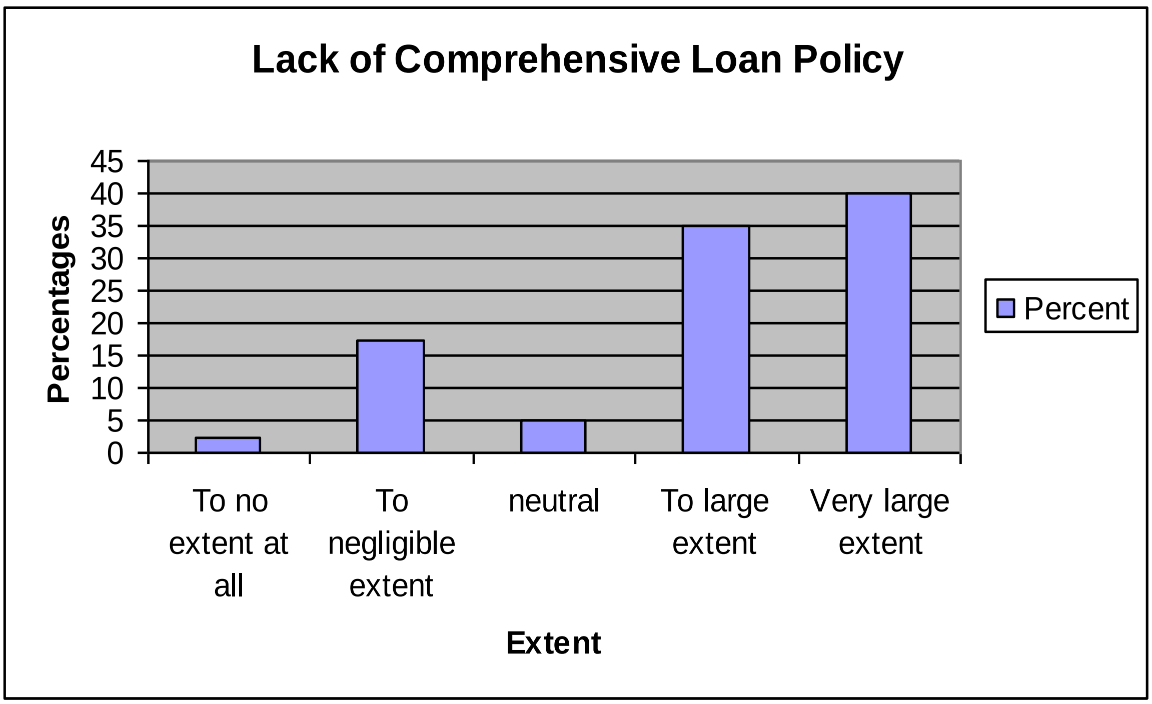


Figure 5: Lack of a Comprehensive Credit Policy

High level of non-performing loans

This study also sought to establish from the respondents on the effect of high level of non-performing loans and 10% said it had no effect17.5% felt it had a negligible effect.7.5% were indifferent in this while 37.5% responded that this had a large effect while 27.5% felt the effect was to a very large extent. This finding supported an earlier study by Chipembere (2010) who established that Saccos that relied on external finances gave little priority to repayment of loans and hence high levels of delinquency was experienced in such institutions.

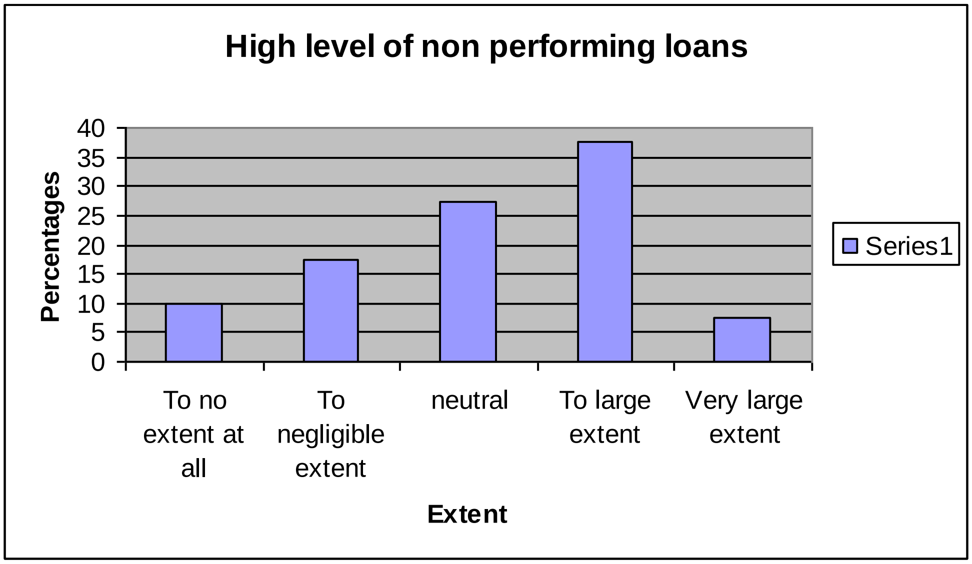


Figure 6: Effect of high level of non-performing loans

Limited range of financial products and services

Respondents to the extent of 2.5% felt this had no effect at all, 40% felt the effect was negligible, 27.5% were neutral while 25% felt the variety of financial products and services had a large effect while 5% felt the extent was large. The findings of this study however seem to have been contrary to the assertion of Mwangi K.J (2006) in a document "enhancing sound Sacco governance" that Saccos had challenges due to limited product diversity, inadequate governance and management, unfavorable image and lack of performance standards.

Descriptive findings on the extent various factors affect the implementation of a good Management Information System

This section represents the descriptive findings of the study which is linked to the third objective of the study:" assessing the challenges in implementing efficient and effective Management Information Systems for Saccos". An effective and efficient MIS capable of producing minimum reports for both internal and external reports is a necessity as per the Saccos regulatory requirements. The research explored various factors whose effect on this was sought from the respondents.

Inadequate ICT system

Respondents were asked to what extent inadequate ICT system had an effect on the successful implementation of a good management system and the response yielded 7.5% of the participants saying it had no effect at all and a similar percentage responding that the effect was negligible.5% was neutral while 47.5% responded that the effect was to a large extent.32.5% felt the effect was to a very large extent. These findings supported the assertion by ACCOSCA (2012) that low adoption to technology and inadequate systems were a regulatory challenge to Saccos in Africa where Kenya is part.

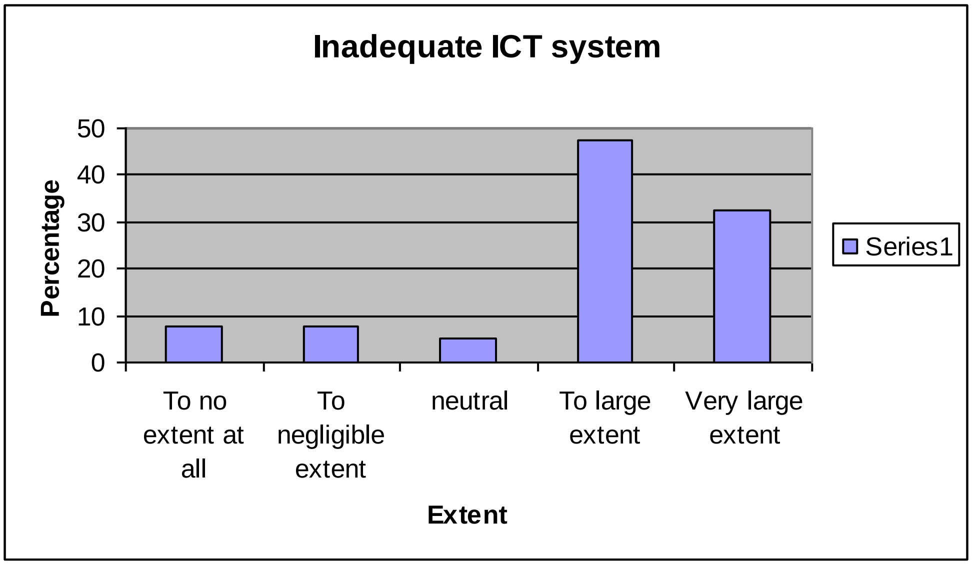


Figure 7: extent inadequate ICT system

Inadequate managerial and staff capacities

The respondents were asked about the extent to which inadequate managerial and staff capabilities contributed to the MIS challenges and the response was 5% responding that it had no effect at all and 12.5% responding that the extent was negligible. 20% were neutral while 45% felt the extent was large.17.5% felt the extent was very large. The findings of this research were in line with the findings of Waweru (2011) on cash management challenges for Saccos ion Nakuru County whereby less than 10% of Saccos had computerized with personnel having no formal training.

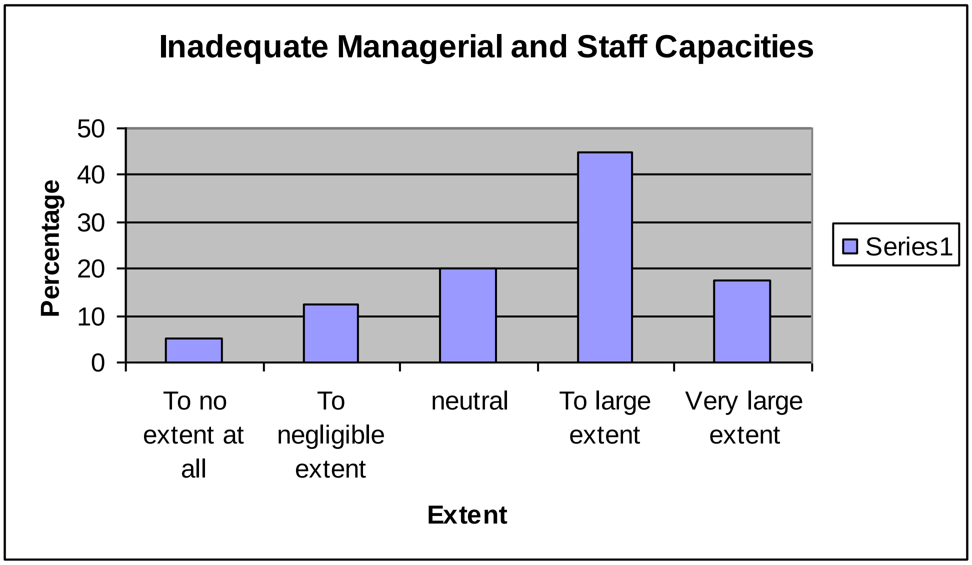


Figure 8: Managerial and Staff Capabilities

Financial resource limitation

As to the contribution of financial resource limitation in achieving the required MIS threshold 2.5% said it had no effect while 7.5% felt the contribution was negligible.32.5% respondents were neutral while 47.5% indicated the extent was large. The remaining 10% responded that financial resource had a very large effect on implementing a good MIS for Saccos for regulatory compliance. In a related study, Okello (2006) found out that inadequate finances, lack of awareness and disposable income, limited infrastructure, high deployment and maintenance costs were a challenge to ICT implementation within rural areas which view was shared by Ofori and Anang (2012).

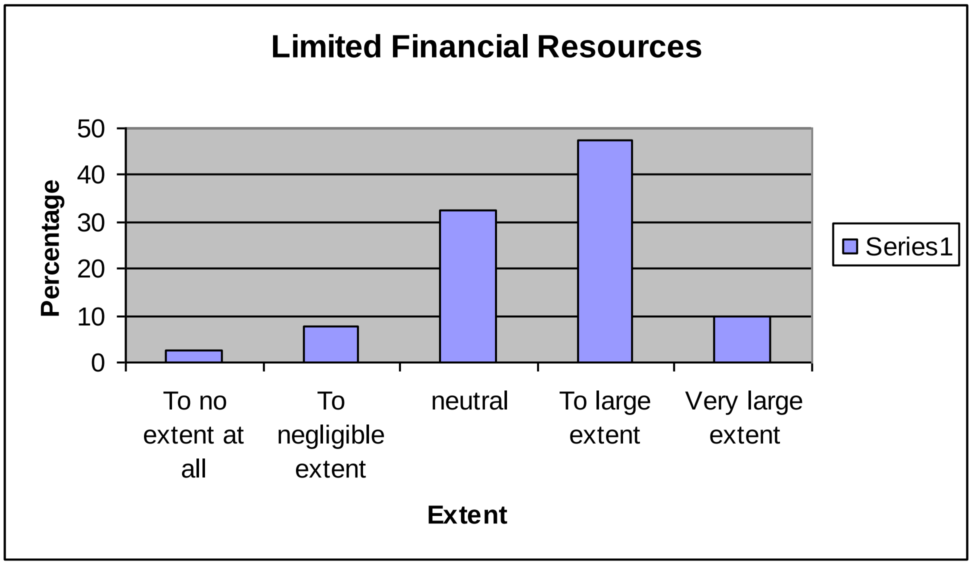


Figure 9: Financial Resource Limitation

Descriptive findings on the contribution of various factors impacting on governance of Saccos

This section deals with study findings linked to the fourth objective of the study:" establishing the governance challenges impeding regulatory compliance in Saccos".

On governance of Saccos the regulatory requirements as stipulated in The Sacco societies-Deposit taking Business Regulations, 2010, the role of the Board of Directors and that of management have been spelt and separated.

Political interference

Being asked on the impact of political interference on the governance of Saccos, 7.5% responded that the extent was negligible and a similar percentage was neutral.42.5% responded that the extent was large and an equally similar percentage felt the effect was very large.

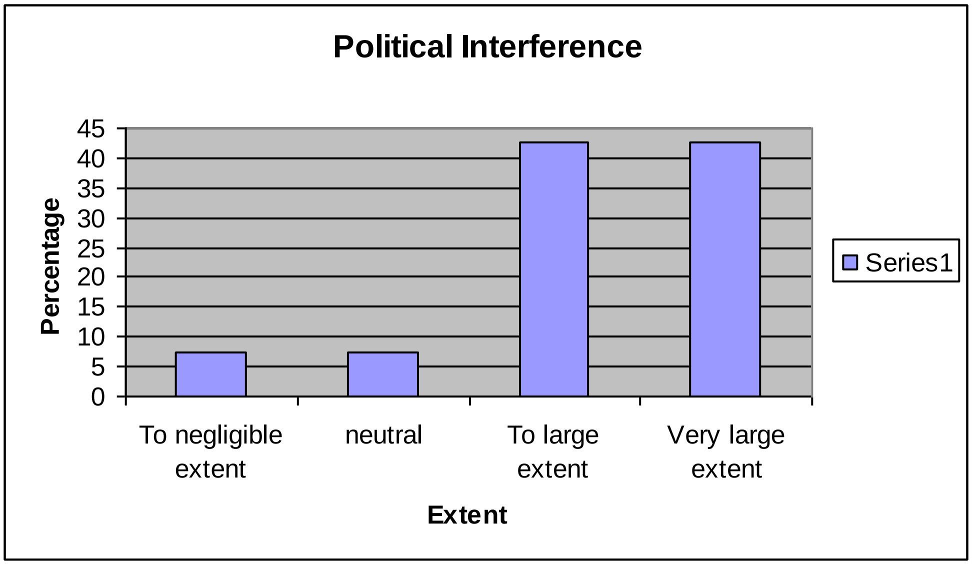


Figure 10: Impact of Political Interference on the Governance of Saccos

The above was based both on the internal operation and the external influences. Internal influences touched on board interference on management and external influences touched on external political issues on the activities of the organization in terms of day to day operations of the Saccos which view was in line with ACCOSCA(2012) report where it was observed that political expediencies as a regulatory challenge to both regulators and regulated institutions.

Resource mismanagement due to weak and inadequate internal control

On the impact of resource mismanagement due to weak internal controls to governance challenges 2.5% of the respondents felt it had no effect, 27.5% felt the effect negligible.32.5% were neutral while a similar percentage felt the extent was large. The remaining 5% responded that the effect was to a very large extent. These findings had a departure from the findings of Waweru (2011) who concluded that weak internal controls was a challenge to liquidity or cash management that is a regulatory requirement.

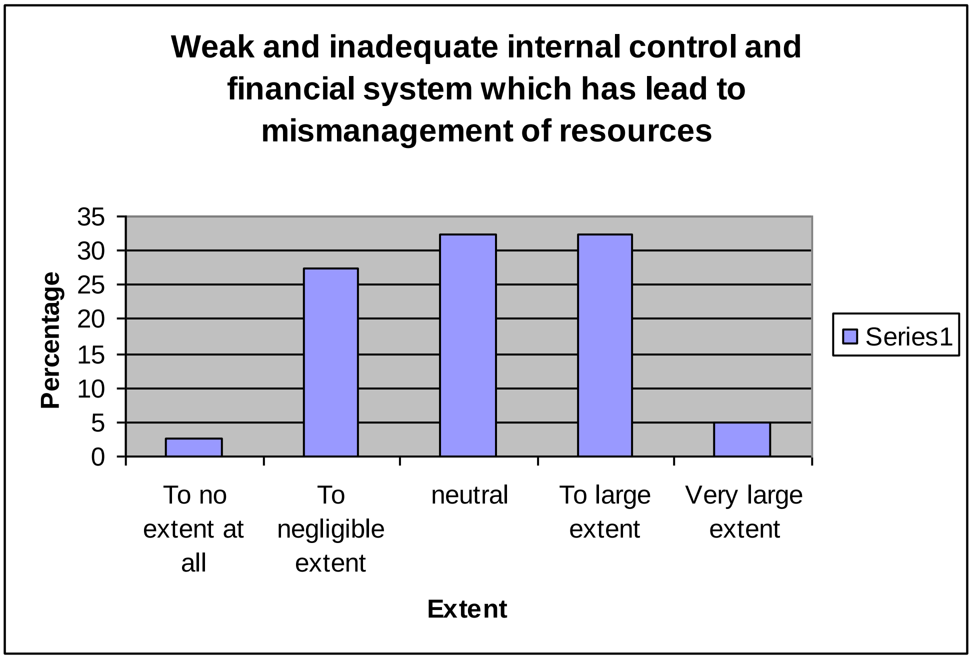
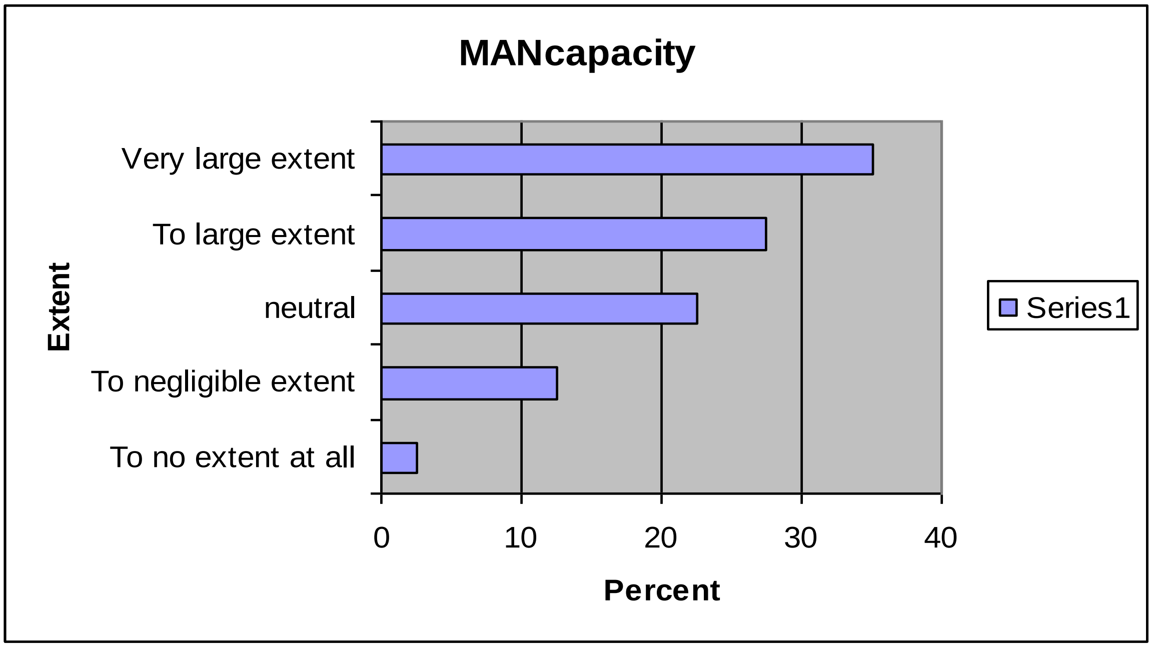


Figure11: Impact of Resource Mismanagement to Governance

Managerial capacity of the board of directors and management

As to the contribution of this towards the regulatory challenges facing the Saccos in terms of governance, 2.5% of the respondents were of the idea that it had no effect while 12.5% felt the impact was negligible.22.5% were neutral while 27.5% responded that the effect was to a large extent. A larger percentage, 35% felt the effect was to a very large extent. The findings were in line with the findings of Wanyama (2009) and Ondieki (2011) who observed that Saccos had a challenge in financial management knowledge.

Figure12: Managerial capacity of the board of directors and management



During the personal interviews wit the respondents the researcher also sought to inquire about any opportunities that were available to the Saccos out of regulations and majority of the respondents were of the view that Financial regulation would help integrate Saccos into the formal financial sector, enhance confidence of the membership in the leadership and management of the Saccos, encourage fair competition by demolishing unethical business practices, create new business opportunities for Saccos by involving them in agency business and government funds, increase the capital hence returns and lead to increased membership proportionately increasing savings deposits. This is the same view shared by ACCOSCA (2012).

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The study sought to establish the challenges facing deposit taking savings and credit societies, regulatory compliance with a focus on the Gusii region. A field survey was conducted in which primary data was conducted used a structured questionnaire coupled with personal interviews. A total of 49 respondents were sampled for the study out of which 40 successfully responded. The study sampled only the targeted deposit taking Saccos that were largely from the employer based and agricultural based Saccos.

Summary of the findings

The findings were summarized in an attempt to answer the research questions raised in chapter one in line with the objectives of the study. The summary of the findings is therefore as follows:

On the challenges to capital adequacy the reasons given by respondents ranged from non-separation of shares from deposits whereby the largest percentage indicated that the separation was to a negligible extent while the least percentage felt that the separation was to a very large extent.

The other reason given to capital challenge was on calculation of ratios but with the largest percentage responding that it was negligible and the least feeling that it had no impact.

On the challenges to liquidity the reasons given by the respondents included high dependence on short term external borrowing whereby the largest percentage of respondents were of the opinion that it had an effect to a large extent while the least percentage was of the opinion that the impact was to a negligible extent. The other challenge to liquidity was lack of good liquidity monitoring system whereby the largest percentage felt the effect was to a large extent while the least percentage said it was to a very large extent. High investment in non-earning assets was also found out to be a challenge with the largest percentage said the impact was to a very large extent and the least percentage being neutral on the same.

Lack of comprehensive loans policy was also established to be a challenge with the largest percentage responding that the extent was very large extent while the least said it had no impact.

High levels on non performing loans was also said to be a challenge to liquidity with greatest percentage saying the impact was to large extent with the lest percentage responding that the extent was very large.

In line with the third objective on MIS the challenges established were inadequate ICT systems with greatest percentage saying it had a large impact while the least percentage were neutral.

Managerial and staff competencies was also established to impact on this with the greatest percentage saying it had a large impact and least saying to no extent at all.

Limited finances were also established to be responsible with greatest percentage saying the extent was large and least percentage saying no impact at all.

On the governance challenges political interference was established to be impacting with the largest percentage saying to a very large extent and least percentage to negligible extent. Managerial capacity at board and staff level was also established to be responsible with largest percentage saying to a very large extent and least percentage saying to no extent.

Conclusions

The conclusions from the research are as follows:

There were more male respondents 72.5% that the female respondents 27.5%

Majority of the respondents from the sampled Saccos had an educational background of diploma and above as only 12.5% had certificate level of education.

The sample deposit taking Saccos had been in existence for periods beyond eight years and they had valid licenses for the current period. According to the respondents, majority of the deposit taking Saccos in this region were agricultural based and had challenges in regulatory compliance at various levels in terms of capital, credit management, liquidity ICT and governance.

The financial regulation that had been put in place for the industry was viewed to be carrying with it benefits accruing to both the Saccos and government. The study also found out and that there were measures that would be put in place to address these challenges largely by involving all stake holders in the entire process of establishing and implementing the regulations.

Recommendations

The recommendations in the opinion of the researcher will assist the Sample Saccos and others in the region or even beyond to appreciate the need for regulatory requirements and best practice.

The results of this study indicate gender imbalance in managerial positions in Saccos in this region which can be generalized to apply in other areas and with the new constitutional dispensation it would be imperative to embrace gender parity.

There are opportunities likely to abound from regulatory compliance for the Saccos and thus the deposit taking Saccos are accordingly encouraged to work towards achieving the set regulatory compliance levels in order to benefit from these opportunities.

There are various ways of addressing the regulatory challenges available that need to be explored by the various institutions. The process of regulatory requirements to be made more participatory by involving all the stake holders to enable full adoption to achieve the intended purpose.

Suggestion for further research

Based on the study and the findings thereto there are challenges to Saccos complying with the regulatory requirements. The factors could have not been exhaustive. Further, some findings of this study were in line with earlier studies while other findings departed from findings in earlier studies. Therefore there is need for further research to be conducted to establish other challenges to deposit taking Saccos' regulatory compliance given the Sacco sector contribution to national economy. Further, research can also be carried out to establish the response and extent of addressing the challenges established by this research in the areas covered in this study, other counties within and even beyond the Republic and by use of other instruments not applied in this research.

REFERENCES

ACCOSCA, 2012. *Challenges facing Sacco Regulation in Africa.*Available on www.accosca.org/index.php?

Bailey. T. 2001. *Applying international best practices to South Africa's SACCOs:* Published dissertation, South Africa: De Mont Fort University.

Birchall, Johnston. 2004. *Cooperatives and the Millennium Development Goals*. International Labour Office, Geneva.

Borg, R.W and Gall, M.D (1989). Education \ research; *An introduction to theory and practice* . London ; Alley and Becon.

Chipembere (2010) *Unlocking funding opportunities for farmers through grass root Saccos,Maputo Mozambique.*Available on www.snvworld.org/en/document/mz.

Cooperative Bank of Kenya(2008*).Cooperative Bank of Kenya Report on the SACCO movement in Kenya,AFRACA workshop. Nairobi, Kenya. Available* on www.afraca.org/main.(Accessed on 7th November 2012)

Creswell, J.W. (2005).Educational research: *Planning, conducting, and evaluating qualitative and qualitative research* (2nd ed.): New Jersey: Pearson Merrill Prentice Hall.

Cox, D., 1996. *Success in elements of banking* 4th Edition. New York. Diovire: MAIN.

Cuevas, Carlos, and K.P. Fischer. 2006. Cooperative Financial Institutions: Issues in Governance, Regulation, and Supervision. *World Bank Working Paper No. 82.* World Bank, Washington, DC.

Kabuga, C. and Batarinyebwa, P.K., 1995. *Cooperatives: Past, Present and Future. Kampala*: Uganda Cooperative Alliance Ltd.

Kerlinger, F. N (1973) *Foundation of behavior research*. New York

Kombo D.K and Tromp, D.L. (2006). *A proposal and thesis writing: An introduction*. Nairobi Paulins publications Africa.

Kothari,C.R. (2004). *Research Methodology: Methods and techniques*. New Delhi. New Age International (P) Ltd publishers.

Lokesh, K. (1992), *Methodology in Education Research*. Vikas Publishing House.

Mugenda.O.M & Mugenda A.G (1999) *Research Methods: Quantitative and Qualitative approaches.*ACTS press, Nairobi,Kenya

Mugenda, M. (2003), *Research Methods, Qualitative and Quantitative \ approaches*, African Centre for Technology Studies, Nairobi, Kenya.

Nair, A., Kloeppinger-Todd, R., Mulder, A., *Leasing, an Underutilized Tool in Rural Finance*. World Bank, Agriculture and Rural Development Discussion Paper 7. Washington 2004.

Ofori,G.O and Anang,N.A (2012), *Computerisation of Rural banks in Ghana-Issues and challenges. Research* journal of Social Sciences 4(4) p.302, 2012.

Okello, D (2006), *An approach for building and financing pro-poor ICT infrastructure pro-poor Community-driven Networks. Kampala*,Uganda.

Onchangwa,G.A (2012),*The influence of Savings in Cooperative Societies on Members Investment culture in Kenya.*

Ondieki, A.N (2011), *Effect of external financing on financial performance of savings and credit societies in Kenya*.

Orodho, A.J (2002). *Essential of educational and social sciences researchers methods*. Nairobi : Masda publishers.

Orodho, J.A. (2004). *Techniques of writing Research proposals and Reports in Educational and social sciences*, Nairobi; Masda publishers.

Republic of Kenya (1997a) Sessional Paper No. 6 of 1997 on *Cooperatives in A Liberalized Economic Environment*, Nairobi, Government Printer.

Republic of Kenya (2008), *The SACCO Societies Act 2008*, Nairobi ,Government printers.

Republic of Kenya (2010), *The SACCO societies –Deposit taking Regulations.* 2010, Government Printers.

SACCO Briefs, *Managers and Board Members: Implications of the SACCO Societies Act and Regulations*, Issue 01 – March 2011

SACCO Cap News (2009), *Zooming in on governance issues*, Newsletter of WOCCU/FSD SACCO Cap Project, Issue 4, January 2009

SASRA Press Release (2011), *Benefits of a regulated SACCO sector.*

Selltiz, C. (1977). *Research Methods in Social Sciences***.** S.L: Editions, HRW

Turtiainen, T. (2008), *Financial cooperatives and rural outreach in developing countries: a tool to involve rural poor in economic life*, ICA Research Conference

Wanyama F.O. (2009), *Surviving Liberalization: The Co-operative Movement in Kenya*, ILO

Waweru, K.M (2011), *An investigation into the cash balance management challenges in Saccos in Nakuru County, Kenya.* International Research Journals.

WOCCU (World Council of Credit Unions). 2005. *2005 Statistical Report.* Available at www.woccu.org (accessed October 24, 2012).

WOCCU (World Council of Credit Unions). 2008. *2008 Statistical Report.* Available at www.woccu.org (accessed October 24, 2012).

WOCCU (World Council of Credit Unions). 2011. *2011 Statistical Report.* Available at www.woccu.org (accessed October 24, 2012).