EFFECTIVENESS OF LICENSING REGULATIONS ON GROWTH OF DEPOSIT TAKING SAVINGS AND CREDIT CO-OPERATIVES IN MT. KENYA REGION

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Article Received: 01-12-22  Accepted: 20-12-22  Published: 28-12-22

ABSTRACT

SACCOs for quite a long period of time have been seen as panacea to alleviate poverty in the society through financial inclusion. Licensing regulation was established to prudently control and regulate SACCOs’ joining the Deposit Taking business. The aim of the current study was to establish the effectiveness of licensing regulation on growth of Deposit Taking SACCOs in Mt. Kenya region. Descriptive research design and inferential statistics were used in the study. The study targeted 54 Chief Executive Officers-Managers in Mt. Kenya region as respondents. Census study was undertaken and questionnaire was employed to collect primary data. Secondary data was obtained from SACCO Society Regulatory Authority annual supervision reports. Quantitative data analysis was done for numerical data obtained from the field. This was carried out using descriptive statistics by use of statistical Package of Social Sciences (SPSS) Version 25. Tables were used to present the results. Regressions were used to test the research hypothesis for turnover against licensing regulations to determine the association among the study variable. The study concluded that there was negative and statistically significant correlation between licensing regulation and growth of SACCOs in Mt. Kenya.
Region. The study recommends that SACCOs need to adhere to all the licensing regulations as spelt out in the SACCO society’s Act. Further the study recommends review of the licensing regulations by the government through SASRA to save witnessed decline of SACCO and bring more entities onboard as SACCOs for sustainable financial inclusion.

**Keywords:** Licensing Regulation, Deposit Taking Savings and Credit Cooperative Societies, Growth.

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**INTRODUCTION**

Cooperatives are aimed at alleviating poverty through financial inclusion (Song’e, 2015). The main objective of SACCOs is to promote mobilization of savings and offering credit facilities to their members where individual members may benefit (Bwana & Mwakujonga, 2013). In order to realize these objectives SACCOs accept deposits from their members and in turn lend to them thus realizing returns (Bwana & Mwakujonga, 2013). According to Goodhart, Hartmann, Llewellyn, Suarez and Weisbrod (2013) there are three key reasons for public sector regulations which include protection of the customer against monopolistic exploitation, to provide smaller retailer (less informed) clients with protection and thirdly to ensure systematic stability.

The SACCO Sector in Kenya has undergone policy transformation over the years and the latest policy to do with SACCO is SSA, which provided for licensing, regulation, supervision and promotion of SACCOs and established SACCO Societies Regulatory Authority (SASRA). Buluma and Mungai (2017) posit that the continued complaints of mismanagement, misappropriation of member’s savings and poor financial performance by the members prompted the government of Kenya in 2008 to introduce SACCO Society’s Regulatory Authority (SASRA) legislations to streamline the operations of the SACCO sector.

DTS in Kenya are governed and supervised by two major statutes namely, CSA and SSA (SASRA, 2018). The CSA has been in force since the early independent days albeit through various amendments, principally deals with registration, incorporation and general supervision of all co-operatives societies including DTS and it is administered by the office of the Commissioner of Co-operatives and Development (SASRA, 2013). The legal framework for the supervision of DTS is established in the SSA. The Act provides the legitimate mechanisms for the prudential guidelines of DTS in Kenya consistent with the best practices of international financial regulation as well as supervision of Deposit taking financial institutions (Buluma & Mungai, 2017). The SACCO Society Act is administered by the (SASRA). The SACCOs are big contributors to the Kenyan economy, and also a major player in the financial markets as providers of loans. Due to this tremendous growth, Kenya has become a leading light in Co-Operative development in Africa rated number one in Africa and number seven in the world. DTS have dominated the SACCO sector business (WOCCU, 2017).

However, in spite of holding huge amounts of money, SACCOs have largely operated outside the radar of regulation, unlike the banks, MFIs, Capital markets or the insurance industry. The sub-sector has been largely under the purview of the Commissioner of Cooperatives, which used the provisions under the Cooperatives Act (CSA) CAP 490 and the rules made thereunder to supervise their operations. This situation exposed member’s fund to a lot of governance, Liquidity and capitalization risks.
The growth of SACCOs subsector associated with such failures in the SACCO industry then created the need by the government to come up with specific legislation to monitor, control and regulate the operations of SACCOs and thus this led to introduction of the SACCO Societies Act No.14 of 2008 (Ngaira, 2011). For the DTS to be in operation they must meet the minimum guidelines both operational and prudential as required by the SASRA and adhere to the provisions as stipulated for by SACCO Society’s Act of 2010. The licensing regulation requirements are intended to ensure that a SACCO society beginning Front office service Activity (FOSA) operations has the minimum financial, technological and operational systems in place to ensure prudential management of the deposit taking business and in doing so protect the member’s funds. Licensing also brings confidence in the SACCOs, which is a prerequisite for the SACCO to attract new members and professionals who in the past shied away due to observed bad governance practices. DTS have to provide a minimum core capital of Kes10 million as shown in their financial statement or through submission of bank statement to the regulator (SASRA). Thus all SACCOs have to comply with three capital adequacy ratios. Both directors and senior management are subjected to fit and proper test vetting their morals and professional suitability to be on the board and management of the society respectively. A detailed four year business plan and feasibility study including financial statement is a requirement (SACCO Societies Act Number 14 of 2008).

Growth is a typical characteristic of entrepreneurial ventures where quantitative growth can be characterized by the firm size (turnover, added value, volume) the profitability of the firm and the value of the company (Mwangi, & Wanjau, 2012). The principal considerations of gauging growth and performance of financial institution like SACCO that mobilize savings and offer credit facilities include among others number of DTS of the period (SASRA, 2019).

Statement of the Problem
Prior to the enactment of SACCOs Society’s Act No. 14 of 2008, all Co-Operative Societies including the DTS were registered and governed by the Cooperative Society Act CAP 490, 2012. The SACCOs Societies Act gave birth to SACCO Society’s Regulatory Authority (SASRA). By then there were 215 DTS in Kenya registered and conducting Front Office Service Activity (FOSA) (SASRA, 2010, 2013). The number of DTS in Kenya licensed to conduct deposit business taking were 175 (SASRA, 2010). This registers a decline of 40 DTS from 2013 to 2020 recording a drop of 18.6%.

Up to June 2014 DTS, that were operating Deposit Taking business were given a transition window period of four years to comply with the SACCO regulation of 2010. The DTS that were allowed to carry out deposit taking business after the lapse of four year transition period were only 135 (SASRA, 2014). Over the period, new DTS were still emerging in the SACCO industry. However, the number has yet been reducing. The SACCO sectoral report indicates that about 5% of the SACCOs collapse every year resulting to withdrawal of registered member’s membership annually (Chumo, 2013). Based on the forgoing reasons the study therefore was geared towards establishing the effectiveness of licensing regulation on growth of DTS.

General Study Objective
The general objective of the study was to investigate the effectiveness of licensing regulations on growth of Deposit Taking SACCOs in Mt. Kenya region, Kenya.
Research Hypotheses
The null hypothesis of the study was that licensing regulation does not have significant effect on the growth of Deposit Taking SACCOs in Mt. Kenya Region.

Theoretical Review
The study was guided by the following theory:

Public Interest Theory
According to Pigou (1932) public interest theory regulations are prepared in the public interest when they are demanded by the public to correct inefficient practices. Stigler (1971) & Posner (1974) points out that public regulations are to protect and benefit the entire public. The government ensures that all the activities that take place are checked in the financial system. As such this reduces chances of market failure by making sure there are regulatory frameworks for achievement of the desired objectives that decrease market failure.

The concept of the theory is generally to put the benefit of the society first in place above any particular vested interest group. Hence, this aids to maintain balance between social benefits and the social cost of regulations.

The present study is well anchored on the public interest theory as financial regulation of SACCO like other financial regulation in Kenya aims to protect the interest of the public in general and the SACCO members in entirety. Similarly, regulations are intended to reduce the chances of SACCO failure by correcting market failure. Therefore, the public interest theory best suits to explain the regulations of Deposit Taking SACCOs by SASRA.

LITERATURES REVIEW
The SACCO societies (Deposit – Taking SACCO business) Regulations 2010 section 4 requires that SACCO society intending to carry Deposit Taking Business must have a valid license from SASRA. The licensing requirements are envisioned to ensure that a SACCO society beginning Front office service Activity (FOSA) operations has met the licensing threshold such as provision of minimum core capital amounting to KES 10 million as indicated in their financial statements and newly founded SACCOs have to provide the evidence through submission of bank statements, fit and proper test which implies that both directors and senior management of the SACCOs shall vetted in a “fit and proper test”, to ascertain professional suitability and their morals to be members of the boards and manage the SACCO society.

Mugure (2017) conducted a study that found the high minimum requirement has limited the number of institutions that seek licensing as SACCOs. David (2021) did a study that found majority of SACCOs complied with the regulating authority to avoid being locked out of the business. The study recommended that the regulatory body needed to conduct an in-depth survey that would look into the effect of their regulations on the SACCO industry to ascertain that their obligations as a regulatory body are adhered to. Research by Ngaira (2011) found that most SACCOs were complying with the regulation in order not to be locked out of business by the regulator.
Conceptual framework

Independent variable

Licensing
- Licensing fee
- Annual renewal
- Infrastructure

Dependent variable

Growth of DTS-Turnover

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

Research Design
This study used descriptive research design. This alludes to a set of methods and procedures that describe variables. It entails collecting data that describes events and then arranges, tabulates and describes the data. Its significant is that, it is used extensively to describe behavior attitude, characteristic and values.

Target Population
The target population of the study was the top managers of all the 54 deposit taking Saccos in Mt. Kenya region registered by SASRA. Each of the Saccos top managers was a respondent making the study population therefore 54. The sample size was 44 chief executive officers. This represented 81.5% of the target population.

Research Instruments
The study used both primary and secondary data. Primary data was collected using a structured questionnaire. Emailing of questionnaire to the respondents and follow-up through calls technique was used. Secondary data was collected using designed secondary data collection sheet.

Data Collection Procedures
Both primary and secondary data were collected. Primary data was collected for the independent variable licensing, capital adequacy, liquidity and loan provisioning using a structured questionnaire. Secondary data was collected for the dependent variable which is growth from SASRA annual supervision reports and other Government publications.

Data Analysis
Descriptive statistics was used to analyze the data and measures of central tendency such as mean, measures of dispersion like standard deviation was used. Diagnostic test such as normality, linearity, homoscedasticity, multicollinearity and technique were used to test the research hypothesis. IBM Statistical packaging for social sciences (SPSS) Version 25 was used for the analysis. To be able to relate the independent and dependent variables, inferential statistics was used to generalize the results on the population using the sample statistics. The model derived to explain the influence of independent variable on the dependent formed was

\[ y = \beta_0 + \beta_1 x_1 + \epsilon \]

\( \beta_0 \) = represents constant-the value of Y when \( X1 = 0 \)
$\beta_1$ = represents beta or regression coefficients  
$y$ = represents Growth of DTS  
$x_1$ = represents licensing Regulation

**RESEARCH FINDINGS AND DISCUSSION**

44 out of the 54 questionnaires distributed were returned which was 81.5% of the total response anticipated while 18.5% were not returned as shown in table 1.

<table>
<thead>
<tr>
<th>Response Rate</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid returned questionnaire</td>
<td>44</td>
<td>81.5</td>
<td>81.5</td>
</tr>
<tr>
<td>Unreturned questionnaire</td>
<td>10</td>
<td>18.5</td>
<td>18.5</td>
</tr>
<tr>
<td>Total questionnaire issued</td>
<td>54</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

**Descriptive Statistics for Licensing Regulation**

The study sought to find out the extent to which licensing regulation affect growth of DTS in Mt. Kenya region. The respondents were asked to respond to the following statements that were rated on a 5-point likert scale. The statements were as follows. Whether Licensing requirement limits small and upcoming S in the SACCO industry, Time taken to acquire a license by SACCO is too long, License renewal fee is very high and whether Installation and maintenance of institutional infrastructure and information systems is costly to both existing and upcoming Saccos. The results are shown in table 2.

<table>
<thead>
<tr>
<th>Descriptive Statistics for Licensing Regulation</th>
<th>N</th>
<th>Mean</th>
<th>Variance</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
<td>Std. Error</td>
</tr>
<tr>
<td>Licensing requirement limits small and upcoming S in the SACCO industry</td>
<td>44</td>
<td>3.27</td>
<td>1.784</td>
<td>-.283</td>
</tr>
<tr>
<td>Time taken to acquire a license by SACCO is too long</td>
<td>44</td>
<td>2.86</td>
<td>1.237</td>
<td>-.038</td>
</tr>
<tr>
<td>License renewal fee is very high</td>
<td>44</td>
<td>3.00</td>
<td>1.814</td>
<td>.120</td>
</tr>
<tr>
<td>Installation and maintenance of institutional infrastructure and information systems is costly to both existing and upcoming S</td>
<td>44</td>
<td>4.02</td>
<td>.720</td>
<td>-1.718</td>
</tr>
</tbody>
</table>

Majority of the participants with a mean of 4.02 held that Installation and maintenance of institutional infrastructure and information systems is costly to both existing and upcoming SACCOs. A mean of 3.27 of the respondents held that licensing requirement limits small and upcoming SACCOs in the SACCO industry. A mean of 3.00 of the respondents held that License renewal fee is very high and respondent with a mean score of 2.86 held that time taken
to acquire license by SACCO is too long.

The discoveries indicate that majority of the respondents had an opinion that the SASRA regulation on the licensing is negatively impacted on the growth SACCOs. This could be attributed by the decline in number of SACCOs and low licensing of new SACCOs in the industry.

Table 3
Descriptive Statistics for Total Turnover

<table>
<thead>
<tr>
<th>Time in Years</th>
<th>Turnover(Billion)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>9.3</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>11.1</td>
<td>19</td>
</tr>
<tr>
<td>2017</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>2018</td>
<td>13.7</td>
<td>14</td>
</tr>
<tr>
<td>2019</td>
<td>16.5</td>
<td>16</td>
</tr>
<tr>
<td>2020</td>
<td>19.1</td>
<td></td>
</tr>
</tbody>
</table>

Source (SASRA Annual Supervisory Reports)

From table 3, the total turnover for DTS in Mt. Kenya Region in the year 2015 and 2016 were 9.3 and 11.1 billion respectively, and grew by 19% in 2017. In 2017 the total turnover was 12 billion and grew by 8% in 2018. The year 2018 turnover stood at 13.7 billion registering a growth of 14% in 2019. The analysis further indicates that the turnover in 2019 stood at 16.5 billion and recorded a growth of 16% in 2020. For the years under study, 2016 recorded the highest growth with a turnover of 19% followed closely by 2020 with 16%. The year 2019 indicated a growth of 14% while 2017 registered the lowest growth of 8%. The results of the analysis show that there was an overall turnover decline for the covered period. This implies the dependent variable is affected by the independent variable in the study.

Correlation Analysis

Correlation analysis was conducted for independent variable to establish the association among the study independent variable and dependent variable.

Pearson Correlation Licensing Regulation and Growth of DTS

Table 4
Correctional Analysis

<table>
<thead>
<tr>
<th>Growth of DTS</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensing regulation</td>
<td>.011</td>
<td>.945</td>
<td>44</td>
</tr>
</tbody>
</table>

The analysis establishes that there was a high positive correlation (0.945) between licensing regulations and Growth of DTS. This implies that the licensing regulation affects growth of DTS. Thus, showing statistically there is a significant relationship between licensing regulation and the growth of DTS.

Table 5
Model Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.774</td>
<td>.008</td>
<td>.768</td>
<td>.447</td>
</tr>
<tr>
<td>Licensing regulation (x1)</td>
<td>-.242</td>
<td>.156</td>
<td>.278</td>
<td>1.552</td>
</tr>
</tbody>
</table>
The regression coefficient outcome shows there is a negative and statistically significant relationship between licensing regulation and growth of SACCOs. The model demonstrate that to increase licensing regulation by one more unit the outcome is $-0.242$ decrease in Growth of SACCOs.

**CONCLUSION AND RECOMMENDATIONS**

This study sought to determine the effectiveness of licensing regulations on the growth of deposit taking SACCOs in Mt. Kenya region. The data analyzed in the study found that licensing regulation had a negative correlation on the growth of DTS. Premised on the findings, the hypothesis was rejected and it was concluded that the licensing regulations have significant effect on the growth of deposit taking SACCOs. The conclusion was in line with other studies reviewed. The study therefore, recommends that the government through the SACCO Society’s Regulatory Authority consider reviewing the licensing regulation to salvage the ailing SACCOs to ensure financial inclusion and sustainability of the industry.

**Recommendations for Further Research**

The study recommends that similar study should be conducted from other areas, since the study did not take into consideration SACCOs from other regions. Future researchers may consider carrying out studies to establish if similar findings might be obtained. A similar study may be done using various parameters to measure financial regulations on growth incorporating other regulations not studied in this research.

The study further recommends that future researchers undertake studies on the effect of financial regulations on specified Non-Detos Taking SACCOs to establish if there is a correlation between financial regulations and growth.

**References**


Co-operative Act (2012).


