RESPONSE OF SACCOs TO COMPETITION FROM COMMERCIAL BANKS AND NEW SACCO REGULATIONS IN KIRINYAGA COUNTY, KENYA.

BY

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MASTER OF SCIENCE IN COMMERCE (FINANCE AND ACCOUNTING)

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submited elsewhere for award of a degree.I also declare that this contains no material written or published by other people exept where due reference is made and author duly acknowledged.

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Sign:_____________________ Date:__________________________

I do here by confirm that I have examined the masters dissertation of

Muriithi P. Kariuki

And have certified that all revisions that the dissertation panel and examiners recommended have been adequetely addressed.

Sign_________________ Date____________________

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ABSTRACT

Using an interpretive research methodology, this study sought to find out how deposit taking SACCOs were responding to the competition from commercial banks and the implementation of the new Sacco regulations as being enforced by Sacco Society Regulatory Authority (SASRA).The study found out that SACCOs were opening up their common bonds, were maintaining their low interest rate regime and engaging in aggressive marketing and market research. The research also found out that SACCO's were engaging in branch expansion and continuous rebranding. Responding to the new SACCO regulations, the study found out that SACCO's were appointing SASRA compliance officers, upgrading their IT systems, and employing qualified staffs. The study also found out that Sacco's were streamlining their books of accounts to comply with the requirement of the new regulation and were engaging in member's education and implementing policies aimed at encouraging members to save and deposit more. It was also found out that SACCOs were engaged in implementing cost saving policies. It was found out that competition from commercial banks and the implementation of the new SACCO regulations has made SACCOs to become more responsive to member's needs, and that SACCOs were becoming more transparent and thus attractive to members as they feel their savings and deposits are more secure in regulated SACCOs. It was found out that Sacco's had responded and coped well with competition from commercial banks, and that with the implementation of the new Sacco Regulations, the confidence of members was high, as they felt that their investments were in safer hands than before. Further research is recommended on the same topic covering a wider area of study. Further recommendation is a research on financial performance of Sacco's after the implementation of the new Sacco Regulations as being enforced by SASRA.

KeyWords: SACCOs, Rebranding, SASRA, Commercial Banking

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DEDICATION

I dedicate this academic research work to all who have been of support and encouragement to me in pursuit for knowledge and all my family members especially my wife Njeri Kariuki and my children Joy and Alex for the understanding they have accorded me during this time.

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ACRONYMS AND ABBREVIATIONS

ATM – Automated Teller Machine

CEO – Chief executive officer

FOSA - Front Office Services Activity

FSA – Financial Services Authority

FSD – Financial Sector Deepening

IFRS – International Financial Reporting Stand

RIA – Regulatory Impact Assessment

SACCOS- Savings and Credit Cooperative Societies

SASRA – Sacco Society Regulatory Authority

UK – United Kingdom

US – United States

WOCCU – World Council of Credit Unions

TERMS AND DEFINITIONS

SACCO - Is a Savings and Credit Co-operative Society registered under Co-operative Societies Act, of 1997, with objective of pooling savings for members and in turn provide them with credit facilities (Cooperative Societies Act, 1997).

SASRA - Is an acronym for the SACCO Society Regulatory Authority which is a semi-autonomous government agency under the ministry of cooperative development and marketing (The SACCO Societies Act, 2008).

FOSA- Is an abbreviation for Front Office Service Authority which is a section of society which provides basic and affordable Banking services to meet member's financial needs. (The SACCO Societies Act, 2008).

Financial intermediation - Is a process that facilitates the flow of funds from the savers to the borrowers. They are financial institutions that accept deposits from the public and advance loans to those in need of credit (Dictionary, 2013).

Capital adequacy - It is a percentage ratio of a financial institution's primary capital to its assets (loan and investments), used as a measure of its financial strength and capability. It's an amount of capital relative to a financial institution's loans and other assets (Dictionary, 2013).

Regulations - are rules designed to control the conduct of those to whom it applies. They are the official rules which have to be followed, and which are enforced by a regulatory agency mandated to carry out the purpose or provision of such legislation (Dictionary, 2013).

International Financial Reporting Standards – are international reporting standards set by the International Standards Board to guide the accounting reporting by entities (Dictionary, 2013).

Deposit taking SACCOs - are SACCOS that operate Front Office savings Activities (FOSA) (The SACCO Societies Act, 2008).

Restructuring - it is the process of reorganizing the composition and operations of an organization completely. It is necessary in declining performance to enhance the growth (Dictionary, 2013).

Mergers - is the combining of two or more entities in to one through a purchase, acquisition or pooling of interests (Dictionary, 2013).

Consolidation - it is the combining of separate entities in to a single entity (Dictionary, 2013).

CHAPTER ONE

INTRODUCTION

1.1 Background

There is existing literature that shows SACCOs are facing competition from commercial banks and that they are facing challenges in implementing the new SACCO Regulations as being enforced by the Sacco Society Regulatory Authority (SASRA) (Gakunu P. , 2011). Kiweu and Stauffenberg (2007)in their study found out that SACCOs continued facing stiff competition from commercial banks, which have high levels of liquidity unlike the SACCOs enabling them to offer loans to customers more liberally. This has resulted in endangering of SACCOs existence as commercial banks become their direct competitors (Ademba, 2011). SACCOs are further faced with the implementation of the new Sacco Regulations as are being enforced by SASRA. This study using interpretivist approach examines the way the SACCOs are responding to the competition from commercial banks and the implementation of the new SACCO regulations as being enforced by SASRA.

Opondo (2011), in SACCO Star Issue 15 argued that SACCOs have been operating a closed shop type of business enjoying almost monopoly power on its market niche, which made them to relax and forget to continually advertise their products which lead to invasion of their traditional customer base by commercial banks. Commercial banks have become very liberal in their lending schemes targeting customers from all walks of life, including those from the SACCO sub sector. Commercial banks have come up with loan buying schemes, attracting SACCO members with SACCO loans to sell them to commercial banks. This has resulted in a direct competition for customers between the commercial banks and SACCOs. Further, SASRA has come up with specific regulations to be followed by all deposit taking SACCOs which they must comply with before they are allowed to operate. This has complicated matters for normal operation of SACCOs. Ademba (2011) found out that with the implementation of the new Sacco Regulation for the deposit taking SACCOs, the cost of running the SACCOs is set to go up. This will have far and wide financial implications to the running of SACCOs.

There is evidence from overseas that growing regulatory burden and the rising cost of compliance have forced many smaller Credit Unions to seek merger partners due to their inability to shoulder the compliance burden, as evidenced by the mergers in Sheffield, Cardiff and Leads (Rick, 1998).

SACCO's are important for business and investment growth due to the fact that they impact on capital accumulation, including physical and human capital, and on the rate of technological progress (Kiweu & Stauffenberg, 2007). SACCOs have a direct impact on poverty reduction by widening financial access to the poor who then can be able to improve their livelihood (Ongwae, 2006). SACCOs offer the most wide spread source of financial services for low income people in both rural and urban areas and help in creation of employment, directly and indirectly hence improving economic standards in a country (Ademba, 2011). SACCOs have greater outreach to the society than the other financial institutions like commercial banks and microfinance, and thus are more preferred where greater outreach is required (Wanyama F. , 2009).

Credit Unions have been cited as a potential panacea for problems encountered by millions of consumers who find themselves excluded from main stream financial services (O'Connel, 2005). The importance of Credit Unions in United Kingdom was emphasized by O'Connell in his paper titled "idealism of British Credit-Union pioneers" where in a symbolic step, Tony Blair, the British Prime Minister joined the South West Durham Credit Union, and in March 2005 the Griffiths Commission on Personal Debt, sponsored by the Conservative Party, strongly supported the Credit-Union movement.

There have been suggestions that because of the big contribution SACCOs make to the Kenyan economy, the government should create a favorable environment to enable them to grow, identify and address the major challenges they face in their effort to play their role in the financial sector (Ademba, 2011). Specifically, SACCOs are being faced with competition from other financial service providers especially the commercial banks who are competing for the same customers the SACCOs are serving and targeting. In the past, SACCOs served a market that commercial banks had ignored. However, today, competition from commercial banks is real, and SACCOs have to rise up to this competition or perish. SACCO members are moving on to get services from commercial banks that seem to be more attractive than SACCOs (FSD, 2007). Commercial banks are attracting more SACCO members due to the facts such as not requiring prior share contributions to access loans, enabling their customers to access bigger loans based on their ability to pay and not on the basis of shares contributed and granting of unsecured loans. SACCOs are requiring their members to have prior share contributions to access loans, base their loans on multiplier of a member's savings on top of guarantor ship requirement (FSD, 2007). This makes SACCOs to become unattractive, making their members to move on to commercial banks whose lending conditions are more customer friendly. Further to the competition from commercial banks, SACCOs are faced with the implementation of the New Sacco Regulations as being enforced by SASRA. With the implementation of the new Sacco Regulations, deposit taking Sacco Shall be required to comply with specific requirements as provided by the new regulations. This will come with additional cost. The cost of running deposit-taking SACCOs is therefore set to go up significantly when new regulations come into effect. This will threaten the low interest rate regime that has for decades given the Sacco Societies an edge over commercial banks in the lending market as the additional cost means the SACCOs have to increase their interest rates to meet such cost (Sangara, 2011). Faced with the above, SACCOs have to find out the best ways to respond to the emerging challenges if they are to survive in the market.

The aim of this research was to find out how SACCO's were responding to the challenges they face from competition from commercial banks and the changing Sacco regulations as being enforced by SASRA.

1.2 Statement of the Problem

SACCOs, like many other business entities in Kenya, are facing challenges in their quest towards survival and growth. The main challenges SACCOs are facing in Kenya are competition from commercial banks and the implementation of the new SACCO Regulations as being enforced by SASRA to regulate the deposit taking SACCOs Societies. Commercial banks offer unsecured loans to customers without requiring them to have saved with them, and are offering longer repayment periods for loans unlike the SACCOs, who to lend to a member, base their lending on a multiplier of their savings, and requires the borrower to continue saving with them on top of repaying the loan. Loan repayment period for SACCOs are shorter than those for commercial banks (Sangara, 2011). This makes loan repayments from SACCOs to be limited from two perspectives: that of requirement for saving before loans are granted and continued saving after the grant of the loan and shorter repayment period for SACCO loans as compared to commercial bank loans. These results in limited amount of loans granted to SACCO customers as compared to commercial bank customers. This forces SACCO customers in need of huge loans to seek loans from commercial banks where they are able to access the amounts they need. SACCOs are re-thinking their business models in a bid to survive growing competition for deposits from commercial banks. SACCOs contend that they are facing financial constraints due to their model of lending ksh. 3 for every ksh. 1 saved by their members, a situation that has prompted them to consider new ways of raising additional revenues (Ademba, 2011). Commercial banks are offering attractive products on terms that are tempting many SACCO members to diversify their borrowings. This has resulted in many SACCO members to join commercial banks (Ademba, 2011).

The new SACCO regulations for deposit taking SACCOs have come with their unique challenges, key among them being their huge financial implications. The cost of implementing and operationalizing these new Sacco Regulations is high, and will affect the way SACCOs have been doing their business if they are to maintain or improve their financial performance (Ademba, 2011). Since the new Sacco Regulations became effective in June 2010, there has been little research which has been carried out to find out how SACCOs responded to the new regulations. It is on this background that the current study sought to find out how SACCOs were responding to the implementation of the new SACCO regulations as being enforced by SASRA for deposit taking SACCOs and the competition from the Commercial Banks.

1.3 Research Aim

The aim of this study was to find out what has been the response of SACCOs to the changing Sacco regulations as being enforced by SASRA and the competition from Commercial Banks.

1.4 Research Questions

To achieve this aim, the study sought to answer the following research questions:

(a) In which ways are SACCOs responding to competition from commercial banks?

(b) In which ways are deposits taking SACCOs responding to the changing SACCO regulations as being enforced by SASRA?

(c) To what extent are the SACCOs effective in meeting the needs of their members with responses they have put in place?

1.5 Motivation for the study

Due to the important role the Sacco Societies play in the development of our country, it is important to ensure that it is vibrant at all times. Whenever there seems to be an issue, it should be addressed in a timely manner as SACCOs touch the lives of many, and thus the life line of our economy. In a workshop for World Council of Credit Unions held on May 21, 2009 in Nairobi Kenya, it was observed that Kenya's SACCOs serve nearly 20% of the economically active population, which was found to be a very strong penetration rate given the fierce competition from commercial banks and other financial service providers. It was further observed that the new regulations have put SACCOs on a more even footing with their competitors, thus the need to put in place measures to fed off the competition and enable them to survive.

Motivation for carrying out this research was premised on research findings of Kiweu and Stauffenberg (2007), that SACCOs were facing stiff competition from commercial banks, which never answered the question of how SACCOs were responding to the challenge of competition by commercial banks against the SACCOs. Further motivation was founded on the need to find out how SACCOs were responding to the challenges brought by implementation of the new Sacco Regulation as being enforced by SASRA for deposit taking SACCOs.

1.6 Significance of the study

The results of this research will help SACCO managements in ensuring that they serve their customers better which will be good for economic development of our country. The research results will also help the government and the SACCO regulators in coming up and reviewing the Sacco laws and regulations for better management of SACCO Societies. A well regulated and competitive SACCO movement will be for the benefit of the customers. This will result to satisfied customers for the benefit of the Sacco sub- sector, and the economy generally.

The study was significant to customers as it will help them understand the market better and be able to seek quality services available in the market. The results of the study will be significant to the Sacco Society Regulatory Authorities as it will make recommendations for smooth implementation of the new Sacco regulations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Kenyan SACCO Regulations

Kenya's SACCO system has grown at a tremendous rate in the past several years, but it has lacked any kind of regulatory oversight and supervision that would enable them evoke trust in their customers and compete against commercial banks and other financial institutions effectively (Ademba, 2011). It is one year since the Sacco Societies Regulatory Authority (SASRA) commenced implementation of the new regulatory framework for deposit taking Sacco Societies in Kenya. Over the one year, the Sacco Societies Act and the new Regulations required the Sacco societies that were already operating Front Office Services Activity (FOSA) as at the date of publication of the Regulations which was June 2010 to apply for license with SASRA to be granted permission to continue their operations. Out of the 219 Sacco societies that were authorized to operate FOSA, 199 applied for the license, 13 communicated their decision to discontinue FOSA operations, while 7 did not submit license application by the deadline of 17th June 2011. Of the 199 applicants, Forty five (45) were licensed by 30th June 2011; fifty-five (55) had been issued with letters of intent, an approval of meeting the minimum licensing requirements as stipulated in the Regulations. The seven (7) who did not apply were directed to cease FOSA operations as their continued operation is a breach of Section 23 of the Sacco societies Act (SACCO Supervisory Report, 2011).

The new legislation granted the establishment of SACCO Societies Regulatory Authority (SASRA), which would license deposit taking SACCOS, regulate and supervise the institutions and manage the deposit guarantee fund contributed by the SACCOs.

The mandate of SASRA as provided by the SACCO societies Act 2008 includes: licensing of Sacco societies to carry out deposit taking business in accordance with the Act; regulate and supervise Sacco societies; do all such other things as may be lawfully directed by the minister; and reform such other functions as are conferred on it by this Act or by any other written law (The SACCO Societies Act, 2008).

Most SACCOs were set up with genuine intentions and great visions, however, some faulted in their mission and have since closed at the disappointment of their membership. This was mostly due to mismanagement by the management boards. The culprits of the mismanagement remain unpunished. This was blamed on luck of proper regulations and supervision, improper corporate governance, luck of professionalism, unethical practices all because there was no Regulatory Authority to regulate the affairs of the Sacco Societies. Proper structures shall be put in place and ensure that rule of law reigns. SASRA shall endeavor to gaining public confidence as a ruthless truth teller and enforcer of the law by focusing on core mandate of supervision and regulation (Gakunu, 2011).

SASRA emphasizes that in accordance with Vision 2030, the policy objective of establishing prudential regulation of deposit taking Sacco Societies is to enhance transparency and accountability in the Sacco subsector. This is consistent with the ongoing reforms in the financial sector whose ultimate aim is to expand financial access, encourage efficiency and enhance financial stability of financial service providers in Kenya. The role of Sacco societies as convenient vehicles for savings and credit to individuals, across the income divide, both in urban and rural areas has been well documented with every seven out of ten Kenyans said to belong to a Sacco Society. Thus financially strong well governed deposit taking Sacco Societies are necessary to expand financial access through deposit services and credit provision for personal and enterprise development (SACCO Supervisory Report, 2011).

Regulation of SACCOAs triggered a structural transformation that has seen the fading away of the inefficient cooperatives which are increasingly diversifying their activities and introducing innovative ventures in order to respond to their members needs which resulted in recording of better performance than they did during the unregulated era (Wanyama, Interfacing the State and the Voluntary Sector for Africa Development, 2006). Thus, the indication is that regulation has given deposit taking SACCOs the impetus to re-examine their organizational formations with a view to reorganizing in their best interest to enable them cope with the new Sacco regulations which have come with higher running costs. The SACCOs are increasingly diversifying their activities and introducing innovative activities to respond to the challenges of the new regulations, as they endeavor to satisfy the interests and demands of their members (Manyara, 2003). With supervision and regulation, Credit Unions in the UK were better than when they were not regulated. Supervision and regulation lead to strong, secure and professional Credit Union sector, capable of meeting the credit needs of a wide range of persons (McKillop, 2005).

While there have been several reform initiatives in Sacco subsector in the past in Kenya, the Introduction of a SACCO specific law is recognition of the unique financial intermediation function that SACCO societies play in our economy. Thus the operational regulations and performance standards are specific and prescriptive; not to make SACCO societies non competitive and stifle their growth but to ensure that they operate and grow within a framework that promotes sound financial and business management practices (SACCO Supervisory Report, 2011).

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

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

Thirdly, the capital adequacy requirement is a key measure of safety and soundness of a Sacco and serves to protect or cushion member deposits and creditors against losses resulting from business risks that the Sacco, as a financial institution faces. The need for such measures can be justified on the grounds that a number of negative externalities may exist in Sacco's that can cause risk to be systematically underpriced. The minimum capital adequacy requirement of Ksh.10 million to start FOSA is the lowest among the deposit taking institutions in Kenya as the law recognizes the member owned nature of SACCO societies. This is not new to FOSA operating SACCO societies, as Rule 52(3b) of Cooperative Society Rules, 2004 required SACCO societies operating FOSA to maintain a capital adequacy of 10% of total liabilities. Capital adequacy requirements generally aim to increase the stability of a SACCO by decreasing the likelihood of failure, and to promote public confidence in the institution, (SACCO Supervisory Report, 2011).

Fourthly, the regulations, in recognition of the financial demands due to the prudential standards on capital and diversification from non-core businesses, provide a four year transitional period within which a SACCO should fully comply with the prudential standards. This period is long enough for the SACCO societies to gradually adjust their financial and operational strategies to comply with capital and other prudential requirements while retaining their competitive edge in the financial market. It is prudent for Sacco leaders to evaluate their current financial and business reality against the prudential standards and develop business strategies to comply with. Importantly, many SACCOs took full advantage of the one year to consider feasible options and educate their members to ensure buy in to the plans before presenting the license applications to SASRA (SACCO Supervisory Report, 2011).

The four year period provides room for the SACCO societies to gradually comply without losing their competitive advantage in respect of returns to member deposits and interest rates on loans. This in effect minimizes the risk of members migrating to Banks. In addition, licensed SACCO societies that are financially sound and well managed will leverage on their licensed status to growth business by recruiting new members (SACCO Supervisory Report, 2011).

Upon acquiring the license, the SACCO society is required to regularly submit financial returns to SASRA. Thus during the licensing process, SASRA has to be satisfied that the information management system in the SACCO can produce the reports and with accurate information on the performance of the SACCO. The analysis of these returns will assist SASRA to monitor the financial performance of the SACCO and address any financial risks early enough. A key output from the periodic financial returns will also be data and information on the performance of the SACCO subsector to the policy makers and the public in general. This will tremendously enhance the transparency and accountability in the financial management of the SACCO unlike in the past where members had to wait for one year to get the audited accounts (SACCO Supervisory Report, 2011).

For effective enforcement of the regulations, SASRA is granted specific powers in the law to deal with SACCO societies that fail to comply. This is imperative as compliance cannot be left at the discretion of the SACCO Society. In addition to financial capacity, licensing is testimony that a Sacco society has the institutional capacity, in terms of human, technology and business processes to comply with the terms and conditions of the license.

Thus failure to comply cannot be condoned as it will encourage impunity (SASRA Media Report, 2011).

SASRA recognizes that as a new law it is certain to bring challenges and impact on the Sacco societies in different ways and extent. It is the responsibility of the board of directors and the management to analyze their business reality against the operational regulations and prudential standards; and develop strategies through the business plans for consideration by the Authority as part of the licensing process. However, the business plans must be within the regulatory provisions for fairness and equity to all license applicants (SASRA Media Report, 2011).

SASRA has noted that the challenges to the successful implementation of the new regulatory framework differ significantly both because of the size and diversity of the SACCO societies. However, inadequate technical skills, both at board and management levels remain the key challenge. While the Authority is addressing this in the short term through training and technical materials, a sustainable solution will require holistic approach involving all the SACCO subsector stakeholders. The Authority will continue to work with these stakeholders to ensure that key areas like governance, management capacity, financial management, credit management and automation are continually addressed and in a sustainable manner (SASRA Media Report, 2011).

In addition to addressing the current challenges, SASRA recognizes the need to ensure that the licensed SACCO societies exploit their full potential and deepen financial access in the country. Thus SASRA will soon commence the development of regulations to allow credit information sharing as provided in the SACCO societies Act and also participation of licensed SACCO societies in the existing credit information sharing initiative in the Banking sector. However, it must be appreciated that prudential regulation is a prerequisite to integration and mainstreaming of the Sacco societies in the Kenya financial sector (SASRA Media Report, 2011).

The prudential regulation is aimed at improving financial condition and soundness of these SACCO Societies, thereby protecting member deposits. This will enhance public confidence and increase the level of savings and credit to members, a key goal of Vision 2030 (Gakunu, 2011).

SASRA through effective implementation of the operational and prudential standards envisions a vibrant and sound SACCO subsector capable of competing in the financial market through demand driven products and services. However, this will not happen by doing the same thing, the same way over and over again. Like our new constitution, the SACCO societies Act and the Regulations anticipate changes in the way of doing Sacco business for the benefit of members and the national economy. Thus as democratic institutions, SACCO societies must embrace policies and business practices that promote good corporate governance, accountability and transparency (Gakunu, 2011).

According to SACCO CAP NEWS Issue 1 July 2007, until recently, SACCOs have been able to maintain their membership and attract new members through natural affiliation stemming from a common bond among members. In recent times, financial institutions are targeting the mid to low income earners, who form the basis of SACCO membership. Commercial banks are now down streaming to reach out to more people in rural areas. SACCOs have reacted to the threat posed by commercial banks by opening FOSAs where they provide a wide range of products and services to their members. Some SACCO FOSAs have opened membership to non-SACCO members.

SACCOs in Kenya are gradually responding to the fast changes in the financial environment and adopting new approaches to the SACCO model. They have adopted the concept of FOSA and developed products that are not tied to the traditional SACCO model, which relies on the tied share deposits (FSD, 2007).

SACCO CAP NEWS July 2007 further reported that, to survive SACCOs need to address the reasons that make competitors seem more attractive some of which were:

competitors do not require prior share contribution to access a loan or advance; customers can access bigger loans without guarantors.

SACCOs have great potential but they are limiting themselves through their lending procedures, limited product offering and closed common bonds SACCOs need to build their institutional capacity in tandem with ever changing market demand. Clients want products that match their needs. They need products that are flexible enough to respond to the varied requirements of their different business situations. Cooperative societies need to handle customers in a more professional manner and develop expertise in areas such as product development, financial management, customer care and marketing (McKillop, 2005).

2.2 Empirical Studies on SACCOs

Studies on SACCOs are few and far in between. In 2005, the world council of Credit Unions (WOCCU) carried out a study namely the Regulatory Impact Assessment (RIA) on 148 SACCOs with Front Office Service Activities (FOSA) in Kenya. The purpose of the study was to find out whether SACCO's were ready to comply with the proposed SACCO bill once it becomes law. The study found out that out of the 148 SACCOs which were surveyed only about seven would comply. The main reasons which were given as obstacles to compliance included:

Firstly, most SACCOs were undercapitalized and thus member's funds were at risk.
Secondly, most SACCOs hand huge non-performing loans some of which were not recoverable. Thirdly, SACCOs were not adhering to prudential standards as there were none developed. Fourthly, some SACCOs hand no institutional Capital. The members owned the total Capital which they used to guarantee one another. This made the societies liabilities to exceed the assets, a scenario that lend to a very unstable situation.

A desk review done by a taskforce on the SACCO Regulatory in July 2009 confirmed that out of the 148 SACCOs originally surveyed by the Regulatory Impact

Assessment (RIA), 70% were now capable of complying with the SACCO Societies Act and the Regulations when they come into effect. This was a general study however, which did not delve into the issues of how SACCOs responded to competition and regulatory change (Sacco star June, 2010).

Kiweu and Stauffenberg (2007) in their study carried out using secondary data found out that SACCOs were unable to provide members with credit at affordable interest rates due to low levels of liquidity in the sector, and that they continued facing stiff competition from other financial service providers like commercial banks, which have high levels of liquidity which enables them to give out loans without asking for any securities or requiring prior savings. The banks also allow longer repayment periods. This study does not however, reveal how SACCOs are responding to the challenges facing this sector.

Turner (1996) in a research on how commercial banks view credit unions found out that Commercial Banks in the United Kingdom dismissed the credit unions as small institutions seeking to provide credit to the unbanked public who are denied access to reasonably priced loan facilities by their luck of credit worthiness track record. He found out that this could be a mistake by commercial banks as credit unions are competing for the same clients with the banks. In this study, Turner found a number of reasons for joining a credit union which ranged from opportunity to save regularly to opportunities of borrowing at low interest rates. Other reasons given included convenience, ease and speed of arranging loans, the friendly and sympathetic way in which customers were treated and the idealism of the movement. This study does not however contend with how SACCOs are affected when bank feel threatened by them.

O'Connell (2005) in his research on the effectiveness of Credit Unions carried out through a survey of several Credit Unions in the UK found out that Credit Union borrowers faced hidden costs through the requirement to save before a loan is granted. In the UK, the main challenger to Credit Unions was found to be the doorstep money lenders. This research found out that if Credit Unions are to offer a service that does, for the first time, offer an element of competition to the doorstep lenders, then it is also clear that higher interest rates will be necessary in order to cover the higher costs that will be encountered. O'Connell, (2005) concluded that such higher interest rates would reflect a greater level of transparency, as the purported low interest rates offered by SACCOs is not accurate due to the hidden costs associated with prior saving requirement. O'Connell asserted that if the Credit Unions were to succeed, they will have to establish the means, by which they can grow as organic enterprises, whilst being supported by greater number of professionalized staff, augmented by business plans and more sophisticated and target marketing. This has been a difficult balancing exercise which has so far proved to be beyond the capabilities of the British Credit-Union movement. To achieve more material and practical results O'Connell suggested that SACCO's should operate more like business placing less emphases on issues like self-fulfillment of members and the creation of 'community' on low income estates and instead place emphases on simple extension of membership and basic financial services. Whether the changes proposed by O'Connell have eventuated is an empirical question.

Baker (2005) argues that Credit Unions needed to attract younger membership as they are in the borrowing phase of life and the older generation who are more likely to maintain higher levels of savings. This will help develop a self- sustainable model Credit Union which will exploit the full membership potential within the common bond area. It is the turn for more professional and business- like approach to Credit Unions which will be offering wider services. Rebranding and restructuring by mergers and consolidations is the correct and Natural way forward. To survive, the smaller unions may be forced to merge. Again these are theoretical suggestions that require empirical verification.

These theoretical proposals were evident in Wanyama, (2009), who argued that to create commercially autonomous, member based cooperatives that would be democratically and professionally managed, self controlled, and self reliant business ventures; the cooperative movement had to be liberalized. He found out that market forces had triggered a structural transformation that has seen the fading away of the inefficient cooperatives as members demand better service provision. Wanyama concluded that Cooperatives should diversify their activities and introduce innovative ventures in order to respond to their members' needs.

While the above studies were certain about what SACCOs need to do to remain competitive (Opondo, 2011), in SACCO Star Issue 15 argued that this is a bigger puzzle. She argued that SACCO's had been operating a closed shop type of business enjoying almost monopoly power on its market niche, which made them to relax and forget to continuously advertise their products which lend to invasions of their traditional market by commercial banks. She further argues that the traditional believe that SACCOs offer cheap loans was being challenged. It is being held that SACCO's have allot of hidden costs, in that for one to get a loan needs to have saved with the SACCO and for a certain period of time. Again the empirical question as to how SACCOS were responded had not been addressed.

Baker (2008) provides some insight into how SACCOs might respond following regulatory change. With supervision and regulation passing to the Financial Services Authority (FSA), Baker argues that the new regime will ultimately lead to a strong, secure and professional Credit union sector, capable of meeting the credit needs of a wide range of persons. The main regulatory change in the UK credit union laws were increase in lending capabilities and widening the qualifying bond. The new membership qualification had a significant effect, dramatically widening the scope of membership to a much wider area than previously available (Baker, 2008). Baker further asserts that the most successful credit unions are the ones where the membership comes from a varied income background. The higher income group will have higher savings, while the lower income groups will seek higher volume of loans. This will improve the financial intermediation, as funds are passed from those who have (savers) to those who have not (borrowers).

2.3 Theoretical Framework

The theoretical framework informing this study was drawn from the literature on how organizations change when faced with adversity. Porter (2008) suggested the Five Competitive Forces That Shape Strategy for organizations faced with adversity from within the industry and beyond. Porter, (2008), further alluded that in essence, the job of the strategist is to understand and cope with competition. Often, however, managers define competition too narrowly, as if it occurred only among today's direct competitors. Porter, (2008) acknowledges that Competition for profits goes beyond established industry rivals to include four other competitive forces as well: customers, suppliers, potential entrants, and substitute products. Understanding the competitive forces, and their underlying courses, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition and profitability over time. Understanding industry structure is essential to effective strategic positioning, and defending against the competitive forces and shaping them in a company's favor are crucial to strategy (Porter, 2008). Ademba (2011) in his presentation to SACCO managers on "challenges facing SACCOs in Africa" alluded that SACCOs, like many other business entities in Africa, are faced with challenges in their quest towards survival and growth and categorized the SACCO challenges as internal and external. He identified the internal challenges as deficiency in contemporary skills, leadership and governance problems, and inadequacy of resources, insufficient technological development and quality service demand. He listed the external challenges as economic liberalization and regulation of business, price decontrol, competition for scarce resources and competition from commercial banks. Along with this categorization, Ademba (2011) suggested that SACCOs should change their strategy to become more competitive through better focus, products and service provision, understanding customer needs and wants and become creative and inject business culture. At the macro level, he suggested that governments enact legislation that favors SACCO movement. The essence of this speech and the organization change literature is that when faced with challenges, organizations change in order to survive and thrive. They have to change the way they transact their business to align with the new changes if they are going to survive. They must be ready to invest in new technology especially the IT which will lead to cost saving and reduction. They must invest in human resources by acquiring the right employees and equipping them with the right knowledge.

The Kenya SACCOs are regulated by the Sacco Societies Act (No. 14 of 2008). The SACCO Societies Regulations of 2010 provide minimum operational regulations and prudential standards for deposit-taking SACCOs in Kenya. The regulations include various prudential, operational, and reporting requirements such as: appointment of Chief Executive Officers (CEO's) to manage the affairs of the SACCOs; Deposit a statutory reserve with SASRA of Kenya shillings 10 million (capital adequacy); appoint both internal and external Auditors; prepare financial statements on the bases of internationally accepted standards and adhering to International Financial Reporting Standards (IFRS); maintain a financial system capable of producing timely reports with accurate information on the performance of the SACCOs.

The cost of running deposit taking SACCOs are set to go up significantly as the new SACCO Society regulations come into effect which will affect the loanable funds available to them. This will affect their ability to continue offering the low interest loans, potentially making their loans more unattractive to members. The operating costs may at the end come at par with those of commercial banks thus eliminating the competitive advantage the SACCOs hand over the commercial banks. This will lead to rise in the cost of SACCO loans, further complicating the matters for the SACCOs which are already feeling the heat of competition from commercial banks. There have therefore been suggestions that innovation will drive competitiveness of SACCOS because of direct competition from Banks when regulations take place (Mbui, 2010).

Porter (2008) wrote that the job of a strategist is to understand and cop**e** with competition. This research seeks to understand how SACCOs seek to cope with competition from commercial Banks and changes in regulation. Any existing business within an industry expects competition from among its rivals within the industry. It also faces potential competition from potential entrants, from the suppliers, from the threat of provision of substitute products or services. It will also face demand from the buyers of their service or products. All the above will determine the survival of any organization. For the SACCOs, they are in financial industry and thus their first competitor is the Commercial Banks and other financial service providers such as the micro finance institutions. The buyers of their services are demanding better services at affordable rates. This will force the SACCOs to review how they handle their customers. The customers bargaining power may lower the SACCO profits. Porter's theory will be applicable to the SACCOs as they try to survive the competition from the commercial banks and adhering to the new SACCO regulations.

The new regulation of SACCOs will restore transparency and accountability and will lead to a strong, secure and professional sector capable of meeting the credit needs of a wide range of persons (Baker, 2008). Regulations will enforce professionalism which will however, lead to increased administrative costs. These costs may be unsustainable forcing smaller credit unions to merge or consolidate to enable them enjoy economies of scale. This will limit the number of new SACCOS due to the difficulties of starting up new ones (Wright, 2003). Operational regulations will level the playing ground making Sacco's more competitive among themselves and with other financial service providers which will enable them to operate and grow within a framework that promotes sound financial and business management practices. This will bring confidence in the SACCOs movement which will lead to attraction of new members and professionals who have shied away of the movement due to the perceived bad governance practices (Anthony, 2000).

There is some evidence from overseas that the growing regulatory burden and the rising cost of compliance have forced many smaller credit unions to seek out merger partners because of their inability to shoulder the compliance burden, the primary reason for reduction in credit union numbers is as a result of merger and consolidations between existing credit unions into larger entities, as evidenced by the mergers in Sheffield, Cardiff and Leads (Rick, 1998). This was aimed at spreading the cost burden. Larger credit unions are able to offer more services without disproportionate increase in the cost of providing such services due to the economies of scale. They are able to compete with even the big commercial Banks. In USA and Australia large scale consolidations led to credit unions coming into direct competition with the banking industry (Deborah, 2003).

This research study therefore conceptualizes that SACCOs have responded to competition from commercial banks and changes in regulatory framework by implementing various strategies in order to comply with the new regulatory requirements and cope with the new competition. This may in turn lead the changing of Sacco's values and objectives away from non-profit, communitarian, volunteer driven values to profit seeking, and efficiency ones. Such a shift may also affect the effectiveness of the services provided to members and ultimately, their performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research design, the sample, data collection, data analysis and reporting.

3.2 Research Design

This research study adopted a qualitative research design based on unstructured interviews, guided by an interview protocol and used interpretive research methodology. Qualitative research is research whose findings are not arrived at by statistical or other quantitive procedures. Qualitative research is naturalistic, thus its goal is to understand behavior in a natural setting, understanding a phenomenon from the perspective of the research participants and understanding the meanings people give to their experience (Butler, 2006). The current study aimed at understanding how SACCOs were responding to competition from commercial banks and new SACCO regulations, and thus qualifies to be a qualitative research. Interpretivist research methodology was chosen because the reality to be known was in the minds of the actor and the researchers role was to interpret what the actor was saying. This helped the researcher to gain deeper understanding of how SACCOs were responding to competition from commercial banks and to the new SACCO Regulations as being enforced by SASRA. A key strength of qualitative research is its ability to give the researcher a comprehensive perspective of the phenomenon under study (Glaser, 1967). This approach allows for the discovery and understanding of actions, beliefs and decisions that cannot be easily detected by quantitive methods (Creswell, 2009). This methodology centre's on the way in which human beings make sense of their subjective reality and attach meaning to it (Claire, 2009). It is based on the premise that understanding human experiences is as important as focusing on explanation, prediction, and control (Goulding, 2002). Interpretivist contends that only through the subjective interpretation of and intervention in reality can that reality be fully understood. The interpretivist paradigm posits that researcher's value is inherent in all phases of the research process and thus, the truth is negotiated through dialogue. Findings are created as investigation proceeds, and that findings emerge through dialogue in which conflicting interpretations are negotiated among members (Turner, 1981). This methodology relies on qualitative data collection methods and used unstructured interviews to collect data.

The use of unstructured interviews was to allow for informal, guided conversations from a set of common questions.

3.3 Sample Design

In this study the unit of analysis was the deposit taking SACCOs in Kirinyaga County which had been licensed to carry out deposit taking activities by SASRA. There were three deposits taking Sacco's in Kirinyaga which had been allowed to carry deposit taking activities and due to the small number, all of them were chosen for interrogation. Kirinyaga County was chosen for convenience purposes due to the fact that the researcher had deep connections in the SACCO societies in this area and thus was easier to get information which otherwise would have been difficult to get from other areas (Maxwell, 2005). This network helped in building the confidence in the interviewees from the targeted SACCOs, who disclosed inside information which would otherwise have been difficult to get.

The study employed purposive sampling. This is a non-probability sampling method which allowed us to select SACCOs that were representative of the purpose of the study (Babbie, 2007).

The sample consisted of nine senior managers from the three deposit taking SACCOs in Kirinyaga County licensed to carry deposit taking activity by SASRA. They were the chief executive officers, chief finance officers and the SASRA compliance officers of the selected

SACCOs. These representative samples were conveniently chosen because they were believed to possess deeper understanding of the responses of SACCOs to competition from commercial banks and the implementation of the new SACCO regulations as being enforced by SASRA. Subjects must be chosen on the basis of why we think their understanding is important because they have some ability to act on the basis of their understanding (Rowlands, 2005). There is significant potential for respondents to place a different meaning on our questions than we intended and to avoid collecting what would essentially be invalid data, we must test our respondents' understanding of our questions through discussions (McDonald, 1985) The selection of the small number of interviewees was due to the fact that to interview the respondents required more time to get the detailed information which was needed for this study, and that the selected interviewees were believed to possess the needed information and therefore a large sample was not tenable.

3.4 Data Collection

Data was collected using unstructured interviews where a face to face interview of around one hour duration was conducted in a private setting that ensured comfort and confidentiality. Interviews were conducted at SACCO offices at the convenience of the interviewees. The interviews were digitally recorded and transcribed.

The interviews were guided by open ended questions which gave an opportunity to the respondents to express their opinions freely. The questions were designed to elicit narratives from the participants about their experiences on the responses of their SACCOs to competition from Commercial Banks and the new SACCO Regulations as being enforced by SASRA. Interview questions were pilot tested and any necessary revision made to enrich the data collection (Maxwell, 2005).

Interviewees were contacted physically to schedule the interviews which were later confirmed by phone before the scheduled date. The interviews were conducted within the normal business hours. An interview protocol (Appendix A) was used to guide and ensure consistency of the interviews. All interviews were digitally recorded. Before recording the interviews, consent of the interviewees to be recorded was solicited. The interviewees signed consent forms to indicate permission to record the interviews. The researcher reviewed the transcriptions to ensure accuracy.

3.5 Data Analysis

All transcripts were read several times and the researcher listened to the recorded interviews multiple times. The process of data analysis involved breaking down of the collected data, then conceptualizing and putting it back together to emerge with categories and subcategories. The transcriptions were initially subjected to open coding; a rigorous line by line examination of the data to identify “codable moments” which was subsequently categorized and labeled and from which themes and ideas eventually emerged (Maxwell, 2005). Data analysis followed the constant comparative analyses which involve taking one piece of data and comparing it with all others that may be similar or different in order to develop conceptualization of possible relations between pieces of data (Goulding, 2002).

After coding, the data was organized into coherent categories that summarized and brought meaning to the data. Themes were created by reading through the data or statements to find issues that recur in the data (Morgan, 1980). A comparison was made between the response of one SACCO against another, and between one manager and another even within the same organization with the aim of developing explanations for responses of the SACCO’s to competition from commercial banks and the new SACCO Regulations as being enforced by SASRA. In interpretive research, it is useful if multiple observers claim to have observed the same thing (Rowlands, 2005). The data was presented in the form of tables which helped in forming conclusions.

CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

This chapter presents the findings of the research on how SACCOs were responding to competition from commercial banks and the implementation of the new Sacco regulations as being enforced by SASRA.

4.2 Response of SACCOs to competition from commercial banks.

TABLE 1

Whether SACCOs faced competition from commercial banks

Are SACCOs facing competition from commercial banks?	All respondents agreed that SACCOs were facing competition from commercial banks.

SOURCE: author (2013).

The research found out that SACCOs were facing competition from commercial banks.

TABLE 2

Nature of competition from commercial banks against the SACCOs

Competition faced by SACCOs from commercial banks	Banks were offering unsecured personal loans. Banks were not requiring prior savings by borrowers to access credit. Banks had access to cheaper sources of capital due to their broad capital base allowing them to offer loans liberally. Banks offered services to all customers unlike SACCOs who served customers only from their common bonds. Banks offered customer oriented products. Banks buyout of SACCO loans.

SOURCE: author (2013).

The research found out that the main source of competition from commercial banks against SACCOs was the ability of commercial banks to offer unsecured personal loans. SACCOs demand credit guarantee in various forms including share capital guarantee and ability to pay. Commercial banks do not require customers to have prior savings with them in order to access credit unlike the SACCOs which requires customer to have prior savings with them and to continue saving with them even after credit grant. This burdens the customers as they continue saving and repaying the loan unlike in commercial banks where the customers are only required to repay the loan with no requirement for savings. This allows customers to be left with more funds to service their loans, thus are able to access huge loans than SACCO members who are over burdened with continued savings and loan repayments, thus low loan amounts. Based on this, commercial banks are able to attract customers from SACCOs, as it is possible for them to access bigger loans which do not require any further guarantee other than the ability to pay and no need for continued savings. The customer is left with higher disposable income to service the bigger loan unlike the overburdened SACCO customers.

The research also found out that commercial banks were able to source for cheaper capital because of their broad capital base. The access of cheaper capital enables commercial banks to advance their loans more liberally unlike the SACCOs who are in shortage of capital and thus put in place more stringent measures while loaning to members.

The research found out that banks offer services to all types of customers irrespective of their backgrounds unlike the SACCOs who only serve customers who belong to the common bond for which they were formed to serve. This serves as a limiting factor to SACCOs.

The research found out that commercial banks were offering customer oriented products, which enabled them to respond to customer needs in good time unlike SACCOs which were found to take longer period before responding to customer needs. This was found to lead to attraction of customers to commercial banks, thus becoming a main strong point of competition of commercial bank as against the SACCOs.

The research found out that SACCOs were facing competition from commercial banks in the form of commercial banks buying out SACCO loans. Commercial banks were able to offer better lending terms and conditions to their customers including SACCO members. Commercial banks offered longer repayment periods, bigger loan amounts and with no requirement for savings other than the ability to pay. This was found to attract SACCO members who were in need of huge loans to commercial banks. SACCOs offered loans based on amounts of savings a customer had with them, requirement for guarantor ship on top of requirement for continued savings. This was found to serve as a limiting factor for SACCOs to effectively compete with commercial banks and thus opened up a direct competition line of customers, between the commercial banks and SACCOs.

TABLE 3

Response of SACCOs to competition from commercial banks

How SACCOs responded to competition from commercial banks.	Opening up of the common bond. Longer repayment periods. Low interest rates than those offered by commercial banks. Coming up with tailor made products. Engaging in aggressive marketing. Engaging in market research. Partnering with other financial service providers. Engaging in branch expansion. Embracing continuous rebranding. Engaging in vibrant membership recruitment. Seeking cheep capital. Further training of employees. Employment of qualified staff. Embracing technology for efficient service delivery.

SOURCE: author (2013).

The research found out that SACCOs were responding to competition from commercial banks in a number of ways key among being:

Opening up their common bond: It was found out that SACCOs were formed to serve certain common bond. Commercial banks serve customers without discrimination. This has been identified as one of the reasons why commercial banks outcompetes SACCOs. With realization of this, SACCOs have resulted in opening up their common bonds and accepting membership from other sectors other than from their original bonds. This finding agreed with the findings of O’Connell (2005) who in his study concluded that Credit Unions should operate more like business, placing less emphasis on issues like self-fulfillment of members and instead place emphasis on simple extension of membership and basic financial services. Baker, (2005) in his study concluded that Credit Unions needed to attract younger membership as they are in their borrowing phase of life and the older generation who are more likely to maintain higher levels of savings. Baker, (2008) in his research concluded that the most successful credit unions are the ones where the membership comes from a varied income background. The higher income group will have higher savings, while the lower income group seeks higher volume of loans. This improves the financial intermediation within the SACCO.

The research found out that SACCOs were offering longer repayment periods for loans and advances. This was in response of commercial banks granting longer repayment periods to their customers and attracting customers from SACCOs. This was found to allow customers to access bigger loans as they are spread for longer repayment period. This agrees with Kiweu and Stauffenberg (2007), who in their study found that banks were allowing longer repayment periods to afford the customers bigger loans.

The research found out that the SACCOs were maintaining their low interest rate regimes even when the general interest rates were increasing. This ensured that SACCO loans were affordable unlike in commercial banks that were increasing their interest rates and scaring away customers. This resulted to SACCOs being more competitive against the commercial banks. Commercial banks were increasing their lending rates according to increase in CBK base lending rates. The idea of maintaining the low interest rates was aimed at retaining the existing customers as well as attracting new members who were dissatisfied with increasing commercial banks interest rates. It was found out that with low interest rates, SACCOs were able to compete more effectively against the commercial banks.

The research also discovered that the SACCOs were coming up with tailor made products for their customers to respond to customer's needs. To retain and attract new customers it was found out that SACCOs were coming up with products which suit their customer needs just like what commercial banks were doing. SACCOs were continuously engaging themselves in product innovation to respond to customer's needs. This was found to make SACCOs to be more competitive against the commercial banks.

The research found out that SACCOs were engaging in aggressive marketing to boost awareness of services they offer and their existence. This ensured that SACCOs were able to compete with commercial banks for customers. It was found out that SACCOs had established marketing departments for the purposes of carrying out marketing for their SACCOs. This agreed with the findings of Opondo, (2011) who found out that SACCOs were operating a closed shop type of business, enjoying almost a monopoly power on its market niche which made them to relax and forget to continuously advertise for their products. This lend to invasion of their traditional market by commercial banks. With the aggressive marketing by SACCOs, they have become more competitive against the commercial banks.

The research also found out that SACCOs engaged in market research to respond to competition from commercial banks. This ensured that SACCOs were aware of the market expectations and that they responded to the expectations more effectively and in good time. With effective market research it was found out that SACCOs were able to offer satisfactory services to their customers. The resulting better service to customers was found to further attract new customers. This was found to make SACCOs to be more competitive against the commercial banks. This was in agreement with Ademba (2011) where in his research concluded that SACCOs had to change the way they transact their business to align with the new changes if they were going to survive in the market.

The research found out that SACCOs were partnering with other financial service providers to offer financial services. SACCOs were partnering with other financial service providers such as commercial banks through cooperative bank and mobile money transfer companies such as safari com and air tell. SACCOs have entered in to partnership with cooperative bank where they are issuing ATM cards (SACCO LINK) which enable their customers to access their accounts through ATM's. Through the ATM cards the SACCO customers are enabled to access their account wherever they are with no need to visit their SACCO banking halls. SACCO members are now more comfortable as they can access their accounts any time any where they are, thus no need for moving out the SACCO to join commercial banks as it was the case before. SACCOs also partnered with mobile phone companies to offer money transfer services. It was found out that SACCOs have entered into partnership with safaricom's M-Pesa and Air-Tell money transfer services. This was found to have led to SACCOs being able to compete more effectively with commercial banks as they were able to serve their customers more effectively.

The research found out that SACCOs were engaging in branch expansion to enable them compete more effectively with commercial banks. SACCOs were establishing branches nearer to the customers to respond to commercial banks expansion of their branch networks. This way, SACCOs were able to compete more effectively with the commercial banks as customers had no reason of moving to commercial banks from SACCOs due to distance location of SACCOs. SACCOs brought the services to the customers by opening up branches in towns near them.

The research found out that SACCOs engaged in vibrant membership recruitment drives, which were being carried out through the marketing department where recruitment agents were stationed. It was found out that this resulted in increased membership in SACCOs and thus enabled SACCOs to compete more effectively with commercial banks.

The research found out that SACCOs were sourcing for cheaper capital. SACCOs were employing various strategies to source for cheaper capital to enable them offer credit more competitively. They were encouraging members to save more to increase their share capital. This they did by declaring high dividends at the end of financial period to encourage members to save. Further, they sought low interest loans from financing institutions which enabled them to offer loans at more competitive terms. This was found to enable SACCOs to compete more effectively against the commercial banks which traditionally were enjoying huge cheaper sources of capital as they were now endowed with huge cheaper capital which allowed them to widen their loaning services to members which lead to more commitment by members. This was in agreement with Kiweu and Stauffenberg (2007) who in their study found out that SACCOs were unable to provide members with adequate credit facilities due to low levels of liquidity in the sector and continued facing stiff competition from commercial banks because of their high levels of liquidity which enabled them to give out loans to customers more liberally without asking for any security or requirement for prior savings.

The research found out that SACCOs were engaged in rebranding themselves to suit their greater roles of working outside their common bond. Originally, SACCOs were formed to serve certain common bonds, but with the increased competition, they opened up their common bonds to serve customers outside their common bonds. To achieve this they had to rebrand themselves, which included changing their names to those which did not depict names of their common bonds, to names which had a wider appeal with no limitation. It was also found out that SACCOs were amending their constitutions to accommodate the new developments. This has enhanced the SACCO chances of attracting members from outside their common bond, thus making them more competitive against the commercial banks as far as attracting new members is concerned. This agrees with the findings of Wayama (2009) who in his research concluded that to build a successful SACCO, the cooperative movement should be liberalized and introduce innovative ventures in order to respond to their member's needs.

It was found out that SACCOs were carrying out further training of their employees to equip them with the necessary skills and were employing qualified staffs. This was found to be enabling SACCOs to offer better services to their customers in a more satisfying manner as employees knew what was expected of them. SACCO customers have become more confident of services offered by SACCOs as the services are now as efficient as those offered by other financial service providers. This was found to have resulted to SACCOs being able to compete more effectively against the commercial banks than before as their services were of the same quality as those offered by commercial bank. This finding was in agreement with the finding of O'Connell (2005), which concluded that if Credit Unions were to succeed, they had to establish means, by which to grow as organic enterprises, while being supported by greater number of professionalized staff. It is also in agreement with Ademba, (2011) who observed that for SACCOs to be successful they had to invest in human resources by acquiring the right employees and equipping them with the right knowledge to be able to offer quality services.

The research found out that SACCOs were embracing information technology to enable them offer their services more efficiently. This was found to enable the SACCOs to compete more effectively with commercial banks as they were able to handle customer issues faster, which matched commercial bank services. This resulted to satisfied customers who were contented in their SACCOs. This was in agreement with Ademba, (2011) who observed that for SACCOs to survive they must be ready to invest in information which would result to cost saving and reduction as work would be done in an efficient manner and in good time. This was found to enable SACCOs to effectively compete against commercial banks.

4.3 Response of SACCOs to new Sacco regulations:

With the implementation of the new SACCO regulations, it was found out that SACCOs responded in a number of ways, key among them being as indicated in the table 4 bellow:

TABLE 4

Response of Sacco's to new SACCO regulations.

Response of SACCOs to the introduction of the new SACCO regulations.	Employment of SASRA compliance officer. Upgrading of computer and financial systems. Employment of qualified staff. Streamlining the books of accounts. Enhanced member's education. Institution of policies to encourage more member's deposits and savings. Institution of cost saving policies. Institution of policies to encourage increased share savings. Calling for a longer compliance period. Sourcing for cheaper funds.

SOURCE: author (2013).

The research found out that with the implementation of the new SACCO regulations, SACCOs responded in a number of ways. The research found out that SACCO responded to these new regulations by employing SASRA compliance officer/s to foresee the implementation of the requirements of the new Regulations. SASRA had specified specific requirements to be met by the deposit taking SACCOs before they are allowed to continue with their operations. To meet all the requirements was found to require a specific person to be in charge, and thus the compliance officer.

The research found out that SACCOs had upgraded their computer and financial systems to enable them respond to SASRA requirements. This was in line with the reconditions of SASRA that SACCO Societies offering deposit taking services had minimum financial systems and operational policies to enhance prudential management of the business taking, and there by protect the member's funds. The research found out that the upgraded financial systems were enabled SACCOs to file their financial reports in good time with accurate information on their performance as per the requirements of SASRA.

The research found out that with the implementation of the new SACCO regulations, SACCOs have employed qualified staff to take up duties and responsibilities in specific areas. It was found out that SACCOs had employed p[professionally qualified CEO's, CFO's and internal auditors as per the requirements of the new regulations. This was found to be in agreement with SASRA contention that inadequate technical skills both at board and management level were among the key impediments in proper implementation of the new SACCO regulations.

The research found out that SACCOs were streamlining their books of accounts to be in conformity with SASRA requirements of timely filing of financial statements. SASRA required that SACCOs must put in place a system capable of generating financial reports automatically and send them to SASRA. This finding is in agreement with SASRA requirement that information management system in SACCO should produce financial reports and accurate information on performance of SACCOs to enhance transparency and accountability in the financial management of SACCOs. Further, SASRA requires financial statements to be prepared on the bases of internationally accepted reporting standards and adhering to International Financial Reporting Standards.

The research found out that SACCOs were engaging in enhanced member's education. This was aimed at enlightening members on the benefits accruing from regulated SACCOs, which included security of member's funds. It was found out that when the members were guaranteed of security of their investments, they invested more to the benefit of the SACCOs which required more funds to implement the requirements of the new SACCO regulations. The new regulations made the running of SACCOs more costly, as a result of the higher operating cost. Member's education led to higher number of members joining the SACCOs, which led to higher income. The higher income from the expanded membership helped in raising more capital which helped in meeting the high expenses in SACCOs brought about by the requirements of the new regulations.

The research found out that SACCOs were instituting policies to encourage more deposits and savings by members. They did this by paying high rates of interest to savings and deposits by members. The research found out that SACCOs needed finances to meet their financial needs brought about by the requirements of the new SACCO regulations and by putting in place the above measures helped in raising the required capital.

The research also found out that SACCOs were instituting cost saving policies in order to raise the much needed finances to fund the new SACCO requirements. The new SACCO regulations have put SACCOs at the same footing like any other business venture, and thus have to fight for its position in the business world. Disclosures which were not required in SACCOs are now part of the minimum requirements. These have come with a lot of financial needs to the SACCO. The additional financial requirement needs SACCOs to raise the required funds, and one way of raising these funds was found to be putting in place cost saving policies. By cutting cost, the saved finances were directed towards the implementation of the new SACCO requirements.

The research found out that SACCOs were engaged in policies to encourage increased share savings by members. This was in line with the huge capital needs of the SACCOs and the fact that the cheapest source of capital was from member's savings. It was found out that SACCOs were encouraging members to save more by paying high interest rates on savings.

The research also found out that SACCOs were seeking for increased compliance period to make sure that they fully comply. The four years period given to fully comply with the new regulations was found to be short. It was found out that SACCOs needed more time to fully comply and thus the need for the increased compliance period.

The research found out that SACCOs were sourcing for cheaper funds to finance their business. It was found out that SACCOs were sourcing for funds from offshore financiers where they were able to source for low interest loans to fund their business activities. To implement the new SACCO regulations, it was found out that huge amount of capital was required. To do this, SACCOs needed to identify cheaper sources of capital which would save on the cost of finances and leave more funds to finance the needs brought about by the requirements of the new SACCO regulations.

CHAPTER FIVE

DISCUSION OF THE RESULTS, SUMMARY, CONCLUSIONS AND RECOMENDTIONS

5.1 Introduction:

This chapter presents the discussions of the findings of the research based on the following outline: Response of SACCOs to competition from commercial banks and Response of SACCOs to the changing SACCO Regulations as being enforced by SASRA.

5.2 Response of SACCOs to competition from commercial banks.

The study found out that SACCOs were facing competition from commercial banks. It was found out that the main reasons why commercial banks were outcompeting SACCOs were far and wide and key among them were: Commercial banks offering unsecured loans to their customers; commercial banks not requiring customers to have saved with them in order to access their loans; banks having broader capital base (asset base), which enables them to access loans more easily and cheaply from various financiers; banks offering services to all with no limit unlike SACCOs which served customers from certain common bonds; commercial banks employed qualified employees and retained them for a longer period of time; commercial banks were channels of choice for government funds and preferred pay points by most employers; commercial banks offered more customer oriented products and commercial banks offered better terms and conditions of loans to customers which enabled them to attract customers from SACCOs. Commercial banks were able to attract SACCO customers, by offering higher amount of loans as they do not require any prior saving nor continued savings by the customers as is the case with SACCOs. This left customers with higher disposable income to finance repayment of their bigger loans. This was found to be attractive to customers who eventually defect from SACCOs and join commercial banks to enjoy the bigger loans. This was found out to create a direct competition between the commercial banks and SACCOs for customers. If SACCOs need to effectively compete with commercial banks, they need to re-think their way of offering loans. They need to be more liberal in the way they offer loans. The requirement of prior saving and continued saving by SACCO members need to be reviewed to allow customers larger amount of loans the way commercial banks does.

The research found out that SACCOs were responding to competition from commercial banks by putting in place far and wide measures, key among them being:

Opening up the common bond where the traditional customer base was broken. By opening up the common bond, Customers beyond the traditional target group/s were accommodated. The research findings that SACCOs were now being run like any other business which do not discriminate customers, but serve all, irrespective of their background as long as they can meet the set standard, conforms with the findings of Baker (2008), who found out that the most successful credit unions/ SACCOs were the ones whose membership comes from a varied background. There are indications that Sacco's have opened up their common bonds and accommodated members outside their original common bonds. The findings of the research also agree with Baker, (2005) who in his research found out that, Credit Unions need to attract younger membership who are in their borrowing phase and older generation who are more likely to maintain higher levels of savings. The research findings further agreed with the findings of O'Connell, (2005) who in his study found out that, Credit Unions should operate like business, placing emphasis on simple extension of membership and financial services. The research found out that, SACCOs which were formed with the objective of serving certain groups of people, had amended their regulations and by laws to allow for accommodation of other customers outside their original common bond. The elimination of the common bond has led to increased number of customers as more customers from nontraditional bonds, join SACCOs.

Opening up the common bond was found to be one of the main solutions to the survival of SACCOs in the face of today's competition. Opening up the common bond will allow the SACCOs to attract customers from people of all walks of life irrespective of their background. The secret of success of any business lies in its potential to win and retain customers (Porter, 2008). The increased number of members was found to have resulted to higher returns in the SACCOs, which helped the SACCOs to raise the much need finances.

The research found out that SACCOs were now offering longer repayment periods for their loans and advances. This agreed with findings of Kiweu and Stauffenberg, (2007) who in their study found out that, banks were allowing longer repayment period for their loans and advances which allowed their customers to access higher amounts of loans. Longer repayment period, allowed for bigger spread of loan, which resulted to lower monthly installments which allowed for access of higher loan amounts**.** Customers were running away from SACCOs because of the squeezed repayment periods which resulted to high monthly installments. The longer loan repayment period in commercial banks have afforded the customers to access higher amounts of loans and repay them more comfortably than in SACCOs. To respond to the longer repayment periods offered by commercial banks, SACCOs have increased their repayment periods from lows of 48 months to highs of 60 months. This has resulted to SACCO customers to access bigger amount of loans, reducing the movement of customers from SACCOs to commercial banks. The research found out that with the increased repayment period, customers were more committed to their Saccos than before.

SACCOs have continued offering loans at low interest rates to their members. This had always been viewed as the main strength of SACCOs against other financial service providers including the commercial banks whose rates of interest were high. This was in agreement with Turner (1996) where in his study on how commercial banks view credit unions found out that among the reasons for joining a credit union was an opportunity of borrowing at low interest rates. It was found out that even when the interest rates were going up following the increase in the CBK base lending rates in year 2012, SACCOs never increased their rates of interests as the commercial banks increased their rates of interest. It is believed that if SACCOs continue offering low interest rates on their loans they will be able to compete more effectively with commercial banks and other financial service providers. Interest rate is a key factor any borrower takes into consideration whenever they are making a decision as from which financial institution to borrow a loan or an advance from.

SACCOs were coming up with tailor made products to respond to the customer needs. Customer needs were changing with passage of time and for SACCOs to survive in this competitive market, they were responding more timely to customer needs. This finding was in agreement with Mbui, (2010) who found out that for SACCOs to survive, they had to be innovative and responsive to customer needs, which will drive their competitiveness. When SACCOs come up with products which suit the needs of their customers, they are able to retain them and attract new ones. An unsatisfied customer is destined to move on to where he/she will derive the satisfaction desired, thus by responding to customer needs, the SACCOs were positioning themselves for competition with other financial service providers among them the commercial banks. Responding to customer needs and desires in good time positions the service provider ahead of their competitors, and thus wherever there is competition it's always prudent to understand the customer's needs and respond to them in good time. By doing this, SACCOs have been able to compete more effectively against the commercial banks.

To survive the competitive market, it was found out that SACCOs were engaging in aggressive marketing to boost awareness of their services. This finding was in agreement with findings of Opondo, (2011) who in his research found out that SACCOs had been operating a closed shop type of business, enjoying almost monopoly power which made them to relax. He recommended that for SACCOs to survive in the competitive market, they had to continuously advertise their products. This will create awareness of their existence and services they offer, which will lead to maintenance of the existing customers and attraction of new members. To create awareness of existence of a product or a service, a well organized marketing needs to be carried out. By SACCOs establishing marketing department, they are positioning themselves to compete more effectively with their competitors, including the commercial banks.

To survive in the competitive market, SACCOs were found to be engaging in market research. This was found to help SACCOs to be able to respond to market expectation in good time. This was in agreement with the findings of Ademba, (2011) who recommended that for SACCOs to be competitive, they had to change the way they transacted their business to align with the changing customer demands if they were going to survive in the very competitive market. Market research helps in understanding the changing market demands in good time. This helps in understanding the market requirements. This helps in timely responses to such new market developments in good time. This makes sure that customers are catered for and thus able to retain them and attract new ones. By SACCOs establishing market research departments, they are able to know in good time the market expectations and respond to them. This has enabled the SACCOs to compete more effectively with commercial banks, as they are able to offer quality services to their customers than before.

The research found out that SACCOs were partnering with other financial service providers to wade off competition from other financial service providers, especially from commercial banks. This they have done by partnering with financial service providers such as the Co-operative bank. Through partnership with Co-operative bank, SACCOs are issuing their customers with Sacco link ATM cards, which enables them to access their accounts from cooperative bank and other commercial banks ATM's which are members of ken switch family. Those customers who were running away because of the inaccessibility of their account any time anywhere they were now comfortable in their SACCOs. Further, SACCOs were partnering with mobile phone companies to offer money transfer services offered by the mobile phone companies. This was in response to the mobile phone companies partnering with commercial banks to offer the money transfer services. By partnering with the mobile phone companies to offer money transfer services, SACCOs are able to compete more effectively with commercial banks as they are able to offer the same services offered by the commercial banks. This way, SACCOs are able to retain their existing customers and attract new ones.

Branch expansion: It was found out that Sacco's were responding to competition from commercial banks by opening up more branches, bringing their services nearer to the customers. Most SACCOs were originally rural based, but now they are opening branches in major towns where they are wooing more customers owing to their unique services they offer. This led to greater customer outreach, making SACCOs to effectively compete with other financial service providers including the commercial banks. By opening more branches, SACCOs are able to have a greater outreach and to bring services nearer to the people. This resulted to SACCOs offering better services to their members and attracts new customers, enabling them to compete for customers against the commercial banks more effectively.

The research found out that SACCOs were rebranding in order to re-align themselves with the changing nature of doing business. It was found out that Sacco's were changing their names in order to be more appealing to all sections of the society other than only representing their original common bond. It was found out that this has resulted to increased customer numbers as the issue of common bond is no longer in existent. This was in agreement with findings of Wanyama, (2009) that to build a successful SACCO, the cooperative movement should be liberalized and be innovative in order to respond to their member's needs. By SACCOs rebranding themselves and changing their names to represent the bigger society than their original common bond, has resulted to attraction of customers from the wider society thus enabling SACCOs to compete more effectively for customers against commercial banks.

It was found out that SACCOs were engaging in member's recruitment drives. This was aimed at creating a broader customer base. During recruitment drives, it was found out that members were enlightened on the benefits of belonging to a SACCO convincing members to remain in the SACCO if they were members or join the SACCO if they were not members. This resulted to increased number of SACCO member's enabling SACCOs to be able to compete with the commercial banks more effectively.

To be able to compete effectively with commercial banks, SACCOs were seeking cheaper sources of capital. This they were doing through encouraging members to save more through share and deposits. Kiweu and Stauffenberg (2007) found out that SACCOs were unable to provide members with credit at affordable interest rates and amounts as demanded by members due to their low levels of liquidity unlike their competitors, the commercial banks, who had high liquidity levels, and had access to cheaper capital due to their huge capital basses which served as their securities for their loans. SACCOs with high liquidity, will be able to offer loans as demanded by customers and be able to offer loans at low interest rates. This leads to satisfied customers, lowering the possibility of movement of SACCO customers to commercial banks and leads to attraction of new customers to SACCOs. With the cheaper sources of capital from various sources, which includes shares and deposits, SACCOs have better liquidity, and are able to compete more effectively with commercial banks than before.

SACCOs were training their employees to equip them with the required skills. This helped SACCOs in offering better services to their customers in a more satisfying manner. This was in agreement with the findings of O'Connell (2005), that if Credit Unions were to be successful, they had to establish means by which they can grow as organic enterprises while being supported by greater number of professionalized staff. Ademba (2011) observed that for SACCOs to be successful they had to invest in human resources, by acquiring the right employees and equipping them with the right knowledge and skills. This will ensure that SACCOs were run professionally. This will make them more competitive in the market as the employees know how to best serve their customers as is the case in commercial banks. Commercial banks always employ professionally qualified employees to handle specific roles concerning their customers. This has always served them well, and if SACCOs are to be able to compete effectively with commercial banks, then they have to follow suit. It was found out that SACCOs have embraced the employment of professionals, which has made SACCOs to compete more effectively with commercial banks. This has made sure that existing customers are retained and new ones attracted as they are served better.

SACCOs were found to embrace information technology to enable them offer better services to their customers. This agreed with the recommendations of Ademba, (2011) that for SACCOs to be successful they had to invest in new technology. This will lead to better service provision to customers and reduction of cost of service provision. Information technology come with a lot of benefits, key among them being provision of better services and at enhanced speed to the satisfaction of customers. This results to reduction in cost of providing such services. These savings finds their way to capital formation of SACCOs, helping them raise the much needed capital to offer services to their members. This leads to SACCOs being more competitive as they offer better services to their customers.

5.3 Responses of SACCOs to changing Sacco regulations as being enforced by SASRA.

SACCOs were instituting a number of responses to respond to the implementation of the new SACCO regulations as being enforced by SASRA, key among them being:

Employment of SASRA compliance officers: This ensured that all the requirements of the new regulations were implemented and adhered to fully. The SASRA rules and regulations are specific and have to be implemented within a given time frame, failure to which the deposit taking SACCOs shall be forced to cease operations. It was found out that to ensure compliance, SACCOs appointed SASRA compliance officers who were bestowed with sole responsibility of ensuring compliance with the requirements of the new SACCO regulations. By appointing SASRA compliance officers, it was a guarantee that SACCOs shall be able to comply with the new SACCO requirements within the stipulated time period.

Upgrading computer and financial systems was found to be a key implementation being undertaken by SACCOs. This was in line with the recommendations of SASRA that SACCO Societies commencing FOSA operations had minimum financial system and operational policies to enhance prudential management of the business undertaking and there by protect the member's funds. Upgrading of the financial systems and setting up of operational policies shall enable SACCOs to file their financial reports in good time with accurate information on their performance with SASRA.

SASRA had identified inadequate technical skills both at board and management level as the key challenges in proper implementation of the new regulations. It was found out that SACCOs had employed qualified staff to take up duties and responsibilities in management and board levels as was the requirement of the new SACCO regulations. Having a qualified management and board leaders propelled SACCOs to higher levels. Qualified managers are able to lead organizations in a better manner, as they are able to articulate issues more professionally. The same applies to qualified management boards. They are able to deliberate issues more professionally. SACCOs licensed by SASRA, are now run more professionally, to the benefit of members.

SASRA requires deposit taking SACCOs to install information management systems that can produce financial reports and give accurate information on the performance of the SACCOs to enhance transparency and accountability in the financial management of SACCOs. The financial statements should be prepared on the basis of internationally accepted standards and adhering to International Financial Reporting Standards. To adhere to this SACCOs have resulted to streamlining their books of accounts in order to adhere to the specific standards specified by SASRA for preparing the books of accounts. Restructuring their financial systems in accordance with internationally accepted financial reporting standards will expose the SACCOs to international arena, forcing them to operate in a more transparent manner and be comparable to other international organizations. This will prepare them to be ready to join the international arena, and compete against the best organizations. This will boost the confidence of the members in their SACCOs, leading to greater growth of SACCOs.

With the introduction of the new SACCO regulations, the cost of running the deposit taking SACCOs had gone up. It was found out that SACCOs cannot sustain themselves with the low number of customers, based on their traditional common bond. SACCOs had responded to this by opening up their common bonds where the traditional bonds were broken in order to accommodate other members from outside the common bond. This resulted to increased number of customers which led to improved profitability. To further improve on profitability, SACCOs resulted to member's education with the objective of enlightening the members on the benefits of a regulated SACCO. This resulted to increased confidence of members in their SACCOs, which resulted to more deposits and savings from members. The SACCOs were instituting cost saving strategies to boost their savings to raise the much needed finances. Further SACCOs were instituting policies to encourage increased share savings and deposits by members. SACCOs were doing this by increasing interest rates payments for savings and deposits at the end of financial year. SACCOs were also sourcing for cheaper funds to finance their business. These were aimed at ensuring that SACCOs were able to raise the much needed finances/ capital to meet the SASRA requirements which had heavy financial implications. The research found out that the financial implications brought about by SASRA requirements were very high and SACCOs had to come up with proper strategies to raise the much needed finances to successfully implement these new requirements by SASRA.

SACCOs which wish to continue offering deposit taking services and to operate FOSA have to fully comply with the requirements of the new SACCO regulations within four years with effect from June 2010. SACCOs were agitating for increased compliance period to enable them comply. The financial implications brought about by the new SACCO regulations were enormous, and the period within which to comply, was felt to be short. To comply fully, it was felt that compliance period needed to be increased.

5.4 Conclusions

The study sought to determine how deposit taking SACCOs, were responding to competition from commercial banks and to the new SACCO Regulations as being enforced by SASRA. The research found out that SACCOs were faced with competition from commercial banks and to survive, they have to effectively deal with the competition by responding to issues which make them to be out competed by the commercial banks. It was found out that SACCOs were putting in place a number of strategies to cope with the competition from commercial banks. To remain competitive, SACCOs have to be run on principals away from the known SACCO principles of serving their members (common bond), and operate like other businesses, whose main objective is to serve customers and generate as much profits as possible. To achieve this, it was found out that SACCOs have opened up their common bond and allowed membership from beyond their original common bond. This has resulted to increased membership as there are no boundaries of those to join the SACCOs. To remain competitive, SACCOs employed strategies to promote their profitability to increase their capital, hence source of cheap capital. Capital is a major drawback in SACCO sub-sector and therefore, SACCOs have to devise ways of raising cheap capital to enable them continue offering the low interest loans and other services to their members and compete effectively against commercial banks.

The implementation of the new SACCO regulation has brought with it new challenges to the SACCO sub-sector. With the new SACCO regulations, the cost of running the deposit taking SACCOs have gone up, and for them to continue operating profitably, they need to have a clear focus. With the implementation of the new SACCO regulations, many deposit taking SACCOs which were operating FOSA were unable to comply with the new requirements. With effect from June 2010, SACCOs operating FOSA were required to apply for operating licence with SASRA. Out of the 219 Sacco Societies that were authorized to operate FOSA, 199 applied for licence, 13 communicated their decision to discontinue FOSA operations, while 7 did not apply for an operation licence. Of the 199 applicants, 45 were licensed by June 30TH 2011 (SASRA Media Report, 2011). The small number of SACCOs which were able to comply with the new regulations is an indicator of difficulties which SACCOs were facing trying to comply with the new regulations. Regulated SACCO sub-sector is very beneficial to the customers as it is a guarantee that their investment was secure. SACCO regulation comes with high cost implications which the member must be ready to bear. Regulation allows SACCOS to operate within a framework which is acceptable both locally and internationally, therefore regulation opens SACCO gates to those who in absence of regulation would not have considered investing in them. Regulation led to wider market for SACCOs and other than securing the investors funds, it attracted members from outside the original target group/ common bond, enhancing the competitiveness of the SACCOs against commercial banks, who serve their customers in a regulated environment. With capital adequacy requirement by SASRA for all deposit taking SACCOs, customer's funds are secure, and the fear which has been there in SACCOs is no longer there. The capital adequacy requirement ensures that in case of financial difficulties in SACCOs, the customer's funds are secure by SASRA and stand no loss. This has boosted the confidence of

SACCO customers, as SASRA acts as an insurer of their funds. Therefore regulations have benefited SACCO sub-sector as they are able to compete for customers with other financial service providers on equal footing.

5.5 Recommendations

Based on the findings and conclusions, the study recommends the following:

Sacco’s to operate like a profit making organization: Sacco’s have been operating on the basis of rendering services to the members with no profit motive. The key operating policy of Sacco’s was to offer services to members at low cost. Sacco’s have to change the way they do business. They need to be business oriented and aim for profit making away from their traditional objective of serving their common bond. This way, they will be able to compete more effectively with other financial service providers.

Sacco’s have to institute cost saving strategies: With competition and implementation of the new Sacco regulations, the cost of running Sacco’s is set to go up. To be profitable, the Sacco’s should engage in cost reduction strategies to improve on their profitability. This will help them generate the much needed finances to implement the requirements of the new SACCO regulation and enable them to compete with the commercial banks.

Compliance period of the new Sacco regulations should be increased to allow for more Sacco’s to be compliant. The four years within which the deposit taking Sacco’s are to comply with the new regulations is short and need to be increased in order to allow for more Sacco’s to comply. SACCOs are important for the growth of our economy, and thus we need to give opportunities to all the SACCOs to comply, thus the need for increased compliance period.

Constant review of SASRA regulations: This will allow accommodation of any new development(s) relevant to the improvement of the Sacco sub- sector.

There should be capital allowances for the infrastructure put in place due to the implementation of the new Sacco rules. This will encourage the implementation of the new Sacco regulations because the cost shall be recoverable in form of capital deductions.

Sacco's should not attach borrowing by members to their savings; rather they should base their lending to the customers' ability to pay. This will attract more customers both new and old customers.

The deposit guarantee fund as per the capital adequacy should be managed by SASRA with an objective of developing a fund for Sacco's to be getting loans from just like how central banks lends to commercial banks. This will avail more and cheap capital to the Sacco's.

Limitations of the study:

a) Securing interview with the interviewees was difficult. The target interviewees were very busy with the day to day operations of their organisations and to book an appointment was difficult. Some scheduled interviews had to be re- scheduled.

b) Time was limited. There were many issues in the SACCO sub-sector especially regarding the competition from commercial banks and the implementation of the new SACCO Regulations. More time was needed to understand all what is happening in the SACCO sub-sector.

Recommendations for Further Research:

a) Same research covering a wider area; the current study covered a limited area (Kirinyaga County). A larger area would be more representative of what is happening in the SACCO Sub sector.

b) Financial performance of SACCOs as a result of implementation of the new Sacco regulations. There must have been financial effects as a result of the implementation of the new Sacco Regulations.

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APPENDIX I: Questionnaire.

Interview protocol

My names are Perminus Kariuki Muriithi, an MSC student at KCA University (Reg. No. 08/04279). Currently I am undertaking a research on "The response of SACCOs to competition from Commercial Banks and the new Sacco Regulation". This research will provide useful information to SACCO management and the SACCO Society Regulatory Authority on how best to tackle the problems originating from the above.

All information received shall be treated with utmost confidentiality.

The interview protocol is designed to investigate the response of SACCOs to competition from Commercial Banks and the new Sacco Regulations as being implemented by SASRA.

Icebreaker:

(i) When was your SACCO started?

(ii) What were the original objectives of this SACCO?

(iii) Who were the original target customers of this SACCO?

(iv) Is there anything which has changed from the original objectives?

Section A: Response of SACCOS to competition from commercial Banks.

1. Is your SACCO facing any competition from Commercial Banks?
2. What is the nature of the competition being faced by your SACCO from Commercial Banks?
3. What measures has your SACCO put in place to cope with the competition from the Commercial Banks?

4. What challenges is your organization facing in responding to the competition from Commercial Banks?
5. What other competition is your organization facing other than the competition from Commercial Banks?
6. How is your SACCO responding to these competitions?

Section B: The effects of the changing SACCO regulations as being implemented by SASRA on services offered by SACCOS.

1. Have your SACCO implemented the new SACCO Regulations as being implemented by SASRA?
2. What specific measures has your SACCO undertaken to ensure compliance with the new SACCO Regulations as being implemented by SASRA?
3. Do these new Regulations affect services offered by your SACCO?
4. What specific measures have your SACCO put in place to minimize any negative effects on operations of your SACCO which may originate from the implementation of the new SACCO regulations as being implemented by SASRA?
5. Does the implementation of the new SACCO Regulations have any financial effects on the operations of your SACCO?
6. How have your SACCO responded to those financial effects?

Section C: Effectiveness of Sacco's in meeting the needs of their members given the above response.

1. Are the SACCOs more effective in meeting the needs of their members following the above responses?
2. What challenges are you facing following the above responses by your Sacco?

Probing questions:

i. In your opinion, do you think the competition by the commercial banks has strengthened the SACCOs or weakened them?
ii. Do you think SACCOs have been made to operate more efficiently by the competition from the commercial banks, and if yes how?
iii. In your opinion, have the new SACCO regulations improved the operations of the SACCOs? Why do you think so?
iv. In your opinion, do you think the new SACCO regulations as being implemented by SASRA are the solutions to the problems which SACCOs have been facing?
v. What would you want to be included in the new SACCO regulations which you think would lead to improvement of the SACCO sub sector?

Thank you for your time and cooperation.