

**THE EFFECT OF SASRA REGULATORY FRAMEWORK ON THE
FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVES
IN KENYA.**

By

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DECLARATION

This research project is my original work and has not been presented for the award of a degree in any other university or institution of learning.

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

To the Almighty God for the gift of life and intellectual capacity to handle this project.

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ABBREVIATIONS

Sacco - savings and credit cooperative society

Sasra - Sacco Societies regulatory authority

ROA - Return on Assets

ROI - Return on Investments

Woccu - world council of cooperatives union

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ABSTRACT

The government of Kenya in 2008 established legislation to streamline operations of the SACCO sector which has much potential and contributes immensely to the GDP of the country but was previously plagued with mismanagement and misappropriation of members savings. The enactment of the SACCO act of 2008 which established the SACCO society regulatory authority was aimed at specifically regulating a sector which lacked a harmonized legal framework. This study sought to establish the effect of regulation on the financial performance of SACCOs in Kenya.

The Sample size for the study was 35 SACCOs. Questionnaires were used to obtain important information about the population in terms of effects on the financial operations on the SACCOs prior to and after introduction of regulations. Secondary data in form of financial statements for the period before and the period after introduction of regulations were also compared. Financial projections in the 5 year business plans submitted to SASRA as a mandatory requirement were also examined. After receiving questionnaires from respondents and copies of financial statements, responses were edited, classified and coded to analyze quantitative data using Statistical Package for Social Science (SPSS Version 17). Tables and charts were used for further representation for easy understanding and analysis. Data collected was thoroughly examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated. Inferential Statistic Was used to establish the effect of regulation on the financial performance of SACCOs.

From the findings the study concludes that regulation has had a positive effect on the financial performance of SACCOs. The Study established that improvement in financial performance is attributed to the positive fundamental changes in the regulatory framework which amongst other things has ensured professional management of SACCOs, restored confidence in the sector, created a cushion for Members through spelling out protection measures on their deposits and has also offered guidance on capital adequacy and credit management.

CHAPTER ONE: INTRODUCTION

1.1 Background

A co-operative is an association of persons ,usually of limited means , who have voluntarily joined together to achieve a common economic end through formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking (international Labour organization- 1978). The cooperative enterprise cover the full range of business sizes from micro level credit associations ,community and worker cooperatives, to substantial players in the banking, insurance , agricultural , marketing and supply sectors (Ongore, 2001).

The cooperatives performance has been affected due to the fact that they are very much top down initiatives and have been subject to much political control in most countries. The basic structure of SACCOs is what differentiates them from banks in that they are user – owned financial intermediaries. Members typically have a common bond based on the geographical area, employer, community, industry or other affiliation. Examples of such in Kenya include Harambee SACCO, Kenya Bankers SACCO, Afya SACCO among others. SACCOs have reached both the public and private sectors of society and hence developed a much broader and deeper market penetration and they are better positioned to continue serving the ‘unbanked’ population (WOCCU, January 2009, online). The Kenya SACCO system registered under the cooperative societies act, chapter 490, is the largest credit union network in Africa. There are over 5000 SACCOs currently registered in Kenya (Ministry of cooperative development and Marketing

2010). There are over 5000 registered SACCOs out of the total 12,000 registered cooperatives which are about 44% of the total cooperatives in Kenya. All SACCOs operate Back office service activities and have been able to mobilize over 180 billion shillings and granted loans to the tune of kshs 120 billion (Ministry of co-operative development and marketing, 2007).

The Sacco Societies Regulatory Authority (SASRA) was established under the Sacco Societies Act no. 14 of 2008 which was enacted with an aim of regulating the Savings and Credit cooperatives sector in Kenya, which lacked a harmonized legal framework. In exercise of the powers conferred to the Minister of co-operative development and marketing by section 68 of the act above, the Sacco societies (deposit taking SACCO business) regulations were gazetted in the year 2010 creating more precise provisions aimed at achieving the core benefits of safeguarding savings of stakeholders in the SACCO sector. The (Sacco) movement in Kenya has evolved over the past four decades into a formidable force for the social and economic transformation of the Kenyan People.

The Key objectives of most Kenya Saccos are mobilization of Savings among members with common interests and availing affordable credit. The Sacco sector has mobilized over Kshs 200 billion in savings which accounts for about 31 percent of National Savings. These Colossal amounts of savings therefore need to be safeguarded through a formal regulatory framework that protects the interest of stakeholders in the Sacco sector. (Ministry of cooperative development and Marketing 2010).The active urban and rural saccos were initially registered and regulated by the ministry of Cooperative development

although there lacked a specific framework that categorically differentiated the deposit taking Saccos which control majority of the savings from the other Societies which include Agricultural produce societies, Transport associations and the rest. The Sacco Societies (Deposit Taking Sacco Business) Regulation of 2010 therefore established modalities for regulation of Saccos through the Sacco Societies Regulatory Authority, SASRA. (Sacco News cap Newsletter, July 2011)

The SASRA regulatory framework spells out the minimum operational regulations and prudential Standards required of a deposit-taking Sacco society. The Sacco Societies regulatory Authority was formed under the act with the main objective of licensing SACCO societies to carry out deposit taking business in accordance with act and to undertake regulation and supervision of SACCOS. SASRA also has mandate to protect interests of all the stakeholders of the SACCOS and to promote development of the SACCO sector. The key considerations in this framework include; Capital adequacy provisions which spell out the specific capital ratios that SACCOs are required to maintain.

The regulatory framework also specifies the nature on investments that SACCOs can undertake which is aimed at curtailing risk prone investments. The regulatory framework also guides SACCOs on the desirable liquidity levels, Sacco's procedural policies and credit management. The framework also emphasizes corporate governance by ensuring elected board members are competent and adhere to best practices in stewardship of SACCOs in order to safeguard members' interests.

Gupta (1992) defines financial performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance can be measured using financial ratios to evaluate financial health of a firm. Weston (1986) classifies ratios into six fundamental types; Liquidity ratios which measure ability to meet maturing short term obligations, Leverage ratios ,which measure the extent to which a firm has been financed by debt, Activity ratios which gauge effectiveness in use of resources, Profitability which measure management effectiveness indicated by returns on investments, growth ratios which indicate the firm's economic position in industry and valuation ratios which measure management ability to create market values in excess of investment outlay.

Sacco's performance can be assessed by evaluating the increase in the revenues resulting from interest on loans granted to members, increased income from other investing activities like interest from funds held in other financial institutions and government instruments. Net returns on investments increase where economic conditions are favorable and where prudent investment decisions are made that diversify risks. Increased income coupled with reduction in administrative costs will lead to increase of net worth to investors in the SACCO. This in effect results in more returns to members of the SACCO in the form of dividends on shareholding and increased interest on deposits.

Saccos with a solid financial performance are more likely to meet member's demands for loans, they are able to diversify their products attract more clients and generally have a sound capital adequacy.

The government of Kenya in 2008 established legislation to streamline operations of the SACCO sector which has much potential and contributes immensely to the GDP of the country but was previously plagued with mismanagement and misappropriation of members savings. This resulted in enactment of the SACCO act of 2008 which established the SACCO society regulatory authority aimed at specifically regulating a sector which lacked a harmonized legal framework. Enactment of the SACCO act of 2008 filled a regulatory vacuum which had existed in the SACCO sector in Kenya.

The absence of specific SACCO regulations allowed those institutions to adopt different styles of operations. In many cases Board members who in most cases manipulated their way into office ended up mismanaging funds through outright misappropriation. Management kept poor records of the SACCO'S resources, liquidity problems were experienced and members could not be guaranteed to access credit facilities when they needed. Members' deposits were also misappropriated and there were rampant cases of saccos collapsing with members' funds (Ministry of co-operative development and marketing, 2007). The SACCO act of 2008 section 68 empowers the minister for cooperative development in consultation with the authority to gazette such rules for the effective operations of the sector. The regulations gazette in 2010, The SACCO societies regulations 2010, established more precise provisions aimed at regulating deposit taking

Saccos and developing the SACCO sector. It can be observed that most of the regulations spelt out in the SASRA regulatory framework borrow heavily on the central bank regulation of banks. It can however be noted that the environment within which saccos operate varies from the banking sector environment. This study sought to assess whether regulation has had an effect on the financial performance of the Saccos in Kenya.

1.2 Problem Statement:

The Kenya Government has since independence, given a lot of support to the cooperative sector, in the form of direct assistance and subsidized services, leading to rapid growth of cooperatives (Ministry of cooperative development and Marketing, 2009). The Government's assistance, though was well intentioned and indeed produced positive results when it lasted, has created many problems related to dependency. The movement became almost wholly dependent on the government for free technical and financial assistance as well as development of management systems to aid its operations and financial sustainability. This has hindered the consolidation of cooperative values like self regulation, responsibility, self reliance and self –help which are necessary for success of cooperatives in a liberalized environment.

Sessional paper No 6 of 1997 on “cooperatives in a liberalized economic environment” aimed at liberalization of the co-operative sector in order to professionalize and democratize the management of co-operatives and make them self reliant, self controlled, self financing and commercially Viable (Ongore 2001). However this had an adverse impact in the co-operative movement as deregulation left the movement with virtually no

single regulator. Given that SACCOs receive deposits from members against background of high moral hazard in the society, one wonders how safe the deposits are in the absence of a regulator and whether financial performance of a cooperative is best in a deregulated or a regulated environment justifying the need of a research to ascertain the effect of regulation on performance of SACCOs. Deregulation is the transfer of control from government to the owners. Ongore (2001) refers to deregulation as the freeing up of the market from direct control by the government and its agencies so that largely the forces of demand and supply determine prices of goods and services. Deregulation of cooperatives was officially initiated in 1997 through the sessional paper number 6 without conducting empirical investigation to find out whether the cooperatives performance would be better in a deregulated market than a regulated one.

In Kenya a research study evaluating financial performance of SACCOs before and after deregulation (Oyoo, 2002) found no significant difference in financial performance between the two periods. However this can be attributed to the fact initially there was no well established regulatory body mandated with specific regulatory responsibilities over SACCOS. With the establishment of SASRA, a well structured regulatory body with specific mandate, under the Sacco act of 2008. The question that this study sought to answer is; what is the effect of the SASRA regulatory framework on the financial performance of SACCOS?

1.3 Objective of the study

To evaluate the effect of regulation on the financial performance of Savings and credit cooperative societies in Kenya.

1.4 Importance of the Study

Regulation of the Sacco sector in Kenya was enforced in 2008 with the coming into effect of the Sacco Act, which was further reinforced by the Sacco Societies (Deposit Taking Sacco Business) Regulation 2010. The purpose of these Regulations is to provide minimum operational regulations and prudential Standards required of a deposit-taking Sacco societies in Kenya. It would therefore be imperative to assess the effect of these regulations on the financial performance of deposit taking Saccos. Various stakeholders of the Sacco sector would benefit from findings of the study in the following ways:-

The government-As an enforcement body the government of Kenya would be interested to know whether regulations are achieving desired objectives. Furthermore SACCOS are a key player in the Kenya financial sector accounting for over 31% of the national savings. Their performance would therefore impact on financial markets in general. In view of this, it will be important for the government to ensure regulation, accounting and governance of a major portion of the national savings is adequate so as to safeguard savings of its citizens and ensure financial stability. It can also be observed that most saccos invest in government instruments as the cooperative act deters saccos from investing in high risk illiquid investments. The government of Kenya would thus be interested in justifying the efforts and resources put into the regulation of the sector and establish where there is need to improve on the current regulation and supervision.

Regulatory Authority- the SACCO societies regulatory authority was established under the Sacco Act of 2008 with the objectives of licensing, regulating and supervising Sacco

societies in order to promote development of the SACCO sector. Findings of this study will be used to assess Sasra's attainment of the objectives for which it was established. The study would also provide an opportunity for review of effectiveness of the regulations enacted hence a basis for improvement on the Sasra's regulatory mandate.

Management and Board of Directors of Saccos – Being custodians of assets of SACCOS have an obligation to guarantee members' of SACCOS that their resources are well safeguarded. They would also have an opportunity to prove their competency in effective stewardship of SACCOS through enforcement of prudent investment decisions and effective management of resources.

Sacco Members' - being the main stakeholders in the Sacco they would wish to be given an assurance that their funds are well invested and safeguarded to ensure a proper return on investments. Professional Organizations would benefit from findings of the study by accessing useful information which they could use to provide advisory or consultancy services to SACCO administrators. Professional organizations will also get information for further research and analysis.

This study will help understand the adequacy of the legislation that governs the registration of the Sacco movement and their subsequent licensing. Operations of the SACCO movement are substantially similar to micro-banking, this category of saccos especially the ones with Front office service areas need effective supervision to avoid the runs that have been experienced in the sector over the past years due to mismanagement.

It will also enlighten the reader on the benefits which will accrue to saccoes due to effective regulation hence Provision of a base for future growth; SACCOs will have enough money for investment in facilities such as new branches or new banking halls to provide better services to their members.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have undertaken studies in the same field or related areas regarding financial performance of SACCOS or regulation. The specific areas covered here are theories on economic regulation, the agency theory which forms the basis of the management structure of SACCOS because members of the SACCOS who are the owners are not involved in the day to day operations but rather delegate to central management committees and the staff. Financial performance and its measures as well as the SASRA regulatory framework are also evaluated in this chapter.

2.2 Theoretical Framework

2.2.1 The Theories of Economic regulation

Government Intervention in the market is what we may call ‘economic regulation’, Posner (1974). Properly defined, the term refers to taxes and subsidies of all sorts as well as to explicit legislative and administrative controls over taxes, entry and other facets of economic activity. Two main theories of economic regulation have been proposed. One is the “public interest” theory, bequeathed by a previous generation of economists and present generation of lawyers. It holds that regulation is supplied in response to the demand of the public for correction of inefficient or inequitable market practices. The second theory is the “capture” theory, backed by an old mixture of welfare state liberals, Marxists, and free market economists.

This theory holds that regulation is supplied in response to demands of interest groups struggling among themselves to maximize the incomes of their members. According to Posner, two assumptions seem to have typified thought about economic policy. One assumption was that economic markets were largely fragile and apt to operate very efficiently if left alone and the other was that government regulation was virtually costless. However if this theory of regulation was correct we would find regulation imposed mainly in highly concentrated industries (where danger of monopoly was greatest) and in industries that generate substantial external costs or benefits which is not the case. What is now called the economic theory of regulation was however proposed by George Stigler.

Stigler (1971) observed that the state or government with its machinery and power was a potential resource or threat to every industry in the society. With its power to compel, to take or give money, the state could selectively help or hurt a vast number of industries. The most important element of the theory of economic regulation is its integration of the analysis of political behavior with the larger body of economic analysis, Peltzman (1976). This means that interest groups can influence the outcome of the regulatory process by providing financial and other support to politicians or regulators. According to Stigler, the central tasks of the theory are to explain who will receive the benefits or burdens of regulation, what form regulation takes, and effects of regulation upon allocation of resources.

2.2.2 Agency Theory

Another important conceptual development was agency theory and its applications, formulated by Jensen and Meckling (1976). Jensen and Meckling (1976) in their works on Agency theory argue that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximize shareholder returns, that is, managers will not act to maximize the returns to shareholders unless appropriate governance structures are implemented in the large corporation to safeguard the interests of shareholders. In agency theory terms, the owners are principals and the managers are agents and there is an agency loss which is the extent to which returns to the residual claimants and the owners, fall below what they would be if the principals, the owners, exercised direct control of the corporation.

Eisenhardt (1989) reinforced this theory advocates for and specifies mechanisms which reduce agency loss. These include incentive schemes for managers which reward them financially for shareholder interests. Such schemes typically include plans whereby senior executives obtain shares, perhaps at a reduced price, thus aligning financial interests of executives with those of shareholders (Jensen and Meckling 1976), direct intervention by principals through incurring additional costs to monitor actions of agents which include appointment of audit committees, and sometimes through adverse actions like threat of firing in order to coerce the agent to deliver as per expectations.

2.3 Empirical Literature review

Various scholars have conducted related studies on SACCO performance and regulation or deregulation. Ongore (2001) reviewed the managerial response to deregulation of the cooperative sector. He went further to identify the effects of a deregulated cooperative sector in Nairobi. The study also highlighted the measures that SACCOs were taking to cope with effects of deregulation of the cooperative sector. Mungai (1986) reviewed the role of SACCOs in Kenya's economic development. He discussed the regional distribution of SACCOs in Kenya and their typological distribution in the cooperative movement. However the two researchers did not clearly mentioned whether performance of SACCOS is affected by typological distribution.

Mwarania and Mutugu (1986) focused on the role of SACCOs in Kenya's economic development. They argued "the one percent interest charged on loans gives a misleading signal on the relative scarcity of funds". According to them, funding of SACCOs is no more responsibility of only deposits or share capital of members the members but also of corporate savings. Hence there is need for dividends and retained earnings to be streamlined. Thus they have raised the need to increase corporate savings. This study as quoted by Ongore (2001) involved nationwide SACCOs. The study was not focused on financial performance hence the suggestions are not directly applicable to the research at hand.

Most other scholars have focused on Cooperatives in the Agricultural cooperatives. Mutugi and Munish (1986) also reviewed the role of cooperatives in Agricultural

development. Although agricultural cooperatives are many the vital roles of the SACCOS in the cooperative movement and their subsequent contribution to financial intermediation must be acknowledged. The above studies were conducted before the enactment of the SACCO act of 2008 which laid a formal regulatory framework for regulation of SACCOs under SASRA. Hence there is need to deeply analyze the financial performance of SACCOS and effect of the regulatory framework of the performance. It is on this un-researched area that this study focuses in an attempt to fill the gap in literature.

2.3 Financial performance

Gupta (1992) defines financial performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

Gupta (1992) asserts that accounting ratios aid inter-firm and intra- firm comparisons, which can be attempted by use of other ways but accounting ratios, are responsible in this respect. Accounting ratios not only indicate the present position, they also indicate the

cause leading up to the position to a large extent. Accounting ratios may also indicate a precarious position if any and the policies which have caused it. Weston (1986) concludes that each type of analysis has a purpose or use that determines the relationships emphasized. The analyst may for example be a banker considering whether to grant short-term loan to a firm in which the liquidity position will be of interest. In contrast long term creditors place more emphasis on earning power and operating efficiency. Equity investors are similarly interested in the long term profitability and efficiency. Weston (1986) classifies ratios into six fundamental types; Liquidity ratios which measure ability to meet maturing short term obligations, Leverage ratios ,which measure the extent to which a firm has been financed by debt, Activity ratios which gauge effectiveness in use of resources, Profitability which measure management effectiveness indicated by returns on investments, growth ratios which indicate the firm's economic position in industry and valuation ratios which measure management ability to create market values in excess of investment outlay.

When comparing financial performance of an entity over a given period, performance indicators applicable in both periods should be used. Ivan (1984) argues that the efficiency of an entity cannot be evaluated on the basis of merely one indicator. Different indicators should be used. The difficulty however lies in the fact that different indicators have different deficiencies or may even move in different direction. He argues that efficiency of business entities being studied can only be assessed after relating these different indicators in a system of interdependent indicators where each is functionally dependent on others.

2.3.1 World Council of Credit Union's performance measurement

The world council of credit unions (WOCCU) has developed a performance monitoring tool referred to as PEARLS to be used as a guide by co-operative financial institutions. It is a guiding tool in financial management and is used to evaluate the operations of SACCOS. This system is made up of 45 financial ratios and provides a complete measure of the cooperatives financial performance. Each element of PEARLS looks at a critical area of the cooperative's financial operations: P-represents protection, E- represents Effective financial structure, A- Represents Asset quality, R- Represents rates of return and cost, L- represents liquidity, S- represents signs of growth.

Protection requires that Cooperatives that take deposits from members' establish financial discipline to protect savings from various risks. The most prevalent risks to a SACCO stems from potential losses caused by loans default and financial mismanagement. The protection indicators measure whether the cooperative has adequate provisions to absorb expected loan losses.

Effective financial structure monitors the structure of both sides of the balance sheet. They show the sources and uses of funds. On the asset side indicators monitor investment of funds: loans, liquid investments, financial investments and non- financial investments. These indicators help managers to use funds where they will earn the highest returns. However, the core business is loans to members and data on loan growth and diversification is an important indicator. It specifies the ideal net loans to total assets

ratio. The liability side shows the primary sources of funds, mainly member's deposits, retained earnings, shares.

The ratio of equity capital to total assets is also specified. Asset quality, measures the problem areas that have the greatest impact on the efficiency of generation of surpluses. SACCOs must generate income to pay interest on members' deposits and dividends on shares so as to continue attracting more deposits. Total loan delinquency to gross loan portfolio should be less than 5% and non earning assets to total assets should also be less than 5%. Rates of Return and Cost, These indicators reflect what the cooperative earns on the various uses of funds: loans, liquid investments, financial investments and non financial investments. These indicators also reveal the costs that the cooperative pays to acquire the various sources of fund: members' savings, shares, external loans and retained surpluses. This information enables managers to identify sources of funds that minimize financing costs and match the returns on funds with the costs.

The rates must be competitively matched with market rates in the financial sector. Liquidity, measures the ability of the cooperative to ensure availability of funds to meet loans demand and service obligations as and when they fall due. Signs of growth indicators measure the growth in membership as well as the growth rate on the balance sheet. The comparative rates of growth in savings and loans reflect the impact of balanced growth on liquidity and surpluses. They allow management to monitor growth of the capital as required to maintain capital adequacy level in line with the cooperative growth.

2.3.2 Financial performance Vs control

State control and legal rules keep financial institutions smaller than they would otherwise be and discourage the institutions from acting together. Legal rules and state control push each institution to hold a small percentage of stakes in a huge number of investments instead of large stakes in a limited number of companies. Legal rules and pure state control make it especially dangerous for shareholders to intervene in entities in financial trouble, where the need for intervention is greatest, makes it especially difficult to enter the boardroom, where oversight might be most effective, Jole M et al (1998).

Van De walle(1989) summarizes the common weaknesses of government control as follow; unclear, multiple or contradictory objective, bureaucratic , meddling , overly centralized decision making and inadequate capitalization accompanied by managerial ineptitude. In such situation performance is likely to be poor. The same author argues that most managers usually know what they should do to maximize the returns on the resources they have at their disposal. What they are deprived of is the autonomy, which would allow them to take both revenue enhancement and cost reduction measures.

Jonh C B, (1969) argues that the direct government regulation of corporate publicity has inherent limitations. The volume of corporate publicity , the paramount aim of full and prompt disclosure , the difficulty of making judgments concerning specific items of publicity and proximity of this field to the constitutionally protected right of freedom of expression- all combine to make legal control an imperfect instrument for better financial performance. The same author argues that managers should have the right to make

decisions without going through the regulating agencies hence investment decisions can be quickly translated and executed.

Shirley (1989) asserts that in practice, under government control business entities rarely face conditions for good performance. They often have objectives different from and incompatible with profit maximization. They operate in non competitive markets. Their autonomy is compromised by undue government intervention. Their managers are not held accountable for their results and are not given incentives to improve performance and the way they are selected and rewarded encourages qualities more appropriate to a central bureaucracy than a competitive enterprise. Non viable entities under government control are seldom liquidated.

Most cooperatives never used to get competition from the private sector. Swamy (1994) argues that competition makes some firms more efficient than others. Pricing which could encourage competition was controlled by the government. The cooperatives thus ended up charging prices that could not cover operational costs hence cooperatives were decapitalized, budget drained, waste and distortions associated with artificially low prices resulted.

Mengistu et al (1988) cite the unfavourable terms of trade that the developing countries have been experiencing, the quadrupling prices of oil and the flow of cash and resources from developing countries to developed countries through international debt financing as some of the reasons of poor performance of most of the entities especially government

controlled ones. Mengistu, (1988) states further that there are other factors for poor performance of entities which are internal to themselves. These include poor product identification and development, lack of qualified managers and technical skills, poor monitoring, evaluation and poor accounting practices, unfavourable market conditions and underdevelopment of infrastructure.

Kikei (1989) tried to explain why financial performance of the deregulated sector is likely to be better than the regulated sector. Some of conclusions drawn included; under deregulation there is less political interference in the decision making of the firm. It was also observed that deregulated sector is more supervised by self interested shareholders, the commercial profitability is the main objective of the firm and managers are judged on their success or failure to achieve set goals.

2.4 Overview of the SASRA regulatory framework

The Sacco Societies Regulatory Authority (SASRA) was established under the Sacco Societies Act no. 14 of 2008 which was enacted with an aim of regulating the Savings and Credit cooperatives sector in Kenya, which lacked a harmonized legal framework. (Ministry of cooperative development and marketing, 2010). The SASRA regulatory framework spells out the minimum operational regulations and prudential Standards required of a deposit-taking Sacco society. At the Initial Stages of development, regulation simply entails registration of SACCOS to conduct business. As SACCOS approach maturity stage regulations focuses on prudential standards which establishes a risk assessment process focusing on liquidity, capital adequacy and governance. At the

maturity stage, regulation establishes Deposit guarantee system for explicit comfort to members that their funds are safe. The Kenyan licensing process adopts a tiered approach Involving application, inspection, provision of letter of intent, and final license after fulfilling the minimum requirements. SACCOS are required to fulfill prescribed parameters and submit various documents and must be inspected to qualify for licensing. Upon licensing the Authority regularly supervises the operations of the Sacco to ensure they operate under the terms of license Sacco. The aspects of the SASRA regulatory framework include the following;

2.4.1 Capital Adequacy

SACCOS are required to meet the following minimum ratios: Core capital of not less than Kshs 10million, Core capital of not less than 10% of total assets, Institutional capital of not less than 8% of total capital, Core capital of not less than 8% of total deposits. Challenges of the core capital requirement include; A number of SACCOS cannot meet the minimum capital requirements and ratios, Some SACCOS have not separated Capital from members deposits, difficulties in comprehending constitution of the core capital and subsequent calculation of the capital ratios.

2.4.2 Liquidity requirements

SACCOS are required to maintain 15% of the savings, deposits and short term liabilities in liquid assets. Sacco Societies are required to put in place contingency plans to handle liquidity that includes procedures for making up liquidity shortfalls in emergency situations. There is weekly monitoring of liquidity and requires submission of a monthly

statement of liquidity return to the Authority. Sacco Societies are not to engage in prohibited businesses and are required to establish savings policy prescribing terms and conditions of opening, operating and closing accounts.

2.4.3 Credit Management

It is mandatory to have a loaning policy specifically detailing loan concentration limit, terms and condition of insider lending. The borrower should be provided with quarterly statements of each outstanding credit facility. A Sacco Society shall seek prior approval to introduce any new loan product. SACCOS are also prohibited borrowing more than 25% of total capital and shall charge interest at least 2% higher than the borrowing rate. The classification of loan shall be in five categories; performing, watch, substandard, Doubtful. SACCOS are also required to have a comprehensive loaning policy that conforms to the regulatory requirement.

2.4.2 Investments

Investment in non earning asset should not exceed 10% of the total asset in which land and buildings should not exceed 5% of the total assets. The board of directors is responsible for the formulation of the investment policy which shall be frequently updated. Financial investment should not exceed 40% of core capital or 5% of total deposits.

As savings and credit cooperatives (SACCOs) grow and become regulated, the need to build capital becomes a requirement not only from the regulatory authorities but as the most cost-efficient financing option for new products, services, marketing and branch

network expansion. The World Council of Credit Unions (WOCCU) defines institutional capital as “the total of the SACCO’s regulatory reserve account, undivided or retained earnings, special reserves, and net income that has yet to be closed to the retained earnings account.” According to the PEARLS standards, institutional capital should represent 10% of the SACCO’s total assets. Having an effective regulatory framework therefore is expected to streamline operations of the SACCOS, safeguard members deposit through creation of the deposit guarantee fund and improve general management through a requirement that competent office holders serve as board of directors.

2.5 Conclusions

The presence of a harmonized regulatory framework within the SACCO sector integrates SACCOS into the formal financial sector. As observed from studies undertaken SACCOS play a key role in financial intermediation especially for lower end segments of clients perceived “unbanked” hence denied access to formal financial services. Inadequate regulatory provision and sufficient prudential guidelines are necessary for efficient management of SACCO activities. Mudibo and Masika (1991), notes that in Kenya, SACCOS have contributed a great deal towards improving the living standards of the people. Unfortunately all has not been smooth in the cooperative sector. Instances of corruption, mismanagement and incessant disputes have increased and are threatening to bring the sector down. Properly managed and regulated cooperatives would be ideal vehicles for the attainment of millennium development goals; this may be a pipe dream unless the cooperative members are assured that their deposits and assets are jealously safeguarded.

Co-operatives, and indeed any business, should develop a standardized, well balanced financial monitoring system that monitors its performance. Directors and managers responsible for the direction and day to day operations of the business must develop a financial management system that incorporates the ratios for monitoring and controlling the business along the four desired situations of profitability, liquidity, efficiency and solvency. Thus a study of the effect of regulation on financial performance will shed more light on the role of a formal regulatory framework.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research design and methodology which was used to carry out the research. It presents the research design, the population, sample size and sampling procedure, data collection, data analysis, validity and reliability.

3.2 Research design

Research design refers to the way the study is designed, that is the methodology used to carry out the research Mugenda (2003). The study was based on a comparative research design. The study sought to compare performance of SACCOs in the period prior to enactment of regulations, 2008 and the period after when SACCOs started conforming to provisions of the Act and subsequent provisions of SACCO regulations. This design is appropriate for this study as it will enable an investigation of the effect of regulation on financial performance of SACCOS.

3.3 Target Population

The population of interest in this study consists of all 4233 SACCOs registered under the societies Act in Kenya according to the records of registered SACCOS at the Ministry of Co-operative development and Marketing as at 2010.

3.4 Sample

The sample size of the study was 35 SACCOs within Nairobi selected using systematic random sampling. Saunders et al (2000) notes that study units equal to or above 30 are acceptable for conclusive inferences about the investigation at hand

3.5 Data collection

Both Primary and Secondary data was used in this study. Secondary data mainly included quarterly financial reports from SACCOS for the period prior to and after enactment of regulations. Primary data was collected using semi- structured questionnaires administered using pick and drop method. The questionnaire were used because they allowed the respondents to give their responses in a free environment In each sacco a questionnaire was distributed to the Managers, finance managers, finance officers or/and Accountants. Secondary data entailed financial statements of Saccos which showed financial performance , reports from the regulator SASRA's Website were used to ascertain SACCOS regulated and extent of compliance, articles ,and reports from the ministry of cooperative development.

3.6 Data Analysis

The researcher collected completed questionnaires and documented analysis recording Sheets. Qualitative and quantitative techniques were used to analyze data collected. The responses were edited, classified, coded and tabulated. Data was analyzed using SPSS version 17 (statistical package for social science). Tables and charts have been used for further representation for ease of understanding and analysis. The data collected was

checked for completeness and comprehensibility. Inferential statistic was used to establish the relationship between regulation and financial performance of SACCOs, financial performance of SACCOs was measured by profitability in terms of Return on Assets and Net surplus from operations and other investments. The inferential statistic sought to establish a causal effect relating independent variables to the dependent variable.

A linear regression model of financial performance versus Saccos' regulatory measures adopted by SASRA was applied to examine the relationship between the variables. The model will treat financial performance of SACCOs as the dependent variable while the independent variables will be the provisions stipulated in the SASRA regulatory framework which SACCOs have to comply with which include, Capital adequacy assessment, liquidity provisions, credit management provisions ,Investment stipulations, and sacco policy procedures. The variables were fitted in the model as below;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

Where;

Where Y= Profitability/return on assets

α = constant term

β = Beta coefficients

X_1 = Capital adequacy assessment

X_2 = Liquidity provisions

X_3 = Credit management provisions

X_4 = Investment stipulations

X_5 = sacco policy procedures

3.7 Validity and Reliability

The researcher carried out a pilot study, to pretest and validate the questionnaires. The researcher sought to establish the clarity of instrument items to the respondents so as to enhance the instruments validity and reliability. The pilot study enabled the researcher to be familiar with the research and its administration procedure as well as identifying items that require modification, (Mugenda 2008). This will helped the researcher to correct inconsistencies arising from the instruments hence ensuring they measured what they were intended to measure. The final questionnaire was edited and ambiguous questions reframed or omitted to ensure it's valid and reliable

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis and of the data collected and interpreted on the assessment of the effect of SASRA regulatory framework on the financial performance of SACCOs in Kenya from a representative sample selected.

4.2 Data Collected and Analyzed

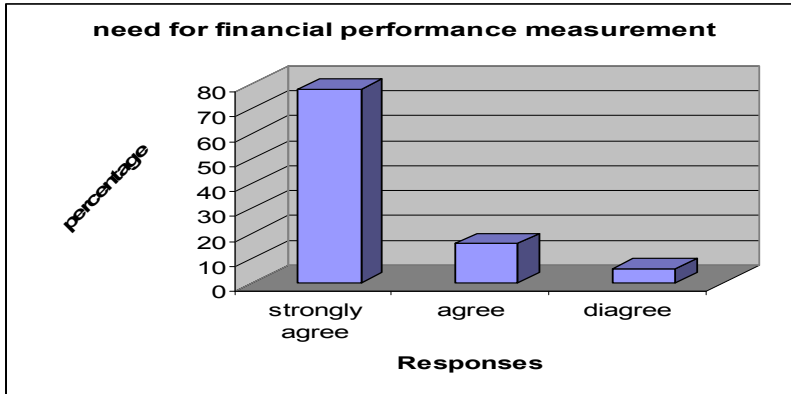
Questionnaires were distributed to the sampled 35 SACCOs in Nairobi, 31 responded. This represents a response rate of 88%, which is considered significant enough to provide a basis for valid and reliable conclusions with regard to the effect of SASRA regulation on the financial performance of SACCOs. The questionnaires were administered using pick and drop. The data was collected from Managers, Finance officers and Accountants. The SACCOs that did not respond gave varying reasons for example sensitivity of information requested or absence of the relevant officers who could provide such information.

Table 4.1 Overview of data collected

Population	Number of targeted SACCOs (n)	Returned Questionnaires	Non – Response rate (t-r)
SACCOs	35	31	4

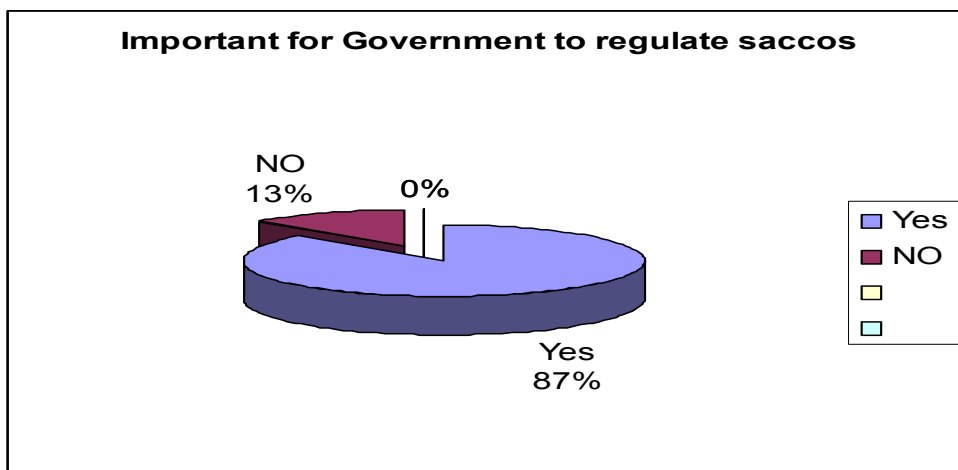
Key n= Population; r – returned questionnaires; n-r = Non response error (12%)

Figure 4. 1 Extent of agreeing that financial performance measurement in important evaluating financial state of affairs of firms



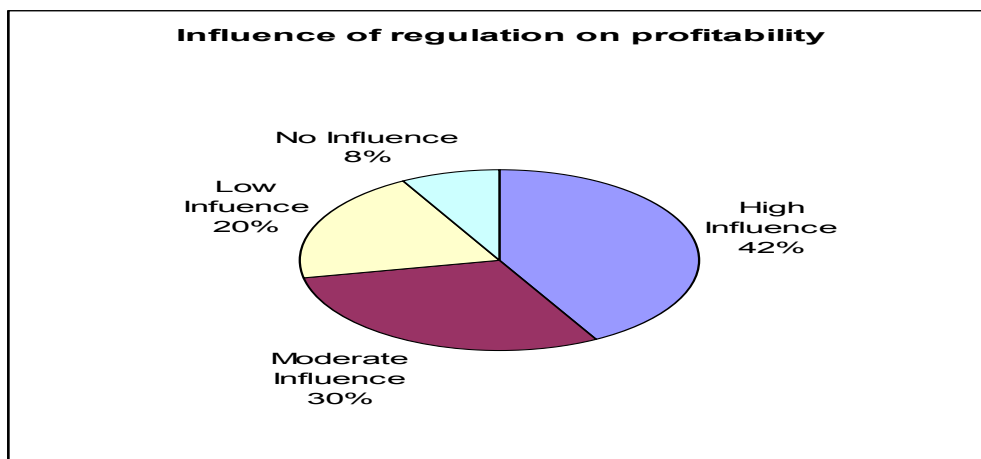
The respondents were requested to indicate the extent to which they agreed with the statement that financial performance measurement is important because it guides the firm to evaluate its financial state of affairs. From the findings Majority of the respondents, 78%, agreed that it is crucial for SACCOs to adopt financial performance measurement in order to have a comparative analysis over periods and with other firms.

Figure 4.2 whether it is important for the government to regulate operations of the SACCO



The study requested respondents to indicate whether it was important for the government to regulate SACCOs. From the findings, majority of the respondents, 87 % indicated that it was important for the sector to be regulated compared to 13 % who felt it regulation was not important. Reasons given in favour of regulation included that would recognize SACCOs as key players in the financial sector hence formalize operations of SACCOs. They however felt that regulation should be fair enough and not be a hindrance to innovativeness in the sector. Those opposes to regulation felt a liberal environment would improve competitiveness and innovation within the sector hence better performance.

Figure 4.3 Influence of regulation on profitability of SACCOs



From the findings of the study, 42 percent of the respondents indicated that regulation highly influenced profitability of the SACCOs, 32 % indicated that the influence was only moderate. 20 % indicated a low influence while 8 % indicated regulation has no influence on performance.

Table 4.2 Methods used to enhance awareness about the SASRA regulations to staff

Method	Not at all	Least	Moderate	Most used
Regular meetings		4	15	12
On job training/ Supervision	1	4	15	11
External facilitators	1	15	12	3
Written materials / publications		5	19	7

The most popular methods used to promote awareness about SASRA regulations and compliance amongst staff in SACCOs is through regular meetings and supervision through on job training. Use of publications like the SACCOs act is adopted but goes hand in hand with regular training

Table 4.3 Effect of liquidity on dividend payout and investment decisions in SACCOs.

	High influence	Moderate influence	Low influence	No influence
Dividend payout decisions	19	7	3	2
Investment decisions	15	9	3	2

The study sought to establish how liquidity affects both dividend payout and investment decisions. Majority of the respondents indicated that liquidity position of the SACCO highly influenced both dividend and investment decisions. Credit Risk Management Practices in the Respective SACCOS

Table 4.4 Credit Risk Management Practices

Procedure	Strongly agree	agree	Neutral
Credit decisions are made after standardization	11	10	10
Credits must be monitored and reviewed periodically	24	7	
Risk management practices should be set	13	9	9
Portfolio managers should watch the loans	21	6	4
Member lending facility is reported to the credit risk management committee	13	9	9

Most respondents agreed that credit must be monitored and reviewed and that portfolio managers should watch over loans granted. This is reflective of the operations of most SACCOS where there is regular monitoring of the loans and loan portfolio managers are made to account for loan performance.

Table 4.5 Screening and Risk Assessment Factors

Approach	Not considered	Least considered	Moderately used	Most considered
Character of borrower		1	9	21
capacity	1		17	13
conditions			15	16
Collateral/security		1	16	14

The character of the borrower was the most prominent criteria used in screening of potential borrowers amongst the SACCOs. The SACCOs also set some conditions mainly involving duration of the membership and total deposits saved. Collateral was also considered but not as core criteria given that most SACCOs were able to recover loans through check off deductions of salaries through mutual agreements with employers. On the other hand SACCOs dealing with Non Salaried members for instance business people were keener on collateral.

Table 4.6 Extent to which regulatory factors affect financial policy decision making in your SACCO?

Factor	Low extent	Moderate extent	Great extent
Capital adequacy assessment	1	7	23
Liquidity provisions	1	10	20
Credit management provisions		13	18
Investment stipulations	2	10	19

Findings of the study established that all the key aspects spelled out in the regulatory affects financial decision making of SACCOs to a great extent. Majority of respondents indicated that capital adequacy provisions had the highest effect on financial decisions indicative of the fact that most SACCOs were keen on meeting the desirable ratios set out in capital adequacy provisions hence impacting on their financial decisions.

4.3 Application of regression analysis

A Multivariate regression model was applied to determine the effect of regulation on financial performance of SACCOs in Kenya. The logistic regression used in this model was;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e,$$

Where;

Where Y= Profitability/return on assets

α = constant term, β = Beta coefficients, X_1 = Capital adequacy assessment X_2 = Liquidity provisions, X_3 = credit management provisions, X_4 = Investment stipulations X_5 = SACCO policy procedures, e , = Error term

Table 4.7: Regression Model summary

Change statistics

Model	R	R square	Adjusted R square	Std error of est.	R square change	F change	df1	df2	Sig F change
1	0.72(a)	.0518	.481	.24	1.841	6	.307	5.191	0.001(a)

(a) Predictors: (constant) Capital adequacy assessment, liquidity provisions, credit management provisions, risk analysis, Investment stipulations, and SACCO policy procedures.

Adjusted R² is called the coefficient of determination and tells us how financial performance of the SACCO will vary with the variation in regulation aspects which include; Capital adequacy assessment, liquidity provisions, risk analysis, credit

management provisions, Investment stipulations, and SACCO policy procedures. From the table above the value of adjusted R² is 0.481. This implies that there was a variation of 48.1 of the financial performance with variation in regulation aspects at a confidence level of 95%

Model Summary

Model	R	R Square	Adjusted R Square	Std. error of the estimate
1	.720	.518	.418	.24313

Source: Researcher (2011/12)

ANOVA (b)

Model 1	Sum of squares	Df	Mean Square	F	Sig.
Regression	1.841	6	0.307	5.191	0.001(a)
Residual	1.714	29	0.059		
Total	3.556	35			

Predictors (Constant) Capital adequacy assessment, liquidity provisions, risk analysis, credit management provisions, Investment stipulations, and SACCO operations policy procedures

Dependent Variable: Significance or regulation

Coefficients (a)

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	β	Std. error	Beta		
1(Constant)	1.000	.275	.857	3.640	.001
Credit management provisions	.571	.195	.000	2.931	.007
Risk analysis	3.817	.246	.000	.000	1.000
Sacco policy procedures	1.128	0.128	-.629	.000	1.000
Capital adequacy assessment	-.571	.290	.000	1.972	.058
liquidity provisions	4.161E-16	.429	.000	.000	1.000
Investment stipulations	3.964E-16	.501	.000	.000	1.000

Dependent variable; Significance or regulating SACCOs

Predictors: (Constant), Capital adequacy assessment, liquidity provisions, risk analysis, credit management provisions, Investment stipulations, and SACCO operations policy procedures.

The established regression equation was;

$$Y=1.000 +3.964 X_1 + 1.12 X_2 + 3.81 X_3 + 0.571 X_4 + 4.161 X_5+ 3.96 X_6$$

Where:

X_1 = Credit management provisions,

X_2 = Risk analysis & assessment,

X_3 = Sacco Operations Policy Procedures,

X_4 = Capital adequacy assessment, X_5 = Liquidity Provisions,

X_6 = Investment stipulations.

4.4 Summary and Implications of the findings

From the above regression model it was established that financial performance of SACCOs would be at 1.000 when regulatory factor in the SASRA regulation framework do not apply. A unit Increase in credit management provisions would lead to increase in financial performance of SACCOs by a factor of 3.964 , a unit increase in Risk analysis & assessment would increase financial performance by a factor of 1.128 , a unit increase in Sacco Operations Policy Procedures would increase financial performance by a factor of 3.817, a unit increase in Capital adequacy assessment, would increase financial performance by a factor of 0.571, a unit increase in Liquidity Provisions, would increase financial performance by a factor of 4.161, a unit increase in Investment stipulations, would increase financial performance by a factor of 3.96

This clearly indicates that adoption of regulatory practices in SACCOs' operations has a positive effect on financial performance. The findings of secondary data evaluation indicated a recorded improvement in average membership to the SACCOs an indicator of restored confidence in the sector arising from regulation. Members' deposits also

increased significantly an indication of investor confidence in the safety of their savings. Tighter credit management provisions stipulated by the regulatory authority have had an impact on the performance attributable to keen monitoring of loans advanced and effective recovery of the loans after granting. This has in essence increased interest earnings thus positively impacting on profitability. Percentage growth in loan portfolio increases net earning assets of the SACCOs.

From findings SACCOs need to comply with regulations by ensuring credit risk management is well done to stop cases of default as well as it enables the SACCOs to meet their Key objectives of attracting savings out of which they will grant affordable credit thus enhance their financial performance. The study also established compliance with regulations has had an effect on key financial decisions like dividend and investment decisions. Initially SACCOs did not have set limits of Capital adequacy provisions hence they could pay high dividends but provisions in the regulatory framework implies that SACCOs must build a Sufficient core capital base reflective of their growth. This implies a higher retention of earnings. The study however established an overall improvement in financial performance, the prudential and operational standards spelled in the regulations has positive effects on the financial performance as established in the model above.

CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The objective of the study was to evaluate the effect of regulation on the financial performance of saccoes in Kenya. To satisfy the objective of the study, primary data was collected by use of questionnaires from 31 SACCOs. The primary data was supplemented by secondary data from financial statements and quarterly reports. Budgets and business plan financial projections were also used. Conclusions on the study are deduced and subsequently policy recommendations for SACCOs are indicated. Thereafter limitations encountered by the study are enumerated and areas suggested for further study are stated.

5.2 Summary and Conclusions of the Findings

The findings of this research indicate that the financial performance of the population of SACCOs was better for the period under which regulations have been in place. The improvement in the average quarterly turnover and net profits of SACCOs under the study is indicative of the positive effects of regulation on the overall performance of SACCOs. The response by most SACCOs however indicated some challenges experienced in meeting regulatory stipulations. The most difficult challenge was meeting the capital adequacy requirements. Meeting the core capital requirement of not less than 10% of total assets was particularly noted to be a challenging for most SACCOs as this would mean setting aside more in terms of retained earnings at the expense of dividends payout ratio.

Regulation of SACCOs in Kenya can be explained by the public Interest theory of regulation. This is as a response by the Ministry of Cooperative Development and Marketing to the public outcry of SACCOs collapsing with members' funds. Further members did not have recourse to the mismanagement of funds. The Government therefore intervened through introduction of the relevant legislation to regulate the industry. With improved financial performance and best management practices in place, SACCOs can now effectively meet their core objectives of availing credit to members while guaranteeing safety to member's pooled savings.

Findings of this study support earlier findings of a study carried on impact of regulation on performance although in a different industry, retirement pensions industry by Mutua, 2003 which concluded that the relationship between the extent of compliance to regulation and financial performance was positive but weak. Mutua, 2003 observed that the Calculated T values for both fund values and contribution were slightly higher than critical test values indicating that although the financial performance of the schemes was better after enactment of regulation the increment was not intense. Findings of this study on the effect of regulation on financial performance of SACCOs also serve to indicate that objectives for which regulations were enacted have to a large extent been achieved.

5.3 Conclusions

From the findings the study concludes that regulation of SACCOs is essential and effective in aiding SACCOs to meet their objectives of credit provision through professionalizing operations of those entities, minimizing loan default, restoration of investor confidence and ensuring the organizations perform better hence increasing return on assets and helping them attain maximum financial returns. From the finding the study concludes that most SACCOs complied with the regulatory provisions of Capital adequacy management, liquidity management, credit management, corporate governance guidelines and investment in asset regulations. The regulations also ensured that elected board members are competent and adhere to best practices in stewardship of SACCOs in order to safeguard members' interests.

The study also established ways through which awareness of the need to comply to regulation has been made within the SACCO fraternity. It established that regular meetings and supervision on one on one basis for the staff enable them to understand stipulations of the regulatory framework making them be well equipped to handle likely challenges in a regulated environment. The study concludes that regulation has had a positive effect on the financial performance of SACCOs. The Study established that improvement in financial performance is attributed to the positive fundamental changes in the regulatory framework which amongst other things has ensured professional management of SACCOs and restored confidence in the sector.

5.3 Policy Recommendation

Given the findings from this study, there are a number of policy recommendations that can be adopted by Management of SACCOs to ensure regulations are not a hindrance to the achievement of SACCO objectives but rather a means through which effectiveness and efficiency in operations can be realized hence contributing to the overall better performance.

There is need for SACCOs to enhance their understanding of the legal and regulatory environment to determine the risks and challenges in the specific context of regulation through engaging the regulatory agency in reviewing aspects of regulation that are deemed to be retrogressive. The study established that certain provisions of the regulation could impact adversely on operations of SACCOs for instance creation of the deposit guarantee fund is a positive move to safeguard members' savings but on the other hand SACCOs are required to take a huge percentage of their annual revenues as contributions toward this fund. This could lower retained earnings and adversely impact on liquidity of SACCOs.

Investment guidelines of the regulatory framework which restricts SACCOs from investing in certain ventures for instance real estate as a means of ensuring SACCOs are liquid enough to fund their operations can also be counterproductive in a liberalized environment. SACCOs compete with other financial institutions hence it could be prudent for them to manage their investment portfolios prudently in a manner that maximizes returns. All stakeholders should therefore be involved in formulating policy

guidelines to investment. In order for SACCOs to remain competitive financial management and reporting and risk management as operational responses should be emphasized. This could be achieved through quantitative management skills as well as advanced risk management instruments minimizing occurrence of credit risk facing SACCOs and eventually enabling them to gain higher financial performance.

5.4 Limitations of the Study

The study had limitations in the sense that beside regulations , the growth of SACCOs and improved financial performance can be influenced by other factors which include favourable lending rates offered by SACCOs compared to those offered by banks and other financial institutions hence attracting more borrowers and in return enabling SACCOs to earn more revenue from interest on loans. The study also faced constraints in time resources limiting collection of information for the study particularly where the respondent delay in filling the questionnaire. In some cases respondents were found to be uncooperative where they felt information being sought was sensitive.

5.5 Recommendation for further study

The study investigated the effect of regulation on the financial performance of SACCOs. Further research should be carried out to determine the Impact of Interest rates variation and Credit risk management practices on the Profitability of SACCOs.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

The information provided here will be used solely for academic purposes and will be treated with confidentiality.

Part A: General Information

Name of SACCO.....

Name of respondent (optional).....

Position of respondent.....

No. of years you have been in the SACCO (Tick)

Below 2 years

3- 5 years

Above 5 years

How long has the SACCO been in existence?.....

Part B: Specific Information

1. "Financial performance measurement is important because it guides the firm to evaluate its financial state of affairs over different financial periods and in comparison to other firms in the industry". To what extent do you agree with this statement?

Strongly agree

Agree

Strongly agree

Disagree

Strongly disagree

2. What are the determinants of financial performance in your SACCO?

.....
.....

3. What are some of financial performance management measures in your SACCO?

.....
.....

4. Is it important for the government to regulate operations of the SACCO?

Yes

NO

If yes explain your Answer

.....

What are some of the regulatory requirements your SACCO must comply to?

.....

What is the rate of influence of the SASRA regulatory provisions on the profitability of the SACCO?

High Influence

Influence

Moderate influence

Low influence

What are some of the challenges faced by the SACCO in conforming to the regulatory requirements?

.....

To what extent do the following regulatory factors affect financial policy decision making in your SACCO?

Factor	Low extent	Moderate extent	Great extent
Capital adequacy assessment			
Liquidity provisions			
credit management provisions			
Investment stipulations			

The SASRA regulations have laid emphasize on capital adequacy and stipulated ratios that SACCOs must adhere to. In view of the above statement to what extent do your

agree with the following statements? Use a scale of 1-5 where 1=very great while 5 = no extent at all.

	1	2	3	4	5
Increasing retained earnings will be key to meeting stipulated core capital and institutional capital ratios.					
Conforming to the capital adequacy ratios will force SACCOS to review their dividend policies.					
Working capital decisions that tend to increase profitability tend increase risk					
Minimizing working capital investment positively affect profitability of the firm					
The ability of the firm to continuously operate in longer periods depends on how it deals with investment in working capital					

SASRA has laid stringent measures of credit management to ensure loans are promptly serviced hence reduce cases of loans default among SACCOS. Which approach (s) among the following does your SACCO use in screening and risk analysis before awarding credit to a customer? Tick appropriately

Approach	Not considered	Least considered	Moderately used	Most considered
Character of borrower				
capacity				
conditions				
Collateral/security				

12. To what extent do you agree with each of the following statement about credit risk management procedures in your SACCO?

Procedure	Strongly agree	agree	Neutral	disagree	Strongly disagree
In order for credit decision to be made, standardization of process and documentation is required					
Credits must be monitored and reviewed periodically					
Risk management practices should be set Portfolio managers should watch the loans portfolio concentration and exposure					
Member lending facility is reported to the credit risk management committee					

13. Through what means is awareness about the SASRA regulations conducted among staff?

Means	Not at all	Least	Moderate	Most used
Regular meetings				
On job training				
External facilitators				
Written materials / publications				

14. How does liquidity impact on the following decisions in your SACCO?

	High influence	Moderate influence	Low influence	No influence
Dividend pay out decisions				
Investment decisions				

15. What are the difficulties/ challenges experienced by your SACCO in complying with the SASRA regulations?

.....

.....

.....

THANK YOU.

APPENDIX II: LIST OF SACCOS

Afya SACCO	Kenyatta Matibabu SACCO
Balozi SACCO	Magereza SACCO
Banki Kuu SACCO	Mwalimu SACCO
Bomas SACCO	Nacico SACCO
Chai SACCO	Nyati SACCO
Chak SACCO	Safaricom SACCO
Chuna SACCO	Stima SACCO
Comoco SACCO	Teleposta SACCO
ELimu SACCO	Ufundi SACCO
Harambee SACCO	Waumini SACCO
Hazina SACCO	Mhuburi SACCO
Jamii SACCO	Mhasibu SACCO
Kemri SACCO	Tembo SACCO
Ken Versity SACCO	Ubani SACCO
Kenatco SACCO	Kenpipe SACCO
Kencom SACCO	
Kenya Bankers SACCO	
Kenya Institute of Administration SACCO	
Kenya Pharmaceutical SACCO	
Kenya Police SACCO	