

An Assessment of Effect of Government Financial Regulations on Financial Performance in Savings and Credit Cooperative Societies (SACCOs): A study of SACCOs in Kisii Central, Kenya

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Abstract

Cooperatives are economic units by which members mobilize their financial resources through savings. It is estimated that this sector contributes about 20% to the gross Domestic Product. Although this sector is considered both economically and socially important, sectoral report indicates that nearly 2% of savings and Credit Cooperative Societies (SACCOs) collapse every year and about 6% of registered members withdraw their membership annually. Some SACCOs pay dividends which are as low as 3.5%. It is not clear why there is a deteriorating trend in most of the societies despite government's financial regulations being in operation since 2004 that were meant to help SACCOs achieve sustainability through growth and financial stability. The objective of this study was to assess the effect of government's financial regulations on financial performance in SACCOs in Kisii Central, Kenya. The study adopted descriptive research design and purposive sampling method. The research findings indicated that financial regulations contributed only 26.2% to the financial performance of SACCOs in Kisii Central.

Key Words: Financial regulation, SACCOs, Performance

1.0 Introduction

The need for regulatory and supervisory policy in the cooperative sector stems broadly from the same sources as the financial sector. The improvement of financial performance in a regulated environment is of critical importance to the cooperative deposit taking institutions. Performance in this regard may relate to issues of profitability, strength or soundness, efficiency and credit quality. Regulatory frameworks are therefore addressing the direct or indirect costs associated with the realization of performance indicators. Gachara (1990) noted that cooperatives are seen as vehicles for resource mobilization and gateways to economic prosperity for families, communities and nations. Cooperative societies incorporate both social and profit motives.

Cooperatives are vital to the economic recovery and have been instrumental in the generation of wealth and employment creation. A significant number of Kenyans, approximately 63 per cent, draw their livelihoods, either directly or indirectly, from cooperative based enterprises. It is estimated that this sector contributes close to 20% of the G.D.P.

However, in the recent past, cooperative movement in Kenya has come under very strong attack from many quarters both within and outside the movement as a result of the deteriorating trend in financial performance. The main issue at stake and which underlies all these attacks are the outcries that cooperatives are grossly mismanaged which has resulted to low financial performance. Therefore, to stimulate the development of this sector, appropriate laws, regulations and supervision framework needed to be put in place. The government through the Ministry of Cooperative Development & Marketing (MoCD&M) came up with policies which were meant to provide minimum operational regulations and prudential standards required in the sector. These policies were meant to streamline; accounting processes, budgets and budgetary control systems, procedures in procurement and disposal of assets, investment policy and external borrowing policy. The movement continues to miss opportunity after opportunity and needs to refocus and reassess its capacity not just to mobilize financial resources, but also to manage them well for faster economic growth of the nation and the welfare of its members.

The movement will need, for instance, to review its legislative arrangements to improve its financial performance. Despite government's financial regulations that were meant to provide minimum operational regulations and prudential standards having been in place since 2004, most of the SACCOs have been riddled with financial scandals and management problems which have affected their financial performances. Statistics available at the District Cooperative Office, Kisii Central, indicate that the rate at which members withdraw from the SACCOs stands at about 6% annually and about 40% of the SACCOs have been rendered dormant. Members who have withdrawn cannot get their share refund contrary to the requirement that any refund must be done within 2 months. This has resulted to too many cases being taken to the cooperative tribunal. Most SACCOs are heavily in debt such that they are not able to promptly and adequately disburse enough loans to their members. There is an outcry that some SACCOs take as long as 3 months to disburse loans to members hence forcing the members to seek quick loans from other established financial institutions which charge higher interest rates. This has not only put financial pressure on the members but has also raised serious questions on the financial performance of the sector. At the same time, most of the SACCOs cannot afford to give their members dividends at the end of every financial year since the surplus available to members are reduced by the loans the SACCOs are servicing. Where the dividend is available, it might be as low as 3.5% and sometimes it is not given at all hence tempting members to stop their contributions and finally withdraw their membership.

Therefore the general objective of the study was to assess the effect of the government financial regulations on financial performance in Sacco societies in Kenya. Specifically, the study focused on the following objectives:

- (1) To establish the extent to which Sacco societies in Kisii Central have implemented these government's financial regulations.
- (2) To establish the level of financial performance of the Sacco societies in Kisii Central.
- (3) To analyze the relationship between the extent to which these SACCOs have implemented the financial regulations and their level of financial performance.

2.0 Literature Review

2.1 Theoretical Literature

2.1.1 The need for financial regulation

Armstrong (2005), looked at the development and techniques of regulations as having long been the subject of academic research. He examined two basic schools of thought that have emerged on regulatory policy, namely, positive theories of regulation and normative theories of regulation. Positive theories of regulation examine why regulation occurs. These theories of regulation include theories of market power, stakeholders interest in regulation, and the theories of government opportunism that describe why restrictions on government discretion may be necessary for the sector to provide efficient services for customer.

Generally, the conclusions of these theories are that regulations occur because; the government is interested in overcoming information asymmetries with the operator and in aligning the operator's interest with the government's interest, customers desire protection from market power when competition is ineffective, operators desire protection from rivals, or operators desire protection from government opportunism.

Hertog (2007) supported Armstrong's argument as he agreed with the public interest theory which suggested that government regulations is a response to public demands for government to rectify situations of market failure through imperfect competition, market disequilibria, information asymmetry or markets that are undesirable for social reasons. This theory assumes that; the market outcome represents a "failure" of some sort, and the market is not capable of fixing the problem itself, the government is capable of fixing that failure so that the optimal efficient outcome will be achieved, and that the benefits of doing so will outweigh the additional costs created by the intervention.

Hahn (2006) noted that financial regulations happen in response to market failure, with regulation correcting the inefficiency while Dale (1997) argued that the theoretical underpinning for public intervention in economic matters is traditionally based on the need to correct market imperfections and unfair distribution of resources.

Barth *et. al.*, (2002) raised many arguments in favour of government intervention in the financial sector. They argued that the existence of monopoly power externalities and information asymmetries create beneficial role for government interventions to offset market failures and enhance social welfare. They also argued that regulation helps to redistribute wealth away from the institutions to stakeholders even when there are no market failures.

Dawatipartwe *et. al.*, (1994) who thought that there is a high existence of information asymmetry that normally occurs in the financial institutions, also stressed the need for regulation. They argued that whereas the financial managers may be privy to certain important financial information, they may not want to share this information with the rest of the stakeholders.

Goodhart *et. al.*, (1992) in their study of financial markets in the USA concluded that financial regulation is indeed a public good as it serves three objectives, namely; it creates stability, transparency and investor protection.

Noia *et. al.*, (1998) concurred with the findings of Goodhart by concluding that the general need for public financial intervention is anchored in the pursuit for stability, equity in the distribution of resources and the efficient use of those resources.

Regulation of financial sector is also viewed as a particularly important case of public control over the economy. The accumulation of capital and the allocation of financial resources constitute an essential aspect in the process of economic development of a sector. The peculiarities of financial intermediation and of the operators who perform this function justify the existence of a broader system of regulation with respect to other forms of economic activity. They argued that various theoretical motivations have been advanced to support the opportunity of a particular stringent regulation for other financial intermediaries. Such motivations are based on the existence of particular forms of market failures in the credit and financial sectors. (Allen *et. al.*, 1998)

2.1.2 Government's regulation on budgetary policy

Financial performance of a firm to a large extent requires that management must lay down suitable policies in respect of capital requirement, choice of forms of capital and debt-equity mix. It is the duty of the management to ensure that adequate funds are available to meet the needs of the business. Therefore, there need to be proper budgeting policies and procedures put in place to take care of the available funds. A budget is considered as a critical management and control tool in making decisions about income and expenditure plans of any cooperative society, just like any other business entity with profit motive. Actual expenditures and outlays must be compared with budgeted amounts for the ensuing year. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate. The budget provides a spending plan against which fiscal and program performance can be measured.

Mong'are (1994), found out that financial performance of public enterprises improves so much in relation to the level of financial control system put in place; and that one of the financial control instruments that the study found to be useful is the budget. In his conclusion he pointed out that no organization, be it public or private can claim to enjoy a high financial performance without a proper budgeting system put in place.

2.1.3 Government's regulation on audited accounts

Business performance practice requires that there must be good accounting systems within any enterprise for real financial performance to be realized. It points out the problems faced or likely to be faced by the enterprise. This therefore, calls for proper book-keeping practices by the SACCOs in order to conform to the international accounting standards.

Wambui (1993) on the regulation of auditors' reports in investment decisions revealed that most of the companies whose books of accounts are audited annually tend to perform better than those who don't. The Cooperative Society Act stipulates that every cooperative society must cause its books of accounts to be audited every financial year and the accounts be presented to the shareholders four months after the end of the financial year. It is required that the books of accounts be approved by the Commissioner for Cooperative Development (CCD) before presentation to the shareholders. Where accounts are not audited and presented within four months, committee members will automatically lose their positions at the next general meeting unless the CCD is satisfied with the reasons for failure.

2.1.4 Government's regulation on investment policy

An investment is the outlay of a sum of money in the expectation of a future return which more than compensates for the original outlay plus a premium to cover inflation, interest foregone and risk. The process of investment appraisal is designed to ensure that the right amount of money is invested in the right projects at the right time.

Pandey (1996) asserts that too little investment, in the long run is more dangerous than too much. Too little investment leads to inefficiency and certain slow stagnation. Too much involves unacceptable levels of risk, but at least has the possibility of success. In the short term the converse is true- too little is the safer option. These conflicting needs have to be balanced in order to obtain sustainable financial performance, hence, calling for proper regulatory and supervisory mechanisms. It's one very significant aspect is the task of measuring the prospective profitability of new investments. Any investment decision as source of raising funds for the firm must consider the interests of the shareholders.

2.1.5 Government's regulation on borrowing policy

Pandey (1996) noted that because of the importance of the financial decisions to a firm, it is important to set up a sound and efficient organization for the finance functions. Financial decisions are crucial for the survival of the firm since the growth and development of the firm are directly influenced by the financial policies that the firm adopts. A financing decision is meant to either retain the profits earned by the business or distribute them among the shareholders via dividends. There are a wide variety of sources of funds available to any firm to supplement its recurrent operations, but these sources have certain characteristics which the firms must be aware of including: cost, maturity, and other terms imposed by the supplier of the funds. Financial management therefore, needs to concern itself with the decision of finding the best financing mix that will maximize the shareholders' wealth in the firm.

Cooperative Societies Act (2004) requires that any cooperative society that wishes to borrow funds from non-members must fix a maximum liability. However, the maximum liabilities fixed shall be subject to the approval of the Commissioner for Cooperative Development who may at any time reduce it or impose such conditions as he may deem necessary. The Act requires that a resolution by 2/3 of members present and voting at a general meeting must approve the decision for the disposal of any assets. Thus, the government's role is to ensure that SACCOs allocate their finances according to the needs of the stakeholders.

2.1.6 Government's regulation on procurement and disposal

Public procurement occurs when a public organization uses public resources to buy goods and services such as hiring or obtaining by any other contractual means of goods, construction works and services. Public funds are drawn from state budgets, local authority budgets, foreign loans and grants and money raised by public bodies in their daily undertakings.

Before 1974, public procurement in Kenya was largely undertaken by foreign organizations on behalf of the government. This was mainly because the needs of the colonial and the independent Kenya were largely met from foreign sources, as local sources were not still adequate. However, since 2001, the government has issued policies guiding procurement and disposal processes.

The public procurement and disposal Act of 2005 established procedures for efficient public procurement and for the disposal of unserviceable, obsolete or surplus stores, assets and equipment by public entities and to provide for other related matters. The Act aims at maximizing the economy and efficiency, promoting competition and ensuring that competitors are treated fairly, promoting the integrity and fairness of procurement procedures, enhancing transparency and accountability, restoring public confidence in the procurement process and lastly facilitating the promotion of local industry and economic development.

2.2 Empirical studies of related literature

Cooperative sector remains one of the vibrant economic techniques of poverty eradication, wealth & job creation, rural development and even financing of other small and medium enterprises. Few studies have been conducted in this sector and a lot more need to be done in order to address the major challenges including financial management decisions that affect the overall financial performance in this important sector.

Padoa *et. al.*, (1999) in their study of the regulated financial institutions argued that regulatory arrangements have the object of significant change, and that such financial dynamics are at the centre of attention at international avenues. They further said that a number of countries such as the United States, United Kingdom, Australia and Japan are in fact presently radically changing their regulatory systems to meet the needs of the modern stakeholders.

Akinwumi (2006), argued that cooperative sector provides the best alternative than all other economic groupings and schemes, suggesting that they needed to formalize in line with cooperative principles so that long after project interventions they still remain sustained. Invariably, cooperative society remains the better alternative to economic reconstruction of the government. Most of the Non-Cooperative Groups (NCGs) often die in the midway without fulfilling the economic objectives for their establishment. He pointed out that as much as it is desirable for cooperative societies to help in the development of a nation, there are problems and constraints that have militated against its effective performance of its roles in nation building and that this has led to poor financial performance, declining and death of some cooperatives. The other critical element according to him was leadership. He said that if cooperative leaders are transparent, dedicated and follow good financial management policies, then cooperative sector will definitely succeed. He concluded by saying that a true leader does not cut corners, does not inflate contracts so as to receive kickbacks, does not have favorites among members and does not mismanage the resources.

In their study, Dempsey *et. al.*, (2002) posited that cooperatives “destroy value” since few cooperatives have changed the way they operate. They said that several financial ratios for cooperatives (revenue growth, return on assets and operating margins) were calculated which indicated weak financial performance in the cooperative sector. Another financial performance measure, “value created” was also analyzed; it was based on “return on invested capital” this also reported a low financial performance in cooperative societies. In their conclusion, they realized that firms which were regulated performed better than cooperatives which were left unregulated.

Kaleshu (2008) identified lack of financial regulations as a major setback to the financial performance of cooperatives societies saying that group action is more difficult to coordinate than individual action. He therefore averred that with proper government interventions SACCOs are likely to perform much better and with a lot of discipline.

Akinwumi (2006) affirmed that poor financial management decisions, bad governance and leadership problems are critical elements that affect efficiency of cooperative movement not only in Nigeria but also in the rest of African countries. He therefore suggested the need for total financial reengineering of cooperative movement to enable it to face the challenges of the changing world in order to perform the desired economic function. He said that good financial management decisions require a constant scanning of the financial environment in order to determine appropriate strategic financial regulations to be adopted towards achieving desirable objectives.

Ngumo (2006), in his study, “Cooperative Movement in Kenya”, noted that there has been much progress in the development of SACCOs in the country in the recent years compared to 15 years ago, and the future of SACCOs is very bright despite the challenges. Some of the challenges, he pointed out were; mismanagement, slow adoption of modern technology and failure to adhere to rules and regulations in the operations of the savings and credit societies.

In his recommendation, he said that there need to be immediate review of the cooperative law in line with the Cooperative Development Policy (CDP) that would address the financial management regulations in the sector. He further recommended that there need to be further research on financial regulations and their effects on the management committees, members and employees of the sector and how they fit the prevailing financial environment.

3.0 Methodology

The research adopted the descriptive research design in carrying out the study. The study units comprised 20 SACCO societies in Kisii Central District, Kenya. However only 12 of them were actively in operation, the other 8 were either dormant or inactive. The target population of registered membership in the district was 73,860 with a total share deposits and share capital amounting to Kshs. 2,071,897,012. The study purposively used a cluster sampling technique to select 8 respondents from each SACCO society i.e. all the 4 executive committee members (Chairman, V/chairman, Secretary and the Treasurer), all the 3 supervisory committee members, and the General Manager) since these were the people who directly and actively deal with the events under study. Therefore, the study sampled 96 respondents comprising 8 respondents from each of the 12 active SACCOs.

Self administered structured questionnaires were used to collect quantitative data. The questionnaire was designed based on a five point Likert scale. The data collected were analyzed using descriptive statistics such as the means and percentages to analyze both the extent of implementation of the government's financial regulations and the level of financial performance. A simple linear regression was used to establish the relationship between the extent of implementation of government's financial regulations and the financial performance of the SACCOs. Pearson's coefficient correlation was used to determine the direction and the strength of the relationship between the implementation of the financial regulations and the level of financial performance in the SACCOs. The results were presented using tables.

The regression model was given by the following equation;

$$Y = a + bX \quad \text{where } Y - \text{Financial Performance}$$

a- the constant or the intercept
X - Government financial regulations
b – Measures the relationship between the two variables

4.0 Results and Discussion

4.1 Extent of Implementation of Financial Regulations

The first objective was to establish the extent to which SACCO societies in Kisii Central District have implemented the government's financial regulations. To achieve this, the respondents were requested to rate on a five- point Likert scale, the extent to which government financial regulations have been implemented in their SACCOs over the past 6 years. The results were as presented in table 1. While responding to the extent to which the societies have adhered to the approval of audited accounts 4 months after the end of the financial year, 22 reported not at all, 16 said to a little extent, 19 reported moderate extent, 17 indicated to a large extent, while 13 recorded a very large extent, resulting in a weighted mean of 2.805 on the scale. The weighted mean score suggests that the regulation has been moderately implemented. This could be because quite a good number of SACCOs are not able to raise the required audit fees in time to meet the registration deadline as required. Furthermore, it is from the audited accounts that SACCOs are able to know whether to declare dividends or not. The findings of this study concurred with the one conducted by Wambui (1993) on regulation of auditors' reports in investment decisions which revealed that most of the companies whose books of accounts are audited annually tend to perform better than those who do not embrace the audit.

Concerning the approval of maximum borrowing powers by members, a weighted mean score of 3.816 on the scale was posted. It is therefore expected that with this large extent of implementation of this regulation, SACCOs will have a strong financial stability since they will have fewer loans to service.

It was also found that in terms of implementation of the requirement that not more than 25% of the share capital can be invested, gave weighted mean score of 1.897 indicating a little extent of implementation of this regulation. This is expected to affect the efficiency in loan disbursement and even the rate of dividends pay-out to members.

This concurred with a study by Oyoo (2002) who also found out that SACCOs societies invest much of their capital in non-core businesses that do not bring enough returns to the shareholders, hence weakening their financial stability.

A weighted mean score of 2.448 was obtained in response to extent of implementation of the requirement that budgets must be approved 3 months before the beginning of the next financial year. This suggested that majority of the respondents admitted that the regulation has moderately been implemented. This means that most of the expenditures are approved and controlled by the members. This is likely to bring confidence among the members resulting in the retention of the membership. The findings were in concurrence with a related study by Mong'are (1994) which noted that financial performance of public enterprises improve so much in relation to the level of financial control systems that are put in place, and that one of the financial performance control instrument that the study found to be useful is the budget.

Regarding the two thirds members' approval of the procurement and disposal of society's assets, the weighted mean score was 2.023, an indication that the regulation has to a little extent been implemented. This showed incompetency in tendering committees or a total lack of it. This is expected to affect the general financial performance of SACCOs since the disposal and procurement of the society assets are likely to interfere with the capital of the society. This finding is in agreement with one by Ochola (2004) who found out that most of public institutions do not adhere to the requirement of the Public Procurement Act 2003 which lays down the procedures of acquiring and disposal of public assets.

4.2 Financial Performance

The second objective was to establish the level of financial performance of the SACCO societies in Kisii Central District. To achieve this, the respondents were requested to rate on a five- point Likert scale, the extent to which they agreed with the financial performance of their SACCOs over the past 6 years. The results were as presented in table 2. Concerning the performance of SACCOs in terms of disbursement of loans to members, a weighted mean score of 2.0919 on the scale was registered. This means that the performance of the SACCOs in terms of efficient and prompt disbursement of loans is quite wanting. This could be because the majority of the SACCOs do not have adequate share deposit to give as loans whenever there is need. The results of this study concurred with the one by Oyoo (2002), in his study of SACCOs' financial performance in Nairobi which revealed that most SACCOs were inefficient in terms of loan disbursement.

When asked about the consistent increase in investments, a moderate extent of agreement to the level of performance with weighted mean score 2.7586 on the scale was recorded.

Responding to the consistency in dividend pay-out, a weighted mean score of 2.0344 on the scale was recorded. Majority of the respondents were of the view that SACCOs have not done enough to improve their surpluses that can be given out as dividends to the members. Again with the good performance in investment, it is not clear why SACCOs cannot have enough surpluses to give as dividends. Could it be that the surpluses are used to service or offset the loans that the SACCOs are owing to other financial institutions? However, a study by Gachara (1990) in SACCOs in Nairobi found out that most societies paid low interest dividend rate mostly due to heavy indebtedness and he suggested that SACCOs should not borrow funds from financial institutions such as banks which charge high interest rates, rather they should source funds from non-financial institutions such as Kenya Union of Savings and Credit Cooperative.

In response to consistent increase in membership, a weighed mean score of 1.7241 on the scale was recorded. This explained why 41.38% of the respondents admitted that the membership of the SACCOs is decreasing, suggesting that most of the SACCOs have not done enough to increase their membership. This could be because of inadequate dividend pay-out and inefficiency in loan disbursement which were equally lowly rated by the respondents. Furthermore, it could be due to low quality of services being offered by the SACCOs hence prompting members to withdraw their membership resulting to the decline. These findings were supported by the study done by Dempsey *et al.*, (2002) who posited that cooperatives destroy value since few of them have changed the way they operate, hence resulting to a weak financial performance in the sector.

4.3 Extent of Implementation of Government Financial Regulations and the level of Financial Performance of SACCO

The third objective of this study was to analyze the relationship between the extent to which SACCO societies have implemented the government financial regulations and their level of financial performance. To address this, simple linear regression analysis was used to deduce a model that could be used to explain financial performance, while Pearson's correlation coefficient was used to determine the direction and strength of the relationship between government financial regulations (independent variable) and financial performance (dependent variable).

4.3.1 Simple Linear Regression Analysis

Before the regression procedure was carried out, the basic assumptions of linear regression analysis were deemed to be true; that the dependent variables are random real variables and have a normal distribution, that the mean of the dependent variable in any particular period is zero, that the variance of the dependent variable is constant in each period, that the disturbance terms of different observations are independent and that the explanatory variables are non-stochastic variable and are measured without error i.e. the dependent variables are independent of the explanatory variable. The three important outputs of simple linear regression analysis used were: model summary, ANNOVA table and coefficient of correlation.

4.3.2 Model Summary (Variation of FP)

To assess the amount of variation of Financial Performance (FP) that could be explained by government financial regulations, the coefficient of determination was used and its results are presented in table 3. The table shows the model of SACCO societies financial performance, the R value which is the coefficient of correlation being 0.512 implying a moderate linear relationship while the coefficient of determination (R^2) being 0.262. The R^2 value is the coefficient of determination (expressed as a percentage) and shows variability in dependent variable explained by the variability in independent variable(s). From the model it was found that only 26.2% of the variation in the financial performance (dependent variable) of the SACCO societies can be explained by the implementation of the government financial regulations (independent variable). This suggests that the government financial regulations to a large extent did not contribute to the level of financial performance in the SACCO societies.

4.3.3 Summary of ANNOVA (F-Statistics)

In assessing whether the model could significantly predict the financial performance of the SACCO societies, the F-statistic from the ANOVA table was used and the results were in table 4. The table shows the summary of ANOVA table and F-statistics, which reveals that, the independent variable: government financial regulations can significantly predict the financial performance of the SACCO societies ($F_{1, 85} = 30.139, P < 0.05$). Therefore, F value of 30.139 significant at 0.05 confidence level indicated that the independent variable contributed to the variance of in SACCO society's financial performance. The F value also indicates that the simple regression model is statistically significant.

4.3.4 Regression Coefficient

The unstandardized regression coefficients, the standardized beta coefficients and t-test values are presented in table 5. From the table it is seen that the t-test value for the regression coefficients is significant at 95% confidence level ($p < 0.05$). The un-standardized regression coefficients were used to obtain the regression equation that shows the relationship between the government financial regulations and the financial performance. For this analysis, the regression equation is:

$$\begin{aligned} \text{Financial Performance} &= 5.295 + 0.427 \text{ Government Financial Regulations} \\ \text{FP} &= 5.295 + 0.427 \text{ FR} \end{aligned}$$

The un-standardized coefficient sign (Beta) is positive meaning that as the magnitude of the independent variable (government financial regulations) increases; the magnitude of the dependent variable (financial performance) also increases.

The standardized coefficient (Beta) provides basis for judgment on the relative importance of the variables to the dependent variable.

4.3.5 Pearson's Coefficient of correlation - r

In measuring the correlation between the independent and the dependent variables, r was used. Table 6 shows the correlation matrix of financial performance and the independent variables; government financial regulations. The correlation matrix table shows that financial performance has a moderately significant positive relationship with government financial regulation as measured by $r=0.512$. The matrix portrays a positive linear relationship between the financial performance and the government financial regulations; however, the strength of the relationship is moderate and therefore research found out that financial regulations affect financial performance of the SACCO societies.

5.0 Conclusion and Recommendation

The study aimed at assessing the effect of the government financial regulations on financial performance in Sacco societies in Kenya, based on three objectives. The first objective was to establish the extent to which SACCO societies in Kisii Central District have implemented the government financial regulations. To achieve this, the study considered; timely approval of audited accounts, members' approval of maximum borrowing powers, percentage investment of share capital, members' approval of yearly budgets and members' approval of procurement and disposal of society's assets. The study established that the only regulation that is highly implemented by the SACCOs is the approval of maximum borrowing powers with a mean of 3.82 out of the possible 5. The results also showed that most of the societies do not implement the regulation on procurement and disposal of assets contrary to the requirement of the Public Procurement and Disposal Act of 2003.

The second objective was to establish the level of financial performance of the SACCO societies in Kisii Central District. To achieve this objective, the study considered; efficiency and promptness in loan disbursement, consistent increase in investments, consistent increase in surplus given out as dividends and consistent increase in membership. The study revealed that SACCOs' had moderate performance in their investment level; however, this did not translate to an improvement in the general financial performance. The findings also revealed that membership of the SACCO societies have been decreasing. This might have been as a result of the management problems which were found to be highest among the societies under the study area, low dividend pay-out rate and inefficiency in loan disbursement. The study established that the financial performance of SACCO societies in Kisii Central district was on average low with the majority of the respondents describing their performance to be deteriorating.

The third objective of the study was to analyze the relationship between the extent to which SACCO societies have implemented the financial regulations and their level of financial performance. The study established that there was a positive but weak significant relationship between the level of financial performance and the government financial regulations, as only 26.2% of the variations in the financial performance could be explained by the implementation of the government financial regulations.

The government financial regulations which were meant to provide minimum operational and prudential standards; aimed at improving financial performance in SACCOs have been in operation for the past 6 years. On the basis of the findings, the study concluded that the government financial regulations to a little extent had an impact on the financial performance of SACCO societies in the study area. The findings of the study revealed that SACCO societies' financial performance is low; therefore, the government through the Ministry of Cooperative Development and Marketing should provide training programs in financial management for the management committees of the SACCO societies to help them improve their financial management in decision making.

The findings also revealed that financial regulations were implemented to a little extent possibly due to unawareness. Therefore, the Ministry of Cooperatives needs to sensitize members of the sector on the existence of the regulations since lack of this was the major challenge mentioned by most of the respondents. The management of the SACCO societies should have copies of the Cooperative Societies Act and Rules since these are the relevant sources where the financial regulations are found.

The management committees and other officials of the cooperative societies should establish management support networks to enable them to obtain new ideas and useful information for the promotion of the sector. This will allow them to compete with other established financial institutions since this was found to be one of the major problems that the sector faces.

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Table 1. Extent of Financial Regulations Implementation

Financial Regulations	WEIGHTS					$\sum f_i$	$\sum f_i w$	$\sum f_i w / \sum f_i$	
	Not at all	Little extent	Moderate extent	Large extent	V/ large extent				
	1	2	3	4	5				
1. Approval of audited accounts 4 months after the end of the financial year	22	16	19	17	13	87	244	2.805	
2. Approval of the maximum borrowing powers by members	4	9	13	34	27	87	332	3.816	
3. Not more than 25% of share capital can be invested.	47	16	12	10	2	87	165	1.897	
4. Approval of budget 3 months before next financial year	16	35	21	11	4	87	213	2.448	
5. Approval of assets procurement and disposal by 2/3 members	39	23	12	10	3	87	176	2.023	
Mean of extent of financial regulation implementation								2.5978	

Source: Survey Data, (2012)

Table 2. Financial Performance

Financial Performance	WEIGHTS (W)					$\sum f_i$	$\sum f_i w$	$\sum f_i w / \sum f_i$	
	Not at all	Little extent	Moderate extent	Large extent	V/ large extent				
	1	2	3	4	5				
1. SACCO has been promptly and efficiently disbursing loans to members	40	26	15	5	1	87	162	1.8621	
2. SACCO has consistently increased its investments	15	22	28	13	9	87	240	2.7586	
3. SACCO has consistently made enough surplus to give out as dividends	37	26	10	12	2	87	177	2.0344	
4. There has been consistent increase in membership	42	28	16	1	0	87	150	1.7241	
Mean of level of financial performance								2.1522	

Source: Survey Data, (2012)

Table 3. Model Summary (N=87)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.512 ^a	.262	.253	2.730

a. Predictor: (Constant): Government Financial Regulations

Source: Survey Data, (2012)

Table 4. ANOVA^b (Analysis of Variance) table (N=87)

Model		Sum of Squares	df	Mean Squares	F	Sig.
1	Regression	224.702	1	224.702	30.139	.000 ^a
	Residual	633.712	85	7.455		
	Total	858.414	86			

a. Predictors: (Constant), Financial regulations

b. Dependent Variable: Financial Performance

Table 5. Regression Coefficients (N=87)

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1. (Constant)	5.295	1.110			4.771	.000
Financial Regulations	.427	.78	.512		5.490	.000

a. Dependent Variable: Financial Performance

Source: survey data, (2012)

Table 6. Correlation Matrix of FP and FR

		Financial Regulations	Financial Performance
Financial Regulations	Pearson Correlation	1	.512**
	Sig. (2-tailed)		.000
	N	87	87
Financial Performance	Pearson Correlation	.512**	1
	Sig. (2-tailed)	.000	
	N	87	87

**Correlation is significant at the 0.01 level (2-tailed)

Source: Survey Data, (2012)