

# Challenges Facing Deposit Taking Savings and Credit Co-Operatives' Compliance with the SACCO Societies' Act Number 14 (2008) in Nyeri County, Kenya

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## Abstract

The study sought to investigate the challenges facing deposit taking savings and credit co-operatives' in compliance with the Sacco societies' Act number 14 (2008) in Nyeri County. The study was guided by the following specific objectives: to assess the extent to which capital adequacy affects Savings and credit co-operatives' compliance to the Sacco societies' Act number 14 of 2008 in Nyeri county; to evaluate the extent to which governance affects Savings and credit co-operatives' compliance to the Sacco societies' Act number 14 of 2008 in Nyeri county; to investigate the extent to which information technology capacity affects Savings and credit co-operatives' compliance to the Sacco societies' Act number 14 of 2008 in Nyeri county; and to assess the extent to which size of the Savings and credit co-operatives affect Saccos' compliance to the societies' Act number 14 of 2008 in Nyeri county. to assess the compliance level to Sacco societies' Act number 14 (2008) by the Deposit Taking Savings and Credit Co-operatives; to evaluate operational environmental factors that affects compliance with the Sacco societies Act number 14 (2008) by the Deposit Taking Savings and Credit Co-operatives; to investigate internal business environmental factors that affects compliance with the Sacco societies Act number 14 (2008) by the Deposit Taking Savings and Credit Co-operatives. The study adopted descriptive survey research design where the target population was the management of the Savings and Credit Co-operatives consisting of 120 individuals since the population is small a census was carried. Statistical inferences (Regression analysis) were used to measure relationships while thematic analysis was used to interpret and organize the qualitative data. The findings include that ICT capacity of the SACCOS in Nyeri County is inadequate; The SACCOS in the county have not attained the required capital ratio and 80% of the SACCOS have not fully complied with the Societies' Act of 2004. The researcher's conclusion and recommendations was that ICT capacity, capital adequacy, size and governance were found to be important as far as compliance with the Societies' Act number 14(2008). These factors present challenges that hinder SACCOS from compliance. Therefore Sacco societies Act should be reviewed to ensure as many SACCOS are able to comply with the Act as possible in order to ensure that members deposits held in the current outfits are protected as the small and emerging Saccos endeavour to overcome the compliance challenges. The revision may be informed by the fact that almost all the entities have not been able to comply with the high legal threshold. Further; there is also need to take into deeper consideration the historical background of the Sacco movement in Kenya and the place in financial intermediation purposes. Saccos being member based organizations and being formed to fill the existing financial service gaps that other financial institutions may not be willing to offer to the low and middle income groups need not be put on high legal standards as conventional commercial banks in order to bring as many people as possible to the financial market that is ideal for economic growth.

**Keywords:** Savings and Credit Cooperative Societies, Compliance, Front Office Savings Activities, SACCO Societies' Regulatory Authority

## ACRONYMS AND ABBREVIATIONS

<b>FOSA</b>	Front Office Savings Activities
<b>ICT</b>	Information and Communication Technology
<b>KUSCCO</b>	Kenya Union of Savings and Credit Cooperatives
<b>MIS</b>	Management Information System
<b>SACCOS</b>	Savings and Credit Co-operative Societies
<b>SASRA</b>	SACCO Societies' Regulatory Authority

## 1.0 INTRODUCTION

### 1.1 Background to the Study

Co-operatives have evolved and developed despite the severe competition that they face in their areas of operation. They have been able to carry their members along and enabled them to reach markets at favorable terms Davis, (1999). Co-operatives were founded to operate and compete in free markets and without them many

people were denied access to the market place except on very unequal terms. A co-operative is an association of persons who have voluntarily come together to achieve common economic goals through a democratically controlled organization with equitable contribution to capital and sharing of risks and benefits accruing from the business of the organization. Cooperatives are ideally therefore economic organizations whose activities are devoted to the economic and social welfare of their members by providing goods and services which enable the Co-operative group to realize its ideas. In essence, this means that cooperatives are not only motivated by desire for economic benefits but also by the need to uphold human dignity and social welfare of their members Davis (1999).

SACCOS have enabled their members to access credit at competitive rates after giving them an opportunity to mobilize their limited resources. SACCOS have now become synonymous with individual development in Kenya. Consequently, SACCOS have extended banking services to their members and even non members. They have given members a chance to pool their resource together for re-investment in many areas such as provision of decent shelter for their families, healthcare, education, transport and benevolence. The SACCOS are now moving into areas that involve innovation and product development. In this area, the SACCO societies are in the forefront in mobilizing savings from the members for their credit needs. In fact, these societies are moving into areas of co-operative banking, which is locally referred to as Front Office Services Activity (FOSA). This is a radical departure from their earlier practice where their services were offered through the Back Office Services Activity (BOSA) under which they granted credit that could only be cashable in the local commercial banks.

The success of the FOSA is as a result of the commercial banks' litany of charges levied on their accounts' holders. The FOSA account holders have grown to over 1.5 million according to the annual statistics for the year 2004 released by the Ministry of Co-operative Development and Marketing. Indeed, this is a significant percentage of the total co-operative membership in the country, which needs special attention. The attention necessary will come from both the Ministry of Co-operative Development & Marketing and the SACCO societies themselves through the services offered at the FOSA. The only way that the members/customers can continue patronizing their FOSAS was if they can be motivated enough to appreciate the quality services offered at the FOSA.

The Savings and Credit Co-operative Societies (SACCOs) sub-sector is the fastest growing among the co-operative movement in Kenya. The number of registered SACCOs was 6,007 as at December 2010 and out of these 2,959 were active ( meaning that they had filed their duly audited accounts with commissioner for co-operatives as provided for in the Co-operative Societies Act Chapter 490 laws of Kenya). The number included both deposit taking that were then operating front office activities and non-deposit taking SACCOs. The active SACCOs, were deposits taking totaled 218 whereas 2,011 was non-deposit taking savings and credit co-operatives societies.

SACCOs are generally classified into two broad categories that are Urban and Rural as described on their operational environment in terms of both urban or rural based savings and credit co-operatives. Urban based Savings and credit co-operatives are commonly formed to serve membership that is mainly drawn from formal employment whereby the dominant factor that characterizes them is commonality of employers which in turn create a common bond that is very crucial in credit administration within the SACCO subsector. In this model a check-off arrangement exists where Savings and Credit Co-operatives receives contribution and loan repayments deducted directly from employees' salaries in form of payroll deductions through an arrangement between the employer and the SACCO as a body corporate.

However although the most common denominator that characterizes urban Saccos is formal employment, there is also a growing number of these organizations that draw their membership from the informal sector who make their contributions towards a common pool individually. On the other hand, rural SACCOs are concentrated in the regions with large areas of major cash crops and dairy sector such as coffee, tea, pyrethrum and dairy industries. Individual SACCOs that form the primary Societies affiliate to the Kenya Union of Saving and Credit Cooperative society limited (KUSCCO) which is an umbrella body for Saccos in Kenya.

The earliest Savings and Credit Co-operative Society in Kenya was started in 1970 by teachers who were employed by the Teachers' Service Commission of Kenya but the rapid growth and popularity of SACCOs can be attributed to the liberalization of the banking sector in 1990s that left many low income earners without access to financial services due to the stringent requirements of the mainstream banks hence the rapid development of SACCOs was in response to that existing financial services gap that was created . The Sacco Subsector mobilizes savings and grant members credit facilities at reasonable rates of interest in times of need. However, over the years SACCOs have been operating without a specific legal framework to guide their operations. This has lead to loss of members' funds due to poor governance and lack of professionalism. SACCOs have been governed by the Cooperative Societies Act since 1966 with several amendments.

Recognizing the difficulty of supervising the operations of the SACCOs under the Co-operative Societies Act and given the dynamism in Sacco operations as financial intermediaries, the government enacted

the SACCO Societies Act number 14 of 2008. The SACCO Society Regulatory Authority (SASRA) to license regulates, supervise and promote SACCO societies development in Kenya. The purpose of the Act was to enhance governance by ensuring transparency and accountability in the management of Sacco societies and mainstream the Sacco sub-sector in Kenya. Eventually the Act aims to ensure that SACCOs are able to provide financial access efficiently and conveniently.

The new legal framework consist of the SACCO Societies Act of 2008, and the SACCO Societies Regulations of 2010, is particularly targeting the SACCO societies the deposit-taking business, that is SACCOs operating Front Office Savings Activities (FOSA). Though the registration of the SACCOs still remains the mandate of Commissioner for Co-operative Development under the Co-operative Societies Act Cap 490, a SACCO intending to operate FOSA must apply for a license from SASRA that is renewed annually. The rationale of establishing an oversight agency for the FOSA is that accepting deposits is particularly considered a high-risk activity as depositors risk losing their money in an event of liquidity squeeze affecting a Sacco Society.

The Act mandates SASRA to license Sacco societies intending to carry out deposit taking business, after such a society meets a number of conditions including Capital adequacy and governance requirements among others. The capital adequacy requirements include the Core capital of not less than Kenya shillings Ten million of total assets, Institutional capital of not less than 8% of total capital and Core capital of not less than 8% of total deposits. The governance requirements on the other hand include employing qualified Internal Auditor as per the Accountants professional standards and Composition of the right board Committees. Both directors and senior management staffs must be subjected to a vetting process to ascertain their moral and professional suitability to be on the board and to manage the SACCO society through a process known as Fit and proper tests. Further a business plan detailing a four-year business plan and feasibility study including projected financial statements is required.

The licensing process of the SACCOs follows a given duly prescribed procedures. It begins with the SACCO submitting a license application accompanied by the required documents. Upon receiving a letter of intent from SASRA, the SACCO will be required to put in place a Management Information System (MIS), and develop a comprehensive risk management framework. SASRA will then conduct an on-site inspection and issue a letter of compliance and if satisfied that the SACCO have attained the requirements and subsequently a license upon payment of the licensing fee of Kenya Shillings fifty thousand for a head office and Kenya Shillings twenty thousand for every branch outlet .

However, five years after the Act came into effect many Saccos have been struggling to meet the requirement and therefore remains unlicensed. According to SASRA report seventy three SACCOs have been licensed against two hundred and sixteen SACCOs that applied while forty eight SACCOs have been issued with the Letter of intent. The report cited Capital adequacy Challenges, lack of responsible governance players as the major impediments to compliance of the regulations. Further, Governance Structure comprising of elected officers are heavily involved in the operational affairs of the Sacco to the exclusion of the technical staff is deeply entrenched limiting the effectiveness of the Act and Regulations in licensed deposit Taking SACCOs. The Internal audit function either does not exist or the Internal Auditor is not qualified as per the legal requirements. Owing to these challenges some SACCOs have opted to stop operating FOSA and others have not bothered to apply for the License

### **1.2 Statement of the Problem**

The SACCOs sub-sector controls huge resources drawn from the members deposit and performs a critical role of providing credit facilities to millions of Kenyans who were not served by the conventional financial institutions. To protect the interest of the millions of depositors whose funds are held in trust by Saccos, prudent measures are necessary to cushion SACCO members from losses. Consequently the government enacted the Societies Act number 14 of 2008 with the aim of providing operational regulations and prudential standards.

However, the number of SACCOs licensed so far is very low which stood at seventy three SACCOs societies against a total number of two hundred and sixteen deposit taking SACCOs (SASRA, 2010). Some SACCOs have opted to stop FOSA activities while others have not bothered to apply for the license. It therefore it implies that SACCOs are facing myriad of challenges that hinders them from complying with the Act thus compromising their ability to operate FOSAs. It is against this background that this study seeks to assess the challenges that faces Saccos in complying with the SACCO societies Act number 14 (2008).

### **1.3 Purpose of the Study**

The purpose of the study was to assess the challenges faced by deposit taking savings and credit co-operatives in complying with the SACCO societies Act number 14 (2008) in Nyeri county given the low compliance levels.

#### **1.4 General Objective**

To assess the challenges that face the deposit taking savings and credit co-operatives' compliance with the SACCO societies Act number 14 (2008).

#### **1.5 Specific Objectives**

- i. To assess the extent to which capital adequacy affects Saccos' compliance with the Sacco Societies Act number 14 of 2008 in Nyeri County.
- ii. To evaluate the extent to which governance affects Saccos' compliance with the Sacco Societies Act number 14 of 2008 in Nyeri County.
- iii. To investigate the extent to which ICT capacity affects Saccos' compliance with the Sacco Societies Act number 14 of 2008 in Nyeri County.
- iv. To assess the extent to which size of the Sacco affect Saccos' compliance with the Sacco Societies Act number 14 of 2008 in Nyeri County.

#### **1.6 Significance of the Study**

The Sacco sub-sector is one of the fastest growing financial subsectors in Kenya today. In total SACCOs have mobilized savings to the tune of Kenya shillings 200 billion. The savings mobilized represent about 31% of the National savings. It is against this background that the government found it necessary to regulate the sub-sector and to enact the Sacco Societies Act number 14(2008). The aim of the Act is to license, regulate and monitor the operations of all the deposit taking SACCOs in Kenya.

By establishing the challenges faced by SACCOs in complying with the requirements of the SACCO Societies Act, this study will provide valuable information especially to the regulators. It will generate the data on the capacity of Deposit Taking SACCOs ability to comply with the legal provisions thus providing the regulators with the basis of aligning the Act with the reality on the ground without comprising the standards. More importantly, the information will give an insight into the likely challenges that a new SACCO intending to operate FOSA may face thus enabling them to prepare adequately. The study will also be a good reference for the scholars and the general public who may be interested in investments in SACCO.

#### **1.7 Scope of the study**

The study was restricted to four key areas due to the fact that they form the basic building blocks upon which institutions of the nature of Savings and Credit co-operatives are grounded. Other authors in this field also agree that the four are key factors in any institution offering financial services

#### **1.8 Definition of Terms**

**Capital adequacy:** Refers to ability of Saccos to raise the required minimum capital as prescribed by the Act.

**Compliance:** Refers to conformance by SACCO societies to the SACCO societies Act number 14 (2008)

**Deposit taking SACCO Societies:** Refers to SACCO societies undertaking Front Office. Savings Activities (FOSA), including receiving deposits and savings from their members.

**ICT capacity:** Refers to the ability of Saccos to make use of Information and Communication Technology in their business operations.

**Saccos Size:** Refers to the total assets held by a Sacco as prescribed by the regulatory Authority.

## **2.0 LITERATURE REVIEW**

### **2.1 Introduction**

This chapter will provide a review of past studies on institutional compliance to regulations. The review will be divided into empirical and the theoretical review. The empirical review will be presented according to the objectives of the study. The theoretical review will present theories relevant to the research problems.

### **2.2 Empirical review**

The compliance to Sacco societies' Act number 14 (2008) by deposit taking Saccos is influenced by both the external and internal factors. The external factors include the capacity of the regulating authority to enforce the Act, pressure from members and competitors. The internal factors on the other hand include governance and size of the Saccos.

#### **2.2.1 Operations Factors**

**Capacity of the Regulator to enforce the Act:** According to Ademba (2007) regulatory authority of SACCOs in Africa are faced by various challenges which include: Limited financial resources: Limited skilled and competent manpower who fully understand Sacco operations and Low adoption of technology by both from Sacco's and regulators. In Kenya the major challenges facing regulators, the different growth phases of SACCOs where some easily meet the prudential standards while others struggle. Further, legal tussle between

*regulators and SACCOS, change resistance and complex multifunctional institutions which border between a Sacco, MFI and a bank compromises the regulator capacity.*

**Pressure from members:** Most SACCO members are wary of the safety of their deposits held by the SACCOs, a fact that may increase pressure on the SACCOs to comply with SACCOs Act. This is however not unique to SACCOs members. Most organizations in regulated industries, often, strive to maintain the trust of local communities, avoid attention of consumer groups, and preserve company's reputation as a socially responsible entity (Gunningham, *et al.* 2005). Thus, to maintain trust of their members SACCOs may strive to comply with the Act which provides stringent conditions on how to safeguard their deposits.

**Pressure from competitors:** Organizations tend to mold themselves on successful competitors when faced with uncertain business environments, and ambiguity of organizational technologies, or even goals (DiMaggio and Powel 1983; March and Olsen 1976). El Oliver (1991) argues that compliance by imitating successful peers to gain organizational legitimacy is a common strategic response to regulatory pressure. With the increasing competition among SACCOs, those who have complied may gain competitive advantage since they are viewed as 'safer' by customers.

### 2.2.2 Internal Environment

**Nature of Governance:** Implementation of organizational activities depends on the relationships between and within organizations (Waterman, 1991). One way to explain this relationships and its effect on implementation of organizational activities is the principal-agency theory holds that shirking is likely to occur when there is some disagreement between policy makers and the bureaucracy. Guy, (2004) for instance argues that board members delegate authority to the management with the expectation that the managers does not move quickly enough to reflect the policy preferences which may be unfavorable to the board. In reference to this observation therefore the board through their appointive authority may influence management outputs given that the Act may interfere with the board management style.

**Size of the Sacco:** *As stated earlier SACCOs are of various sizes and thus face different challenges when attempting to comply with the Act. Baron and Baron (1980) argue that regulatory requirements often have discriminatory impact on small firms. Government regulation forces firms of varying sizes to take the same compliance measures resulting in undue burden on the smaller firms. The larger firms have greater access to financial resources and manpower, and enjoy economies of scale (Weidenbaum 1979). As a result, they have the discretionary power to allocate larger resources to implement necessary policies and safeguards to comply with regulatory requirements. Compliance costs do not take into account the size of the firm thus, for smaller firms the compliance cost could pose excessive burden and may exceed potential benefits from regulation (Eldridge and Kealey, 2005; Engel et al., 2007).*

## 2.3 Theoretical Review

Sacco compliance to regulations can be based on the institutional theory which provides a framework on the probable reasons why an organization complies to set regulations.

### 2.3.1 Institutions and Regulations

According to Scott (2004), institutions are composed of cultural-cognitive and regulative elements that, together with associated activities and resources give meaning to life. The author explains the three pillars of institutions as regulatory, normative and cultural cognitive. The regulatory pillar emphasizes the use of rules, laws and sanctions as enforcement mechanism, with expedience as basis for compliance. The normative pillar refers to norms (how things should be done) and values (the preferred or desirable), social obligation being the basis of compliance. The cultural-cognitive pillar rests on shared understanding (common beliefs, symbols, shared understanding).

According to Guy (2000), there are six dimensions though which we can judge the level of institutionalization of any structure and its ability to adapt to change, including: autonomy, complexity, coherence, congruence and exclusivity. The political and bureaucratically motivated practices can affect these factors. For example Guy (2004), argues that Politicians and government employees are driven by self-interest resulting in under provision of good government policies. While they are supposed to work in public interest, putting into practice policies of government as efficiently and effectively as possible, bureaucrats are motivated by such factors as salary and patronage. However, in the private sector though interference from government officials is rampant in some instances, compliance is driven by availability of resources and perceived benefit of compliance (Hwang and Powell, 2009; Scott, 2004)

## 2.4 Theoretical Framework

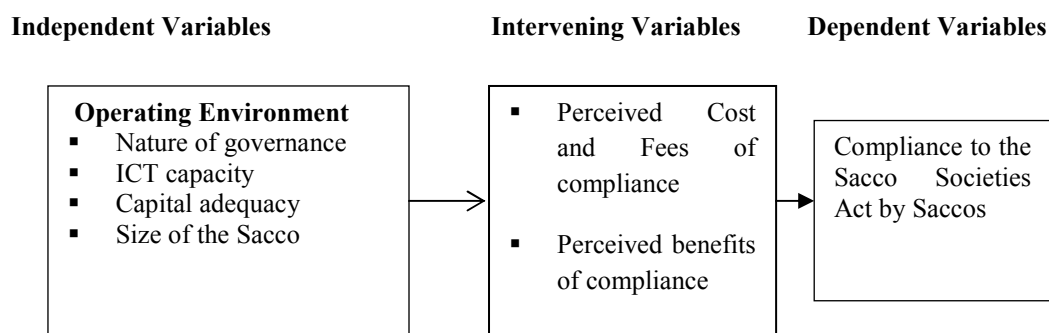
The institutional theory posits that organizations respond to pressures arising from both their external and internal business environments and adopt structures and practices that are accepted as appropriate organizational choices and considered legitimate by other organizations in their fields (DiMaggio and Powell 1983, Meyer and Rowan 1977). These pressures could be classified into three types namely: coercive pressure stemming from

political power exerted by state: mimetic pressurizing from the need to copy successful competitors in the uncertain environment: and normative pressure which arises from the norms embedded in the profession (DiMaggio and Powell 1983). Oliver (1991) suggests while organizations may agree to the demands of institutional environment, they may as well choose to avoid, compromise, defy, and manipulate the institutional environment.

The legal environment for organizations is a prime example of institutional pressure where law appears as a system of substantive edicts, invoking societal authority over various aspects of organizational life (Edelman, and Suchman 1997). Organizations are facing ever increasing regulatory interventions that may lead to significant structural changes such as standardization of processes, practices and ICT assets to show conformity and gain legitimacy (Weidenbaum, 1987). In the context of the study the Sacco societies Act 2008 can be equated to coercive pressure that requires significant structural changes in terms of governance, demands processes changes in terms of regular filings of returns and adoption of ICT. The factors that may determine the ability of Saccos to comply to the Sacco Societies Act can be categorized into external and internal factor. The external factors include the ability of Sacco Supervisory Regulatory Authority to enforce the law, the member's pressure on the management to adhere to the Acts and pressure from competitors. On the other hand the internal factors include the nature of governance, the ICT capacity of individual Sacco, ability to the capital adequacy requirements and size of the Sacco

### 2.5 Conceptual Framework

Based on the theory the study the Figure 2.1 below shows the relationship between the independent variable and dependent variable.



**Figure 2: 1 Conceptual Framework of the Study**

The independent variables are categorized into two namely external pressure (capacity of the regulator to enforce the Act, members pressures, pressure from competitors) and internal (factors, nature of governance, ICT capacity, and capital adequacy, size of the Sacco). These factors determine the ability of the Saccos to comply with the Societies Act 2. However, SACCOS have cited the cost and fees incurred in the process of compliance as unreasonable and some have resulted to court action to have them reduced thus, perceived cost of compliance have been identified as an intervening variable. Further, despite a Sacco's willingness to comply the perceived benefit may accelerate or slow down compliance.

## 3.0 METHODS

### 3.1 Introduction

This chapter covers an overview of the methodology used in the study. The discussion in the chapter is structured around the research design, population sampling, data collection and data analysis. Ethical considerations are also discussed.

### 3.2 Research Design

The study adopted a descriptive survey design to investigate the challenges faced by Saccos in complying with the Sacco Societies' Act Number 14 of 2008. Orordho (2009) observes that a survey design involves obtaining information by interview or administering questionnaire. Both qualitative and quantitative research approach was used where the study used questionnaires that are composed of closed-ended and open ended and interviews. This approach enabled an in-depth probing in to the research problem. Descriptive survey research design was used because it enables the researcher to generalize the findings of the SACCOS in Nyeri County to SACCOS in the rest of the country.

### 3.3 Location of the Study

The location of the study was the Nyeri County. The county occupies a total of 3337 square kilometers with a population of 693,558 according to the 2009 Kenya Population and Housing Census. There are 10 registered deposit taking Saccos in Nyeri County. Together, the 10 deposit taking Saccos have a total of 179, 803 members with a share capital of 198,697,707, holds a total deposit of 2,878,885,125 and have a combined total asset of 4,413,081,799 (SARSA, 2010). The choice of Nyeri County was informed by the following: (i) The county is home to both urban and rural based Sacco in the business of deposit taking hence it is an ideal representation of this research; (ii) The level of entrepreneurial capacity in the county is comparatively higher than in many other counties exhibiting both rural and urban tendencies; and (iii) All Nyeri county Saccos are operating the front office savings activity that is the form of deposit taking business in Saccos.

### 3.4 Target Population

The target population of this study was the management of the deposit taking savings and credit co-operatives SACCOs in Nyeri County. The managements of the deposit taking SACCOs are made up of the managers, board members and supervisory committee. The board members is made up of 9 individuals, the supervisory committee have three members directly elected by members. In total the management of the SACCOS is made up of 13 individuals consisting of the manager, 9 board members and 3 members of the supervisory committee. Thus the total target population was 130 members of the management in all the 10 deposit taking SACCOs in the Nyeri County.

### 3.5 Sample Size and Sampling Techniques

Since the target population was small, the proposed study conducted a census where all the members of each SACCOs participated in the study. Thus, the population size of the study was 130 individuals consisting of 130 members of the management and chief executive officers distributed as shown in table 3.1 below

**Table 3: 1 Population Distribution**

Members of the management	Size
Managers ( CEOs)	10
Board members	90
Supervisory committee	30
<b>Total</b>	<b>130</b>

Source: SACCOS (2013)

### 3.6 Data Collection

The study used a self-administered questionnaire to collect data from managers. In this study the self-administered questionnaires enabled Sacco's manager report on the compliance level of individual SACCOs. Orodho (2009) point out that a questionnaire can be used to collect a huge amount of data in relatively shorter time. Further a questionnaire reduces biasness inherent in interviews leading to honest answers since no identification was needed and respondents were able to give answers without fear.

### 3.7 Validity and Reliability of data collection instruments

This section provides the procedure which was used to ensure the data collection instruments were valid and reliable. Validity and reliability ensured the instruments measures the intended measures consistently.

#### 3.7.1 Validity

Validity refers to the degree to which a measurement procedure or a questionnaire measures the characteristic it is intended to measure (Lewis, 1999). This dimensions from which validity can be examined. These include: content, construct, and criterion validity (Orodho, 2009). In this study, during the questionnaire's construction, quality control and validity was ensured through: face validity, where the instruments was subjected to experts to check whether it measures what it is intended to measure; Content validity, where the instrument were designed according to the study variables and their respective indicators of measurement; Construct validity, which was maintained through restricting the questions to the conceptualizations of the variables and ensuring that the indicators of a particular variable fall within the same construct. The survey instruments were also be subjected to overall reliability analysis.

#### 3.7.2 Reliability

In statistics or measurement theory, a measurement or test is considered reliable if it produces consistent results over repeated testing. It refers to how well we are measuring whatever it is that being measured. In this study test-retest method was used to determine the reliability of the results. The questionnaires were given twice to five (5) Sacco managers (departmental managers) that were not within the sample of the study at an interval of two weeks. The Pearson's correlation coefficient was used to obtain the correlation coefficient between the responses provided in the two occasions. This was to determine the degree of consistencies of the questionnaire in

prompting similar responses each time it was applied.

### 3.8 Data Analysis

According to Mugenda and Mugenda (2003), data analysis is the process of bringing order, structure and meaning to the mass of information collected. The data analysis included descriptive analysis where frequencies table, percentage, and mean was generated. Demographic characteristics are some of the aspect that was presented at the descriptive analysis stage. Further analysis was conducted by conducting regression analysis to establish a model showing the relationship between capital adequacy, governance, ICT capacity and Sacco sizes as independent variables and Saccos' Compliance to Sacco Societies Act of 2008 as dependent variable.

The regression model was set out in the form below.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Y = Level of Saccos Compliance to Sacco Societies Act of 2008

$\alpha$  = Autonomous factors (Level of compliance that is attained by Saccos without considering capital, adequacy, governance, ICT capacity and Sacco size)

X<sub>1</sub> = Capital Adequacy

X<sub>2</sub> = Governance

X<sub>3</sub> = ICT capacity

X<sub>4</sub> = Sacco Sizes

e = Error term

### 3.9 Ethical Considerations

Taking into account that SACCOs are financial institutions that rely heavily on their reputation, seeking information on their compliance to the Act may raise ethical issues. Specifically the confidentiality of information provided and the purpose, to which the information was to be used for, was of paramount importance. Thus this study first obtained informed consent from the participants. This implies that all possible information regarding the aim of the investigation, the procedure to be followed during the investigation, the possible advantages, disadvantages and dangers to which participants may be exposed was put to the potential participants in the research. Informed consent was also sought in ensuring the confidentiality of identity (Kale, 1996). Therefore the participants were also informed that the information provided was to be used for academic purposes only.

## 4.0 RESULTS AND ANALYSIS

### 4.1 Introduction

This chapter present and interpret the analyzed data collected during the field work. Both descriptive and inferential statistics are presented. The data was presented using descriptive statistics in form of tables, bar graphs and pie charts. A summary of the responses was categorized in accordance to the research objectives and independent variables. The study was guided by the following specific objectives to; Assess the effect of capital adequacy on Saccos compliance to the societies' act number 14 of 2008 in Nyeri county: Establish the role of governance on Saccos compliance to the societies' act number 14 of 2008 in Nyeri county: Assess the effect of ICT capacity on Saccos compliance to the societies' act number 14 of 2008 in Nyeri county: Establish the effect of Saccos' size on Saccos compliance to the societies' act number 14 of 2008 in Nyeri count The data was collected through a questionnaire administered to managers and members of the board of registered SACCOs in Nyeri County. A total of 90 questionnaires were successfully completed out of a sample size of 101. This represents a response rate of 89%.

### 4.2 The Respondents demographics

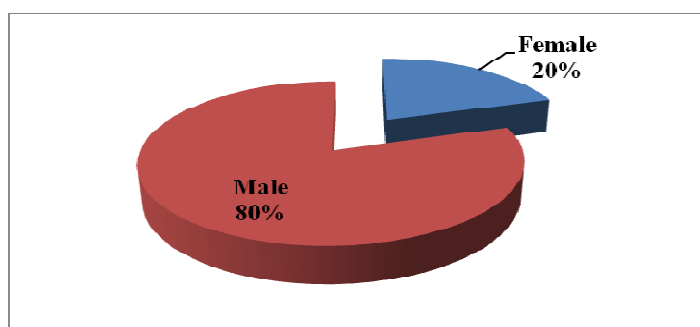
**Respondents' positions in the organization:** *The respondents who participated on behalf of the SACCOs included chairmen of the SACCO's, treasurer, secretary of the board, managers and IT managers. As shown in the table below the managers constituted 38.6% of the respondents, treasurers 20.2% while chairmen and IT managers were 9.6% and 7.9% respectively.*



**Table 4.1: Respondents Positions in the Organization**

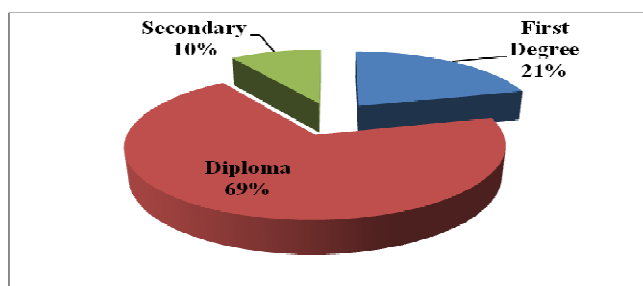
Position in the organization	Number	Percentage
Chairman	10	11
Treasurer	18	20
Secretary	20	22
Manager	37	41
IT manager	5	6
<b>Total</b>	<b>90</b>	<b>100</b>

**Gender Distribution of respondents:** *The gender distribution of the respondents included 20% female and 80% male as shown in figure 4.1 below.*



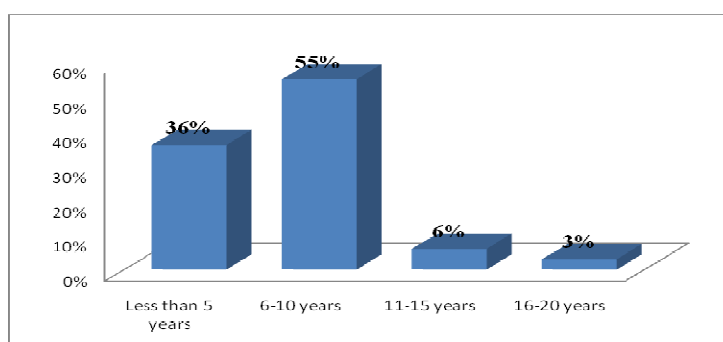
**Figure 4.1: Gender Distribution**

**Education level:** *Those who participated in the study had education level ranging from secondary education to the first degree. As shown in Figure 4.2 below 69.3% were at diploma level, 21.1% first degree while 9.6% had secondary education.*



**Figure 4.2: Education Level**

**Duration worked:** *The duration worked by the respondents was enquired to ensure they have worked in the SACCOs they were responding on behalf for considerable period of time. In this case as shown in Figure 3, 74% of those who participated in the study had worked in their respective SACCOs between 6-20 years while only 36% had worked for less than 5 years. As such the respondents had clear understanding of the operations of a given SACCO and compliance level.*



**Figure 4.3: Duration Worked**

#### 4.3 Level of compliance

The SACCOS were required to indicate whether they have fully complied with the societies’ Act number 14 of 2008 in Nyeri County. The result indicates that all the 10 SACCOS participating had not fully complied with the SACCO societies’ Act of 2008. The respondents were required to indicate the status of their compliance as shown in Table 4.2. All the 10 participating SACCOS have applied and in the process of complying. None indicated that they have not yet applied or have no intention of applying.

**Table 4.2: Status of the Compliance**

Status of compliance	Frequency
Have not applied yet for the License	0
Have applied and in the process	10
Have no intention of applying	0

**Extent of compliance by Saccos:** The respondents were also required to indicate the extent to which they have complied with the societies Act. As shown in Table 4.3 only 3% of the respondents indicated that the SACCOS have attained 10 to 20 percent level of compliance 6 percent have attained a high level of 91 to 100 percent compliance.

**Table 4.3: Level of Compliance**

Level of Compliance (%)	Frequency	Percentage
10 to 20	3	3
21 to 30	19	21
31 to 40	4	4
41 to 50	6	7
51 to 60	17	19
61 to 70	14	16
71 to 80	12	13
81 to 90	10	11
91 to 100	5	6
<b>Total</b>	<b>90</b>	<b>100</b>

#### 4.4 SACCOS Governance

The study sought to establish the role of governance in the compliance by societies’ act number 14 of 2008. Among the governance elements considered included the tenure of the board of governance, attendance of meetings by the board members, communication structure and training of board members on business skills. Attendance of meetings by board members and training on business skills to the board members were the most observed governance issues by the Saccos with 3.6 mean score Limit of board tenure and communication structure were the least practiced governance procedures by Saccos with a mean score of 3.3.

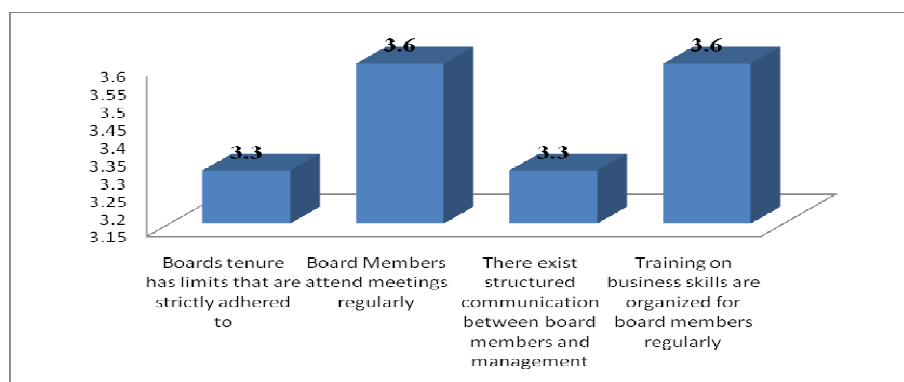


Figure 4.4: Governance

#### 4.4.1 The Governance Model

To find the effect of governance on compliance, a governance model was generated by regressing Governance and compliance level as shown on the Table below.

Table 4.4: Governance Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.935(a)	88.3	.873	.881

a Predictors: (Constant), SACCO governance

The R Square statistic represents the variance accounted for by the SACCOs' governance. In this case 88.4% of variation in compliance was accounted for by the governance as shown in table 4.4 above.

Table 4.5: Regression coefficient between governance and Sacco's compliance

#### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.051	.288		.213	.831
	SACCOs Governance	.379	.013	.935	27.833	.000

a. Dependent Variable: SACCOS Compliance

The table presents the regression coefficients. The Unstandardized Coefficients shows that the model has an intercept of .051 and a slope of 0.379. As such when considering governance alone as the predictor of the compliance the regression equation will be as follows.  $Y = .051 + 0.379X_1$

#### 4.5 The SACCOs ICT Capacity

The ICT capacity was measured by establishing the computerization of various departments. The respondents were required to indicate whether the named departments were fully computerized. As shown in Table 4.6 out of 10 SACCOs only 2 have fully computerized the accounting departments. Further, only one have fully computerized the sales and marketing department. Only three out of 10 generate annual report using a computerized system.

Table 4.6: Computerizations of Departments

Departments and Processes computerization	Frequency	Percentage
Accounts	2	20
Internal Auditing	2	20
Sale and Marketing	1	10
Credit	6	60
Administration/Human Resource	7	70
Customer care	5	50
Deposits services	4	40
Withdrawing Services	8	80
Generating Annual report	3	30

#### 4.6 SACCOS Size

The size of the SACCOS was measured by the total assets of individual SACCOS. According SASRA (2011) the size of a SACCO can be categorized as small, medium or large. The large size SACCO must have a total asset of above K.sh.1 billion, medium size, a total of above K.sh. 200 million assets and a small size SACCO has below Ksh. 200 million worth of assets.

**Table 4.7: SACCOS Size**

SACCOS	Membership	Share Capital	Total Asset
1	72,963	115,494,500	1,302,210,265
2	7,904	14,142,000	2,553,252,000
3	45,090	65,515,524	760,256,926
4	7,000	15,494,500	553,252,000
5	20,000	75,000,000	1,760,256,926
6	8,000	12,142,000	1,553,252,000
7	3,000	7,354,000	987,324,000
8	16,000	55,987,678	1,098,987,000
9	3,768	5,876,986	657,986,767
10	7,765,981	67,991,678	867,991,678

The results indicate that the 50% of deposit taking SACCOS in Nyeri County were medium sized SACCOS while 50% were large SACCOS. None of the deposit taking was small as per the total asset figures provided.

**Table 4.8: Size of the SACCOS**

Size	Frequency	Percentage
Small	0	0
Medium	5	50
Large	5	50

To establish the effect of the size of SACCOS on the compliance, the size of the SACCOS was regressed against compliance level. As shown in Table 4.9, 86% of compliance was accounted for by SACCOS' size when size was considered as the only predictor of compliance.

**Table 4.9: Size of SACCOS Model**

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.927 <sup>a</sup>	.860	.859	.929

a. Predictors: (Constant), SACCOS Size

The regression coefficient as shown in table provides the intercept and slope of the SACCOS Size model where the intercept is 1.851 while the slope is .298. Thus the model is  $Y = 1.851 + 0.298 X_3$ . This implies that a unit change of Size results in a corresponding change of .298.

**Table 4.10: Regression coefficient**

#### .8 Capital Adequacy

#### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.851	.237		8.285	.000
	SACCOS Size	.298	.011	.927	26.203	.000

a. Dependent Variable: Sacco's Compliance

#### 4.8 Capital Adequacy

For a SACCO to be considered as compliant to the societies' Act 2008, it must satisfy Capital adequacy condition. According to SASRA (2011), capital adequacy is achieved when an individual SACCO's institutional capital is not be less than 8% of the total assets.

### SACCOS Capital Capacity

The results indicate that only two out of ten of the deposit taking SACCOs had fulfilled the condition. It follows therefore that 80% of the SACCOs had not achieved capital adequacy as required.

**Table 4.11: SACCOs Capital Capacity**

SACCOs	Core Capital	Institutional Capital	Total Assets	Percentage of institutional capital to assets
1	115,494,500	97,715,765	1,302,210,265	7.50
2	14,142,000	199,110,000	2,553,252,000	7.80
3	65,515,524	100,741,402	760,256,926	13.25
4	15,494,500	37,757,500	553,252,000	6.82
5	75,000,000	185,256,926	1,760,256,926	10.52
6	12,142,000	111,110,000	1,553,252,000	7.15
7	7,354,000	70,100,000	987,324,000	7.10
8	55,987,678	81,000,322	1,098,987,000	7.37
9	5,876,986	52,109,781	657,986,767	7.92
10	7,765,981	67,991,678	867,991,678	7.83

### 4.7 Capital Adequacy Model

To establish the effect of capital capacity on the SACCOs compliance, a regression model was generated as shown in Table 11. Considered a lone capital adequacy contributes 93% of variation of SACCOs' compliance.

**Table 4.12: Capital Adequacy Model**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.979 <sup>a</sup>	.930	.919	.700

a. Predictors: (Constant), SACCOs Capital Adequacy

Further, capital capacity alone as the predictor of compliance by SACCOs, a regression equation was generated as shown in the table below. The results show an intercept of 0.750 and a slope of 0.388 which implies that a unit change in capital adequate results to a corresponding 0.388 change in compliance to the SACCOs Act.

**Table 4.13: Regression coefficient**

#### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.750	.205		3.711	.000
	Capital Adequacy	.388	.010	.959	35.939	.000

a. Dependent Variable: Compliance by SACCOs

The equation of the Capital adequate  $Y = 0.750 + 0.388 X_4$

### 4.8 Multi-regression equation

Having considered each factor singly a multi-regression was generated to establish the combined effect of capital adequacy, ICT capacity, governance and size on the SACCOs' compliance. The result shows that the four factors combined, accounts for 96.7% of the variation of the compliance status.

**Table 4.14: Multi-regression summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.978 <sup>a</sup>	.967	.955	.523	.957	601.822	4	109	.000

a. Predictors: (Constant), SACCOs Leadership, SACCOs Structure, SACCOs Human resource, SACCOs Technology

Table 4.15 present the Analysis Of Variance (ANOVA), which provides the F test indicating whether the model is statistically significant. With a significant level of less than 0.05 the equation is significant, in this case the value is 0.000 and thus the model is statistically significant

**4.9 ANOVA analysis**

**Table 4.15: ANOVA Analysis**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	658.743	4	164.686	601.822	.000 <sup>a</sup>
	Residual	29.827	109	.274		
	Total	688.570	113			

a. Predictors: (Constant), Capital Adequacy, ICT capacity, Governance and size

b. Dependent Variable: SACCOs' compliance

For the model to be valid the following must hold  $p \leq \alpha \leq 0.05$ . Where p is the significant F change in the model summary (table 4.12) and  $\alpha$  is the significance level in the ANOVA table. In this case  $p=0.000$  and  $\alpha$  is 0.000 which fulfills the condition. This also proves that the F value (F test) in the ANOVA table is valid.

**Table 4.16: Regression coefficient for the general model**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.547	.176		3.101	.002
	ICT Capacity	.097	.023	.217	3.777	.000
	Governance	.046	.013	.132	2.685	.008
	Size	.077	.019	.207	3.524	.001
	Capital adequacy	.188	.023	.462	7.760	.000

a. Dependent Variable: SACCOs Compliance

When considered together the effects of independent variables to the dependent variables changes compared to when each independent variables are considered singly. Thus the gradient of the independent variable reduces as shown in table 14 due to the effect they have upon each other. From the table 4.16 above the general equation is as follows:

$$Y = 0.547 + 0.097 X_1 + 0.046 X_2 + 0.077 X_3 + 0.188 X_4 + .176$$

Where  $X_1$ = ICT capacity

$X_2$ = Governance

$X_3$ = Size

$X_4$ =Capital adequacy

It follows therefore that capital adequacy is the most important challenge that affects the compliance with Societies' Act 2004 in Nyeri County. Capital adequacy as shown in Table 4.116 .have a B value of .188.

This is supported by the findings as shown in Table 4.11 which indicates that only two out of ten SACCOs that participated in the study had achieved the capital adequacy requirement. The capital adequacy requirement is achieved when the institutional capital is not less than 8% of the total assets held by a Sacco. ICT capacity is the second most important challenge encountered by the SACCOs with a B value of .097. Further, as shown in Table 4.6 there is low adoption of ICT by SACCOs in almost all department. The size of the SACCOs was the third most important followed by governance.

## **5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary of the findings; it also presents conclusions drawn from the findings and make recommendations on further research.

### **5.2 ICT Capacity**

The ICT capacity of the SACCOs in Nyeri County was found to be very low. The least computerized departments include accounting, sales and marketing and auditing departments. Further, only three of the participating SACCOs generated annual report using computerized systems. This is especially a critical function as far as compliance to the Societies' Act of 2004. Thus ICT capacity was the second most important challenge in compliance with the Act.

### **5.3 Capital Adequacy**

Capital adequacy of SACCOs was found to be a problem to many of the SACCOs participating in the study. The capital adequacy principle requires that a SACCO maintain the institutional capital at 8% and above of the total asset held by the SACCO. The findings reveal that 80% of the SACCOs are unable to maintain the institutional capital at the required level. Consequently capital adequacy was found to be the most important challenge in compliance of the Societies Act of 2004.

### **5.4 Size of the SACCOs**

The size of the SACCOs was measure using the total assets held by the individual SACCOs. The findings reveal that half of the 10 deposit taking SACCOs can be considered to be large sized while the other half are medium. This was based according to SASRA (2011) which states that a large SACCO has a total asset of 1 billion Kenya shillings while the medium ones have at least 200 million Kenya shilling. In this case therefore none of the 10 deposit taking SACCOs in Nyeri are small. The size of the SACCO was important to gauge the ability to raise required capital or commit resources to the cost of compliance.

### **5.5 Governance of the SACCOs**

The SACCOs governance was looked into in terms of the tenure of the board, communication structure, training offered to the board members and regularity of the meetings by the board. As decision makers within the SACCOs management, the board is critical in fast tracking of compliance. The findings revealed that the SACCOs management do not necessarily have tenure limits. Further, most SACCOs do not have a well structured communication system.

### **5.6 Summary of the inferential analysis**

Following multi-regression carried on the variables the following equation was generated  $Y = 0.547 + 0.097 X_1 + 0.046 X_2 + 0.077 X_3 + 0.188 X_4$

Where  $X_1$ = ICT capacity

$X_2$ = Governance

$X_3$ = Size

$X_4$ =Capital adequacy

### **5.7 Conclusion**

In conclusion ICT capacity, capital adequacy, size and governance were found to be important as far as compliance with Societies' Act number 14 (2008). These factors present challenges that hinder SACCOs from compliance.

Due to low ICT capacity among SACCOs, many functions within the bank are performed manually. This present challenges in efficiency, transparency and accuracy especially in the financial system. This renders the SACCOs unable to generate their reports and regularly submit such report to the regulatory authorities. This is a major failure in compliance to the Act.

Capital adequacy is an important factor in compliance to the Societies Act. Due to the SACCOs inability to specifically maintain the required ratio of institutional capital versus the total assets held by they fail to comply.

Further, the size and governance of SACCOs contributes in as much as prudent management practices are not observed.

### 5.8 Recommendations of the Study

Given the findings this study recommends the following:

1. There should be enhanced supervision by the regulatory body to ensure that SACCOs comply with the Societies Act. The current position where the supervision is carried out from Nairobi may not be effective in ensuring that these organizations adhere to the compliance standards as much as the Act prescribes since Saccos are spread over most part of the country. A decentralized supervision would be much better taking into consideration that the Sacco Societies Act is new and the intended purpose is to closely monitor compliance with the prescribed strict standards.
2. The Sacco societies Act should be reviewed to ensure as many SACCOs are able to comply with the Act as possible in order to ensure that members deposits held in the current outfits are protected as the small and emerging Sacco Endeavour to overcome the compliance challenges. The revision may be informed by the fact that almost all the entities have not been able to comply with the high legal threshold.
3. There is also need to take into deeper consideration the historical background of the Sacco movement in Kenya and the place in financial intermediation purposes. Saccos being member based organizations and being formed to fill the existing financial service gaps that other financial institutions may not be willing to offer to the low and middle income groups need not be put on high legal standards as conventional commercial banks in order to bring as many people as possible to the financial market that is ideal for economic growth.

### 5.9 Research suggestions

Further research recommended by this study includes; A research on effectiveness of the regulatory body which ensures compliance: A research on the benefit accruing from complying with the Societies Act. There is also need to carry further research on the appropriateness of the traditional Sacco Governance Systems and their ability to conform with current demands for efficient and effective modern day Sacco movement.

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## APPENDIX I: QUESTIONNAIRE

This study is purely for academic purpose and all correspondence will be treated with utmost confidentiality. In this questionnaire various value scales have been indicated for you to select. Please respond to the questions by marking what you consider to be the appropriate answer, or filing the blanks where necessary. Thank you very much for your cooperation.

### SECTION 1: DEMOGRAPHIC CHARACTERISTICS

#### 1. Age (Years)

- a) 18 – 25 [ ]
- b) 26 – 35 [ ]
- c) 36 – 45 [ ]
- d) 46 – 55 [ ]
- e) 56 – 59 [ ]

#### 2. Gender;

- a) Male [ ]
- b) Female [ ]

#### 4. Educational Background;

- a) Primary level [ ]
- b) Secondary [ ]
- d) Diploma Level [ ]
- e) First Degree [ ]
- f) Masters Degree [ ]
- g) Other (please specify) [ ]

#### 5. Duration Worked in the Sacco (Years)

- a) Less than 5 [ ]
- b) 6 – 10 [ ]
- c) 11 – 15 [ ]
- d) 16 – 20 [ ]
- e) Over 20 [ ]

#### 6. Have the Sacco fully complied with Sacco Societies' Act Number 14 (2008)

- 1. Yes
- 2. No

#### 7. If No what is the status of the compliance?

- 1. Have no intention of applying
- 2. Have not applied yet for the License but intend to apply
- 3. Have applied and in the process

**INTERNAL FACTORS**

**Governance**

8. Please explain the process of recruiting the board members?  
 .....

9. Please explain the process of recruiting the members of senior staff?  
 .....

10 To What extent do you agree with the following statement?

Governance Practices	Strongly disagree	Disagree	Agree	Strongly Agree
Boards tenure has limits that are strictly adhered to				
Board Members attend meetings regularly				
There exist structured communication between board members and management				
Training on business skills are organized for board members regularly				

**ICT capacity**

11. To what extent have you computerized the following departments and processes?

**KEY-** 1-No computerization (No Computer usage at all),2-Partial computerization (Some Operations use computer , 3-Fully Computerized.(All operations are computerized).

Departments and Processes	1	2	3
Accounts			
Internal Auditing			
Finance			
Sale and Marketing			
Credit			
Administration/Human Resource			
Customer care			
Deposits services			
Withdrawing Services			
Generating Annual report			

**Capital Adequacy**

12. What is the Saccos Core Capital?  
 .....

13. What is the Saccos Institutional Capital?  
 .....

14. What is the total deposit held by the Sacco?  
 .....

**Size of the Saccos**

15. What is the membership of the Saccos?  
 .....

16. What is the total asset of the Saccos?  
 .....

17. What is the total share capital?  
 .....

**EXTERNAL FACTORS**

**Capacity of the Regulator to enforce the Act**

18. Is there a local office for the Sacco Societies Regulatory Authority?

1. Yes
2. No

19. How often does the regulator visit the SACCOs?

1. Weekly
2. Monthly
3. Quarterly
4. After every six month
5. Yearly

**Pressure from the members**

20. Do members inquire the state of compliance of the Sacco?
1. Yes
  2. No
21. Does the Sacco inform the members on the status of compliance?
1. Yes
  2. No
22. Does new members demand prove of compliance before they join your Sacco?
1. Yes
  2. No
23. Explain the role of the members in ensuring compliance
- .....
- .....
- .....

**Pressure from competitors**

24. Do you know of Saccos that have complied?
1. Yes
  2. No
25. Indicate whether the following statements are true or false

Statements	True	False
Compliant Saccos perform better financially		
Customer prefers compliant Saccos		
The reputation of compliant Saccos is better than that of non-compliant ones		

26. How do you perceive the cost of complying with Societies Act
1. Very High
  2. High

**APPENDIX II: DEPOSIT TAKING SACCOS IN NYERI COUNTY**

- 2NK Sacco Society Ltd
- Baraka Sacco Society Ltd
- Biashara Sacco Society Ltd
- Enea Sacco Society Ltd
- Nyala Vision Sacco Society Ltd
- Nyeri Teachers' Sacco Society Ltd
- Small Scale Traders' Sacco Society Ltd
- Taifa Sacco Society Ltd
- Wakulima Commercial Sacco Society Ltd
- Wananchi Sacco Society Ltd

### APPENDIX III: MAP OF NYERI COUNTY



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