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EFFECT OF SASRA REGULATIONS ON FINANCIAL PERFORMANCE OF NYANDARUA COUNTY'S DEPOSIT TAKING SACCOS IN KENYA

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Abstract

Deposit taking Savings and Credit Cooperative Societies continue to play a critical role in Kenya's financial sector in terms of financial access, savings mobilization and wealth creation. In 2008, the government of Kenya introduced SACCO Society Regulatory Authority (SASRA) legislation's to streamline operations of the SACCO sector after continued complaints of mismanagement, misappropriation of members' savings and poor financial performance by the members. However upon adoption of SASRA regulations, financial performance in the context of Nyandarua County was studied. Three theories; Agency theory, Trade off theory and stakeholders' theory were used to study the SASRA effects. Using a census design to gather systematically factual information from a sample of five SASRA licensed SACCOs in Nyandarua County was used. Data was collected using questionnaires and secondary data from final annual financial statements three years prior and after licensing. The study found that SACCOs in Nyandarua County fully complied with the SASRA regulations. The correlation results showed that SASRA regulations improved financial performance of the SACCOs as measured by ROA.

The study found that Cooperatives fully complied with the SASRA regulations and that SASRA regulations and financial performance have a positive significant correlation with ROA at 95% level of confidence. However, the coefficient of variation found was 0.159 indicating that 15.9% of the financial performance was explained by SASRA regulations and the remaining 84.1% by other factors. The recommends that SACCO managers consider other factors alongside SASRA regulations in formulating policies governing the running of the SACCO's in Kenya.

Keywords: Savings and Credit Cooperatives, Deposit Taking, SASRA Regulations, Financial Performance

INTRODUCTION

Deposit Taking- Savings and Credit Cooperative (DT- SACCO) Societies in Kenya is a segment of the wider cooperative sector effecting the seven principles of cooperatives as developed by the international cooperative alliance (ICA).These principles are; voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community (SACCO annual supervision report, 2015) DT-SACCOs are a specific type of cooperative societies registered under the Cooperative Societies Act with a clear purpose of mobilizing savings and advancement of credit on the collateral of such savings to promote the economic interests and general welfare of its members (UN-Habitat, 2010). SACCOs in Kenya are governed by two major statutes that govern the regulation and supervision of SACCOs and these are the Cooperative Societies Act (Cap 490) and the Sacco Societies Act (Cap 490B). Of these statutes, the Cooperative Societies Act has been in force for about five decades and has undergone a range of amendments, principally to deal with the registration, incorporation and general supervision of all cooperatives societies (SACCO annual supervision report, 2015)

It is important to note that the Cooperative Societies Act Cap 490, does not provide for a framework towards prudential supervision of deposit-taking Sacco Societies but this legal framework for prudential regulations is founded in the Sacco Societies Act administered by the Sacco Societies Regulatory Authority (SASRA). The purpose of these regulations is to make Kenya to be in line with international best practices of financial regulation and supervision of deposit-taking financial institutions (SASRA report, 2010).

The Kenyan DT-SACCO system is represented in world council of credit unions (WOCCU) through their membership in the Kenya Union of Savings and Credit Cooperatives

(KUSCCO) which is also affiliated to WOCCU. WOCCU is the global apex trade association, and development organization of the international credit union (DT-SACCOs) systems. WOCCU advocates for the use new tools and technologies to strengthen credit unions' financial performance, governance, outreach, product-quality and product-diversity. Further WOCCU advocates on behalf of the global credit union system before international organizations and works with national governments to improve legislation, regulation and supervision (WOCCU, 2015)

In 2015, WOCCU developed and released the third edition the model laws for regulation and supervision of credit unions, recommended for member states in the supervision and regulation of credit unions (DT-SACCOs). The purpose of these model laws is to aid the cooperative movement leaders, legislators, regulators and others in preparing and seeking approval of laws to strengthen the safety and soundness of credit unions. The WOCCU model laws for credit unions are considered as an optimal legislative framework for jurisdictions that are revising their regulatory frameworks for the operations of credit unions (WOCCU, 2015).

In Kenya, by the year 2015, a total of 181 DT-SACCOs had been licensed to undertake deposit-taking Sacco business in accordance with the Sacco Societies Act and out of which five of the DT-SACCOs were licensed to operate on a six months renewable conditional and restricted licenses during the entire period of 2015 (SACCO annual supervision report, 2015), However, section 25 of the Act read with regulation 5(1) of the 2010 regulations requires DT-SACCOs to make applications for renewal of their deposit-taking licenses for subsequent year on or before 30th September of the current year of operating license. During the year 2015, all the DT-SACCOs submitted their applications for the renewal of deposit-taking licenses, except for one SACCO namely M/S MaonoDaima Sacco Society Ltd, which is one of the reasons that led to the revocation of its license (SASRA report, 2015). By January 2016 five other applications were processed but not renewed due to failures to meet and maintain prescribed statutory standards.

The institution of SASRA has established key parameters of monitoring the trends in the growth performance of DT-SACCOs which include the assets, deposits, loans, capital reserves and membership. These parameters have showed positive trends in the growth of DT-SACCOs in Kenya during the year 2015 (SASRA report, 2016). The trends analysis from the financial statements of 2015 show that the DT-SACCO system registered aggregate growth in all the key growth measurement parameters of total assets, total deposits, loans, capital reserves and core capital (SASRA report, 2016).DT-SACCOs have continuously expanded their operations beyond their head office locations by opening branches in accordance with Section 32 of the Act as read with regulation 16 of the Regulations 2010. The DT-SACCO system by 2015 was one of the institutions providing employment opportunities to Kenyans, and a total of 6,245 persons were recorded as employed in the 181 DT-SACCOs spread across the country, out of which 5,027 were permanent employees, while 1,218 were casuals (SASRA report, 2016).

The new constitution of Kenya 2010 which came in to effect in August 2010, provides for the devolution of Cooperative Societies, including their registration to the County Governments vide the Fourth Schedule of the constitution. In August 2013, the Kenya government issued legal notices devolving the cooperative societies to 47 Counties, and in order to realize this devolved function various counties are in the process of enacting County Cooperative legislations. The Kenya Companies Act 2015 and the Insolvency Act 2015 had a considerable impact on the regulation and supervision of the cooperative sector including DT-SACCO Societies. The two statutes respectively repealed the Companies Act (Cap 486)and the Bankruptcy Act (Cap 53). The repealed Companies Act and Bankruptcy Act formed part and parcel of the supervisory frameworks of cooperatives by dint of Section 64 of the Cooperative Societies Act. Repeal of the Companies Act meant that Section 64 of the Cooperative Societies Acthad also been repealed, as it was anchored on a repealed legislation. This was done through the enactment of the Companies & Insolvency Legislation Act, 2015 (COILA Act, 2015) which subsequently repealed several other legislations affected by the repealed Companies Act and the Bankruptcy Act in one way or the other. The COILA Act, 2015 effected amendments to the various definitions in the Cooperative Societies Act purposely to align it with the country's new 2010 Constitution. (SACCO annual supervision report, 2016)

Some of the most important supervisory instruments for monitoring the financial activities of DT-SACCOs include on-site inspections and off-site surveillance instruments as prescribed in the law. Further, the Authority has adopted a Risk Based Supervision (RBS) model where on-site inspections are made to DT-SACCOs showing signs of distress or risky business practices, as established from the financial reports of off-site surveillance. RBS is applied to verify and vouch the correctness and accuracy of the off-site surveillance reports. Off-site surveillance remains a key proactive instrument utilized by the Authority to monitor and anticipate any potential risks associated with the deposit-taking businesses of DT-SACCOs (SACCO annual supervision report, 2015)

The Kenyan SACCO sector has practically contributed significantly to the total financial industry and consequently the economy. It contributes to over forty five percent of the nation's Gross Domestic Product .With the enactment of the SACCO Act, 2008 (SSA) and the subsequent establishment of the SACCO Societies Regulatory Authority (SASRA), SACCOs have been brought under regulation and supervision (WOCCU, 2014).DT- SACCOs are currently one of the leading sources of rural finance in the country and more specifically in rural areas (Financial Sector Deepening (FSD), 2010). SACCOs' regulations are therefore designed to safeguard gains made and build confidence to avoid bankruptcy of SACCOs' as a manifestation of instability in the sector. SACCOs' in Kenya are currently among the leading sources of the co-operative credit for socio-economic development (SASRA, 2011).

SASRA Regulations and Financial Performance of SACCOs

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business to generate revenues. Financial performance is also a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Bernardin & Russell, 1998).

Different countries have adopted different models in regulating SACCOs and the mode of regulation applied depends on the development phase of the SACCOs in a particular country (WOCCU, 2012). At the initial stages of development, regulation simply entails registration of SACCOs to conduct business and when SACCOs approach maturity stage, regulations focuses on prudential standards which establish a risk assessment process focusing on liquidity, capital and governance. At the maturity stage, regulation establishes deposit guarantee system for explicit comfort to members to ensure that members' funds are safe and this is used as a measure of performance for DT-SACCOs. For a long time, there had been no specialized legal, regulatory and supervisory framework for SACCOs in Kenya where all SACCOs and their apex structures/federations were governed by the Co-operative Societies Act of 1997 (SASRA, 2013). The absence of a regulatory without prudential regulations and financial supervision resulted in several weaknesses in the SACCOs management system. This included weak audit reports with no provisioning or writing off loans for non-performing loans and portfolio quality which was either not monitored and if monitored then very poorly (SASRA, 2013).It is in this light that this study sought to establish the effects of SASRA regulations on DT-SACCOs of Nyandarua County.

Statement of the Problem

Kenya government established the SACCO prudential regulations on liquidity, capital adequacy and asset quality covering all deposit taking SACCOs in 2008 to enhance transparency and accountability in the fast growing SACCO subsector. All Kenya deposits taking SACCOs have since been required to adhere to and operate within these SACCO's Authority regulations. Through these regulations, atotal 181 DT-SACCOs were licensed to undertake deposit-taking Sacco business during the year 2015 and in accordance with the Sacco Societies Act. However, out of the 181 DT-SACCOs five were licensed to operate on a six months renewable conditional and restricted license during the entire period of 2015.During the period commencing January 2016 these five DT – SACCOs operating on a six months renewable license had their licenses revoked having failed to meet and maintain prescribed statutory standards by the SASRA. The authority found these SACCOs unsafe and unsound to undertake deposit taking activities. To protect members of the public against any further deposit-taking business failures the lists of the licensed DT-SACCOs and those whose licenses are revoked are periodically and from time to time published. In Nyandarua, a few SACCOs have been able to meet the minimum requirement on capital adequacy, liquidity and asset quality locking out majority of SACCOs from operating FOSA business. In light of the foregoing trends, this study sought to establish how the SACCOs in Nyandarua are responding to SASRA regulations in an effort to improve financial performance and avoid future non-renewal of licenses.

Objective of the Study

To examine the effect of SASRA regulations on financial performance of SASRA registered SACCOs in Nyandarua County.

Research Hypothesis

H_1: The relationship between SASRA regulations and financial performance of SASRA registered SACCOs in Nyandarua County is not significant.

THEORETICAL REVIEW

Agency Theory

This theory was promoted by Berle and Means (1932) and states that problems exist in modern firms due to division of ownership and control because owners or principals. This happens in the Country's SACCOs which hire by electing the management board as their agent. This theory was found suitable for this study because it conceptually helps to understand SACCO as entities which are under two participants namely the SACCO managers and the shareholders. Secondly, agency theory suggests that employees or managers in SACCOs can be self-interested yet the shareholders expect them to act and make decisions in their interest. Shareholders further expect the SACCO managers to operate within the SASRA regulations. On the contrary, Padilla (2002)posits that agents may not necessarily make decisions in the best interests of the principals, as they may succumb to self-interest, opportunistic behavior. With such setbacks, agency theory reinforces the need for a separation of ownership and control in order to align the goals of the management with that of the owners(Bhimani, 2008; Jensen & Meckling, 1976).

Stakeholder Theory

Proposed by Freeman (1984), the theory challenges the agency theory and argues that every firm has relationships with many stakeholders. Stakeholder theory suggests that the purpose of a business is to create as much value as possible for stakeholders. In order to succeed and be sustainable over time, executives must keep the interests of customers, suppliers, employees, communities and shareholders aligned and going in the same direction (Padilla, 2002).Donaldson and Preston (1995) argue that this theory focuses on managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests are assumed to dominate the others.

SACCOs assume obligations with multiple stakeholders whose demands may not be met in entirety; stakeholder management must tailor its activities to curtail the negative effects of interests among the stakeholders which may culminate in stifling meaningful performance of SACCOs. The theory is useful in this study as SACCOs are expected to build better relationships with their primary stakeholders so that they can obtain greater returns. SACCOs have social responsibility activities used to build moral capital among their stakeholders which promotes safety against a loss of the company's reputation during problematic periods (Godfrey, 2005). Consequently, stakeholder management is part and parcel of a SACCO's strategy and it constitutes a variable that influences financial performance (Bhimani, 2008). Therefore, SACCO managers ought to take their role of decision making more carefully by taking cognizance of interests of stakeholders. This further implies that stakeholder interests have intrinsic value and no sets of interest are assumed to dominate others in the organization (Odhiambo, 2012). This theory enabled the study to establish the importance of allowing all stakeholders to play their respective roles in SACCO affairs.

EMPIRICAL REVIEW

SASRA Regulations and Financial Performance of Registered SACCOs

DT-SACCOs regulations place emphasis on legal, policy and operational reviews aimed at ensuring that DT-SACCOs are strengthened to conduct their savings mobilization and provision of credit activities without the necessity to change their legal form of being cooperatives (SASRA, 2010).

Chavez (2006) on PEARLs rating found the financial performance of Kenya SACCO sector extremely weak and the weaknesses were transferred to such areas as governance, fiscal discipline, financial, operational, internal controls, and the risk management. Kamau (2010) found a number of causes of financial distress within co-operative societies businesses in developing countries which included mismanagement as the most prominent in lending and spending, and these negatively affected the financial performance of SACCOs.

The number of individuals using SACCOs as financial service provider have been on a decline as from 2009 at 13.5% in 2009 to 9.1% in 2013 and the major reason established was the deterioration in financial stability and efficiency in SACCOs key functions (CBK, 2011). Wanjiru (2012) did a descriptive study on the effect of financial regulation on financial performance of deposit-taking microfinance institutions in Kenya targeting the 6 deposit-taking microfinance institutions. The study found that the supportive Deposit Taking Microfinance Regulations of 2008 led to the improvement in financial performance of DTMs. The regulations contributed to increase in the value of loans outstanding, total assets of DTMs, the profitability of DTMs and the respective shareholders' equity. The study recommends comprehensive impact analyses prior to implementation of new regulations in the financial sector particularly micro finance institutions; a long-term view when structuring regulatory framework to provide DTMs a clear view of the thresholds to attain on the path to institutional development and transformation (CBK, 2011).

Waiganjo, Wanyoike, and Koitaba, (2015) studied the effect of SASRA Regulations on SACCOs' financial performance in Nairobi County. More specifically, the study sought to investigate the effect on staff competence, quality of board of directors and corporate governance on financial performance of SACCOs. The findings revealed that the quality of the Board of Directors was an important aspect in improving the SACCOs financial performance as per the SASRA regulations are concerned although compared to the other two variables it was weaker. Their findings further revealed that SACCO staff competence as required by SASRA regulations had a strong influence on the financial performance of the SACCOs in the area. This study also found that corporate governance had a significant effect on SASRA regulations and the SACCOs' financial performance and hence emphasized corporate governance in order to strengthen the operations of the SACCOs (Waiganjo, et al).

Legislations and regulations have been enacted to protect shareholders, build confidence, ensure that market failures are corrected, redress information asymmetry and ensure transparency (SASRA, 2010). SACCO sector stability impacts long-term economic growth through effect on the efficiency of intermediation and allow monitoring of the users of external funds, thus affecting the productivity of capital employed and improving financial performance. This impacts the volume of saving, influences the future income-generating capacity of the economy and also affects the stability of the whole economy (WOCCU, 2015).

Ali (2013) studied the impact of regulatory and supervisory framework on microfinance in Kenya and found that the microfinance sector including SACCOs require regulations in order to achieve massive and sustainable delivery of financial services to the lower income section of the population. Ferri and Kalmi (2014) studied regulatory burden and its effect on credit unions and found that high capital requirements by regulatory bodies can affect the growth of credit unions.

Muriuki and Ragui (2013) studied the effect of SASRA regulations on cooperate governance and found that regulations on cooperate governance enhanced performance of SACCOs. Meagher (2002) investigated the effects of capital adequacy requirements as the main regulatory tools for the financial institutions and found that the requirements performed two main duties. First, as a 'risk sharing function' of buffering against losses and protecting depositors and limits the recourse to deposit insurance. Second, they limit the moral hazard issue of shareholders incentive to take on excessive risk in order to maximize share value.

Carpenter (2010) found that capital adequacy as required by SASRA in the context of functional reserves in banking expressed as a capital ratio of liquid assets must be held comparable to the amount of money that is lent out. This requirement is put into place to ensure that these institutions are not participating or holding investment that increase the risk of default and that they have enough to sustain operating losses while still honoring withdraws.

The capital adequacy ratio is the percentage of bank capital over its risk weighted asset (Boyd, 2008). In the Kenyan context, the non-remittance of members' deductions by employers to the SACCOs has a negative impact on the SACCO performance and provides negative effects manifested in liquidity problems leading to low returns on loans (Chege, 2006).

RESEARCH METHODOLOGY

This research adopted a descriptive research design which can be used to identify and obtain information on the characteristics of a particular issue and data collected Thornhill (2007). The quantitative and statistical techniques were used to summarize the information of SACCOs and to describe "what exists" with respect to variables or conditions of SASRA regulations. Descriptive research design has been used by other researchers like Waiganjo, Wanyoike, and Koitaba (2015) to study the effect of Compliance to SACCO Regulatory Authority (SASRA) Regulations on Financial Performance of Deposit Taking Savings and Credit Co-operatives (SACCO) in Kenya.

Survey design was used to gather systematically factual information on all the five licensed SACCOs by SASRA in Nyandarua County. Six management officials of each SACCO were picked to respond to the questionnaire. Financial data was obtained from county cooperative commissioner and SASRA. Reliability test of the instrument was undertaken using Cronbach's Coefficient Alpha and the results provided 0 .87 which was within an acceptable range of at least 0 .70 or higher

Data was analyzed by use of graphs, tables, descriptive statistics and inferential statistics. In inferential statistics analysis, correlation analysis, regression analysis and ANOVA were used. The multiple regression equation assumes the form;

$Y = §_0 + §_{1i,t}X_{1i,t} + e_{i,t}$

Where,

Y= Financial performance (ROA)

$X_{1i,t}$ = SASRA regulations

$E_{i,t}$ = the random error

Where

$§_0$= represent the y-intercept.

$§_1$ = Constant term.

ANALYSIS, RESULTS AND DISCUSSION

SASRA Regulations and Financial Performance of SACCOs

The respondents provided information about the effect of SASRA regulations on the different cooperative societies' performance. The key issues that responses were provided include capital adequacy (Core Capital), liquidity, asset quality and overall effects.

Capital Adequacy

Figure 1: Core Capital

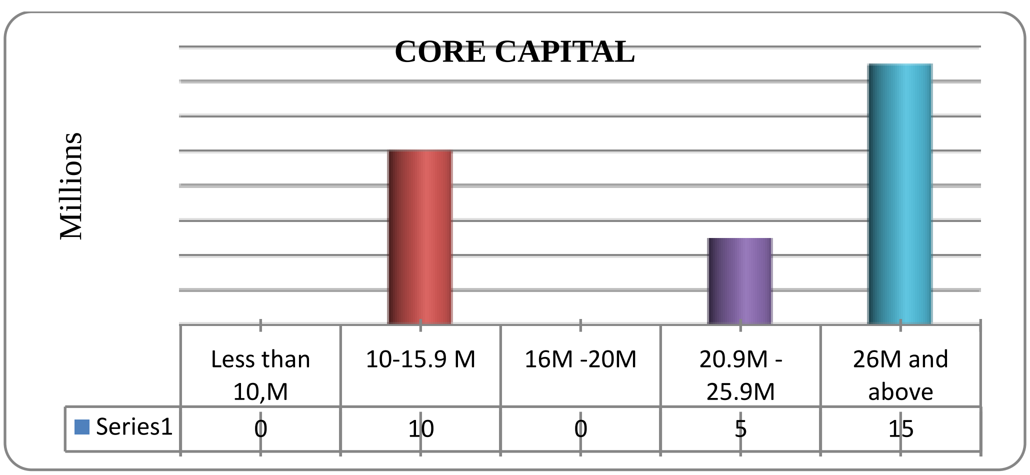


Figure 1 above provides information about the cooperatives core capital defined by the Sacco Societies Act, 2008 as fully paid up members' shares, retained earnings, disclosed reserves, grants and donations all of which are not meant to be expended unless on liquidation of the Sacco society. The cooperative societies had core capital of 10m to 15.9m, 20.5m to 25.9m and above 26 million respectively. However, SASRA regulations require that the minimum core capital of the SACCO Society shall at all times be Kshs.10 million (ten million shillings) which must be met before a license is issued. The above responses show that the SACCOs complied with the capital adequacy requirements as one of the main regulatory tools by SASRA. Figure 2 still is consistent with the SASRA (2013) report that only the SACCOs that met the capital adequacy requirements operate to ensure a strong capital base and ensuring security of members' funds.

Figure 2: Core Capital in Form of Assets

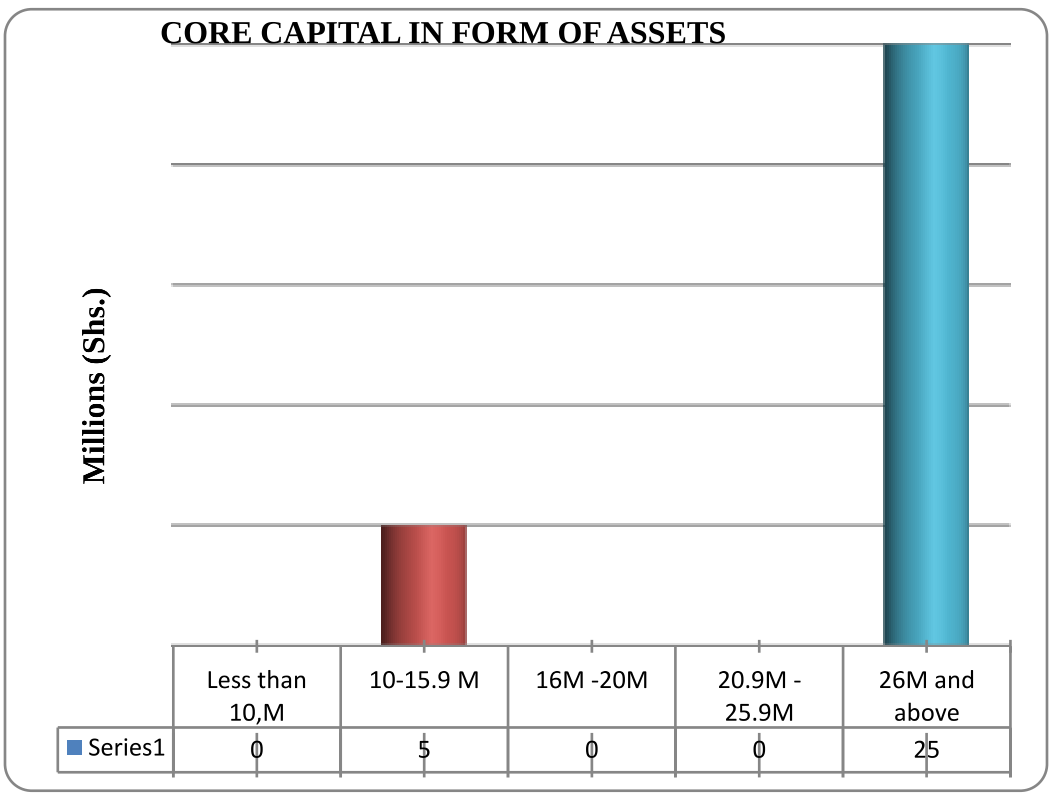


Figure 2 indicates that the SACCOs' under study maintain the minimum Core capital of not less than ten million shillings which must according to the SASRA regulations not be less than ten percent of total assets. These SACCOs' therefore meet the SASRA requirements of capital adequacy which is shown in their financial statements.

Figure 3: Percentage of Total Deposits

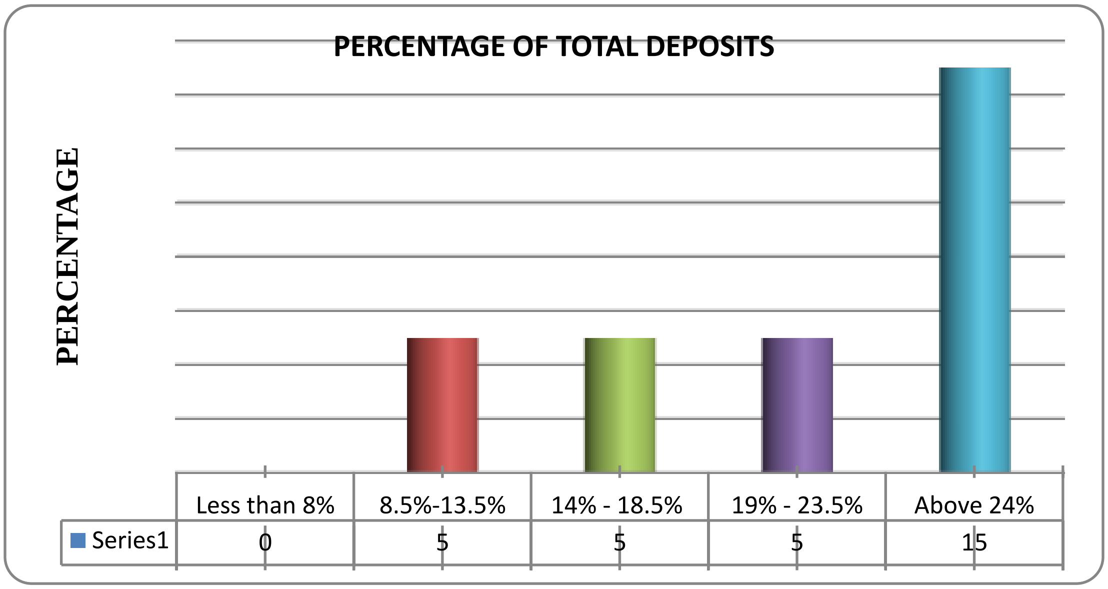


Figure 3 shows the percentage of total deposits which indicate that the pool of members' savings deposits and shares to finance their own loan portfolios rather than rely on outside capital is high. The responses in figure 3 indicate that the cooperative societies met the capital adequacy requirement of core capital which should not be less than eight percent of total deposits (SASRA guidelines, 2015).

Figure 4: Management Strategies

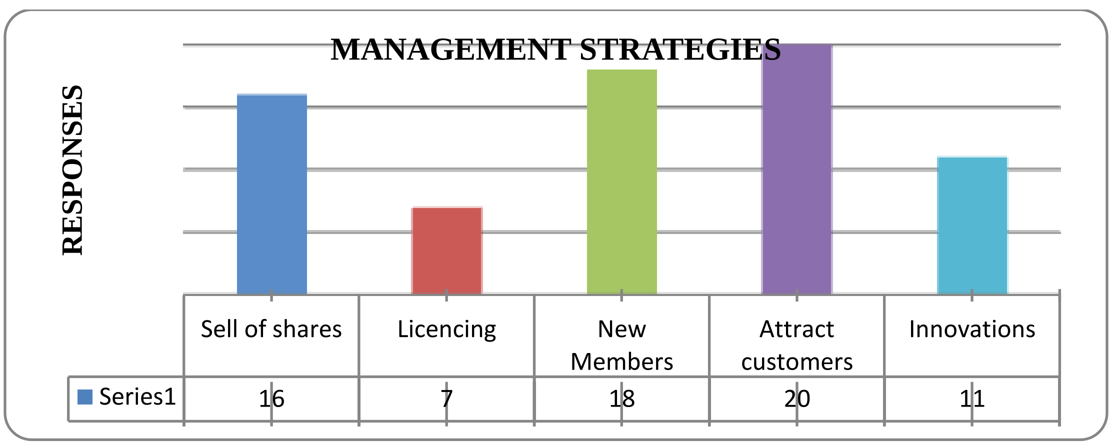


Table above indicates that SACCOs use management strategies where 16 responses reported on sell of shares, 7 responses that the cooperatives use licensing strategies, 18 reported existence of strategies of recruiting new members, 20 had strategies to attract customers and

11 indicated the existence of innovation strategies. Role of strategies is to mitigate and minimize any challenges for the benefit of the cooperatives and its shareholders.

The above findings are consistent with the Sacco society's regulatory authority guideline (2015) which requires cooperative societies to have contingency plans for dealing with liquidity problems or crisis situations. Comparatively with the above findings on strategies indicate that SACCOs have an early warning signal that enables SACCOs to identify any approaching crisis that can make them non complaint. The findings (Table 1) show that the SACCOs studied have strategies for making up for cash-flow shortfalls in crisis situations. They can also cater for the increased deposit run-off during a crisis, more aggressive sale of shares to raise deposits required and the good public relations management that the strategies above can help a Sacco reduce the uncertainties of market participants and demonstrate that the highest levels of management are attentive to any problems that may exist.

Table 1: Descriptive Statistics Profitability of SACCO before SASRA

	N	Minimum	Maximum	Mean
Excellent	1	1	1	1.00
VG	1	3	3	3.00
Good	1	12	12	12.00
Average	1	4	4	4.00
Poor	1	0	0	.00
Valid N (listwise)	1			

Table 1 above 12 respondents indicated that profitability before SASRA regulations was good, followed by four respondents for average profitability. Three respondents reported that Sacco performance was very good; one reported an excellent performance and none of the responses indicated poor performance before the introduction of SASRA regulations.

Table 2: Descriptive Statistics Profitability of SACCO after SASRA

	N	Minimum	Maximum	Mean
Excellent	1	9	9	9.00
VG	1	20	20	20.00
Good	1	1	1	1.00
Average	1	0	0	.00
Poor	1	0	0	.00
Valid N (listwise)	1			

Table 2 indicates the responses for performance after the introduction of SASRA regulations. Nine respondents reported excellent performance, twenty reported very good financial performance and only one respondent reported good performance. These findings are in line with that of Chege (2006) who found that non-remittance of members' deductions by employers to the SACCOs was responsible for a negative effect on SACCOs' performance. It was indicated that these negative effects were brought about by liquidity problems leading to low returns on loans an issue that SASRA regulations addressed.

Figure 5: Improvement in Capital Adequacy

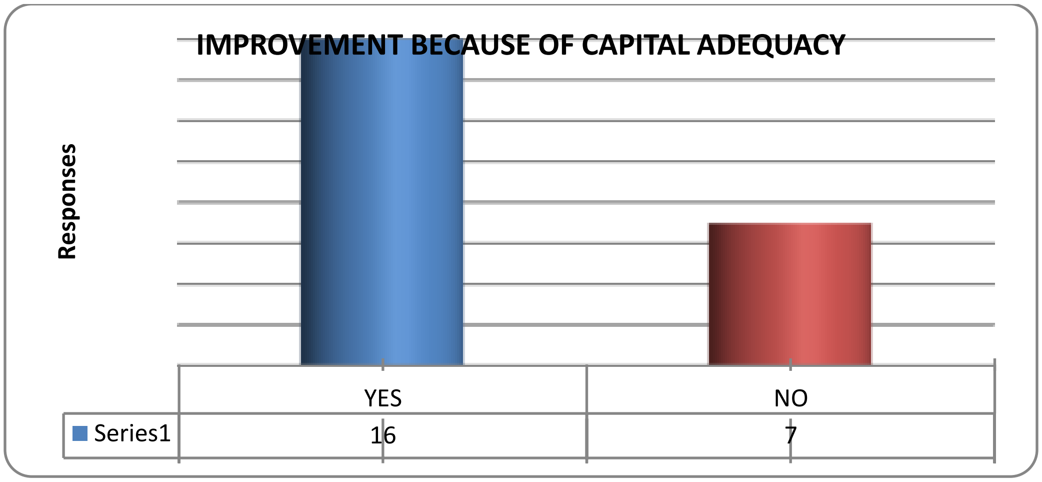


Figure 5 shows that 16 respondents indicated that there was improvement in capital adequacy after SASRA regulations against 7 respondents. This implies that SACCOs' capital adequacy acts as a buffer against losses, which protects depositors and limits the recourse to deposit insurance in addition to maximizing shareholder value.

Liquidity

Figure 6: Liquidity Level as a Percentage of Savings Deposit

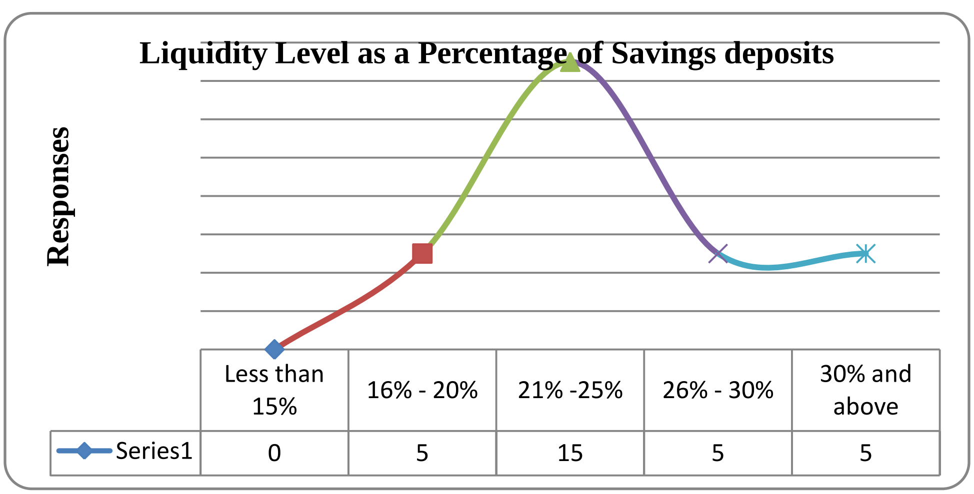


Figure 6 above indicates that the SACCOs maintained liquidity levels as a percentage of savings deposits at above 15%. The levels are within the requirements of the SACCO Societies' Act of 2008 Cap 488 (part IV Liquidity and Asset Liability Management) which includes its savings deposits and short term liabilities in liquid assets.

Figure 7: Short Term Liabilities

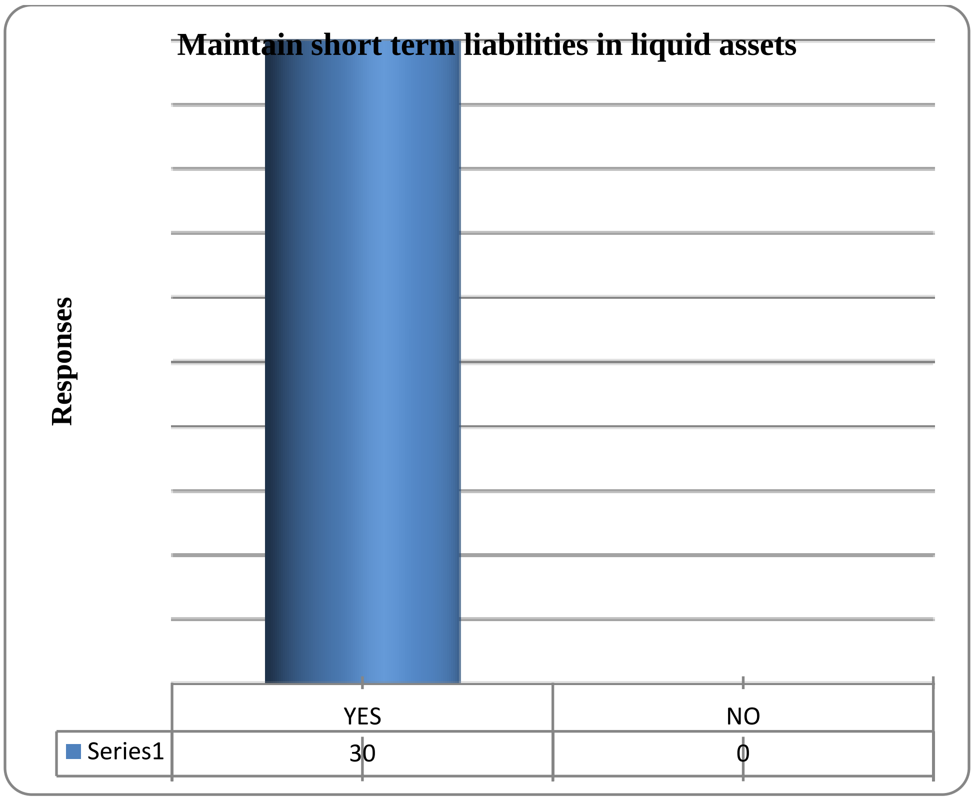


Figure 7 above shows that all the SACCOs maintain short term liabilities in liquid assets. This is a liquidity management policy (LMP) which requires SACCO's to operate within its Asset Liability Management (ALM) policy.

The above findings indicate that SACCOs have an ALM policy where they have the asset/liability committee, provide for periodic review of the deposit structure, set targets in relation to its internal measures of liquidity, as appropriate to the nature of its business have a detailed method for computing the cost of funds and other key liquidity and maturity gap ratios, have loan policies, can establish the desired volume of loans compared to total deposits, total loans, upcoming loan maturities, and outstanding loan commitments, have an investment policy and carry bout periodic projection of cash flows based on both supply and demand for liquidity to determine the extent to which the Sacco is funding long-term assets with short-term liabilities.

Figure 8 Procedures for Making up for Liquidity Short Fall

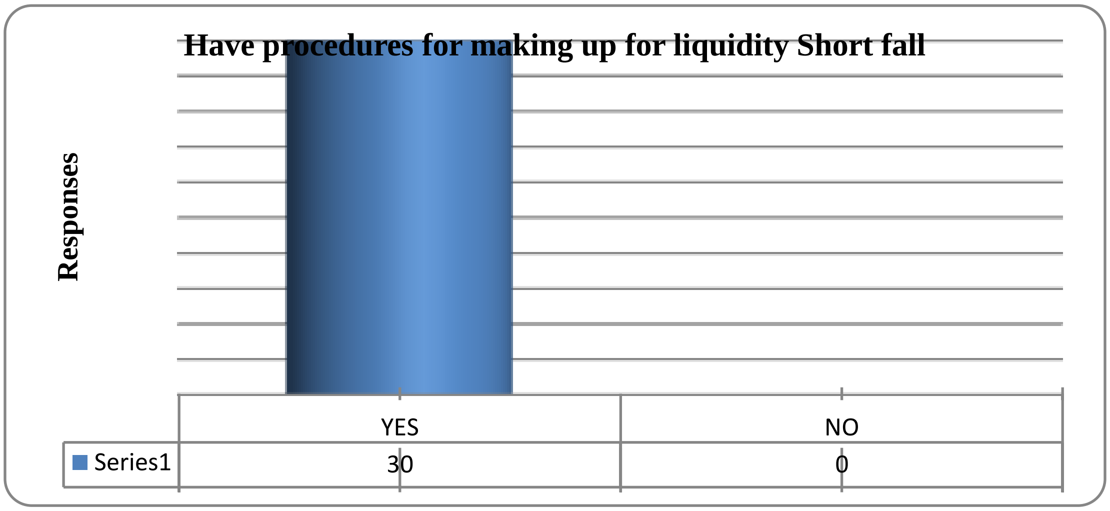


Table 8 indicates that all the respondents agreed that cooperatives have procedures to meet liquidity shortfalls so that they are not vulnerable to unexpected and immediate payment demands. The findings are in agreement to the fact that SACCO must be able to pay out legitimate withdrawals and credit requests instantly (Bald, 2007).

The cooperatives under study therefore complied with Part iv of Liquidity and Asset Liability Management of the Societies' Act of 2008. This act requires the board of directors of the Sacco to put in place a contingency plan to handle liquidity crises. The plan requires that management design procedures for making up liquidity shortfalls in emergency situations and back-up liquidity strategy for circumstances in which the normal approach to funding operations are disrupted (SASRA, 2015)

Figure 9: Monitoring Liquidity Levels

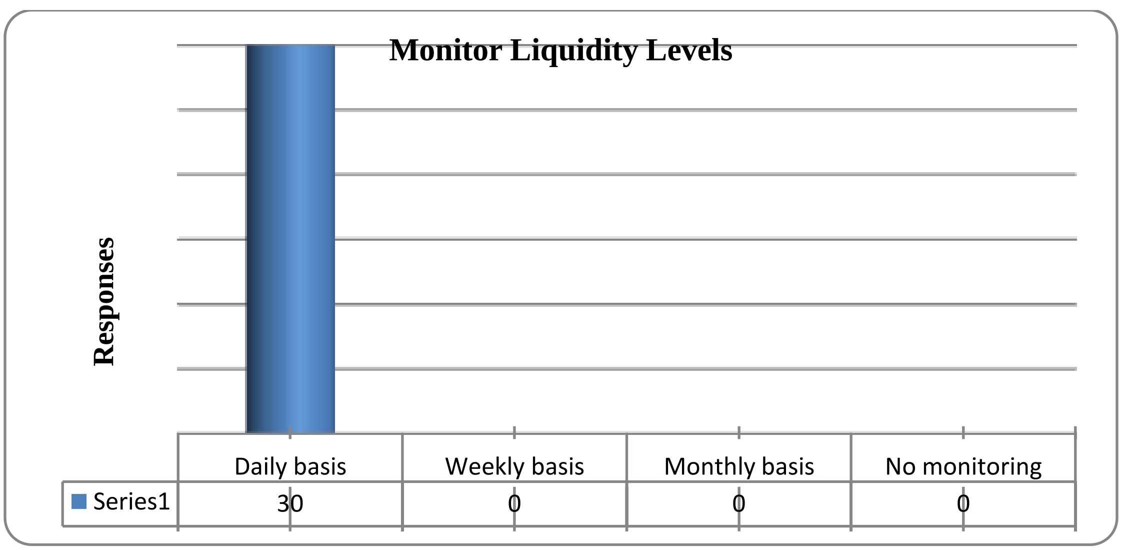


Figure 9 reports that all the respondents' cooperatives monitored liquidity levels. The finding is in agreement with WOCCU report (2008) which stated that excess liquidity in financial institutions limited incentives to mobilize additional deposits perceived as short term, unstable, and costly.

SACCO Societies' Act of 2008 requires a Sacco Society to calculate the average monthly balance of its deposits and borrowings at the close of business on every Wednesday of each week, except that where the Wednesday falls on a public holiday, the calculation shall be done a day before that Wednesday.

Figure 10: Submission Statements on Liquidity of Monthly

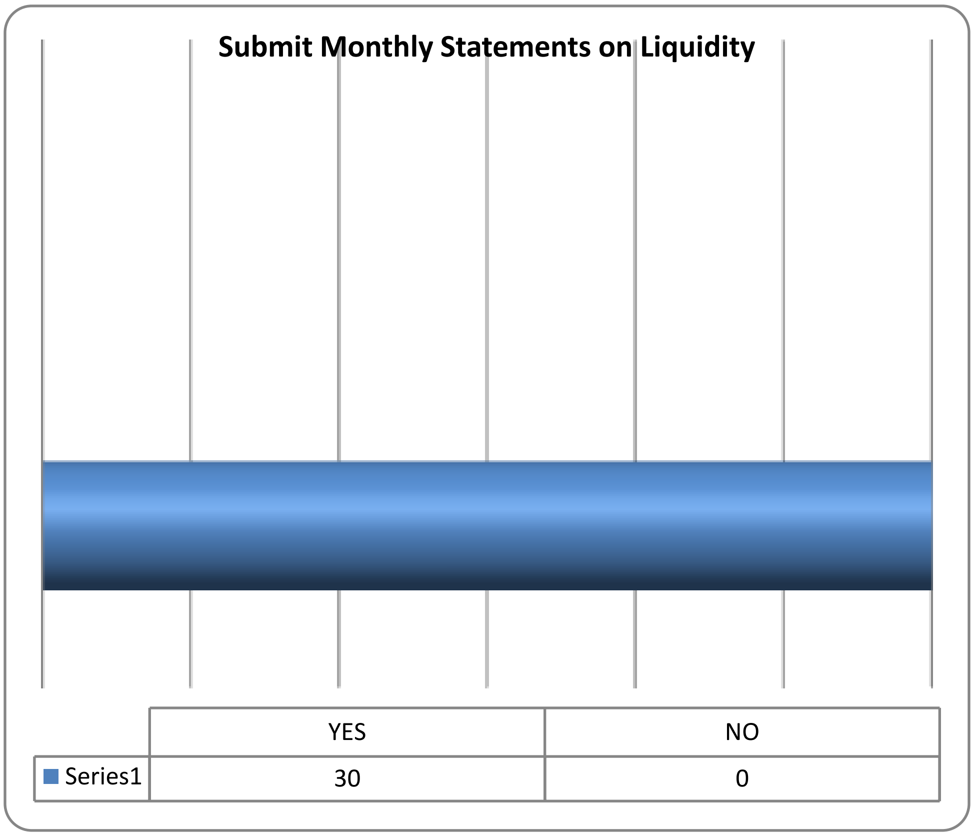


Figure 10 indicates that all cooperatives submitted monthly statements on liquidity. The above findings indicate that SACCOs' operate within Part Iv of the SACCO societies act no. 14 of 2008. Under the act, the boards of directors of the Sacco are responsible for formulating, reviewing and adjusting the liquidity policy of the Sacco Societies on an annual basis. This implies that SACCOs have personnel responsible for responsible for liquidity management.

Figure 11: Liquidity and Asset Management

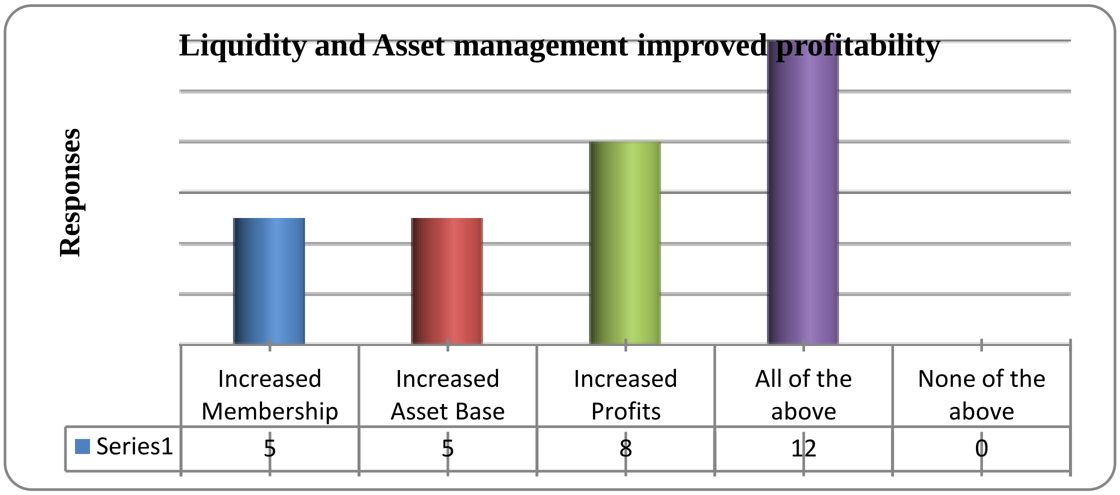


Figure 11 above indicates that the liquidity and asset management improved profitability as a function of increased membership and increased asset base. This implies that the implementation of Part IV of the Societies' Act 2008, improved the liquidity and asset liability management. The boards of directors of the Sacco formulate, review and adjust the liquidity policy of the Sacco Societies on an annual basis as required by the act.

Asset Quality

Figure 12: Loaning Policies

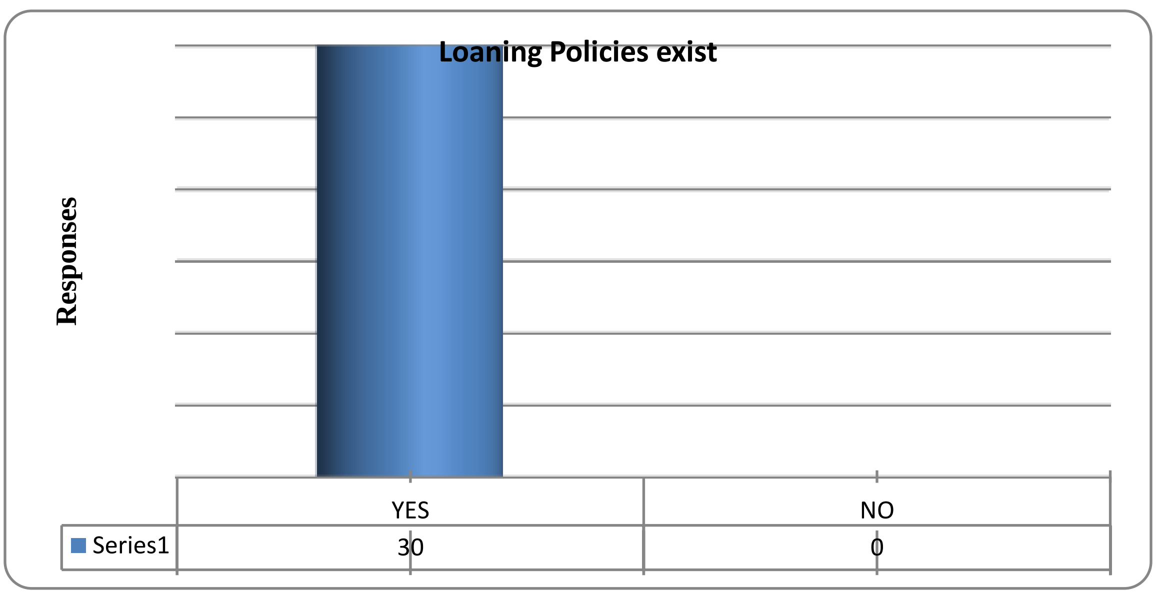


Figure 12 above shows that all the respondents agreed that cooperatives have loaning policies. This implies that cooperatives operated within Part VI of Credit Management, section 28 of the Cooperative Societies' Act of 2008. The act also requires that a Sacco Society shall have a written credit policy consistent with the relevant provisions of the Act.

Figure 13: Level of External Borrowing

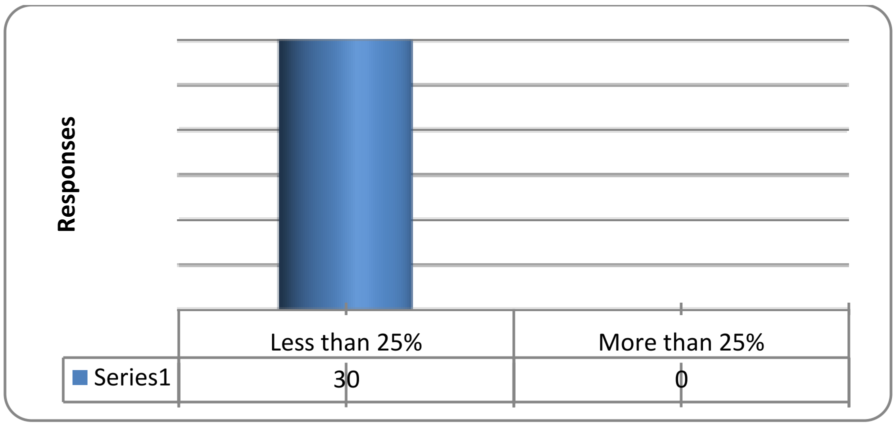
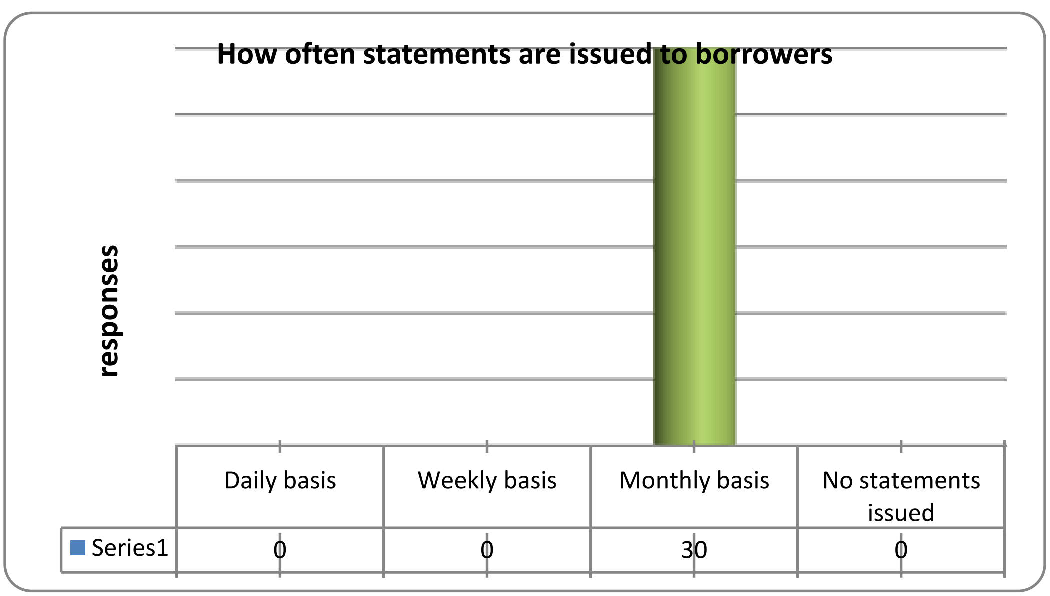


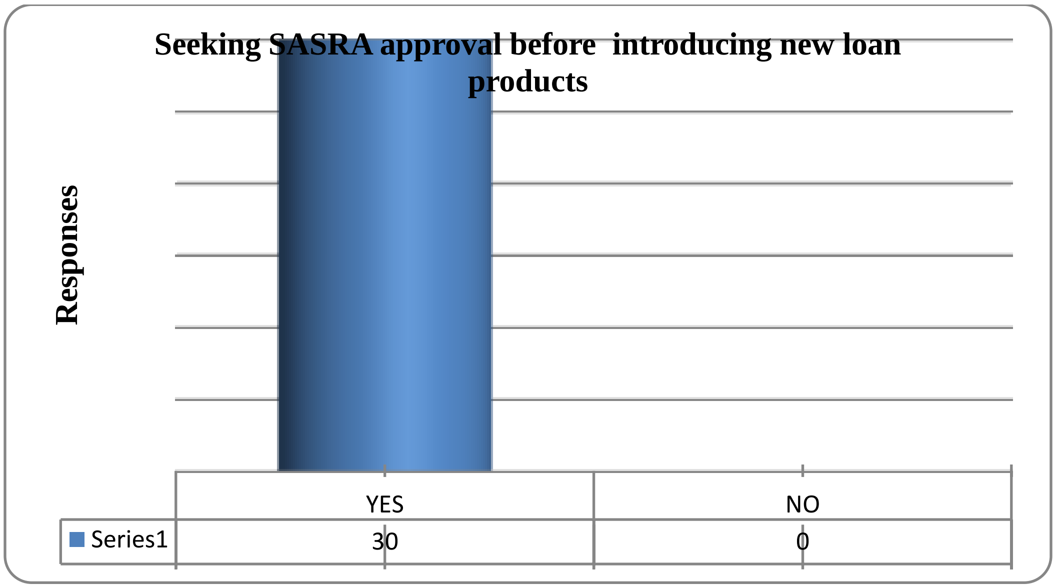
Figure 13 above shows that all the SACCOs undertake external borrowing at less than 25% of its total assets; the response complies with section 35, subsection (1) of the cooperative society's act 2008. This act requires that a Sacco Society shall not acquire external borrowings in excess of twenty five per cent of its total assets unless the limit has been waived by the Authority.

Figure 14: Statements Issued to Borrowers



From figure 14 respondents state that statements are issued to borrowers on monthly basis Loan. However, this implies that the SACCOs' meet Part vi of credit management repayment of the SACCO act 2008, which requires that a Sacco Society shall provide each borrower, at least once every six months or on request a statement for each outstanding credit facility that provides adequate detail of each transaction made during the period.

Figure 15: Seeking Approval Before Introducing New Loan



From figure 15 all respondents indicate that before new loan products are introduced, approval from the authority must be sought. This is a requirement according to section 34. (1) Of SACCO act. The act requires a Sacco Society intending to introduce a new loan product to seek prior approval from the Authority**.**

Table 3: Correlations

		ROA	SASRA Regulations
Pearson Correlation	ROA	1.000	
	SASRA Regulations	.159	
Sig. (1-tailed)	ROA	.	
	SASRA Regulations	.399	.
N	ROA	5	5
	SASRA Regulations	5	5

As indicated in the Table of Correlation (Table 4.8) above, there is a statistically significant positive correlation between ROA and SASRA regulations (Pearson's R =. 0.159, p = 0.399). However, it is significant at 95% level of confidence, (p>0.05).

From the correlation results, it is evident that there is a positive correlation between SASRA regulations and ROA as a measure of financial performance. Table 3 shows the coefficient of variation of 0.159 indicating that 15.9% of the financial performance was explained by SASRA regulations and the remaining 84.1% by other factors. The correlation results showed that SASRA regulations and ROA as a measure of financial performance have significant correlation with ROA at 95% level of confidence. This may be due to the strict SASRA regulations working well for cooperatives.

CONCLUSIONS AND RECOMMENDATIONS

The findings show that SACCOs observed SASRA regulations where the minimum core capital was maintained although capital adequacy requirement was still a challenge. Further SACCOs had strategies and innovation strategies to attract customers. Strategies were put in place to mitigate and minimize any challenges for the benefit of the cooperatives and its shareholders. However, there was improvement in capital adequacy after implementing SASRA regulations and as a result SACCOs were able to maintain liquidity levels as a percentage of savings deposits above 15%. As required by the SACCO society act of 2008 cap 488.

The cooperatives fully complied with the SASRA regulations and as such the correlations results were positively statistically significant between ROA and SASRA regulations Pearson's R =. 0.159, p = 0.399 at 95% level of confidence, p>0.05. The correlation result therefore showed SASRA regulations improved financial performance of the SACCOs as measured by ROA. This study recommends that SACCO managers should consider other factors likely to affect performance of deposit taking SACCOs' alongside SASRA regulations and formulate policies to govern SACCO's in Kenya.

LIMITATIONS AND FURTHER STUDIES

The study was limited to deposit taking SACCOs' in Nyandarua County excluding other SACCOs' in the country. The study considered SASRA regulations and financial performance but did not consider the challenges that SACCOs' face in implementing SASRA regulations.

The study examined the effects of SASRA regulations on financial performance. A further research is recommended to establish the effects of SASRA regulations on credit risk management to provide insight into the governance issues in DT-SACCOs'.

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