INFLUENCE OF SASRA REGULATORY FRAMEWORK ON THE FINANCIAL SUSTAINABILITY OF SACCO's IN NYERI COUNTY

NDUNGU DORCAS NJOKI

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DECLARATION

This thesis is my original work and has not been presented for award of a degree in any other University

Signature…………………………… Date…4/5/2015……

Dorcas Njoki Ndungu

B211-0004-2012

This thesis has been submitted for examination with my approval as a University supervisor

Signature…………………………… Date…4/5/2015………………………

DR. RIRO G.K

Dedan Kimathi University of Technology

DEDICATION

I dedicate this thesis to my family.

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I thank the almighty God for His love and mercies. I wish to thank Dedan Kimathi University of Technology for granting me this opportunity to further my studies. I appreciate the assistance given to me by my supervisor Dr. Riro in writing this project. Last but not least I acknowledge my classmates for their constructive criticism of this project.

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ABBREVIATIONS AND ACRONYMS

BOD	Board of Directors
FOSA	Front Office Services Activity
FSD	Financial Sector Deepening
RoK	Republic of Kenya
SACCO	Savings and Credit Co-operative Society
SASRA	SACCOs and Societies Regulatory Authority
SPSS	Statistical Package for Social Sciences

ABSTRACT

The purpose of this study was to identify the influence that SASRA regulatory framework has on the sustainability of SACCOs in Kenya. Specifically the study aimed to establish the influence of the fit and proper test, loan management, financial reporting and investment requirements on the sustainability of SACCOs in Kenya. Competition for regulation theory, capture theory, agency theory, theory of growth of the firm, modern portfolio theory and prospect theory guided the study. The study adopted a descriptive survey design. The study targeted all the 13 deposit taking SACCOs in Nyeri County. Purposive sampling was employed in selecting 65 participants in the study. The researcher used a self-administered questionnaire as the data collection tool. Descriptive statistics in the form of frequencies and percentages was used to describe the findings. Multiple linear regression analysis was used to describe relationships within variables. Presentation of findings was done using tables, charts and graphs. The study found that SACCOs complied with all SASRA regulations to the letter. A significant relationship was found between loan management requirements and financial sustainability as well as between investment requirements and financial sustainability. The researcher concluded that SASRA regulation requirements have an influence on SACCO's financial sustainability. The greatest effect is felt through the loan management and investment requirements. This is because guidelines from SASRA limited financial activities which were previously unregulated and which gave SACCOs an edge over the other players in the loans market. The researcher recommended that SASRA should relook at the regulation of interest rates since some SACCOs have shot up the interest rates of loans to the detriment of many customers. In addition, the researcher also recommended that SACCOs should consider investing in real estate which also have a high rate of return.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Savings and Credit Co-operative Societies (SACCOs) are Co-operative Societies registered and operating under the SACCOs Act (Republic of Kenya, 2008). They generally undertake savings and credit functions. A Co-operative Societies is an association of persons who have come together with a common purpose of pooling their resource for mutual economic and social benefit (Wamburu, 2011).

SACCOs have a long and successful tradition around the world and have proven to be amazingly flexible in meeting a wide variety of social and economic human needs (DTI, 2012). International experience shows that countries which have achieved economic development also have a vibrant and a dynamic co-operative sector, contributing substantially to the growth of their economies. For example, in Kenya, co-operatives contribute 45% of the Gross Domestic Prokmduct (GDP) and 31% of the total national savings and deposits (Wamburu, 2011). Co- operatives control 70% of the coffee market, 76% of the dairy market and 95% of the cotton market. In New Zealand, 22% of the country's GDP is generated by co-operative enterprises. In addition, co-operatives are responsible for 95% of the dairy market and 95% of the export dairy market. They hold 70% of the meat market, 50% of the farm supply market, 70% of the fertilizer market, 75% of the wholesale pharmaceuticals and 62% of the grocery market. In Spain, the co-operatives movement produces more that €70 billion in turnover and the majority of these co-operatives are worker co-operatives (World Council of Credit Unions 2014).

Financial sustainability refers to the ability to maintain financial capacity over time (Bowman, 2011). Within a business context, economic sustainability involves using the assorted assets of the company efficiently to allow it to continue functioning profitability over time. Financial sustainability means the smooth operation of financial institutions with necessary profitability, having adequate liquidity to overcome any challenges of bankruptcy.

According to Meyer (2002) financial sustainability is one of the areas that we need to look at to assess the performance of micro finance institutions. Growth in the microfinance industry is desirable to reduce poverty and attain operational and financial sustainability. Although growth or outreach has risk, unless planned and managed very well, it has also positive implications for financial institutions since it gives better image of the institutions to attract loan able fund form banks for further expansion and increases the borrower's willingness to repay.

In Tanzania SACCOs have not been performing due to lack of innovation of products, law capital formation and inadequate number of human resources. This has been among the factors that contribute to hinder members' needs and expectations as a result of unsustainable SACCOs. Other factors that contribute to poor sustainability of SACCOs include weak internal control systems and unsustainable interest rates (Mushininga, 1991).

In March and April 2011 Markus Distler and Daniel Schmidt from German Development Institute (DIE) conducted a national survey of 46 SACCOs on the current position of SACCOs in the financial system in Uganda. In order to have an empirical basis for decisions concerning regulation, supervision and support for SACCOs, the government decided to entrust the DIE with the task of assessing the sustainability of national SACCOs in light of declining subsidies in the future. According to Distler and Schmidt (2014) the financial results of most of the SACCOs surveyed did not seem very alarming, several issues might put their financial sustainability at risk in the future. Many SACCOs, especially smaller ones, are over dependent on subsidization. The quality of the SACCOs' loan portfolio, a main indicator for the capability of lending institutions, seems to be another critical point that threatens the viability of many SACCOs.

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 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. According to Republic of Kenya (RoK) (2008) the authority is mandated with the following responsibilities: 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. SASRA has greatly impacted on the SACCO performance in terms of outreach and sustainability and performance of SACCOs in Kenya.

The new SASRA regulations required SACCOs to source additional share capital from members to comply with core capital requirements set at 10 per cent of their total assets. SACCOs were also forced to offer members incentives for raising the capital that cannot be withdrawn from the institution. SACCOs in Kenya are required to adhere to regulations set in SACCO's regulation authority (SASRA). The management has to present the capital adequacy return reports, liquidity statement report, Statement of financial position and Statement of deposit return as well as Return on investments report which compares land, building, and financial assets to the SACCO's total assets and its core capital.

1.2 Statement of the problem

Available data indicates that SACCOs are facing serious challenges with the new SASRA regulations and most of them are dissolving while others get blacklisted. As at 31st December 2012, the total number of Deposit Taking SACCOs was 215 of which only 124 had been licensed. Fifty four (54) SACCOs were yet to meet the Sh10 million minimum core capital requirements putting them at the risk of a shutdown upon expiry of the grace period. In February, 2014 the Authority warned that thirty savings and credit cooperatives would be blacklisted from offering banking hall services, owing to their inability to meet legislative requirements; a notice was given to all deposit taking SACCO Societies upon their compliance to the prescribed minimum standards before the lapse of the four (4) year transition period on 17th June 2014.

The SACCO movement is an important financial inclusion tool and therefore factors affecting the sector must be addressed and resolved. It is for this reason that the research sought to identify the influence that SASRA regulatory framework has had on the sustainability of SACCOs in Kenya

1.3 Objectives of the Study

1.3.1 General Objective

To identify the influence of SASRA regulatory framework on the sustainability of SACCOs in Kenya

1.3.2 Specific Objectives

(i) To examine the influence of the fit and proper test requirements on the sustainability of SACCOs in Kenya

(ii) To evaluate the influence of loan management requirements on the sustainability of SACCOs in Kenya

(iii) To assess the influence of financial performance reporting on the sustainability of SACCOs in Kenya

(iv) To evaluate the influence of investment requirements on the sustainability of SACCOs in Kenya

1.4 Research Questions

(i) Do the fit and proper test requirements influence the sustainability of SACCOs in Kenya?

(ii) Do loan management requirements influence the sustainability of SACCOs in Kenya?

(iii) Do financial performance reporting requirements influence the sustainability of SACCOs in Kenya?

(iv) Do investment requirements influence the sustainability of SACCOs in Kenya?

1.5 Significance of the Study

The findings of the study will add to the body of knowledge on SASRA regulations; researchers may use the findings of this study as reference material for future studies. The findings of the study may be used by new and existing SACCOs in coming up with strategies to cope with the SASRA regulation. The SACCO Societies Regulatory Authority (SASRA) may use the findings to amend the regulations where need be.

1.6 Scope of the Study

The current study sought to identify the influence that SASRA regulatory framework had had on the financial sustainability of SACCOs in Kenya. The study was limited to deposit taking SACCOs and was further limited to SACCOS in Nyeri. Staffs in the SACCOs were the respondents in the study. The study was conducted between October2014 and December 2014.

1.7 Assumptions of the Study

In undertaking this study, the researcher assumed that.

(i) All SACCOs adhered to the SASRA regulations to the letter.

(ii) The staff who were respondents in the study are aware of the SASRA regulations

(iii) The respondents in the study were truthful.

1.8 Operational definition of terms

Capital base refers to the sum total of the credit union's regulatory reserve accounts, undivided or retained earnings, special reserves (designated for a specific purpose), and net income that has yet to be closed to the retained earnings account (Boyd, 2007).

Loan management refers to process of controlling and collecting payments from customers (Bowman, 2011).

Sustainability refers to the continued profitability of a SACCO (Shaughnessy, 2012).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter comprises of the theoretical review, literature on the four study variables, empirical review, conceptual framework and operational framework. The literature review aims to bring out the knowledge already existing in relation to financial sustainability of SACCOs, bring out what is still not about it and show the existing research gap and thus the need for the proposed study.

2.2 Theoretical review

A theoretical framework provides a broad explanation of relationships that exists between concepts. According to Dawson (2009) it provides the organization for the study. It guides the researcher in the interpretations of the results. In this study the researcher reviews, competition for regulation theory, capture theory, agency theory, theory of the growth of the firm, modern portfolio theory and the prospect theory.

2.2.1 Competition for regulation Theory

The competition for regulation theory suggests that there exist a market for regulation, in which consumers and producers compete. According to Adams, Hayes, Weierter and Boyd (2007) 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.

2.2.2 Capture Theory

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. Adams et al. (2007) observe that 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.

2.2.3 Agency Theory

Agency theory is related to the problem that occurs when cooperating parties have different goals and a division of labor. Specifically, the agency theory focuses on the relationship in which one or more persons (the principal(s)) engage another person (the agent) to perform some work on their behalf (Fama, 1980). The basic premise of agency theory is that both principals and agents are assumed to be rational economic-maximizing individuals. Therefore, the separation of ownership and control will result in decisions by the agent which are not always in the principal's best interest and there will arise costs (agency costs) of bringing the agent's behavior into line. For example, costs arise which are incurred by the principals when monitoring and controlling the behavior of the agent (so-called monitoring costs), and costs incurred by the agent in demonstrating compliance with the wishes of the principal (so-called bonding costs).

2.2.4 Theory of growth of the firm

The theory of the growth of the firm as presented by Storey (1994) considers the growth of a firm by a categorization combining three components namely; the starting resources of the entrepreneur(s), the firm and the strategy. One of the key elements of the firm is the legal framework. The legal framework governing the ownership, financing and organization of business firms can be expected to affect the competitiveness of the institutions. Corporate governance, or the body of laws, regulations and practices affecting the way in which companies are governed and controlled, will affect the nature and scale of external financing of firms and the effectiveness of the capital market as a resource-allocation mechanism. Through these channels, corporate governance regulations can be expected to have effects on the innovation path of firms and on the quality of management. Other aspects of the legal framework governing companies include insolvency law, which affects credit flows to firms and the governance of firm-level risk, and employment law, which affects hiring and labor use strategies and the quality of employment relations (Penrose, 1965).

2.2.5 Modern Portfolio Theory

Modern Portfolio Theory also called "portfolio theory" or "portfolio management theory is a theory on how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward (Bhalla, 2010). According to the theory, it's possible to construct an "efficient frontier" of optimal portfolios offering the maximum possible expected return for a given level of risk. The risk in a portfolio of diverse individual stocks will be less than the risk inherent in holding any one of the individual stocks (provided the risks of the various stocks are not directly related). Consider a portfolio that holds two risky stocks: one that pays off when it rains and another that pays off when it doesn't rain. A portfolio that contains both assets will always pay off, regardless of whether it rains or shines. Adding one risky asset to another can reduce the overall risk of an all-weather portfolio.

2.2.6 Prospect Theory

Prospect theory states that people's perceptions of gain and loss are skewed. That is, people are more afraid of a loss than they are encouraged by a gain. If people are given a choice of two different prospects, they will pick the one that they think has less chance of ending in a loss, rather than the one that offers the most gains (Kahneman and Tversky, 1986). Prospect theory is important for financial professionals and investors. Although the risk/reward trade-off gives a clear picture of the risk amount an investor must take on to achieve the desired returns, prospect theory tells us that very few people understand emotionally what they realize intellectually. For financial professionals, the challenge is in suiting a portfolio to the client's risk profile, rather than reward desires.

2.3 Financial sustainability of SACCOS

According to Murphy (2014) a business that has achieved financial sustainability is one that is selling a product or service at a price that not only covers their expenses, but also creates a profit. Financial sustainability refers to the ability to maintain financial capacity over time (Bowman, 2011). Shaughnessy (2012) adds that businesses find a path to financial sustainability by growing their revenue, improving their gross and operating margins, increasing their free cash flow, efficiently managing both capital expenditures and working capital, and building their asset base. In financially sustainable businesses, long term profitability takes priority over any short term gains.

SACCO Societies contribute to develop the local economies where the poor live through their unique and strong linkages with the community (USAID, 2006). They enable poor people to have their voices heard, in addition to improving their daily working and living conditions, because SACCOs are democratic organizations and owned by those who use their services. SACCOs are ideal instruments to empower the poor in sustainable way (IFAD, 2000). In recent years, in developing countries consideration of the potential of SACCOs and Credit Unions as a tool for sustainable poverty alleviation has been increasingly recognized. Evidence from poverty eradication strategies shows that without empowering the poor by teaching them how to utilize limited resources in a wise manner and over focusing on provision of credit leads to excessive debt burdens and depressed income growth leaving borrowers even the level where they were before.

A survey on the current position of SACCOs in the financial system in Uganda revealed that although the financial results of most of the SACCOs surveyed do not seem very alarming, several issues might put their financial sustainability at risk in the future (Distler & Schimdt, 2014). Many SACCOs, especially smaller ones, are over-dependent on subsidization. The quality of the SACCOs‟ loan portfolio, a main indicator for the capability of lending institutions, seems to be another critical point that threatens the viability of many SACCOs. Due to the enormous demand for financial products in rural areas (in particular loan products), the SACCO sector as a whole is growing considerably. However, the growth pattern of many smaller SACCOs seems uneven since they have difficulties to attract savings deposits from their members.

According to SASRA, the SACCOs society regulations are meant to improve the competitiveness of Kenyan SACCOs by setting financial and operating standards commensurate to the deposit taking business conducted by SACCOs. This is ultimately expected to drive efficiency and improve the level of savings in the SACCOs societies as envisaged in the financial sector strategy in vision 2030. SACCOs regulations and performance relate in that the regulations are meant to set specific requirements on the tools used to measure performance (PEARLS) leading to a direct relationship (Financial Sector Deepening, 2009).

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 (Ngaira, 2011). According to MBODo (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.

2.4 SASRA Regulations

Under the 2008 SACCOs 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, maximum 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.

2.4.1 Fit and proper test requirements

Fitness tests usually seek to assess the competence of managers and directors and their capacity to fulfil the responsibilities of their positions while propriety tests seek to assess their integrity and suitability. To determine competence, formal qualifications, previous experience and track record are some of the elements focused on by supervisors. To assess integrity and suitability, elements considered include: criminal records, financial position, civil actions against individuals to pursue personal debts, refusal of admission to, or expulsion from, professional bodies, sanctions applied by regulators of other similar industries, and previous questionable business practices. According to Njuguna (2011), The Fit and Proper Test form is issued by SASRA. Board of Directors are required to provide information about their experience, skills, membership to professional bodies, their source of wealth and other personal details.

According to Ngaira (2011) 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 and reputation risk. 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).

Wanyoike (2013) recommended that the SASRA regulations should be modified to upgrade the roles and qualifications of the Board members in order for them to play a more influential role in improving the financial performance of the SACCOs. In order to enhance the quality of the board of directors, all the board members should have more than five years of experience in public service. Also, in order for an individual to be a member of the board, they should have passed the proper and fitness test. Finally, all board members should have the appropriate training and education. In addition, they should also have sufficient knowledge of the Sacco operations once they join the board.

2.4.2 Loan management requirements

The credit management regulations cover credit facilities including loans advances and overdrafts to members. The requirements govern the loaning procedures and their documentation, requirements for grant of a loan, permissible loan purposes and acceptable types of collateral, loan concentration limits, loan types, interest rates, frequency of payments and conditions. The credit management requirements also cover maximum loan size per product; where collateral is used as security for lending, maximum loan amounts as percentage of the values of the same; appraisal of the borrower's ability to repay the loan (RoK, 2008). Terms and conditions for insider lending; maximum loan approval levels for each officer and committees and guaranteeing requirements.

The SASRA regulations indicate that member may repay a credit facility prior to its maturity in whole or in part on any business day without being charged full-term interest. No director or employee of a SACCO or immediate family member of a director or employee shall receive anything of value or other compensation in connection with any loan made by the SACCO. The authority further recommends that the board of directors shall be responsible for ensuring that the written credit policy remains up to date and reflect current lending practices (RoK, 2008).

A SACCO shall provide a sixty days written notice to every member affected by a change in any term is closed in the loan contract. Every borrow shall be provided, at least once every six months or on a request a statement for each outstanding credit facility that provides adequate detail of each transaction made during the period (RoK, 2008).

2.4.3 Financial performance reporting requirements

SASRA requires that a SACCO shall submit to the authority by the 15th day of each month a return of the statement of the income and expenditure and a statement of financial position showing results of its operations for the preceding period. As of the 31st March, 30th June, 30th September and 31st December submit to the Authority financial statements in the prescribed format and present its accounts and associated descriptions without deviation (RoK, 2008).

SACCOs are also expected to establish an internal audit function which shall be responsible for reviewing and reporting on the adequacy of the internal audit system and the financial matters of the SACCO society. The person responsible for the internal audit function shall be a fully qualified accountant under the accountants Act. The regulations also require a SACCO society to display its audited accounts in both its website and that of the authority; A SACCO shall also hold its AGM within four months after the end of the financial year (RoK, 2008).

2.4.4 Investment requirements

The SASRA regulations dictate that a SACCO shall be responsible for formulating and amending the investment policy that is consistent with the act. The regulations recommend that the investment policy shall include the purpose and objectives of investment activities; the types of investments that can be made; the investment characteristics including issuer, maturity and interest rate. The investment policy shall also state the need for adequate investment diversification and concentration risk management across investment type and or entity; the educational background and experience of officers assigned the authority to assess the risk characteristics of investments and investment transactions; the contingencies put in place to handle investments purchased prior to commencement of the regulations limitations and internal controls (RoK, 2008).

The regulations also recommends that SACCOs shall not invest in non-earning assets or property and equipment in excess of ten percent of total assets, of which land and buildings shall not exceed 5% unless a waiver to that effect has been obtained form the Authority. A SACCO shall make financial investments with the intention of holding to maturity and shall not use the portfolio to trade securities for profit, placing the SACCO Society’s capital at risk. A SACCO shall not also acquire, sell or lease premises without the prior written approval of the Authority. A SACCO shall submit to the authority a return on its investments (RoK, 2008).

2.5 Empirical Review

Ngaira (2011) carried out a study to assess the impact SASRA has had on SACCO performance since its inception. The study found 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.

Similarly, Wanyoike (2013) carried out a study to establish the impact of SASRA Regulations on SACCOs' financial performance in Nairobi County. The study findings indicated that the quality of the Board of Directors was an important aspect in improving the SACCOs financial performance as per the SASRA regulations. The findings also revealed that SACCO staff competence had a strong influence on the financial performance of the SACCOs in the area. Corporate governance was also identified as the most significant effect of SASRA regulations on the SACCOs financial performance. The researcher concluded that all the variables of the study were important factors in financial performance of the SACCOs and needed to be addressed beginning with the most crucial which was in this case corporate governance.

Muriuki and Ragui (2013) assessed the impact of SASRA legislation on the corporate governance. The researchers found that the legislation have influenced corporate governance to a great extent though there is still room for improvement. Makori, Munene and Muturi (2013) 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. 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, and lack of liquidity monitoring system, high investment in non-earning assets, inadequate ICT system, inadequate managerial competencies and political interference among others.

Macharia (2013) assessed the effect of licensing requirements on performance of deposit taking SACCOs in Kenya. Most SACCOs reported improvement in their performance both in membership, portfolio and efficiency. This was attributed to be the result of SACCO Licensing requirements. Most SACCOs were complying with the regulator requirement so as not to be locked out of the business by the operator. It was also clear from the study that all the SACCOs are conversant with the new licensing law.

Kilonzi (2013) sought to establish the impact of SASRA Regulations on SACCO financial performance in Kenya. From the findings, the study found that higher capital requirements, and increase in management efficiency impacted positively to SACCO's profitability in the post- capital regulation period. The study revealed that capital regulation affects financial performance in SACCOs. The researcher concluded that financial stability could be at risk as a result of shocks impinging on the economic system and absence of proper policy adjustments to mitigate the effects of these shocks.

Ndung'u (2013) sought to determine the impact of risk management techniques on financial performance of regulated SACCO's institutions in Nairobi. From the findings, the study established that there are risk management policy and procedures instituted by the SACCOs which includes having the policy of diversifying investment across different sectors, ensuring good corporate governance, regulating financial management, adhering to internal financial guidelines, constituting risk management committee, having internal audit of RM procedures, taking legal action on defaulters and limiting the amount of fund disposal. The study established that SACCOs considered overhead cost, general trend of loans, existing risk policy, loan portfolio indicators, operating efficiency and state of the economy in establishing a loan portfolio policy. The board of directors, credit analyst, financial manager and executive management participates in formulating loan portfolio policies.

Mushila (2012) sought to establish the effect of regulation on the financial performance of SACCOs in Kenya. From the findings the study concludes that regulation has had a positive effect on the financial performance of SACCOs. The Study established that improvement in financial performance is attributed to the positive fundamental changes in the regulatory framework which amongst other things has ensured professional management of SACCOs, restored confidence in the sector, created a cushion for

Members through spelling out protection measures on their deposits and has also offered guidance on capital adequacy and credit management.

Waswa (2013) undertook a study to assess the effects of regulatory controls on interest rates of deposit taking Savings and Credit Co-operative Societies (SACCOs) in Nairobi County. The research findings reveal that the regulatory controls inception led to a slight increase in interest rates on SACCO loans /credit. This was as a result of increased compliance costs. The study observed that implementation of regulations in phases shall cushion SACCOs on operational costs and profitability variations. The SASRA regulations are not punitive as such but likely to give positive impact on SACCO subsector performance in the long run.

2.6 Summary of literature review

The researcher has reviewed literature on the effect of regulation on financial performance. Specifically, the researcher has reviewed extensive literature on SASRA regulations. The researcher has also reviewed various studies carried out on the effect of SASRA regulations on the financial performance of SACCOs. In the review, the researcher as found that majority of the researchers that is Ngaira (2011), Wanyoike (2013) and Muriuki and Ragui (2013) focused on corporate governance, licensing and risk assessment. Financial variables such as fit and proper persons test, loan management, reporting and investment have been largely left out. The researcher aims to fill this gap by assessing the influence that SASRA regulatory framework has had on the sustainability of SACCOs in Kenya.

2.7 Conceptual framework

A conceptual framework is described as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. The conceptual framework shows the variables in the study. The diagram above illustrates the independent and dependent variable of the study. An independent variable is what is varied during the research; it is what the investigator thinks will affect the dependent variable (Berkeley, 2005).A dependent variable is what will be measured; it's what the investigator thinks will be affected during the research.

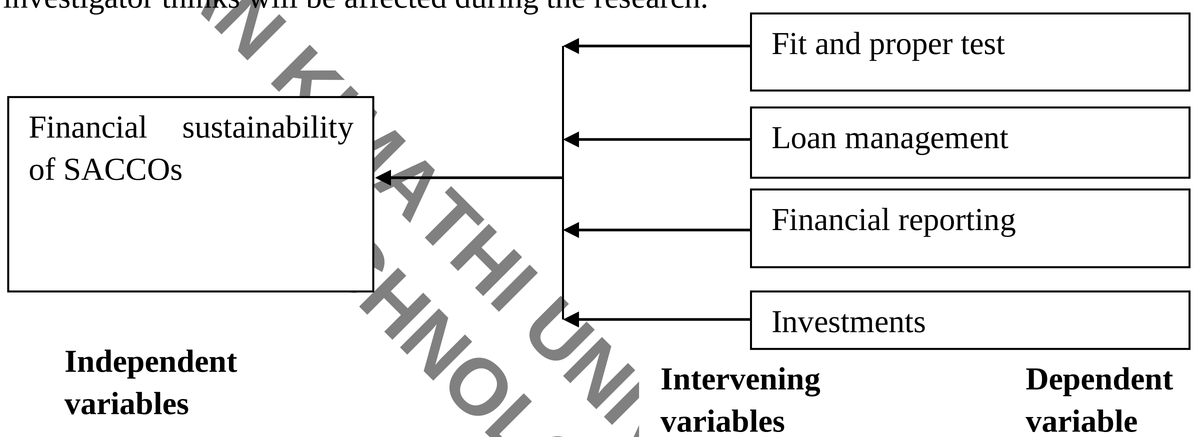

Figure 2.1: Effect of SASRA regulations on financial sustainability of SACCO s

The purpose of this study was to identify the influence that SASRA regulatory framework on the sustainability of SACCOs in Kenya. SASRA requirements namely fit and proper test, loan management, financial management and investment requirements are the independent variables. The study sought to assess how these requirements influence the financial sustainability of a SACCO in the form of it's to meet Core capital and Institutional capital requirements.

2.8 Operational framework

Operationalization is the process by which a researcher defines how a concept is measured, observed, or manipulated within a particular study. According Burns (2010) this process translates the theoretical, conceptual variable of interest into a set of specific operations or procedures that define the variable's meaning in a specific study. The operational framework in the study shows the variables in the study and their indicators as used in the currently study.

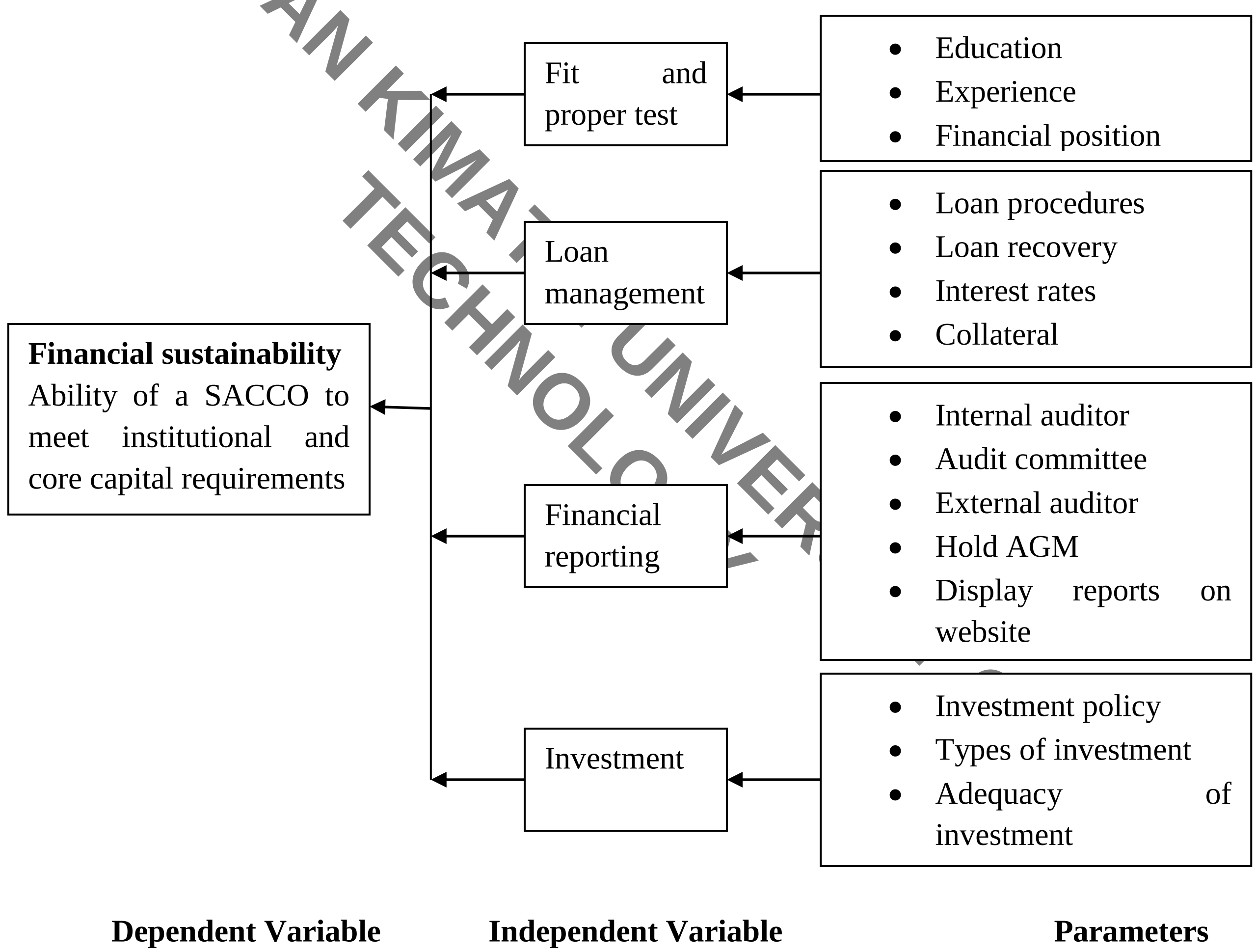

Figure 2.2 Operational framework for financial sustainability of SACCOs

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter has the research methodology section that describes the methods and procedures that were used to carry out the study and research design which specifies the methods and procedures for the measurement and data analysis.

3.2 Research design

A study design is a detailed outline of how an investigation will take place (Dawson, 2009). The study adopted a descriptive survey design to investigate the influence that SASRA regulatory framework had had on the sustainability of SACCOs in Kenya. Orodho (2005) observes that a survey design involves obtaining information by interview or administering questionnaire. Both qualitative and quantitative research approach were used where the researcher conducted a survey using a questionnaire that was composed of closed-ended questions and semi-structured interview.

3.3 Target population

The target population is the entire set of units for which the survey data are to be used to make inferences (Burns, 2010). The study targeted all the deposit taking SACCOs in Nyeri town. Five staff members from each of the participating SACCOs were the respondents in the study. There were 13 deposit taking SACCOs in Nyeri Town.

3.3 Sampling procedures

Sampling is a method of studying from a few selected items, instead of the entire big number of units (Claire, Craig & Ashraf, 2006). Purposive sampling was employed in selecting participants in the study. The study interviewed 5 staff from each of the participating SACCOs. This involved the accountants, auditors and representative of the Board of directors. This is because such people are in charge of the affairs of the SACCO and are therefore resourceful people in terms of the financial performance of the SACCO. According to Silverman (2005) the primary objective of purposive sampling is to produce a sample that is representative of a particular population. This is done by using the researcher's expert knowledge of the population and selecting a sample of elements in a non-random manner. In addition, Purposive sampling saves time, money and effort. It is flexible and meets multiple needs and interests. It enables the researcher to select a sample based on the purpose of the study and knowledge of a population. The researcher therefore utilized a sample of 65 SACCO staff.

3.5 Data collection

Data collection is a systematic approach to gathering information from a variety of sources to get a complete and accurate picture of an area of interest (Silverman, 2005). The researcher used a self-administered questionnaire as the data collection tool. The questionnaire had both closed and open ended questions. The researcher settled on this tool because it was simple to administer and it could collect a lot of information from a big population within little time. Drop off pick up method was used for data collection was used to collect data where the researcher dropped of the questionnaires and picked them after 3 days.

3.5.1 Validity of instruments

Validity is the accuracy and meaningfulness of inferences which are based on research results (Mugenda and Mugenda, 2012). Content validity was used in this study. Content validity is the degree to which a text measures what it is supposed to measure. This was done through having the research supervisor review the instruments.

3.5.2 Reliability of the instruments

Piloting involves pretesting research instruments in conditions as similar as possible to the research, but not in order to report results but rather to check for glitches in wording of questions, lack of clarity of instructions (Kothari, 2004). A pilot study was carried out prior to the main study. The purpose of the pretesting was to ensure the reliability of the study instruments. Orodho (2005) advises that the population of the participants in the pilot study should be 10% of the calculated sample. The pilot study was conducted by administering the instrument twice and data entered into SPSS software. A Spearman correlation coefficient computed which indicated the degree to which the two halves provided similar tests thus determining the internal consistency. A correlation coefficient of 0.69 was found. According to Blaxter, Hughes and Tight (2006) a minimum correlation coefficient of 0.65 is recommended as indicating that an instrument is reliable.

3.6 Data analysis procedures

Data Analysis is the process of systematically applying statistical and/or logical techniques to describe and illustrate, condense and recap, and evaluate data. According to

Shamoo and Resnik (2003) various analytic procedures “provide a way of drawing inductive inferences from data and distinguishing the signal (the phenomenon of interest) from the noise (statistical fluctuations) present in the data

Data was sorted, cleaned, coded and entered using Microsoft Excel. Data analysis was done using Statistical Package for Social Sciences (SPSS) version 20. Descriptive statistics in the form of frequencies and percentages were used to describe the findings. Multiple regression analysis was conducted to establish relationship between independent variables and the dependent variable. The general form of the model used was:

$$Y = \beta_O + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where: Y= Financial sustainability
β_O = Autonomous factors
X_1= Fit and proper test
X_2= Loan management
X_3= Financial performance
X_4 = Investments
β_1—$\beta_{3==}$ Coefficient for variables
e= Error term

β_O is the autonomous factor representing constant value of sustainability when dependent variables of study are not under consideration, β is a vector of regression slope **.**Error term captures all relevant variables not included in the model because they are not observed in the data set**.** Presentation of findings was done using tables, charts and graphs.

3.7 Ethical considerations

Ethical issuers refer to a problem or situation that requires a person or organization to choose between alternatives that must be evaluated as right (ethical) or wrong (unethical) (Berkeley, 2005). Authorization to conduct the study was sought from the University

(DeKUT). Consent from prospective respondents was sought before interview. The questionnaire did not bear the name of the participant and neither were there identifiers link to the respondents. Only the researcher had access to the data which was stored in a password protected computer. The findings of the study will only be used for study purposes.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This section covers data analysis, presentation, and discussion on data gathered from the field. The major findings of the study as they relate to each of the research objectives are presented. The study findings are presented on the influence of SASRA regulatory framework on the sustainability of SACCOs in Kenya

4.2 Response rate

The researcher distributed questionnaires to 65 SACCO staff of which 63 were returned. One questionnaire was discarded because it was incompletely filled leaving 62 questionnaires for analysis. This represents a 95% response rate which is well above the 70% threshold recommended by Mugenda and Mugenda (2010).

4.3 Respondents' socio-demographic information

The researcher collected socio-demographic information of the participants in the study. The data comprised of gender, age, level of education and working experience. The findings are presented in this section.

4.3.1 Distribution of respondents by gender

A significant number 76% (n=47) of the participants in the study were male whereas the female SACCO staff accounted for 24% (n=15). The findings show that there exists a great gender disparity among SACCO employees.

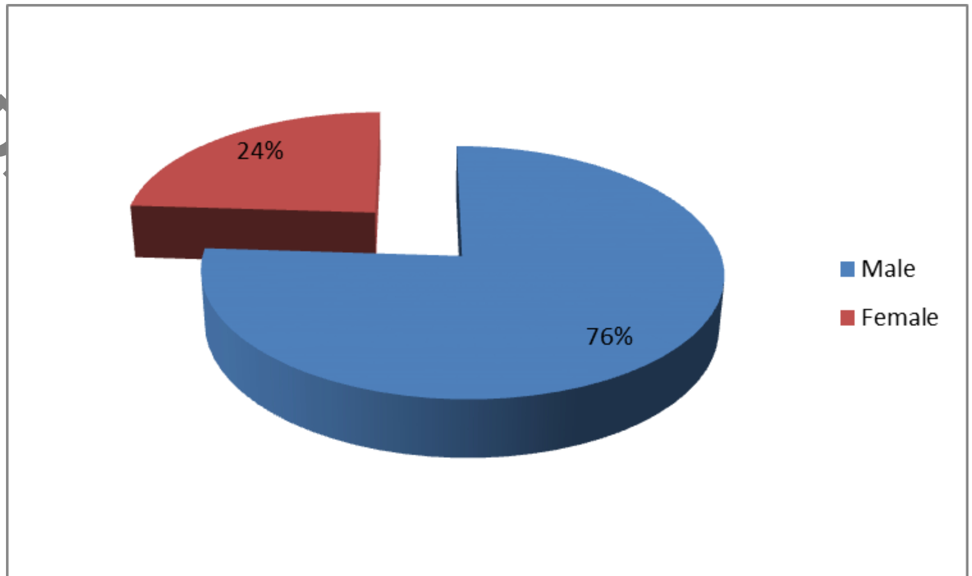

Figure 3.1 Respondents' gender

4.3.2 Distribution of respondents by age

Majority 68% (n=42) of the respondents were aged between 31 and 40 years whereas those aged below 30 years accounted for 18% (n=11). The findings indicated that majority of the SACCO staff in Nyeri County were middle aged.

Table 3.1 Respondents' age

Age (Years)	Frequency	Percentage
20 – 30	11	18
31 – 40	42	68
41 -50	9	14
Total	62	100

4.3.3 Distribution of respondents by level of education

Findings in Figure 4.2 indicate that majority 54% (n=33) of the participants had a college diploma whereas 30% (n=18) had a bachelor's degree in various fields. The findings show that majority of the participants were highly educated to enable them provide useful information.

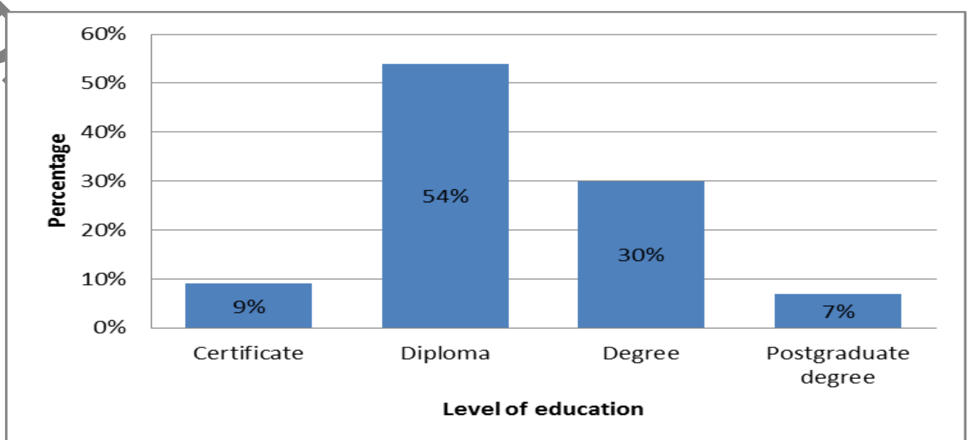

Figure 3.2 Respondents' level of education

4.3.4 Distribution of respondents by working experience

Findings in Table 4.2 show that 48% (n=29) of the participants had an experience of 1 to 5 years whereas those who had worked for 6 -10 years accounted for 44% (n=27). The findings show that the participants were well experienced to provide resourceful information regarding the performance of the SACCO.

Table 3.2 Respondent's working experience

Experience (Years)	Frequency	Percentage
1-5	29	48
6-10	27	44
11-20	6	8
Total	62	100

4.4 Fit and proper test

To examine the influence of the fit and proper test requirements on the sustainability of SACCOs in Kenya, the researcher sought to find out if the SACCOs in the study carried out the study and how it was carried out.

4.4.1 Sacco conducted fit and proper test

A significant number 61% (n=38) of participants indicated that fit and proper test was administered on all BOD members in line with the SASRA requirements. The findings therefore show that majority of the SACCOs complied with SASRA regulations

Table 3.3 Sacco conducted fit and proper test

Response	Frequency	Percentage
Strongly agree	38	61
Agree	22	35
Disagree	2	4
Total	62	100

4.4.2 Qualities tested in the fit and proper test

A significant number 86% (n=53) indicate that education and training of members was one of the qualities addressed in the fit and proper test administered to BOD members. Other qualities included experience (14%) and source of wealth (10%).

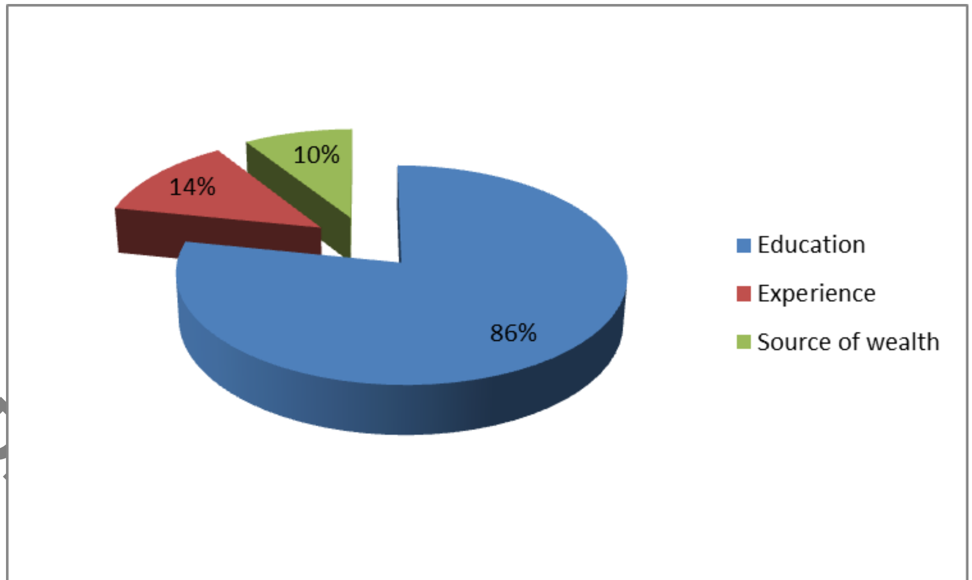

Figure 3.3 Qualities tested in the fit and proper test

4.4.3 Attitudes of BOD towards the fit and proper test

Findings in figure 4.4 indicates that 48% (n=29) of the participants indicated that BOD members had negative attitudes towards the fit and proper test whereas 32% (n=19) welcomed the same.

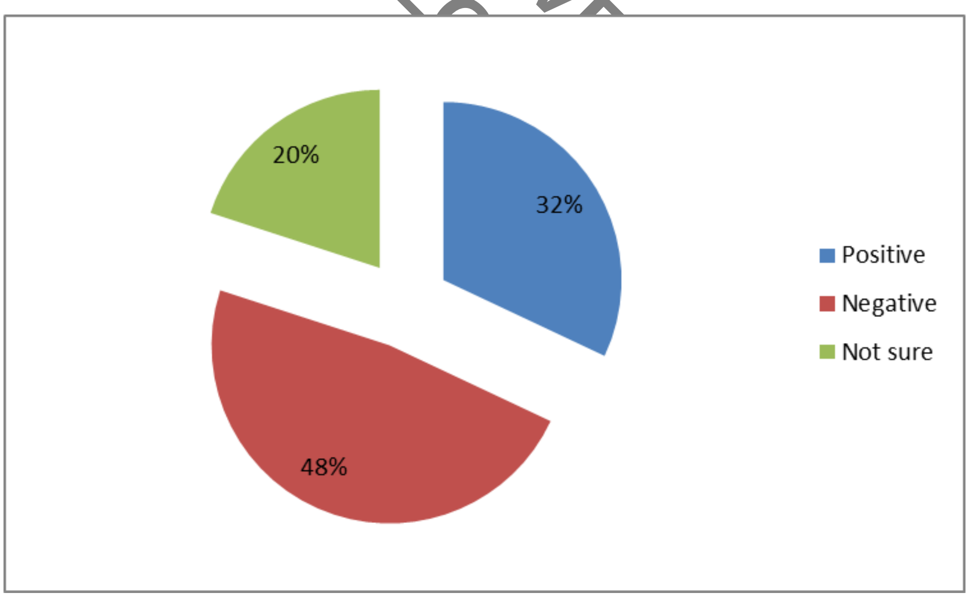

Figure 3.4 Attitudes of BOD towards the fit and proper test

4.4.4 Effect of fit and proper test on financial sustainability

Majority 60% (n=37) indicate that conducting fit and proper test affected financial sustainability to a small extent. The findings therefore show that the respondents did not view the fit and proper test as a significant activity in the operations of the SACCO.

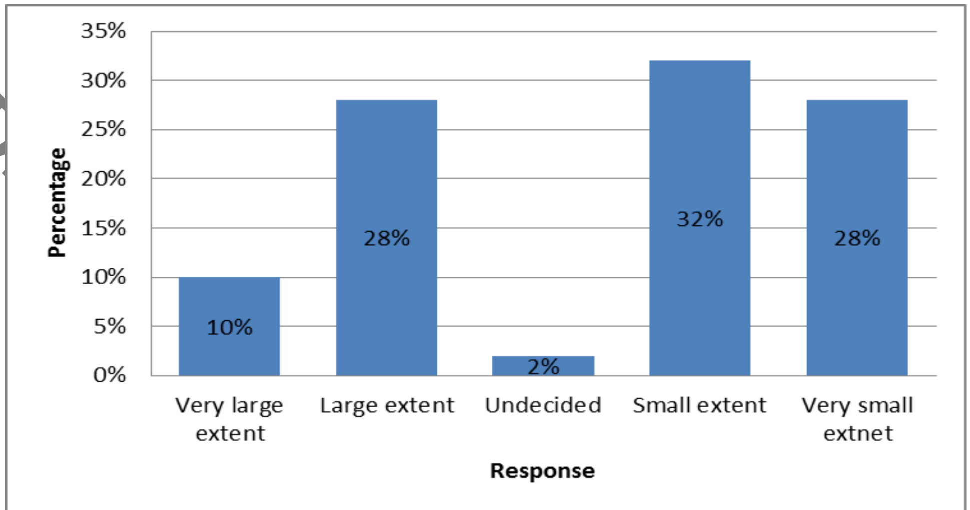

Figure 3.5 Effect of fit and proper test on financial sustainability

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4.5 Loan Management Requirements

To evaluate the influence of loan management requirements on the sustainability of SACCOs in Kenya, the researcher sought to find out how the SACCOs were coping with the new loan management regulations recommended by SASRA.

4.5.1 Purpose of loan

Majority 92% (n=57) indicate that the SACCO sort to find out the purpose of a loan sought by a member. The findings therefore show that majority of SACCOs complied with the SASRA regulations which outlines permissible loan purposes.

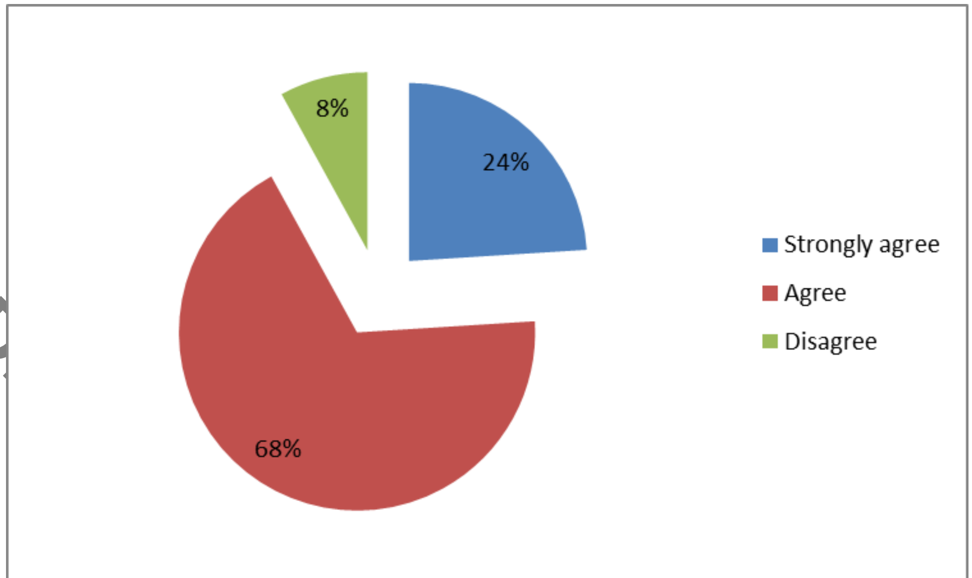

Figure 3.6 Purpose of loan

4.5.2 Loan limits

All (n=62) participants agreed that their SACCO had set minimum and maximum loan limits as recommended by SASRA regulations. Under loan management regulations, SASRA requires deposit taking SACCOs to have loan concentration limits.

4.5.3 Average interest rate of loans

Majority 78% (n=48) of the respondents indicate that their SACCO charged between 10% - 12% interest rate for loans. The findings therefore show that the deposit taking SACCOs had revised their interest rates upwards and were charging more than they did before the SASRA regulations took effect as noted by MBODo (2012).

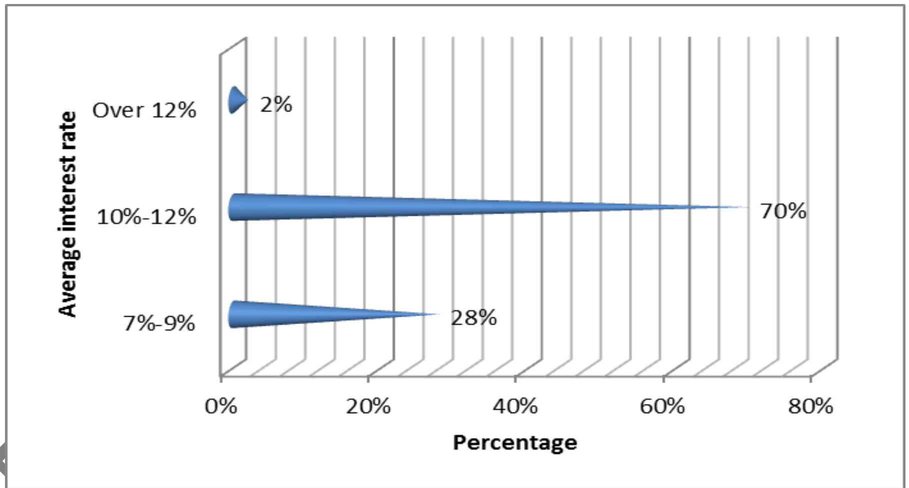

Figure 3.7 Average interest rate of loans

4.5.4 Collaterals accepted by SACCO

All (n=62) participants in the study indicated that they accepted vehicles and parcels of land as collateral. A significant number (88%) also indicate that their SACCO accepted buildings as collateral.

Table 3.4 Collaterals accepted by SACCO

Collaterals	Frequency	Percentage
Vehicles	62	100
Land	62	100
Buildings (Real estate)	62	98

4.5.5 Difficulty in complying with loan management requirements

A significant number 78% (n=43) of respondents indicated that the SACCO found it very difficult to comply with the new SASRA regulations on loan management.

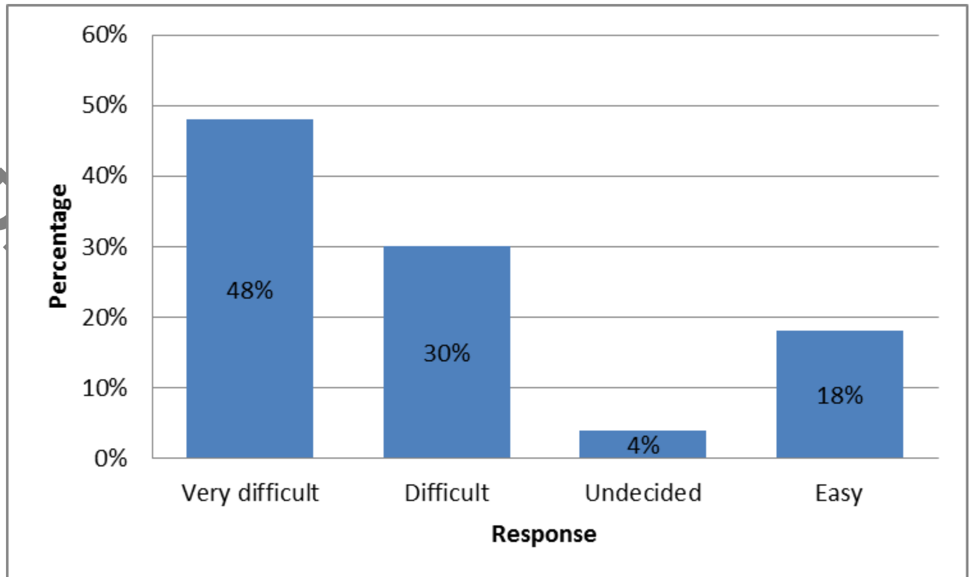

Figure 3.8 Difficulty in complying with loan management requirements

4.5.6 Effect of loan management requirements on financial sustainability

A significant number 83% (n=52) indicate that loan management requirements affected the SACCO's financial sustainability to a large extent. The findings therefore show that the loan management regulations greatly affected the SACCOs financial position.

Table 3.5 Effect of loan management requirements on financial sustainability

Extent	Frequency	Percentage
Very large	28	45
Large	24	38
Undecided	4	7
Small	6	10
Total	62	100

4.6 Financial performance reporting requirements

To assess the influence of financial performance reporting on the sustainability of SACCOs in Kenya, the researcher sought to find out if the SACCOs in the study were complying with the reporting requirements.

Table 3.6 Compliance with financial performance reporting requirements

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
SACCO has an internal auditor	47	32	2	4	15
SACCO has an audit committee	32	21	0	25	22
SACCO has hired an external auditor	57	30	0	10	3
Holds an AGM at least 4months after the year end	88	12	0	0	0
Displays financial performance information on the website	10	2	0	43	45

Majority 79% (n=49) of the respondents indicated that the SACCO had an internal auditor. In addition, 53% (n=32) of the respondents indicated that their SACCO had an audit committee. A significant number 87% (n=54) indicated that their SACCO had hired an external auditor. All (n=62) respondents indicated that their SACCO held AGM at least 4months after the year end. Majority (88%) of the participants indicated that their SACCO did not display financial performance information on their website. The findings therefore show that SACCOs in Nyeri County complied with much of the financial performance reporting requirements.

4.6.1 Difficulty in complying with financial reporting requirements

A significant 88% (n=55) number of respondents indicated that it was easy for the SACCOs to comply with financial reporting requirements. The findings therefore suggest that financial reporting requirements were not hard to implement.

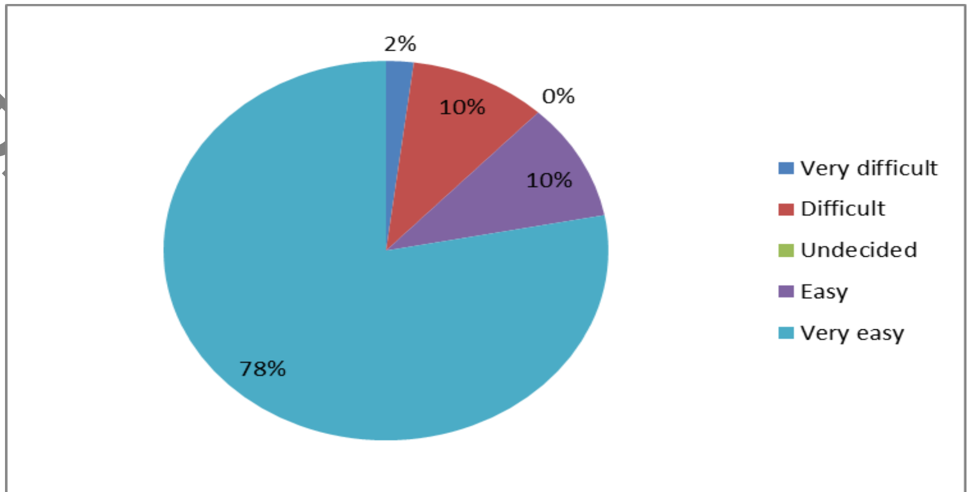

Figure 3.9 Difficulty in complying with financial reporting requirements

4.6.2 Effect of financial reporting requirements on financial sustainability

A significant (98%) number of respondents indicated that financial reporting requirements had a very small effect on financial sustainability. The findings therefore show that whilst the financial reporting requirements were easy to implement, their significance on financial sustainability was negligible.

Table 3.7 Effect of financial reporting requirements on financial sustainability

Extent	Frequency	Percentage
Undecided	1	2
Small	6	10
Very small	55	88
Total	62	100

4.7 Investment requirements

To evaluate the influence of investment requirements on the sustainability of SACCOs in Kenya, the researcher sought to find out how SACCOs were implementing the SASRA regulations on investment.

4.7.1 Investment policy

Majority 54% (n=39) of the respondents agreed that their SACCO had an investment policy whereas 20% indicated that they were uncertain.

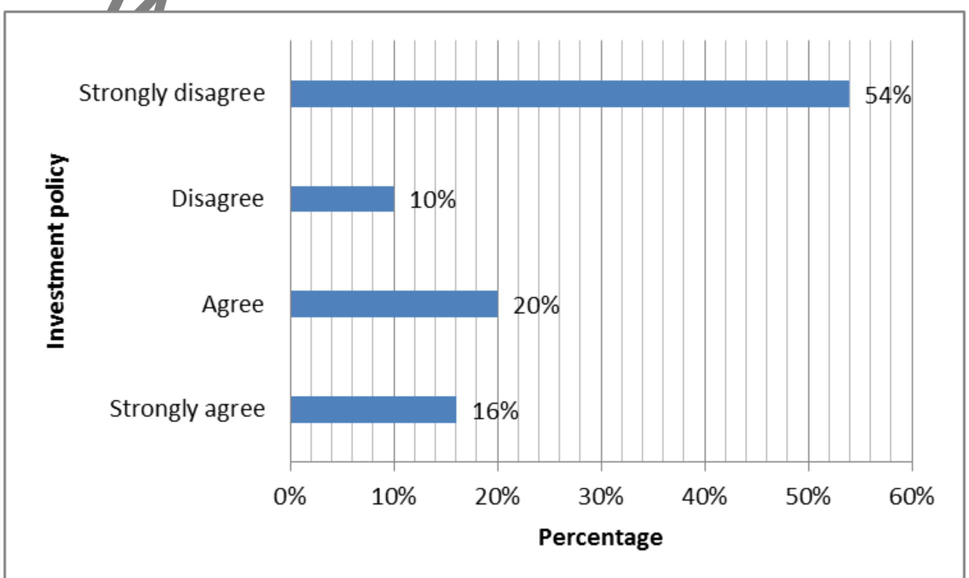

Figure 3.10 Investment policy

4.7.2 Types of Investment

All (n=62) respondents indicate that their SACCO had invested their money in fixed deposit accounts in commercial banks whereas 94% (n=58) indicated that their SACCO had invested in securities.

Table 3.8 Types of Investment

Investment	Frequency	Percentage
Fixed deposit account	62	100
Securities	58	94

4.7.3 Diversification of investments

Majority 54% (n=35) of the participants indicated that their SACCOs had diversified investment to a large extent as proposed by the 2008 SASRA regulations.

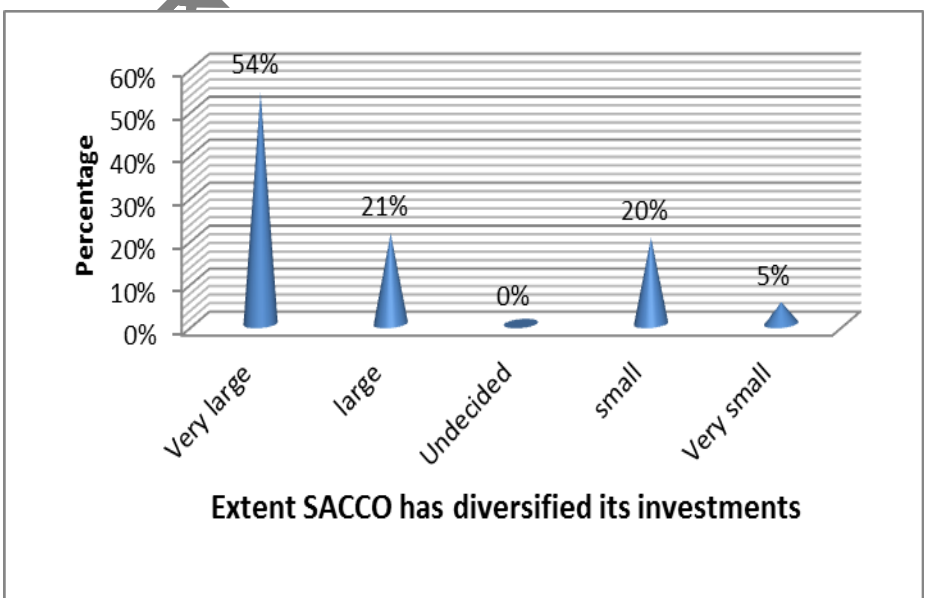

Figure 3.11 Diversification of investments

4.7.4 Submission of investment returns to SASRA

Majority (66%) of the participants indicate that their SACCO submitted returns to SASRA as directed by the 2008 SASRA regulations.

Table 3.9 Submission of investment returns to SASRA

Returns	Frequency	Percentage
Strongly agree	22	46
Agree	12	20
Strongly disagree	28	34
Total	62	100

4.7.5 Difficulty in complying investment requirements

A significant number 80% (n=49) of participants indicated that it was difficult to comply with the new SASRA investment requirements.

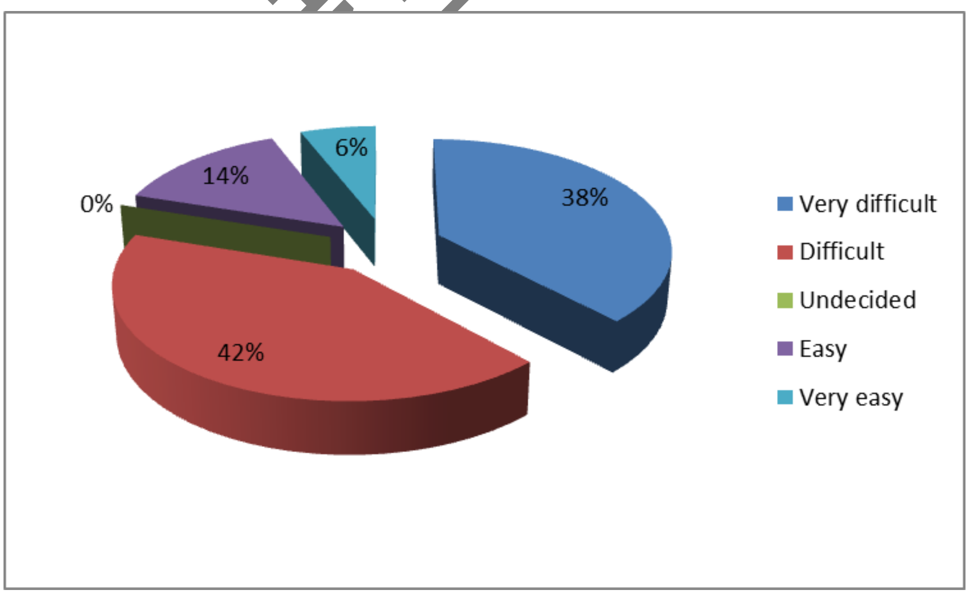

Figure 3.12 Difficulty in complying investment requirements

4.7.6 Effect of investment requirements on financial sustainability

Majority (72%) of participants indicated that investment requirements had a large effect on financial sustainability. The findings suggest that deposit taking SACCOs struggled to comply with investment requirements

Table 3.10 Effect of investment requirements on financial sustainability

Extent	**Frequency**	**Percentage**
Very large	38	62
Large	6	10
Small	5	8
Very small	13	20
Total	62	100

4.8 Regression of variables

The general objective of the study was to establish the influence of SASRA regulatory framework on the sustainability of SACCOs in Kenya. To achieve the researcher applied the data to a regression analysis between the fit and proper test, loan management, financial performance reporting and investment requirements and loan book amount on deposit taking SACCOs in Nyeri County. The regression analysis was done using Statistic Package for the Social Science (SPSS) at 95% confidence level.

The regression analysis findings are presented in Table 4.11, 4.12 and 4.13.

Table 3.11 Model Summary of regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874[a]	.764	.731	0.12225

Adjusted R squared is coefficient of determination which defines the variation in the dependent variable due to changes in the independent variable. The value of adjusted R squared was 0.731 as presented and indicates that there was variation of 73.1% on performance due to fit and proper test, loan management, financial performance reporting and investment requirements at 95% confidence interval. This specifically means that 73.1 % change in performance of deposit taking SACCOs could be attributed to changes brought about by SASRA regulations. R is the correlation coefficient which shows the relationship between the study variables. The coefficient of 0.874 indicated in Table 4.11 shows that there was a strong positive relationship between SASRA regulations and financial sustainability of deposit taking SACCOs.

Table 3.12 Regression ANOVA output

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	223.013	4	55.753	3.536	.013[b]
	Residual	741.064	47	15.767		
	Total	964.077	51			

From the ANOVA statistics in Table 4.12, the significance value (0.013) formulated was less than 0.05 indicating that the regression model utilized was significant in predicting influence of SASRA regulatory framework on the sustainability of SACCOs in Kenya.

Table 3.13 Regression Coefficients

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.178	.357		2.459	.016
	Fit and proper test	.158	.100	.183	1.583	.067
	Loan management	.305	.097	.402	3.145	.002
	Performance reporting	.071	.093	.091	.760	.059
	Investment requirements	.245	.147	.182	1.664	.010

The analysis in the Table 4.13 shows the coefficient of independent variables as indicated by the unstandardized coefficients which can directly be substituted in the regression model as worked out below.

$Y = 0.178 + 0.158 X_1 + 0.305 X_2 + 0.071 X_3 + 0.245 X_4$

The findings indicate that without fit and proper test, loan management, financial performance reporting and investment requirements performance would be 0.178. The model indicates that a unit change in loan management (X_2) would change the performance of SACCOs by 30% whereas a unit change in investment requirements(X_4) would result in a 25% change in performance. The findings show that loan management requirements (p=0.02) and investment requirements (p=0.01) were statistically significant to performance and hence sustainability of deposit taking SACCOs. The findings indicate that loan management and investment were significant factors to sales performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, discussions, conclusions and recommendations of the study and areas for further research. Presentation was done in the order of study objectives.

5.2 Summary of findings

5.2.1 Influence of fit and proper test on financial sustainability of SACCOs

A significant number 96% (60) of participants indicated that fit and proper test was administered on all BOD members in line with the SASRA requirements. 48% (n=29) of the participants indicated that BOD members had negative attitudes towards the fit and proper test. No significant relationship ($p>0.05$) was found between fit and proper test and financial sustainability of SACCOs.

5.2.2 Influence of loan management on financial sustainability of SACCOs

All (n=62) participants agreed that their SACCO had set minimum and maximum loan limits as recommended by SASRA regulations. Majority 78% (n=48) of the respondents indicate that their SACCO charged between 10% - 12% interest rate for loans. A significant number 78% (n=43) of respondents indicated that the SACCO found it very difficult to comply with the new SASRA regulations on loan management. There was a significant relationship ($p<0.05$) between loan management and financial sustainability of SACCOs.

5.2.3 Influence of financial performance reporting on financial sustainability of SACCOs

Majority 79% (n=49) of the respondents indicated that the SACCO had an internal auditor. In addition, 53% (n=32) of the respondents indicated that their SACCO had an audit committee. A significant number 87% (n=54) indicated that their SACCO had hired an external auditor. All (n=62) respondents indicated that their SACCO held AGM at least 4months after the year end. Majority (88%) of the participants indicated that their SACCO did not display financial performance information on their website. There was no significant relationship ($p>0.05$) between financial performance reporting on financial sustainability of SACCOs.

5.2.4 Influence of investment requirements and financial sustainability of SACCOs.

Majority 64% (n=39) of the respondents agreed that their SACCO had an investment policy. All (n=62) respondents indicate that their SACCO had invested their money in fixed deposit accounts in commercial banks whereas 94% (n=58) indicated that their SACCO had invested in securities. A significant number 80% (n=49) of participants indicated that it was difficult to comply with the new SASRA investment requirements. There was a significant relationship between investment requirements and financial sustainability of SACCOs.

5.3 Discussion of findings

5.3.1 Influence of fit and proper test on financial sustainability of SACCOs

The study found that a significant number of SACCOs complied with the fit and proper test requirements for BOD members. However fit and proper test was found to have no significant relationship with financial sustainability of SACCOs. This can be attributed to the fact that the fit and proper test was an activity geared to ensure that the management of the SACCO was well educated and morally upright. As such this would increase transparency and accountability in the organization. Fit and proper test ad no financial implications and therefore no influence on financial sustainability of SACCOs.

The findings are in contrast with Kilonzi (2013) and Wanyoike (2013) who found that the quality of the Board of Directors was an important aspect in improving the SACCOs financial performance as per the SASRA regulations. The findings are therefore in agreement with to Ngaira (2011) who found that 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 et cetra. The findings are in agreement with the agency theory which states that the separation of ownership and control will result in decisions by the agent which are not always in the principal's best interest and there will arise costs (agency costs) of bringing the agent's behavior into line.

5.3.2 Influence of loan management on financial sustainability of SACCOs

The study found that whereas SACCOs complied with the loan management requirements, the organizations found it hard to do so. As a result, deposit taking

SACCOs had to increase the interest rate charged on borrowers to enable them remain profitable. A significant relationship was found between loan management on financial sustainability of SACCOs. This can be attributed to the new stringent requirement such as the one which directs that may repay a credit facility prior to its maturity in whole or in part on any business day without being charged full-term interest. The findings are in agreement with WaswaU (2013) who found that that the regulatory controls inception led to a slight increase in interest rates on SACCO loans /credit. The findings are in agreement with the competition for regulation theory which states that regulation will serve the interests of those who are willing to offer the most for the regulation. The findings are also in agreement with the prospect theory which indicates that if people are given a choice of two different prospects, they will pick the one that they think has less chance of ending in a loss, rather than the one that offers the most gains

5.3.3 Influence of financial performance reporting on financial sustainability of SACCOs

Apart from posting financial performance information on the SACCOs website, the study found that SACCOs complied with all financial reporting requirements. However, no significant relationship was found between financial performance reporting and financial sustainability of SACCOs. This may be attributed to the fact that majority of SACCO members are low income earners who join SACCOs for the sole purpose of borrowing; majority of members do not bother to find out a SACCOs financial position as loan as it delivers in providing credit facilities.

5.3.4 Influence of investment requirements on financial sustainability of SACCOs

The study found that the deposit taking SACCOs complied with all the investment requirements stipulated in the SASRA regulations. However majority of the SACCOs struggled to adapt to the changes in the investment requirements. A significant relationship was found between investment requirements and financial sustainability of SACCOs. This can be attributed to tight regulations introduced by SASRA which but all took away previous freedom in choice of investments among SACCOs. An example of such limitation is the regulation that states SACCOs shall not invest in non-earning assets or property and equipment in excess of ten percent of total assets, of which land and buildings shall not exceed 5% unless a waiver to that effect has been obtained from the Authority. The findings are in disagreement with Muturi (2013) who in a similar study found that SACCOs had high investment in non-earning assets. The findings are in agreement with the modern portfolio theory which asserts that to it's possible to construct an "efficient frontier" of optimal portfolios offering the maximum possible expected return for a given level of risk.

5.4 Conclusion

The researcher concludes that the SASRA regulation requirements have an influence on SACCO’s financial sustainability. Fit and proper test and financial requirements do not have a significant influence on financial sustainability however investment requirements and loan management requirements influenced financial sustainability to a large extent. The greatest effect is felt through the loan management and investment requirements.

The findings may be attributed to SASRA limiting financial activities which were previously unregulated and which gave SACCOs an edge over the other players in the loans market. The advent of SASRA regulations forced SACCOs to limit borrowing and increase interest rates charged to borrowers. As a consequence the financial performance of SACCOs has been realty affected. Fit and proper test requirements as well as financial performance requirements are good tools of ensuring integrity, transparency and accountability but they have little or no implications for financial performance of SACCOs.

5.5 Recommendations

(i) SACCO directors should be vetted by the Authority to ensure that only people of integrity run these critical financial institutions

(ii) SASRA should relook at the regulation of interest rates since some SACCOs have shot up the interest rates of loans to the detriment of many customers.

(iii) All SACCOs should post their financial information on their website for transparency and this can also be used as a marketing tool for attracting potential borrowers.

5.6 Suggestions for further study

The current study was focused on Nyeri County which has a small number of SACCOs compared to the total number of SACCOs in the country. Future studies should attempt to use a bigger geographical area for comparative purposes.

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APPENDICES

Appendix I: Questionnaire

The objective of this questionnaire is to collect data on the influence that SASRA regulatory framework has had on the sustainability of SACCOs in Kenya. Kindly read the items carefully and provide a response that best represents your opinion. To provide confidentiality, do not indicate your name on the questionnaire. The questionnaire has several sections. Please answer accordingly with a tick in the provided gaps.

Section A: Socio-demographic information

1. What is your gender?

Male [ ] Female [ ]

2. How old are you?

20-30 years [ ] 31-40 years [ ] 41- 50 years [ ] Over 50 years [ ]

3. What is your highest level of education?

Certificate [ ] Diploma [ ] Bachelors degree [ ] Postgraduate degree [ ]

4. How long have you been an accountant in this SACCO?

1 – 5 years [ ] 6-10 years [ ] 11-20 years [ ] Over 20 years [ ]

Section B: Fit and proper test

11. All BOG members and managers in this SACCO have undergone a fit and proper test.

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] Strongly disagree [ ]

12. What qualities were tested in the fit and proper test?

……………………………………………………………………………………….

13. How would you describe the attitudes of BOG governors towards the fit and proper test?

……………………………………………………………………………………….

14. To what extent would you say loan management requirements affect financial sustainability of the SACCCO?

To a very large extent [ ] large extent [ ] undecided [ ] to a small extent [ ] to a very small extent [ ]

Section C: Loan management requirements

15. The SACCO seeks to establish the purpose of a loan to a member

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] Strongly disagree [ ]

16. The SACCO has defined minimum and maximum loan limits

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] Strongly disagree [ ]

17. What is the average interest rate of the various loan products?

……………………………………………………………………………………….

18. What kind of collaterals doe the SACCO accept?

……………………………………………………………………………………….

19. How difficult is it for the SACCO to comply with the above loan management requirements?

Very difficult [ ] Difficult [ ] Undecided [ ] Easy [   ] Very easy [ ]

20. To what extent would you say loan management requirements affect financial sustainability of the SACCCO?

To a very large extent [   ]   large extent [   ]   undecided [   ]   to a small extent [   ]   to a very small extent [   ]

Section D: Financial performance reporting

21. The SACCO has an internal auditor

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] Strongly disagree [ ]

22. The SACO has an audit committee in place

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] Strongly disagree [ ]

23. The SACCO has hired an external auditor

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] Strongly disagree [ ]

24. The SACCO holds an AGM at least 4 months after the end of the year

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] Strongly disagree [ ]

25. The SACCO displays financial performance information on the website.

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] Strongly disagree [ ]

26. How difficult is it for the SACCO to comply with the above financial performance reporting requirements?

Very difficult [ ] Difficult [ ] Undecided [ ] Easy [ ] Very easy [ ]

27. To what extent would you say financial performance reporting requirements affect financial sustainability of the SACCCO?

To a very large extent [ ] large extent [ ] undecided [ ] to a small extent [ ] to a very small extent [ ]

Section E: Investment requirements

28. The SACCO has an investment policy

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] Strongly disagree [ ]

29. What type of investments is the SACCO engaged in?

…………………………………………………………………………………….

…………………………………………………………………………………….

…………………………………………………………………………………….

30. To what extent would you say the SACCO has diversified its investments?

To a very large extent [ ] large extent [ ] undecided [ ] to a small extent [ ] to a very small extent [ ]

31. The SACCO submits returns of investment to SASRA.

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] strongly disagree [ ]

32. How difficult is it for the SACCO to comply with the above investment requirements?

Very difficult [ ] Difficult [ ] Undecided [ ] Easy [ ] Very easy [ ]

33. To what extent would you say investment requirements affect financial sustainability of the SACCO?

To a very large extent [ ] large extent [ ] undecided [ ] to a small extent [ ] to a very small extent [ ]

34. Which of the following requirements has the greatest effect on the financial sustainability of the SACCO?

Fit and proper test [ ] Loan management requirements [ ]

Financial performance requirements [ ] Investment requirements [ ]

35. Give reasons for your answer in Q. 34

……………………………………………………………………………………….

……………………………………………………………………………………….

……………………………………………………………………………………….

Appendix IV: SACCOs in Nyeri County

SACCO	Number of members
Nyeri Teachers	9025
Bingwa	80000
ENEA	12000
Baraka	7000
Wananchi	45000
Biashara	10000
Mwalimu	45000
Taifa	100000
Afya	3800
Nyala vision	7658
NECCO	1200
Wakulima	16000
2NK	4500
Total	341183