

**COMPLIANCE EFFECTS OF SASRA REGULATIONS ON THE  
FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT  
COOPERATIVE SOCIETIES IN KENYA**

**BY  
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## DECLARATION

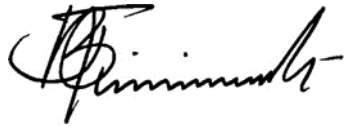
I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

Signed: \_\_\_\_\_N.N.N\_\_\_\_\_Date: \_\_\_\_18/11/2022\_\_\_\_\_

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



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## **DEDICATION**

I take this opportunity to dedicate this work to my family who extensively had to bear with my long absence from them in order to accomplish this research study.

## **LIST OF ABBREVIATIONS**

**SACCOs**

Savings and Credit Cooperatives

**MFI**s

Microfinance Institutions

**DFI**s

Development Finance Institutions

**SASRA**

SACCO Societies Regulatory Authority

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## ABSTRACT

SASRA regulations have been in operation since 2010 pursuant to the provisions of the Sacco Societies Act, No. 14 of 2008. However, the compliance effect of these regulations on the financial performance of Deposit Taking Sacco's (DTS) has not been exhaustively established. Several empirical studies have avoided reviewing detailed aspects of these regulations and how they directly affect the financial performance of the Saccos. As such, the objective of this study is to establish the compliance effect of SASRA regulations on the financial performance of savings and credit cooperative societies in Kenya with specific focus on loan provisioning regulations, minimum capital regulations, and liquidity regulations. The target population was 175 Deposit-Taking Saccos and 185 Non-Deposit-Taking Saccos that had been duly licensed by SASRA to carry out their operations. A purposive sampling technique was used to select the study participants. Data was collected using a questionnaire which was administered to the managers of the selected saccos. Analysis of data was done using both descriptive and inferential statistics with aid of Statistical Package for Social Science (SPSS) computer software package. The study found that the compliance levels of SASRA regulations had a positive effect on the financial performance of SACCOs in Kenya  $r = 0.910$ ,  $\alpha = 0.05$ . This means that as the compliance levels of SASRA regulations increase, the financial performance of SACCOs in Kenya also improves. The multiple linear regression analysis described the goodness of fit, R-squared value, standard error, F-statistic and p-value. The R-squared indicates that the model explained 83% of the variability in the dependent variable. This indicates that there is a strong relationship between the dependent and independent variables. The standard error of the model was also found to be 0.32352. The F-statistic was found to be significant 73.841, which indicates that the null hypothesis can be discarded. The p-value was also found to be significant at 0.000, which confirms that the F-statistic is significant. The study concludes that, though compliance has its costs, it is evident that the benefits to both the individual societies and to the sector as a whole are considerable and cannot be ignored. The analysis of the findings showed that SACCOs have become more compliant since the enactment of SASRA. In addition, SASRA has helped to improve the liquidity and solvency position of SACCOs, as well as their profitability. It recommends that the registration and supervision of SACCOs should be decentralized to counties. This will enable closer monitoring of the operations of SACCOs and identification of problems early enough for corrective action to be taken. Future studies should explore the effect of SASRA on the membership composition of SACCOs. This would include an examination of how SASRA has impacted membership by gender, age group, and location. Additionally, future studies should explore how SASRA has impacted financial inclusion in Kenya. This would include an examination of both the extent to which SASRA has helped to promote financial inclusion and the factors that have hindered its success in this regard.

**Key words: Performance, Competence, Regulation, Compliance**

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Minimum capital, loan provisioning, and liquidity regulations have significant implications on the financial performance of SACCOs. In Kenya, minimum capital requirements are amounts that SACCOs must have at hand for them to comply with the regulatory requirements for SASRA (Taracha, 2014). Christen, Lyman & Rosenberg (2003) define minimum capital requirement as capital that should continuously be maintained by SACCOs as required by statute. Staschen (2003) describes it as a concept that asserts that organizational assets should adhere to specific capital requirements. I think this is standardized regulation that is in place for Kenyan SACCOs to determine the amount of liquid capital that should be maintained. Loan provisioning dictates lending terms and conditions, loan concentration limits, and so forth. SACCOs are expected to offer a detailed account of potential expenses and default to make sure that they are offering a precise assessment of the financial positions. Loan provisioning can be defined as liability accounts that are established as reserves for actual or potential losses that results from substandard or bad loans (Chelangat & Mutai, 2021). According to Krüger, Rösch & Scheule (2018), this is a technique for translating the review of loan results into the balance sheet. Gaston & Song (2014) put it as the essence of earlier recognizing loans' losses. Loan provisioning includes funds set aside by SACCOs to help cover bad loans. Lastly, liquidity regulations include the sets of rules that are put in place to make sure that SACCOs have the required assets to prevent the possibility of suffering from liquidity disruptions resulting from changing market conditions (Song'e, 2015). The regulations are further meant to offer terms and conditions for closing, operating, and opening accounts and prohibit financial institutions from conducting illegal businesses, among other things. Liquidity is also important in determining how easily SACCOs can pay off their short-term debts and liabilities (Kabure, 2014). As Bech & Keister (2017) put it, these are financial regulations in place to ensure that banks and other financial institutions have the required assets on hand to caution them against market dynamics and liquidity disruptions. Banerjee & Mio (2018) define the term as the overall capacity of financial institutions to obtain or generate sufficient cash promptly to meet their commitments. These are prudent liquidity regulations that are in place to ensure that financial institutions like SACCOs are liquid all the time. Thus, as this study seeks to demonstrate, the three independent variables (prudent regulatory measures) which includes minimum capital, loan provisioning, and liquidity regulations have a positive relationship on

financial performance of Kenyan SACCOs in terms of membership, assets, and profitability. This study is anchored around the public interest theory. The model emphasizes that regulations are usually put in place as a part of response to public demand for the amendment of inequitable or ineffective market practices. Policy moderator or regulation is meant to benefit the entire society at the expense of addressing the needs of certain vested interests. Regulatory bodies are meant to represent the interest of society at large instead of serving the interests of investors and other private entities. Other supportive theories include the agency framework and the theory of liquidity and regulation of financial intermediation framework. The agency framework is relevant to the variables of this research because it offers the basis for identifying and understanding issues that arise in the principal-agent relationship context (Bathala & Rao, 1995). The theory of liquidity and regulation of financial intermediation, on the other hand, is essential in the analysis of the variables of this research because it is a significant blueprint in the study of the compliance effects of SACCOs regulations on the way Kenyan SACCOs perform and compete financially.

Savings and Credit Cooperatives (SACCOs) are member-based financial corporations that function based on cooperative principles, identity, and values that include caring for each other, honesty, openness, and social responsibility (Ooko & Mbewa, 2013). Part of the primary objectives of SACCOs is to uplift the living standards of low-income earners.

### **1.1.1 Regulations**

Regulations are supervisions that subject organizations to particular guidelines, restrictions, and requirements with the hope of achieving operational integrity. There are three independent variables from which this research was based, namely, minimum capital, loan provisioning, and liquidity regulations. As regulated institutions, SACCOs are expected to meet certain minimum capital requirements (Monica, Waweru & Oboka, 2021). This is one of the fundamental measures of solvency for parties that want to operate as SACCOs. They further act as a hedge during challenging financial situations such as economic downturns. In Kenya, minimum capital requirements are amounts that SACCOs must have at hand for them to comply with the regulatory requirements for SASRA (Taracha, 2014). Loan provisioning dictates lending terms and conditions, loan concentration limits, and so forth. SACCOs are expected to offer a detailed account of potential expenses and default to make sure that they are offering a precise assessment

of the financial positions. Loan provisioning can be defined as liability accounts that are established as reserves for actual or potential losses that results from substandard or bad loans (Chelangat & Mutai, 2021). Lastly, liquidity regulations include the sets of rules that are put in place to make sure that SACCOs have the required assets to prevent the possibility of suffering from liquidity disruptions resulting from changing market conditions (Song'e, 2015). The regulations are further meant to offer terms and conditions for closing, operating, and opening accounts and prohibit financial institutions from conducting illegal businesses, among other things. Liquidity is also important in determining how easily SACCOs can pay off their short-term debts and liabilities (Kabure, 2014). In line with that, rationales should also be implemented to carry out regular monitoring of the liquidity of these SACCOs.

One of the challenges faced by the SACCOs is regulating them to ensure their sustainability. Most SACCOs are not sufficiently capitalized to meet regulatory requirements, leading to an increase in their default rates, and making it difficult for them to access funds from members (Mumanyi, 2014). Additionally, there are still concerns regarding the effectiveness of regulations and related policies on the way Kenyan SACCOs perform financially. Now with the existence of SASRA regulations, the main problem now is to determine how these regulations have impacted the financial performance of SACCOs. This is a critical issue that requires further research as explored in this study.

Just like in many other African countries, the development of cooperative societies in Kenya is now beyond the era of liberalization and state control. Part of the efforts aimed at liberalizing SACCOs in Kenya includes the essence of making them financially autonomous, self-reliant, professionally and democratically managed, and member-based (Njenga & Jagongo, 2019). The current regulatory space of these financial institutions is now attracting the interests of scholars who want to create a coherent understanding of the best and most efficient way of regulating SACCOs. The independent variables of this study have been operationalized by other researchers based on their ability to contribute to the sustainability of SACCOs and other financial institutions. In similar research, the minimum capital requirement was measured using the capital adequacy ratio or risk-weighted asset ratio comparable to regulatory equity. Loan provisioning was measured using the provision coverage ratio, which is the percentage of total funds that financial institutions

set aside for losses that result from bad debts. Finally, liquidity regulations were measured using a liquidity coverage ratio that divides a financial institution's high-quality assets by its total net cash flows for 30 days.

In this study, minimum capital requirement is measured using the capital adequacy ratio or risk-weighted asset ratio comparable to regulatory equity. Next, loan provisioning was measured using the provision coverage ratio. Last but not least, liquidity regulations were be measured using a liquidity coverage ratio.

### **1.1.2 Performance**

According to Barauskaite & Streimikiene (2021), financial performance is the computation of the effectiveness of companies in utilizing their assets from their primary business modes to generate revenue. Van Beurden & Gössling (2008) define the concept as a complete analysis of an organization's overall standing in expenses, equity, liabilities, and assets, among other categories. In their view, Abdi, Li & Càmara-Turull (2020) states that this is the process of gauging the monetary value of companies' activities and policies. Based on my understanding, a financial performance can be described as the subjective measure of how well a company could generate revenue and use it for its primary business mode. This is a complete analysis of a firm's overall standing categories like profitability, revenue, expenses, equity, liabilities, and assets. Various business-related formulas can be used to measure the financial performance of companies. The formulas enable users to make accurate calculations about different details that relate to the potential effectiveness of a corporation.

There are still concerns regarding the effectiveness of regulations and related policies on the way Kenyan SACCOs perform financially. It is the expectation of many that SASRA regulations bring sanity and protect against the high risks that are associated with imbalances in the financial statements of SACCOs. However, this should be done in moderation because excessive regulations could have negative implications. Without creating the right balance and environment for the implementation of these regulations, the sustainability of SACCOs could further be compromised, making it more challenging to alleviate the living standards of low-income earners (Anania, Gikuri & Hall, 2015). As it emerged, recent economic crises that some Kenyan SACCOs have suffered have unmasked the significance of regulations. However, the regulations should be well-balanced

and researched. Little scholarly works have been redirected at analyzing the compliance effects of SASRA regulations on the financial performance of Kenyan SACCOs. Now that SASRA regulations are in play, the main problem now is to determine how they have impacted the financial health of SACCOs. This research filled the existing gaps and similar arising issues by shedding more light on the financial performance variable.

As a variable, there are different techniques that have been adopted by researchers to measure the financial performance or health of SACCOs (Ngui, 2010). Examples include inventory turnover, debt-equity ratio, leverage, quick ratio, current ratio, working capital ratio, net profit margin, gross profit margin, and the balanced scorecard. The balanced scorecard, which is of special interest in this study is a technique that is adopted to make sure that all stakeholder interests and preferences are put into consideration. The technique has further proved to be the ideal method for translating organizational strategies and vision into tangible sets of financial performance measures (Kaplan, 2009). Beyond its measurement capabilities, it also provides an overview of the effectiveness of organizational financial performance through the incorporation of financial measures with other vital financial performance indicators that relate to innovation, learning, growth, internal business processes, and customer perspectives. The same technique (the balanced scorecard) was applied in this study to measure the dependent variable (financial health).

### **1.1.3 Regulations and Performance**

Theoretically, minimum capital regulations are expected to protect people from SACCOs that might not have a solid capital base to operate. Also, the regulations are further expected to hedge SACCOs from unexpected economic downturns that could compromise their operations (Monica, Waweru & Oboka, 2021). Loan provisioning regulations are expected to give SACCOs the basis for the establishment of terms and conditions for lending loans and determining limits for the concentration of loans, among other things (Chelangat & Mutai, 2021). Finally, liquidity regulations are expected to act as the reference points for testing the solvency of SACCOs (Kabure, 2014). If applied accordingly and with the right level of moderation, these regulations are expected to promote not only the financial performance of SACCOs but also enhance their sustainability and ability to improve the living standards of low-income earners. Some researchers have been able to successfully prove this relationship by conducting empirical research. The inferences that

they arrived at were strictly derived from solid evidence and contributed significantly to guiding this study.

#### **1.1.4 SACCOs in Kenya**

The first Kenyan SACCO was formed in Mariira, Murang'a County in 1964 by Fr. Joachim Getonga of the Catholic church (Ototo, 2020). According to the data that was availed by KUSCCO LTD. (2020), there were more than 22,000 SACCOs in Kenya with over 14 million members. By January 2022, there were 175 Deposit-Taking Sacco Businesses and 185 Non-Deposit-Taking Businesses that had been duly licensed by SASRA to carry out their operations (SASRA, 2022). It is estimated that SACCOs contribute approximately 35% of gross national savings, and 46% of GDP (gross domestic product) while offering direct employment to more than 500,000 people (Ototo, 2020). According to Ngui & Jagongo (2017), the minimum capital requirement that a SACCO should meet before being licensed is KES 10 million. As a response to technological innovations, Kenya SACCOs have adopted the use of mobile technology to necessitate digital payments. The technology has made it easier for members to send their deposits online without being required to necessarily make physical visits. Services such as MPESA have made payments more seamless than ever before (Rawal, 2021).

Various regulations have been established by the Central Bank of Kenya per the powers referred to in Sections 57 (4), 57 (3), and 57 (1) of the Central Bank Act to guide how SACCOs should operate (Njoroge, 2021). The regulations touch on oversight and reporting requirements by the Central Bank, combating terrorism financing and anti-money laundering, consumer protection, digital credit, place of business, credit information, governance, and licensing of digital credit providers (Njoroge, 2021).

According to financial experts, SACCOs that are started locally are highly appealing to potential customers (Munyiri, 2006). Examples of registered SACCOs in Kenya include Harambee, Jamii, Jacaranda, Invest and Grow (IG), Imarika, Home Business, Kenya National Police DT SACCOs among others. The government of Kenya restructured its legal framework to provide cooperatives with operational autonomy and independence. The growth of SACCOs and microfinance institutions (MFIs) in Kenya has attracted the interest of regulators owing to the fact that they

provide members with cheap loans (Johnson, 2004). These regulations serve as safeguards against the high risks that are associated with different kinds of imbalances in the balance sheets of financial institutions. Effective regulations enable SACCOs to protect members' savings and give out cheap loans.

The SASRA regulations regulate the operation of Kenyan SACCOs. The most significant impact is that it has led to a decline in the number of savers, which has in one way or another influenced the financial performance of SACCOs and other financial institutions operating in Kenya (Bowen & Makokha, 2021). The Kenyan Parliament enacted the Savings and Credit Cooperatives Act, 2017 (SACCOs) on the 15th of September 2017. The new law replaced the old SACCOs Act, enacted in 1983. The new law has been in effect since the 1st of October 2017 (Kabui & Maina, 2021; Nduati & Wepukhulu, 2020). While some have seen their financial performance improve, others have experienced decline; the regulations might also be making it difficult for these institutions to favorably compete or operate in the presence of other players in the financial sector. Some of the laws that were enacted on October 1, 2017, that guides the operations of SACCOs in Kenya are as follows: First, Regulations focused on strengthening financial inclusion through providing access to cheaper, more convenient services to low-income households and small businesses. Secondly, the banking sector was restructured into commercial banks, cooperative banks, and development finance institutions (DFIs). Thirdly, Cooperative banks are regulated by a separate law and are overseen by an independent board of directors.

The Kenyan government came up with the SACCO Societies Regulatory Authority (SASRA) as a way of reforming SACCOs and increasing public confidence in the institutions. SASRA has been hailed as a game-changer for SACCOs. It has provided them with a legal framework to operate within, which most have found difficult to do without. However, it is not without its challenges. The legislation created an uncertain environment for SACCOs, which led to some small-scale SACCOs such as Miliki SACCO, Moi University Sacco, Ufundi Sacco, Sukari SACCO, and Hekima SACCO shutting down their front office services and others shutting down completely after failing to comply with the requirements set out by the law (Kabui & Maina, 2021).



Part of SASRA's objectives is to increase transparency and accountability in SACCOs. This is in line with vision 2030 and the ongoing changes within the sector of finance, whose major goal is to enhance financial stability, promote the essence of efficiency, and expand access to finances (Njeru et al., 2015). As mentioned earlier, this study offers the basis for investigating the compliance effects of SASRA regulations on the financial performance and the overall competitiveness of SACCOs in Kenya. The dependent variable is the financial performance of SACCOs whereas the independent variables include minimum capital requirements, loan provisioning, and liquidity regulations.

## **1.2 Research Problem**

Although it has always been more of a critical rather than technical public policy, regulations have continued to attract public interest since the 2008 financial crisis (Kim, 2013). These regulations pursue different goals, but the most vital one is to ensure that financial performance has been preserved. The 2008 financial crisis raised varied concerns that have partly been addressed by establishing regulatory reforms (Kim, 2013). As such, SASRA regulations are well-devised to help enhance the financial performance of SACCOs in Kenya.

At the time of the introduction of SASRA regulations, Kenyan SACCOs were operating under a weak regulatory environment whereby neither prudent financial supervision nor regulation requirements existed. One of the challenges faced by the SACCOs is regulating them to ensure their sustainability. Most SACCOs are not sufficiently capitalized to meet regulatory requirements, leading to an increase in their default rates, making it difficult for them to access funds from members (Mumanyi, 2014).

There are still concerns regarding the effectiveness of regulations and related policies on the way Kenyan SACCOs perform financially. It is the expectation of many that SASRA regulations will protect against the high risks that are associated with imbalances in the financial statements of SACCOs. However, this should be done in moderation because excessive regulations could have negative implications. Without creating the right balance and environment for the implementation of these regulations, the sustainability of SACCOs could further be compromised, making it more challenging to alleviate the living standards of low-income earners (Anania, Gikuri & Hall, 2015).

Now that SASRA regulations are in play, the main problem now is to determine how they have impacted the financial health of SACCOs.

Lately, there has been a discussion and/or debate on how effective this framework has been (Kabui & Maina, 2021; Mbugua & Kinyua, 2020). To ensure that the savings and credit societies operate efficiently, Kenya's central bank has introduced regulations that have made it difficult for these societies to operate. These regulations include: (a) requiring SACCOs to maintain separate accounts for savings and lending activities; (b) limiting the number of loans that they can provide; and (c) imposing stricter rules on disclosing information to their members (Mwangudza et al., 2020).

Chelangat & Mutai (2021), Gallati (2022), Githaka, Maina & Gachora (2017), Mbugua & Kinyua (2020), Monica, Waweru & Oboka (2021), Nyangarika & Bundala (2020), Obademi & Elumaro (2018), Rawal (2021), Wambua, Waweru & Kihoro (2021), and Weber (2017) identified various research gaps that emerge from studies about the effect of minimum capital requirements, loan provisioning, and liquidity regulations on the financial performance of SACCOs in Kenya. For instance, some argue that the regulations imposed on SACCOs have led to their collapse, resulting in a lot of financial instability and increased poverty levels among members of these societies. Additionally, others argue that the regulations are not causing any negative effects on SACCOs. It is helping them grow by creating more opportunities for members to access loans at affordable rates.

In line with the identified research gaps, the research question that guided this research is “what is the compliance effect of SACCOs regulations on the financial performance and the overall effectiveness of SACCOs in Kenya?” The dependent and independent variables were studied together because there was an indication that minimum capital, loan provisioning, and liquidity regulations have a significant implication on the financial performance of SACCOs. Despite complying with SASRA regulations, many SACCOs in Kenya are still performing poorly. Improved financial performance of these SACCOs would help enhance their sustainability and be of greater benefit to the members, such as through enhanced ease of accessing loans. The expectation is that if applied accordingly and with the right level of moderation, these regulations could promote not only the financial performance of SACCOs but also enhance their sustainability and ability to improve the living standards of low-income earners.

### **1.3 Research Context**

This study was conducted in Kenya Context to provide more insights into the overall compliance effects of SASRA regulations that guide the way SACCOs operate and their effects on promoting economic growth (Ooko & Mbewa, 2013). In other words, this study sought to analyze the effect of independent variables on the financial performance of SACCOs in Kenya. When it comes to SACCOs, financial performance is essential because stakeholders, including members and managers, must have a coherent understanding of whether the financial institutions are doing well or not. To demonstrate transparency and accountability, SACCOs should provide external auditors and members with timely financial updates (Wasike, 2012). According to Faria (2021), about 16% of the country's population was spending below \$1.90 per day in 2021 (Faria, 2021). Amidst the introduction of regulations that dictate the functioning of SACCOs, it is important to understand the constraints and successes that have been achieved as well as the effect of different variables. The findings of this study served as the cornerstone of making necessary improvements to ensure that services that are offered by SACCOs are sustainable and efficient.

### **1.4 Research Objective**

To analyze the compliance effects of SASRA regulations on the financial performance of SACCOs in Kenya.

### **1.5 Value of the Research**

Completion of this piece of research was of great value to various parties and stakeholders, including scholars, members of SACCOs in Kenya, the management of financial institutions and SACCOs, SASRA, policymakers, and the government. For scholars, the study is a great reference point when conducting related research. The management of SACCOs and other financial institutions in Kenya could as well utilize this study as a roadmap for understanding the most regulatory aspects that can help enhance financial performance and operational sustainability. The same applies to contexts where the management might wish to understand how SASRA regulations are affecting the financial performance of SACCOs. For policymakers, results and inferences that were made from this research will inform the extent to which policies that are in play have affected the operational environment of SACCOs. For SASRA, this research has provided an overview of

how the regulations that they have put in place are influencing how SACCOs are now operating. Finally, the government of Kenya could use the results of this research to understand whether they have achieved their desire to support SACCOs to enjoy operational independence and autonomy.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This section sheds light on other scholarly works that have been conducted in relation to the compliance effects of SACCOs regulations on the overall financial health and performance of Kenyan SACCOs. Some of the major areas include conceptual framework, empirical studies, variable that dictate the financial performance of Kenyan SACCOs, and theoretical review.

### **2.2 Theoretical Review**

The theories that guided this study includes the public interest model, the agency framework, and theory of liquidity and regulation of financial intermediation framework. The details of the theories are discussed below:

#### **2.2.1 The Public Interest Model**

Public interest theory is centered around the Pigouvian welfare economics that offers conditions for welfare maximization (Hantke-Domas, 2003). The theory asserts that regulations are usually put in place as a part of response to public demand for the amendment of inequitable or ineffective market practices. Policy moderator or regulation is meant to benefit the entire society at the expense of addressing the needs of certain vested interests. Regulatory bodies are meant to represent the interest of society at large instead of serving the interests of investors and other private entities. This approach stems from Bentley's approach, which emphasized that groups tend to assume control of moderating bodies to suit their needs, preferences, and interests. The core focus of public interest theory is the attainment of public good and creating an environment from which a group or certain individuals are going to benefit (Bozeman, 2007). Based on that, it can be said that Sacco regulations are in place to offer exclusive benefits to investors and depositors. Incumbent companies can use regulation as a way of protecting themselves from the potential entry of other market competitors. However, critics of the theory are imperative that this can only happen if the members of the public need improved allocative effectiveness. Bentley was also quick to dismiss the whole notion of public interest, considering it as a fiction that was believed to serve the interests of groups only. Additionally, opposers of the theory do not see it as a valid theory because it lacks verified outcomes and predictions. The emergence of different regulatory bodies over the years can be said to have been heightened by the changing interests and needs of the members of the public resulting from the evolution of society. The romantic appeal of public

interest theory has, however, not prevented it from practical and theoretical discrimination. The theory touches on reasons for formulating regulations and can prove critical in the study of the compliance effects of SACCOs regulations on the way Kenyan SACCOs perform and compete financially, which is the main focus of this research.

### **2.2.2 The Agency Framework**

The agency theory was formulated by Meckling and Jensen way back in 1976 in an attempt to address the challenges that are associated with the relationship between agents and principals (Laiho, 2011). Organizational shareholders usually hire managers to help them manage their funds and ensure that they are profitable and productive. Nonetheless, problems can emerge in contexts where managers feel that they are not being awarded accordingly for their efforts and in situations where the shareholders take managers as ordinary employees who should be awarded for services that they have rendered. The agency model offers the basis for identifying and understanding issues that arise in the principal-agent relationship context (Bathala & Rao, 1995). The principle-agent relationship can be described an arrangement in which specific legal entities appoint other legal entities to act on their behalf. The agent is not supposed to have any conflict of interest while acting on behalf of the principle. This model is centered around the vital situations that could emerge because of this relationship. For example, challenges are likely to arise in instances where principals' desires or objectives conflict with that of the agents. As such, it becomes problematic for principals to ascertain or verify the undertakings of the agents. This represents a classic scenario when it comes to the implementation of regulations. Agents who, in this case, could be regulators might exploit existing limitations for their advantage, thereby compromising the benefits accruing to the principals that, in this case, could be SACCOs that are taking deposits.

Agents might engage in such activities and cover their tracks to prevent the principals from figuring out what is happening. Therefore, the principals might need the agents to carry out risky undertakings like adhering to investment requirements, loan provisioning requirements, and liquidity requirements without considering potential risks like suffering from losses. Meanwhile, critics of agency theory have observed that measures that have been recommended based on the model are economically ineffective and expensive. For instance, protecting the interests of shareholders could compromise collective actions or interfere with strategic decisions. The theory

touches on regulatory requirements that can create a productive agent-principal relationship implying that it can offer a remarkable basis for this study whose focus is to figure out the compliance effects of SACCOs regulations on the way Kenyan SACCOs perform and compete financially.

### **2.2.3 Theory of Liquidity and Regulation of Financial Intermediation Framework**

The core role of financial intermediaries is to offer insurance against liquidity stocks. Financial intermediaries are individuals or institutions that act as middlemen among different parties in a bid to necessitate financial transactions. The theory of liquidity and regulation of financial intermediation was founded by Tsyvinski, Golosov, and Farhi in 2009. The framework suggests two stumbling blocks that relate to information. Firstly, agents are subjects of disturbances that cannot be observed when they assume market participation by taking part in trading activities that are invisible to intermediaries. Without regulations, financial intermediaries will not have techniques for mitigating risks as a result of externality that emerge from arbitrage opportunities. Depending on the underlying nature of shocks that are experienced in certain regions, different forms of liquidity regulations should be put in place (Andrieş, 2009). Where there is no regulation or moderation, financial intermediaries and related actors cannot allow for the sharing of risks due to the externality that arise from opportunities of arbitrage. Liquidity regulations can help address such externalities by influencing interests in the market. Irrespective of whether markets overprovide or underprovide liquidity, and whether liquidity floor or liquidity cap should be utilized relies on the underlying nature of the corresponding shock that agents end up experiencing. Nonetheless, the major criticism of the theory is that it does not consider the role that lenders play when it comes to risk management. Also, the model has been criticized for differing on the increasing economic significance of financial intermediaries. It also fails to offer a coherent understanding of the presence of these financial intermediaries. The theory sheds light on the regulatory roles that financial intermediaries play and could be a significant blueprint in the study of the compliance effects of SACCOs regulations on the way Kenyan SACCOs perform and compete financially, which is the main focus of this research.

## **2.3 Determinants of Financial Performance of SACCOs in Kenya**

### **2.3.1 Capital Adequacy**

Capital offers a protection basis against changes in earnings, thereby ensuring that SACCOs continue to operate even in periods of negligible earnings or loss (Karagu & Okibo, 2014). It further offers a sense of reassurance to SACCO members that they are in a stable position of rendering their services. Capital is further used to promote growth by acting as a source of funding while hedging against insolvency. As such, the financial performance of SACCOs depends heavily on capital adequacy (Gallati, 2022).

### **2.3.2 Assets**

In SACCOs, assets are very critical in determining the ability to achieve financial success (Song'e, 2015). A review of return on assets (ROA) is a vital determinant of the financial performance of SACCOs in Kenya. This involves looking at the net income that has been reported for a particular period and dividing them with total assets. Total assets can then be measured by calculating the mean of the ending and beginning asset values for the same duration (Karagu & Okibo, 2014).

### **2.3.3 Management**

In its broadest sense, the management is considered to be the most obvious determinant of the financial health or performance of SACCOs (Karagu & Okibo, 2014). The management determines the ability of these financial institutions to carry out their operations (Chandra, 2011). This could include establishing a good relationship with the members, diagnosing and responding to economic downturns, and so forth. The level of financial performance and competitiveness of SACCOs is reflected in the ability of the management to control, monitor, and measure risks and ensure sound and safe operations and compliance with applicable regulations and laws.

### **2.3.4 Earnings**

The sustainability and continued viability of SACCOs usually depend on their underlying capability of earning an appropriate return on their assets (Karagu & Okibo, 2014). The earnings enable them to increase or replenish capital, remain competitive, and fund expansion. As such, the financial performance and competitiveness of these SACCOs, both in the short and long-term, depends on earnings (Tirfe, 2014).

### **2.3.5 Liquidity**

Liability/asset management is the underlying process of controlling, monitoring, and evaluating balance sheet risks (Karagu & Okibo, 2014). An effective process of managing liability and assets



integrates net worth, profitability, and strategic planning with risk management. Because of that this is an essential aspect that dictates how Kenyan SACCOs compete and perform financially (Githaka, Maina & Gachora, 2017).

## **2.4 Empirical Studies**

Chelangat & Mutai (2021) carried out research on the impacts of loan loss provisions on the disbursement of loans. Stratified random sampling and cross-sectional descriptive design were used on a population sample of 84 respondents. The results showed that loan loss provisions played an integral role in increasing the financial competitiveness and productivity of SACCOs. Also, the authors came to the realization of a positive correlation between the cost of income, managerial quality, capital adequacy ratio compliance, liquidity, size and financial health or performance of SACCOs across the nation. The main inference is that SACCOs should adhere to the provisions that are in place to achieve operational sustainability and efficiency.

Gallati (2022) conducted a study about capital adequacy and risk management. The study was centered around case studies. The results showed that capital is used to promote growth by acting as a source of funding while hedging against insolvency. As such, the financial performance of financial institutions such as banks depends heavily on capital adequacy.

Githaka, Maina & Gachora (2017) investigated the effects of liquidity management on the liquidity of Kenyan SACCOs. A stratified random sampling method and cross-sectional survey research design was used on a study population of 54 respondents. As it emerged, all SACCOs across Kenya were subjects of prudential regulations. Apart from that, the results further showed that loan provisioning requirement has a positive influence on the financial health of Kenyan SACCOs. There was also a positive relationship between different variables that were utilized in the study that redirected attention at ROI (return on investment). However, it was established that liquidity has little implication on the corresponding financial performance of the Kenyan SACCOs.

Mbugua & Kinyua (2020) researched organizational performance and service differentiation. Their main focus was on deposit taking SACCOs in Nairobi. The descriptive research design included a study population of 410 employees from 41 deposit taking SACCOs in Kenya.

Probability sampling design and proportionate stratified random sampling was used. The results showed that effective management and higher capital requirements helped increase the profitability of SACCOs in the county.

Monica, Waweru & Oboka (2021) conducted a study about capital efficiency and capital adequacy requirements for deposit taking SACCOs. The target population included all deposit taking SACCOs in Kenya. The research which employed a correlational research design established that sufficiency of capital had a positive implication on the way Kenyan SACCOs perform and compete financially. Besides that, all SACCOs that were researched were adhering to SASRA regulations.

Nyangarika & Bundala (2020) carried out research in Tanzanian context, focusing on the socio-economic factors that affect the growth of deposits in SACCOs. The target population included 75 members of SACCOs in Tanzania. Data was gathered from both secondary and primary sources and included the use of simple random sampling design. The findings showed that there are various factors that affect the growth of SACCOs in the country. Also, the research showed that socio-economic status had direct effect on the performance of banks. Therefore, more capital markets should be established to improve the growth of SACCOs.

Obademi & Elumaro (2018) analyzed the subject of banks and economic growth in Nigeria. The regression analysis of ordinary least square was the employed method. This was a re-evaluation of what was considered as financial repression hypothesis. Their finding was that despite the fact that banks have a positive impact on Nigeria's economic growth, they are not entirely propelling forces. Therefore, it is important to recommend the establishment of further policy measures and regulations to bolster the effectiveness of their performances.

Rawal (2021) explored how technology could help enhance the performance of SACCOs after the COVID-19 pandemic. It emerged that besides capital provisioning, minimum capital requirements, and other vital factors that can influence how SACCOs perform, technology can play a critical role as well. Some of the gaps that have rendered some SACCOs ineffective can be addressed by deploying technology. The study expands on the interventions that could be put in place to make SACCOs and other financial institutions more competitive.

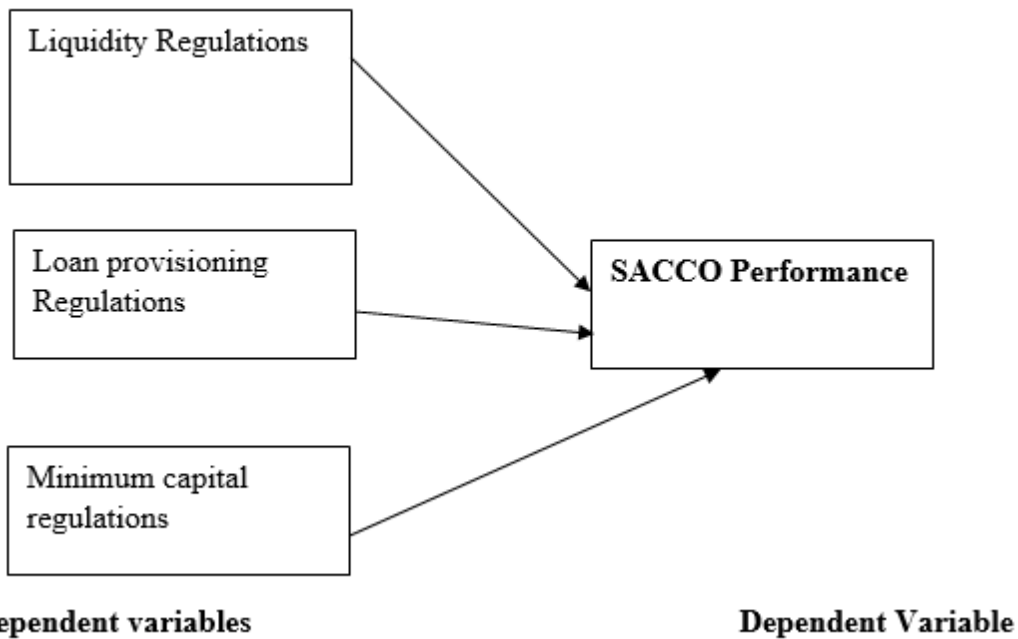
Wambua, Waweru & Kihoro (2021) researched the impact of capital adequacy on the performance of SACCOs in Kenya. The descriptive research design included a target population of 175 deposit taking SACCOs in Kenya. The main finding was that capital adequacy requirements are in place to help mitigate or prevent SACCOs from collapsing. The study can be used to portray the role that regulations can play in financial institutions in an attempt to promote their sustainability.

Weber (2017) carried out research about corporate sustainability and the performance of banks in China. The study involved carrying out a panel regression, categorizing aspects of corporate sustainability, and assessing websites and reports of Chinese banks. The sample included institutions that provide publicly available yearly reports. The finding was that the social and environmental performance of banks in the country increased between 2009 and 2013. The underlying inference was that financial performance and corporate sustainability performance correlate in a positive manner.

## **2.5 Conceptual Framework**

Based on the above empirical studies, this study adopted a conceptual framework that demonstrates how the dependent variable interacts with independent variables. This is in line with the primary objective of determining the compliance effects of SACCOs regulations on the way Kenyan SACCOs perform and compete financially. The conceptual framework is illustrated below:

***Figure 1: Conceptual Framework***



Source: (Kamau, 2017).

The dependent variable interacts with the independent variables in the sense that the effective functioning of SACCOs in Kenya have lately seemed to depend on SASRA regulations, which could include loan provisioning regulations, minimum capital regulations, and liquidity regulations. Based on the empirical review, there is an indication that there is a positive relationship between the independent and dependent variable. In other words, SACCOs regulations have a positive relationship on the financial health and competitiveness of Kenyan SACCOs.

## 2.6 Summary

The above review of literature has shown that SACCOs play critical roles in the economy of Kenya. It is also evident that the implementation of SASRA regulations has a significant impact on the way Kenyan SACCOs perform and compete financially. One of the research gaps that emanated from the above literature review is the fact that very few studies, especially international studies shed light on the compliance effects of SACCOs regulations on the financial performance and competitiveness of SACCOs. Also, controversy on whether these regulations are effective or not make it challenging to make unified inferences.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This section provides an overview of the approach that was used to conduct this study. The major areas covered include data analysis, data collection, sample design, population, and research design.

### **3.2 Research Design**

A mixed research design method that includes quantitative design and qualitative design was used to understand the overall implications of SACCOs policy regulations on the competitiveness and financial performance of Kenyan SACCOs. It was conducted in two parts. The first part used interviews with 50 participants with key information. The second part included the use of focus group discussions to understand the compliance effects of SACCOs regulations on Kenyan SACCOs. There are various justifications for using mixed methods research approach. First, it provided the basis for widening the research inquiry with breadth and depth. Second, the approach has complementary value. Third, the method enhanced the ease of overcoming epistemological differences between qualitative and quantitative paradigms. Fourth, the approach enabled the researcher to arrive at a more rigorous conclusion. Fifth. The mixed-methods approach brought on board the triangulation aspect. Finally, more refined and effective conclusions were arrived at by using the findings of one method to shape or inform the use of another method (Abbott & McKinney, 2013).

### **3.3 Population**

This study targeted 175 Deposit-Taking Sacco Businesses and 185 Non-Deposit-Taking Businesses that had been duly licensed by SASRA to carry out their operations (SASRA, 2022).

### **3.4 Sample Design**

A purposeful sampling procedure was adopted for this research (Palinkas et al., 2015). This involved selecting research participants who can offer vital information about the compliance effects of SACCOs regulations on the way Kenyan SACCOs perform and compete financially. A consecutive sampling approach was then used to choose the study participants who met the eligibility criteria. Participants from the 20 registered SACCOs were recruited until a sample size of 50 participants was achieved.

### **3.5 Data Collection**

Financial performance data was gathered from deposit-taking SACCO businesses and non-deposit-taking businesses using a questionnaire that was conducted online. The questionnaire is included in Appendix 1. These techniques were ideal in this context because they were cheap and allowed vast data amounts to be gathered in a short period (Roopa & Rani, 2012).

### **3.6 Data Analysis**

This section summarizes the presentation of research findings as well as the methods that were adopted.

#### **3.6.1 Diagnostic Tests**

The Cronbach test was carried out to determine reliability of the instrument collecting data. The test is important because it ensures that all required variables were included to adequately capture the expected concept (Henson, 2001). Also, reliability and validity tests were conducted on Google Forms, Survey Planet, and Survey Monkey that was used to gather primary data from the study participants. Ideally, this further ensured that errors were reduced and that research questions were answered based on reliable and valid data (Kimberlin & Winterstein, 2008).

#### **3.6.2 Analytical Model**

Financial performance or competitiveness of SACCOs was determined as ROA (Return on Assets). As such, data was analyzed using multiple regression in the form:  $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

(Kelley & Bolin, 2013). From the equation.

a= Constant

Y= Profitability

X<sub>1</sub>= Minimum capital regulations

X<sub>2</sub>= Loan provisioning regulations

X<sub>3</sub>= Liquidity regulations

ε= Error term

NB: minimum capital regulations, loan provisioning regulations, and liquidity regulations were applicable to all SACCOs in Kenya and hence formed the independent variables of this study.

### **3.6.3 Significance Tests**

Two-tailed probabilities was used. In line with that, a P-value of less than 0.05 ( $P < 0.05$ ) was in this study context, treated as statistically significant.

## CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS

### 4.1 Introduction

This section offers an overview of data analysis and research findings. This study aimed to determine the compliance effect of SASRA regulations on the financial performance of SACCOs in Kenya. This was done by ascertaining the impact of minimum capital requirements, loan provisioning regulations, and liquidity regulations on the financial performance of Kenyan SACCOs. To do so, the study targeted 175 Deposit-Taking Sacco Businesses and 185 Non-Deposit-Taking Businesses that SASRA had duly licensed to operate. Participants from 20 registered SACCOs were recruited until a sample size of 50 participants was achieved. The number was more than enough for the researcher to gather essential data, analyze them, and present the findings.

### 4.2 Descriptive Statistics

The descriptive statistics for the study are presented below. Table 4.1 describes the mean, standard deviation, minimum and maximum for the independent variable (SASRA Regulations). The mean is 1.60, 1.86 and 1.64 respectively. The standard deviation is 0.700,0.756, 0.693 respectively. The minimum and maximum values lie between 1 and 4 for the variables. Table 4.2 describes the mean, standard deviation, minimum and maximum for the dependent variable (Financial Performance) as 4.20,0.75593, 2 and 5 respectively.

**Table 4.1 Descriptive Statistics Independent Variables**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Liquidity Regulations	50	1	4	1.60	.700
Loan Provision Regulations	50	1	4	1.86	.756
Minimum Capital Regulation	50	1	3	1.64	.693



Valid N (listwise)	50
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**Table 4.2 Descriptive Statistics for Dependent Variable**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Performance	50	2.00	5.00	4.2000	.75593
Valid N (listwise)	50				

### 4.3 Reliability and Validity

The Cronbach’s test was used to establish reliability of the data collection instrument. The reliability coefficient alpha should be range between 0 and 1. The closer the coefficient is to 1 the more reliable the instrument used. Table 4.3 below indicates the alpha coefficient as 0. 493.This value lies within the set standard thus confirming the reliability of the instrument.

**Table 4.3 Cronbach Test Reliability test**

Reliability Statistics		
Cronbach's Alpha Based on		
Cronbach's Alpha	Standardized Items	N of Items
.493	.494	3

The study sought to establish the relationship between SASRA regulations and financial performance of saccos. Respondents were asked several questions in relation to the same. The responses were rated on a 5-point lickert scale ranging from 1 = strongly agree to 5 = strongly disagree.

**Table 4.4: Variable output**

Statements	SA freq (%)	A freq (%)	N freq (%)	D freq (%)	SD freq (%)	P- Value
Liquidity regulations	25(50)	21(42)	3 (6)	1(2)	0	0.0001
Loan Provision regulations	17(34)	24(48)	8(16)	1(2)	0	0.0001
Minimum capital requirement	24(48)	20(40)	6(19)	0	0	0.0001

N= 50

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

The study established that 50% of SASRA regulations on liquidity had helped to increase Sacco membership. These regulations have bolstered asset growth and increased profitability. Compliance of this regulation has provided comfort to Sacco members and the public at large. As such members deposit more, saccos have acquired more financial assets and intangible assets as well. The study also established that SASRA regulations have increased the profitability of SACCOS over time. This is demonstrated by 48% respondents who strongly agreed and 40% who agreed. Lastly no respondent strongly disagreed on the either of the questioned asked. Liquidity is therefore an important aspect that directly affects the performance of Saccos in Kenya. The loan provision regulations have also contributed significantly to the performance of saccos in Kenya.

34% of the respondents strongly agree that the SASRA regulations with regards to loan provisioning has greatly improved.

#### **4.5 Inferential Statistics**

This section seeks to present the results of correlation and regression analysis done. These results evaluate the relationship between the dependent and independent variables of the study

##### **4.5.1 Correlation Analysis**

This analysis was used to determine the significance and degree of association of the variables. This technique analyzed the relationship between two variables. The standard range is -1 to +1 with both ends indicating perfect negative and perfect positive between two variables. The correlation analysis of the study is summarized below in table 4.5.

**Table 4.5: Summary of Correlations**

		<b>Correlations</b>			
		Liquidity Regulations	Loan Provision Regulations	Minimum Capital Regulation	Performance
Liquidity Regulations	Pearson Correlation	1	.239	.244	-.656**
	Sig. (2-tailed)		.094	.088	.000
	N	50	50	50	50
Loan Provision Regulations	Pearson Correlation	.239	1	.252	-.664**
	Sig. (2-tailed)	.094		.077	.000
	N	50	50	50	50
Minimum Capital Regulation	Pearson Correlation	.244	.252	1	-.600**
	Sig. (2-tailed)	.088	.077		.000
	N	50	50	50	50
Performance	Pearson Correlation	-.656**	-.664**	-.600**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	50	50	50	50

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

The study used a correlation analysis to establish if there was a significant relationship between the compliance levels of SASRA regulations and the financial performance of SACCOs in Kenya at 95% confidence level. The study found that there was a weak but significant relationship between liquidity regulations and financial performance of saccos in Kenya (-0.656, p= 0.000). The study also found that there was a weak but significant relationship between performance and loan provision regulations. This was explained by (-0.664, p= 0.000). The financial performance of saccos had a weak but significant relationship with minimum capital regulations. This was indicated by (-0.600, p =0.000).

#### 4.5.2 Regression Analysis

Multiple regression analysis was used to elucidate the significance of the relationship between the variables. This analysis helped answer the question; how the independent variables influence the dependent variables collectively. It also establishes the extent to which each dependent variable affects the dependent variable. The analysis also establishes the more significant factors. The results of the model summary are elaborated in table 4.6 below.

**Table 4.6 Model Summary**

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.910 <sup>a</sup>	.828	.817	.32352

a. Predictors: (Constant), Minimum Capital Regulation, Liquidity Regulations, Loan Provision Regulations

The table above shows the model correlation coefficient as  $r = 0.910$ . This value is higher than any zero order in the table. This means that the model gradually improves when more variables are incorporated when establishing the compliance effects of SASRA regulations on the financial performance of Saccos in Kenya. The adjusted R squared  $r = 0.817$  indicates that the regression model accounts for 82% of variations in the financial performance of Saccos in Kenya. The analysis of variance for the study are summarized below in table 4.7

**Table 4.7 Analysis of Variance**

<b>ANOVA<sup>a</sup></b>				
Model	Sum of Squares	df	Mean Square	Sig.
			F	

1	Regressi	23.185	3	7.728		000 <sup>b</sup>
	on				73.84	
					1	
	Residual	4.815	46	.105		
	Total	28.000	49			

a. Dependent Variable: Performance

b. Predictors: (Constant), Minimum Capital Regulation, Liquidity Regulations, Loan Provision Regulations

**Table 4.8: Multiple Linear Regression**

		<b>Coefficients<sup>a</sup></b>				
Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	6.510	.162		40.143	.000
	Liquidity Regulations	-.491	.069	-.455	-7.079	.000
	Loan Provision Regulations	-.461	.064	-.461	-7.169	.000
	Minimum Capital Regulation	-.407	.070	-.373	-5.785	.000

a. Dependent Variable: Performance

The ANOVA analysis carried out in table 4.7 explains that there is significance between the mean of factors affecting the financial performance of saccos in Kenya. This confirms the findings in table 4.8. The study therefore rejects all null hypothesis since all the factors made significant impact on the financial performance of saccos. The regression equation is extracted below.

Regression Equation

$$6.510 = -0.491x_1 - 0.461x_2 - 0.407x_3 + e$$

#### **4.6 Discussion of Findings**

The study sought to establish the compliance effects of SASRA regulations on the financial performance of savings and credit cooperative societies in Kenya. The study was based on a population of 50 participants and data was collected using questionnaires. The results of the analysis showed that there was a positive relationship between compliance and financial performance. The main objective of this study was to establish the compliance effects of SASRA regulations on the financial performance of savings and credit cooperative societies in Kenya. The study adopted a descriptive cross-sectional research design. A purposive sampling technique was used to select the study participants. Data was collected using a questionnaire which was administered to the managers of the selected societies. The data was analyzed using descriptive statistics and inferential statistics SPSS.

The research highly resonates with sentiments and findings from Monica, Waweru & Oboka (2021) who investigated capital adequacy and its requirements for deposit taking SACCOs. The findings revealed that capital sufficiency and liquidity directly impacted how Deposit Taking Saccos perform and compete financially. This confirms that liquidity is a significant aspect in the performance of saccos. Wambua, Waweru & Kihoro (2021) also concluded that capital adequacy is relevant in mitigating saccos from collapsing. Githaka, Maina & Gachora (2017) established that SACCOs across Kenya were subject to prudential regulations. Additionally, the results showed that loan regulations positively influenced the financial performance of SACCOs. The study has also filled in the research gap on how minimum capital regulations affect the performance of Deposit Taking Saccos. The findings revealed a weak but significant relationship between minimum capital regulations and the performance of SACCOs. It also established that minimum capital regulations were imperative in preventing saccos from collapsing.

The findings of the study are clear evidence that compliance to SASRA regulations with respect to liquidity, loan provision regulations and minimum capital regulations directly affect the performance of SACCOs in Kenya.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This study aimed to determine the compliance effects of SASRA regulations on the financial performance of Kenyan SACCOs. This chapter summarizes the findings, major conclusions, policy recommendations, study limitations, and possible recommendations that can guide future studies.

### **5.2 Summary of Findings**

Clearly, the Kenyan government came up with the SACCO Societies Regulatory Authority (SASRA) as a way of reforming SACCOs and increasing public confidence in the institutions. SASRA has been hailed as a game-changer for SACCOs. It has provided them with a legal framework to operate within, which most have found difficult to do without. At the time of the introduction of SASRA regulations, Kenyan SACCOs were operating under a weak regulatory environment whereby neither prudent financial supervision nor regulation requirements existed. Most SACCOs are not sufficiently capitalized to meet regulatory requirements, leading to an increase in their default rates, making it difficult for them to access funds from members.

As regulated institutions, SACCOs are expected to meet certain minimum capital requirements. This is one of the fundamental measures of solvency for parties that want to operate as SACCOs. In Kenya, minimum capital requirements are amounts that SACCOs must have at hand for them to comply with the regulatory requirements for SASRA. Loan provisioning dictates lending terms and conditions, loan concentration limits. SACCOs are expected to offer a detailed account of potential expenses and default to make sure that they are offering a precise assessment of the financial positions. Loan provisioning can be defined as liability accounts that are established as reserves for actual or potential losses that result from substandard or bad loans. Finally, liquidity regulations include the sets of rules that are put in place to make sure that SACCOs have the required assets to prevent the possibility of suffering from liquidity disruptions resulting from changing market conditions. The regulations are further meant to offer terms and conditions for closing, operating, and opening accounts and prohibit financial institutions from conducting illegal businesses, among other things. Liquidity is also important in determining how easily SACCOs

can pay off their short-term debts and liabilities. In line with that, rationales should also be implemented to carry out regular monitoring of the liquidity of these SACCOs.

This study gauged the compliance effects of SASRA regulations on varied grounds. They include the compliance effects of the regulations on membership to SACCOs, growth of SACCOs, profitability of SACCOs, asset growth of SACCOs, loan provisioning requirements, total loans, the liability of loans, deposit amounts, minimum capital requirements, and liquidity requirements. The results showed that at least 60% of the respondents strongly agree and agree that SASRA regulations have helped increase membership to SACCOs, bolster the growth of SACCOs, increase the profitability of SACCOs, increase asset growth in SACCOs, increase total loans disbursed to members, increase in the number of deposits that members make every year, and reduce the liability of loans offered to members. The results further indicated that at least 60% of the study participants also believed that the regulations had enabled SACCOs to meet minimum capital requirements, liquidity requirements that dictate how they operate and establish loan provisioning requirements that have increased their financial performances. Based on these grounds, it is evident that SASRA regulations have helped enhance the financial performance of Kenyan SACCOs.

The fundamental aim of SACCOs is to provide their members with loans at considerably lower interest rates than other lenders. Before the implementation of SASRA regulations, many Kenyan SACCOs were struggling to achieve this goal. However, the regulations have provided remarkable policy support that has helped enhance sustainability, reduce losses, and safeguard members' savings, among other benefits. To remain effective and viable, all SACCOs must generate sufficient income to cater for their operational costs. Therefore, their functioning should be based on a prudent money allocation strategy, solid capital structure, and sound financial stewardship that SASRA regulations push for.

### **5.3 Conclusions**

This study has proved that implementing SASRA regulations has helped improve the financial performance of Kenyan SACCOs. Since the implementation of the regulations, SACCOs have continued to expand their memberships. The number of SACCOs being registered in the country



has also increased. SACCOs have further become more profitable than before because of the policy regulations. Evidence also points out that the regulations have enabled SACCOs to accumulate more assets because of the conducive operational environment that SASRA regulations have created. It has also become a fundamental requirement for all SACCOs to adhere to loan provisioning requirements, which has helped enhance their financial performance. Moreover, the regulations have provided a remarkable basis for SACCOs to increase the amount of money they offer in terms of loans, as justified by the findings of this study. The evidence further shows that SASRA regulations have helped minimize the potential liability of loans that SACCOs offer its members. The regulations have also enhanced members' confidence, thereby increasing their willingness to increase their deposits. The findings show that SACCOs have demonstrated the willingness to safeguard members' contributions while mitigating unhealthy circumstances that could compromise how they operate because of SASRA regulations and its requirements for minimum capital. Finally, because of the regulations, SACCOs have maintained a particular level of liquidity, thereby having more funds at their disposal that the members could assess.

#### **5.4 Policy Recommendations**

1. Kenyan SACCOs should employ and follow SASRA regulations to improve their industry competitiveness and overall financial performance.
2. Kenyan SACCOs should adhere to SASRA regulations to grow their memberships.
3. Kenyan SACCOs should increase their profits through strict adherence to SASRA regulations.
4. Kenyan SACCOs should grow their assets by employing and implementing SASRA regulations in their operational undertakings.
5. Kenyan SACCOs should align their operations with SASRA regulations because it offers the basis for meeting the loan provisioning requirements that can help improve their financial performance.
6. Kenyan SACCOs should increase their lending capabilities or the amount of money they lend by operating per the requirements of SASRA regulations.
7. Kenyan SACCOs should use SASRA regulations as a cushion against loan liabilities.
8. Kenya SACCOs should increase the number of deposits made by members by employing and following SASRA regulations.

9. Kenyan SACCOs should employ and implement SASRA regulations to help them meet the required liquidity level that can enhance their financial performance.
10. Kenyan SACCOs should meet policy regulations, including minimum capital requirements, by employing and adhering to SASRA regulations, a vital aspect that can help them remain sustainable.

### **5.5 Limitations of the Study**

The use of a questionnaire survey as a data collection tool in this study is a potential limitation. For one, it is possible that the study participants were not 100% truthful with their responses. Also, the respondents might have had different interpretations of the questions leading to skewed responses. Additionally, the chances that some respondents might have had a hidden agenda that compromised the findings cannot be ruled out. It is also possible that some respondents gave answers without reading the questions fully, leading to unconscientious responses.

### **5.6 Recommendations for Future Studies**

Future studies should shed light on how SASRA regulations can be improved even further. The studies also explore other regulations that apply to Kenyan SACCOs and compare their compliance effects with that of SASRA regulations in terms of their ability to influence the financial performance of SACCOs. Moreover, future studies should explore other factors beyond SASRA regulations, such as the board members' decisions that affect the overall financial performance of SACCOs in Kenya. The research should also be extended to explore the shortcomings of SASRA regulations and offer recommendations that could guide the establishment of a more effective regulatory policy for Kenyan SACCOs.

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## APPENDICES

### Appendix 1: Questionnaire

Questions	Please Tick (✓) Where Appropriate				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. SASRA regulations have helped increase SACCOs membership					
2. SASRA regulations have helped bolster asset growth in SACCOs					
3. SASRA regulations have helped increase the profitability of SACCOs in Kenya					
4. SASRA regulations have helped increase asset growth of SACCOs in Kenya					
5. SASRA regulations have enabled SACCOs to come up with loan provisioning requirements that have helped increase their financial performances					
6. SASRA regulations have helped SACCOs in Kenya to increase their total loans					
7. SASRA regulations have helped reduce the liability of loans that are offered by SACCOs in Kenya					
8. SASRA regulations have helped increase the amount of deposits that are made by members every year					
9. SASRA regulations have prompted SACCOs to meet minimum capital requirements					
10. SASRA regulations have enabled SACCOs in Kenya to meet liquidity requirements that dictate their operations					

						SASRA regulati ons have enabled SACCO s to	SASR A regula tions have	SASRA A helped regulati ons have prompte d	SASRA A helped regulati ons have prompte d	SASRA A helped regulati ons have prompte d	SASRA A helped regulati ons have prompte d
	SASR A regula tions have helpe d increa se SACC Os memb ership	SASR A regula tions have helpe d bolster asset growth in SACC Os	SASR A regula tions have helpe d increa se the profita bility of SACC Os in Kenya	SASRA regulati ons have helpe d align loan require ments for profit	SASRA regulati ons require ments that have helpe d increase their perform ances	SASR A regula tions have helpe d increa se memb ers total loans	SASR A regula tions have helpe d increa se memb ers every year.	SASRA A helped regulati ons have prompte d SACCO SACCO SACCO s to made by memb ers capital require ments.	SASRA A helped regulati ons have prompte d SACCO SACCO SACCO s to made by memb ers capital require ments.	SASRA A helped regulati ons have prompte d SACCO SACCO SACCO s to made by memb ers capital require ments.	
1	1	1	1	1	1	1	1	1	1	1	
2	2	2	1	1	1	4	3	1	1	1	
3	2	1	2	2	1	2	1	1	1	1	
4	2	2	2	3	2	2	3	2	2	2	
5	3	4	4	3	2	2	4	4	4	4	
6	2	2	3	2	2	2	2	2	2	2	
7	2	2	3	3	2	3	3	2	2	2	
8	4	4	4	4	5	4	5	5	5	5	
9	2	1	2	3	2	2	1	4	4	4	
10	1	1	2	5	3	2	1	1	1	1	
11	2	3	1	3	2	1	1	5	5	5	
12	3	3	3	1	1	1	2	2	2	2	
13	4	3	3	4	1	5	2	3	3	3	
14	3	2	4	2	5	5	5	3	3	3	
15	2	2	3	4	4	4	2	1	1	1	
16	4	4	3	3	3	1	3	2	2	2	

17	1	2	2	1	2	1	2	2	2	2
18	4	5	5	4	4	3	1	1	1	1
19	3	3	3	3	3	3	3	3	3	3
20	4	3	4	4	2	4	3	5	5	5
21	5	5	5	5	5	5	5	5	5	5
22	1	2	2	1	1	1	1	2	2	2
23	2	2	2	2	5	5	5	5	5	5
24	4	3	4	3	4	3	3	3	3	3
25	1	1	1	1	1	1	1	1	1	1
26	2	2	2	2	2	2	2	2	2	2
27	3	3	3	3	3	3	3	3	3	3
28	3	3	3	3	3	3	3	3	3	3
29	4	4	4	4	4	4	4	4	4	4
30	5	5	5	5	5	5	5	5	5	5
31	1	1	2	2	1	1	2	1	1	1
32	1	1	2	1	2	1	2	2	2	2
33	1	3	1	3	1	3	3	1	1	1
34	2	2	1	2	2	1	3	1	1	1
35	2	3	1	2	3	1	3	1	1	1
36	2	4	2	2	1	3	3	1	1	1
37	1	2	1	2	2	1	2	1	1	1
38	2	1	1	1	5	4	3	5	5	5
39	3	3	3	3	3	3	3	3	3	3
40	5	5	5	5	5	5	5	5	5	5
41	2	4	2	4	2	4	4	2	2	2
42	1	1	1	1	1	1	1	1	1	1
43	1	1	1	1	1	1	1	1	1	1
44	2	2	2	2	2	2	2	2	2	2
45	2	2	2	2	2	2	2	2	2	2
46	2	2	2	2	2	2	2	2	2	2
47	4	4	4	1	3	3	1	1	1	1
48	1	1	1	1	1	1	1	1	1	1
49	1	1	1	1	1	1	1	1	1	1
50	3	3	3	2	2	3	2	2	2	2