

**EFFECT OF SACCO PRUDENTIAL PRACTICES ON
PERFORMANCE OF DEPOSIT TAKING SAVINGS AND
CREDIT CO-OPERATIVE SOCIETIES LICENSED TO
OPERATE IN KISUMU COUNTY, KENYA**

BY

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DECLARATION

DECLARATION BY STUDENT:

This research project is my original work and has not been submitted in any other institution in its present form and manner for fulfillment of the requirement for the award of a degree.

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This research project has been presented for examination with my approval as the supervisor appointed by the University Senate.

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The invaluable support of my loving wife Lilian Akoth, my son Joseph and daughter Natalie cannot be overlooked. They had to adjust to cope with my long absence from home as I worked tirelessly to complete this project work.

DEDICATION

I dedicate this research project to my loving wife Lilian, my son Joseph, my Daughter Natalie and above all to the Almighty God who gave me the strength and wisdom during the entire period of the project work. His grace was indeed sufficient.

ABSTRACT

The Savings and Credit Cooperatives sub-sector is a key player in the provision of financial services to Kenyans. Over the years, the Sacco's have expanded significantly and currently even offer Front office Savings (FOSA). This rapid growth has not been devoid of SACCOs facing such challenges as illiquidity, capital inadequacy, poor credit management, losses, reduced profitability; loss of members to banks and low confidence among members. SACCO prudential practices aim at curing these stated problems. All Deposit Taking (DT)-SACCOs require compliance with these practices to improve their performance. Evidence reveals that performance of DT-SACCOs in Kenya in terms of profitability continued to decline from the year 2012 to 2017; while the challenges meant to be cured by prudential practices were still prevalent in most SACCOs; signifying continued decline of performance. In Kisumu County, a few SACCOs have been able to meet the minimum requirements of the prudential practices, locking out majority of SACCOs from operating FOSA business to improve their performance. Despite having 56 SACCOs, only 11 SACCOs had been able to meet the minimum prudential practices by 2018. The purpose of the study was to establish the effect of SACCO prudential practices on performance of DT-SACCOs licensed to operate in Kisumu County. Specifically, the study sought to establish if Capitalization; Liquidity management and Capital adequacy had any significant influence on the performance of DT-SACCOs in Kisumu County. The study was guided by the SACCO Theories and the Market power Theory. The study employed correlational research design. The target population for the study was 66 senior and middle level management staff of all DT-SACCOs licensed to operate in Kisumu County who included Chief Executive Officers (CEOs); Deputy Chief Executive Offices; Finance Managers; Fosa Managers; credit Managers and Internal Auditors. A structured questionnaire was used to collect primary data for the study from the respondents on both independent and dependent variables. For reliability, pilot study was used to pretest and Cronbach's alpha was used to measure internal consistency, while content validity technique was used in validating the research data. Data was analyzed using both descriptive, correlation and regression methods. From the findings, capitalization practices ($\beta = 0.623$, $p=0.000<0.05$) and liquidity management practices ($\beta = 0.589$, $p=0.000<0.05$) had a positive and significant relationship with performance. However, capital adequacy practices ($\beta = -0.727$, $p=0.000<0.05$) had a negative and significant relationship with performance. The study concluded that since all the variables had some effect on performance, it would be prudent for Deposit Taking SACCOs to adhere to these prudential practices in order to enhance their performance. The study recommended that DT-SACCOs should adhere to the capital adequacy practices so as to cushion themselves against insolvency risks, adopt resilient liquidity management practices to enable them boost their performance in both good and bad economic times and also prudently embrace the new capitalization practices especially floating of shares to the members of the public and re-investment of their generated profits as a savings mobilization strategy.

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OPERATIONAL DEFINITION OF TERMS

- SACCO** : A financial institution that is owned and controlled by its members and operated for the purposes of promoting thrift, providing credit at low interest rates and providing other financial services to its members.
- Capital structure** : Capital structure refers to the components of the permanent source of financing (funds used to acquire fixed assets). The capital structure can either be composed entirely of equity or debt or consist of a mix of debt and equity
- Capital** : Capital is the amount of own funds available to support the bank's business and act as a buffer in case of adverse situation
- Liquidity** : Liquidity is the ability of a SACCO to fund increases in assets and meet obligations as they come due without incurring acceptable losses
- Deposit taking SACCOs** : SACCOs that conduct business of savings and credit and in addition does business of accepting or withdrawing money on daily basis across the counter .For purposes of this study, deposit taking SACCOs licensed to operate in Kisumu County will include all the DT-SACCOs licensed by SASRA to operate in Kisumu and have therefore either there head office or branch operations within Kisumu County.
- Performance** : Performance is said to be the ability to accomplish certain tasks. Organizational performance measurement can be defined as an analysis of an organizations actual performance as compared to the preset goals and objectives .The preset goals and objectives are mainly in

terms of profitability, liquidity, growth and stock market performance.

Regulations

: The guidelines that provide minimum prudential practice standards required of a deposit taking SACCO Society.

Prudential practices

: Standards provided to financial institutions to minimize risks and guarantee safety of members' funds.

LIST OF ACCRONYMS AND ABBREVIATIONS

SACCO	:	Savings and Credit Cooperative Society
SASRA	:	Sacco Societies Regulatory Authority
KUSCCO	:	Kenya Union of Savings and Credit Cooperative Societies
DT-SACCO	:	Deposit taking Savings and Credit Cooperative Society
NON- DT SACCOs	:	Non Deposit-Taking Sacco Societies
CSA	:	Cooperative Societies Act, CAP 490
SSA	:	Sacco Societies Act No.14 of 2008
Regulations	:	Sacco Societies (DT Sacco Business) regulations, 2010
ICA	:	International Cooperative Alliance
CAK	:	Cooperative Alliance of Kenya
WB	:	World Bank
ILO	:	International Labor Organization
WOCCU	:	World Council of Cooperative Union

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CHAPTER ONE

INTRODUCTION

1.1: Background of the study

Savings and Credit Co-operative Societies (SACCOs) are financial organizations formed by members with the same common bond to mobilize savings and later grant loans to the willing members at affordable interest rates. The history of SACCOs is associated with two business leaders from South Germany (WOCCU, 2014). They are the founding fathers of SACCOs back in 1846. They established a saving and credit cooperative for minor artisans and urban middle classes in Germany. Luigi of Italy copied the idea from the two predecessors and formed a saving and credit cooperative. The idea spread like a bush fire and immediately SACCOs were established in Europe, Northern America, Latin America and Asia within a period of thirty years from 1900 to 1930 (WOCCU, 2014). Unlike other jurisdictions, the Kenyan SACCO subsector is legally and by way of practice divided in to two segments; principally defined or differentiated by the nature of savings and deposits that the SACCOs mobilize from their membership.

According to SASRA, deposit taking (DT-SACCOS) are those that take demand deposits and thus offer withdrawable savings account services similar to those offered by the banking institutions. They are the equivalent of credit unions in jurisdictions such as USA, Canada, UK, Australia and the Latin Americas or the Cooperative banks in South Africa, India and parts of continental Europe. Deposit Taking- Savings and Credit Cooperative (DT- SACCO) Societies in Kenya is a segment of the wider cooperative sector effecting the seven principles of cooperatives as developed by the international cooperative alliance (Fred, James and Francis 2017). These principles are; voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community (SACCO annual supervision report, 2018). The non-deposit taking (Non DT-SACCOS) segment are those that mobilize savings(deposits) from their members, which deposits are strictly utilized as collateral for credit facilities advanced to such members. These deposits are not withdrawable by the member but can only be refunded (less any liabilities owed by the member) upon the members' withdrawal from the membership of the Sacco.

SACCOs in Kenya are governed by two major statutes that govern the regulation and supervision of SACCOs and these are the Cooperative Societies Act (Cap 490) and the Sacco Societies Act (Cap 490B). The CSA which has been in force since the early independence days, albeit through various amendments, principally deals with the registration, incorporation and general supervision of all cooperatives societies, including DT-SACCOs and is administered by the office of the Commissioner for Cooperative Development. However, the CSA does not provide a framework for the prudential supervision of deposit-taking Sacco Societies (DT-SACCOs). The legal framework for the supervision of DT-SACCOs is founded in the SSA, which provides the legal mechanisms for the prudential regulations of DT-SACCOs in Kenya in line with international best practices of financial regulation and supervision of deposit-taking financial institutions. (SASRA report 2010). The SSA is administered by the Sacco Societies Regulatory Authority. The DT-SACCOs therefore have a dual supervisory framework. On the one hand is the CSA which is applicable to all Cooperative Societies; and on the other hand is the SSA which applies to the prudential aspects of supervision and regulation of DT-SACCOs. It is important to note that the distinction of deposit taking and non-deposit taking Sacco's is a unique phenomenon to the Kenyan credit union movement. This is probably so given the evolutionary and development stages that Sacco's in Kenya have been going through. In the global arena of financial cooperative or credit union systems however, all credit unions are deemed to be deposit taking financial institutions and are licensed and regulated as such. (Sacco Supervision Annual report 2017)

Globally, the cooperative sector, especially in developing countries, presents itself as an important element that can contribute to the realization of the Sustainable Development Goals (SDGs). (Acharya, 2009).The sector has a membership of 260,164,742. It is estimated that co-operatives have employed 250 million people all over the world, co-operatives has an estimated global turnover of 2.2 trillion US Dollars, Co-operative generate 2.2 trillion US\$ in turnover while providing infrastructure and services that the society needs to flourish. Global statistical report for 2017, recorded a total of 89,026 Credit Unions (SACCO's), spread across 117 countries and 6 continents. The world Credit Union system has a combined savings of 1.7 trillion US\$, and an asset base of 2.115 trillion US\$ out of which 1.5 trillion US\$ constitutes the loan portfolio. The average worldwide penetration rate of the Credit Union system stood at 9.09 percent World Co-operative Monitor (2017).

In Africa, the idea of forming a SACCO was introduced by a catholic bishop in a town of Jirapa, Ghana, in 1955 (Ghana Co-operative Credit Unions Association, 2017). Reverend Father John McNulty (an Irish Canadian) mobilized and assisted the Jirapa residents to form a SACCO in order to help them address their financial problems as a group rather than at individual level. Having learnt and seen how SACCOs performed financially in Canada, he trained about 60 persons to form an organization which later became the first ever successful SACCO in Africa. The success story of the Jirapa SACCO in Ghana spread throughout the African continent. The foreign missionaries in Africa participated to a great extent in establishing SACCOs. The English-speaking countries in Africa were the pioneers of SACCOs (Ghana Co-operative Credit Unions Association, 2017).Sacco's are mainly prevalent in Ethiopia, Kenya, Tanzania, Uganda, Zambia, and Ghana and in small extents in other African countries with a total of 27 countries in Africa having the SACCOs. (WOCCU 2017).WOCCU study provides that as at 31st december,2017,African Sacco's had a membership of 29,610,773,total assets of US Dollars 9.1 Billion, loan portfolio of US Dollars 9 Billion and a savings of US 7.9 Billion with a penetration of 9.25% in the world.

In East Africa the East African Legislative Assembly (EALA) passed the East African Community (EAC) Cooperative Societies Bill, 2014.The objective of the EAC Cooperative Societies Bill, 2014 was to provide a legal framework for the operations of Co-operative Societies within the Community, which is in line with Article 128 of the EAC Treaty on the strengthening of the role of private sector as an effective force for developing economies, by virtue of EAC Treaty and Article 2(6) of Kenyan Constitution 2010 which recognizes that treaties ratified by Kenya are part of the laws of Kenya, the Kenyan National Legislations on Co-operatives will be required to be aligned to EAC Cooperative Societies Bill, 2014 once it becomes law. The Bill is based on the understanding that each Partner State shall undertake to encourage the efficient use of resources and to promote the development of private sector organizations which are engaged in all types of economic activities, such as the chambers of commerce and industry, confederations and associations of industry, agriculture among others. It also recognized the responsibility of state parties to enact national legislations to govern the operations of co-operative societies within the party states. (Jane J. Barus 2017).

In Kenya the Cooperative Societies have made a significant contribution towards the growth of the Kenya's overall economy. The Cooperative movement in Kenya has been acknowledged by WB, ILO and ICA of its economic and social role it plays in the world especially in developing countries thereby creating the necessary capacity of fighting poverty

and promoting equity. (Otieno Steven, CAK May 2019). The cooperatives have been forefront in mobilizing savings and investment through provision of affordable loans. This has resulted to huge impact in financial deepening among Kenyans. The World Bank revealed that 9 out of 10 housing units in Kenya are constructed through cooperatives. The government of Kenya under vision 2030 has also envisioned that cooperatives will provide 25% of the housing stock in urban areas. While addressing the celebrations to mark the 97th international day of cooperatives on 20th July, 2019 at Kenyatta international Conference Centre, the president said that Kenya's cooperative movement is ranked as the best in Africa and seventh best globally with an asset base of more than ksh 1 trillion, members savings in deposits in excess of ksh.732 Billion and a loan portfolio of ksh.700 Billion, directly and indirectly accounting for 45% of Kenya's Gross Domestic Product and 30% of the national savings and deposits. According to WOCCU 2017, about 6,804,463 of the Kenya's population are actively involved in cooperative-based organizations which are estimated at 7035 credit unions (SACCCO). The report further estimates that about 80% of Kenyans generate their income directly or indirectly from cooperatives and credit unions.

According to sectoral financing by Sacco's report 2018, by the end of the year 2016, the SACCOs had issued to its members in Kenya total loans amounting to kshs.331Billion. The loans were issued to finance the various sectors in the Kenyan economy with land and housing taking the largest amount of financing at kshs.118Billion (36%). other sectors were financed as follows, wholesale and retail 63Billion (19%), transport and foreign trade 4 Billion (1%), consumption and social activities 47Billion(14.5%), education 39Billion(12%), agriculture 21Billion(6.6%). The sectoral lending reports shall play key role in guiding stakeholders on the development of appropriate credit products that meets the unique needs of members of the SACCOs. This will go a long way in promoting not only the economic wellbeing of members but also the economic development of Kenya.

The institution of SASRA has established key parameters to monitor and report on the stability, soundness, safety and general performance trends in the growth performance of DT-SACCOs which include the assets, deposits, loans, capital reserves, capital adequacy, Liquidity and membership. These parameters have showed positive trends in the growth of DT-SACCOs in Kenya during the year 2018 (SASRA report, 2018). The trends analysis from the financial statements of 2018 show that the DT-SACCO system registered aggregate growth in all the key growth measurement parameters of total assets, total deposits, loans, capital reserves and core capital (SASRA report, 2018).DT-SACCOs have continuously

expanded their operations beyond their head office locations by opening branches in accordance with Section 32 of the Act as read with regulation 16 of the Regulations 2010. The DT-SACCO system by 2018 was one of the institutions providing employment opportunities to Kenyans, and a total of 8654 persons were recorded as employed in the 174 DT-SACCOs spread across the country, out of which 7540 were permanent employees, while 1114 were casuals (SASRA report, 2018). In the same year, the total assets held by DT-SACCOs in Kenya amounted to ksh.495.25 Billion which included ksh.341.91 Billion members' deposits in form of shares and savings with a membership of over 3.5 million members spread in the 174 DT-SACCOs in Kenya. (Sacco Supervision Annual Report 2018). Despite the significant government initiative to support cooperative movements through legislation, a significant 3457 (51%) of the SACCOs were not operational (Tonui, C. K., & Otinga, H. N. (2019). This high failure rate of SACCOs continues to frustrate Millennium Development Goals (MDGs) and Vision 2030 objectives of increasing financial inclusion (Pollet 2013). These enormous resources should give SACCOs a basis to compete in a liberalized environment. Nevertheless, the SACCOs are still confronted by myriads of challenges that include poor record keeping, loan backlogs, high illiteracy level among the SACCO members, audit arrears, managerial deficiency, inadequate capital and heavy taxation. (A study by WOCCU (2008) revealed that SACCOs are facing severe liquidity problems and majorities are unable to meet the demands of their clients for loans and withdrawal of savings. Ondieki et al., (2011) contend that inadequate managerial skills and knowledge have adversely affected SACCOs in Kenya

According to Fred, James and Francis 2017, The Kenyan DT-SACCO system is represented in world council of credit unions (WOCCU) through their membership in the Kenya Union of Savings and Credit Cooperatives (KUSCCO) which is also affiliated to WOCCU. WOCCU is the global apex trade association, and development organization of the international credit union (DT-SACCOs) systems. WOCCU advocates for the use new tools and technologies to strengthen credit unions' financial performance, governance, outreach, product-quality and product-diversity. Further WOCCU advocates on behalf of the global credit union system before international organizations and works with national governments to improve legislation, regulation and supervision (WOCCU, 2015). In 2015, WOCCU developed and released the third edition the model laws for regulation and supervision of credit unions, recommended for member states in the supervision and regulation of credit unions (DT-SACCOs). The purpose of these model laws is to aid the cooperative movement leaders,

legislators, regulators and others in preparing and seeking approval of laws to strengthen the safety and soundness of credit unions. The WOCCU model laws for credit unions are considered as an optimal legislative framework for jurisdictions that are revising their regulatory frameworks for the operations of credit unions (WOCCU, 2015).

According to Mudibo (2005), the importance of regulations is to hedge against the high risk attributed to imbalances in financial institutions balance sheets as they serve as prudential measures that mitigate the effects of economic crises on the stability of the financial institution system and subsequent accompanying macroeconomic results. Sound regulation means the institutions are able to achieve objective of giving cheap loans, as well as protecting member's savings. Basically, there are three arguments for financial regulation. The first is that regulation is needed for prudential reasons, Jackson (1999). The other argument is that financial regulation is needed to counter moral hazard problems created by the regulator themselves (Benston and Kaufman, 1996). The final argument is that financial regulation is needed to protect small depositors (Craig and Hardee, 2007). SACCOs regulation and performance relate in that the regulations are meant to set specific requirements on the 6 tools used to measure performance (PEARLS) leading to a direct relationship (Financial Sector Deepening, 2009). DT-SACCO Societies like any other financial institutions need regulations that guides them in their operation and take care of the general stake holder's interests. (Ngunyu, Mutinda and Michael 2018). According to Baskin et al. (2012), regulation is a supervision which subjects institutions to certain requirements, restrictions and guidelines with the aim of maintaining integrity of the financial system. In this case the institutions need to adhere to the guidelines and provisions that are issued from time to time from various regulators in daily conduct of their affairs. Prudential regulatory standards are standards provided to an institution to minimize risks and guarantee safety of member funds (Government of Kenya, 2008).the rapid growth of the SACCO sub sector created the need for SACCO specific legislation hence the enactment of the Sacco Societies Act 2008 to specifically regulate and supervise the operations of DT-SACCOs in Kenya. The enactment of the SACCO Societies Act, made provisions for licensing, regulation, supervision, promotion of SACCO Societies and establishment the SACCO Societies Regulatory Authority (SASRA).The government of Kenya established The SACCOs Societies Regulatory Authority (SASRA) under the Ministry of Cooperative Development and Marketing in an effort to reform SACCOs and ensures that there is confidence in the public towards the SACCOs sector and spurring Kenya's economic growth through the

mobilization of domestic savings (Ministry of Co- operatives and Marketing, 2008). SASRA emphasizes that in accordance with vision 2030, the policy objective of establishing prudential regulation of deposit taking SACCOs societies is to enhance transparency and accountability in the SACCO subsector.

The SASRA regulatory framework spells out the minimum operational regulations and prudential regulatory standards required of a Deposit taking SACCO society. Chumo (2013) in his study on effects of regulatory compliance on financial performance of DTS pointed out that share capital is a component of core capital; liquidity management systems and enhanced credit policies are the major and critical provisions that DTS need to comply with if they were to succeed under new regulation. For the purpose of the study the researcher has focused on the key considerations of the prudential practices; Liquidity management practices; Capital adequacy practices; capitalization practices and Sacco Membership. On liquidity management practices Government of Kenya (2008), SACCO Societies Act advocates for 15% Liquidity ratio which is computed as total cash and cash equivalent divided by the summation of short term deposits and short term liabilities. Capital adequacy requirement was also another subject the researcher was interested. Jansson (1997) defined capital adequacy as a relative measure and establishes the maximum level of leverage that a financial institution is allowed to reach on its operations. To regulate DTS in Kenya SASRA outlines the minimum requirements that DTS should have a Core capital of not less than shillings ten million.

1.2: Statement of the problem

Prior to the enactment of the SACCO societies act which gave rise to the SACCO prudential practices in 2008, SACCOs were poorly managed and most of them faced challenges such as illiquidity, capital inadequacy, poor credit management and low confidence among members, factors that negatively affected their performance. The government and the SACCO stakeholders formulated the SASRA Act which spelt out the prudential practices which were meant to cure these problems that the SACCO Sector in Kenya faced. SASRA put in place strict prudential practice measures which DT-SACCOs were required to adhere to. Evidence reveals that performance of DT-SACCOs in Kenya in terms of profitability continued to decline from the year 2012 to 2017; while the challenges meant to be cured by prudential practices were still prevalent in most SACCOs; signifying continued decline of performance. SACCOs still had long string of pending loan applications from members, some pay little or

no dividends/interest on members savings, in comparison to banks some SACCOs still had their members queue for long hours to receive services since they had not computerized their services leading to complaints, loss of members to banks, and low members confidence, indicators that the performance of Sacco's was still declining. This decline in performance has been attributed to by the SACCO prudential practices viewed in terms of Liquidity, Capital adequacy and capitalization practices performance by Sacco's in Kenya. It's against this background that this study therefore sought to establish the effect of SACCO prudential practices on performance of DT-SACCOs licensed to operate in Kisumu County, Kenya.

1.3: Objectives of the study

General Objective.

The general objective of the study was to determine the effect of Sacco prudential practices on the performance of deposit taking SACCOs licensed to operate in Kisumu County, Kenya.

Specific Objectives

The specific objectives of the study included the following:

- i. To examine the influence of Capital adequacy practices on performance of deposits taking SACCOs licensed to operate in Kisumu County.
- ii. To examine the influence of liquidity management practices on the performance of deposit taking SACCOs licensed to operate in Kisumu County
- iii. To evaluate the influence of Capitalization practices on performance of deposit taking SACCOs licensed to operate in Kisumu County

1.4: Hypotheses

The study was guided by the following hypothesis:

- i. H_{01} : Capital adequacy practices have no significant influence on the performance of deposit taking SACCOs licensed to operate in Kisumu County.
- ii. H_{02} : Liquidity management practices have no significant influence on the performance of deposit taking SACCOs licensed to operate in Kisumu County.
- iii. H_{03} : Capitalization practices have no significant influence on the performance of deposit taking SACCOs licensed to operate in Kisumu County

1.5: Scope of the Study

The study sought to investigate how Capital adequacy practices; liquidity management practice and Capitalization practices affect the performance of deposit taking SACCOs licensed to operate in Kisumu County, Kenya. Available data indicate that there are eight (11)

Deposit Taking SACCOs in the town which meet this criterion; including Kite, Metropolitan, Stima, Mwalimu, Agro-Chem, Unaitas, Ukulima, Nacico, Koru, Jumuika, Imarisha and Harambee. The study targeted all senior and middle level management staff of the SACCOs who included Chief Executive Officers, Deputy Chief Executive Officers, Finance Managers, Fosa Managers, Credit Managers and Internal auditors. The study obtained secondary data from annual published results of the SACCOs.

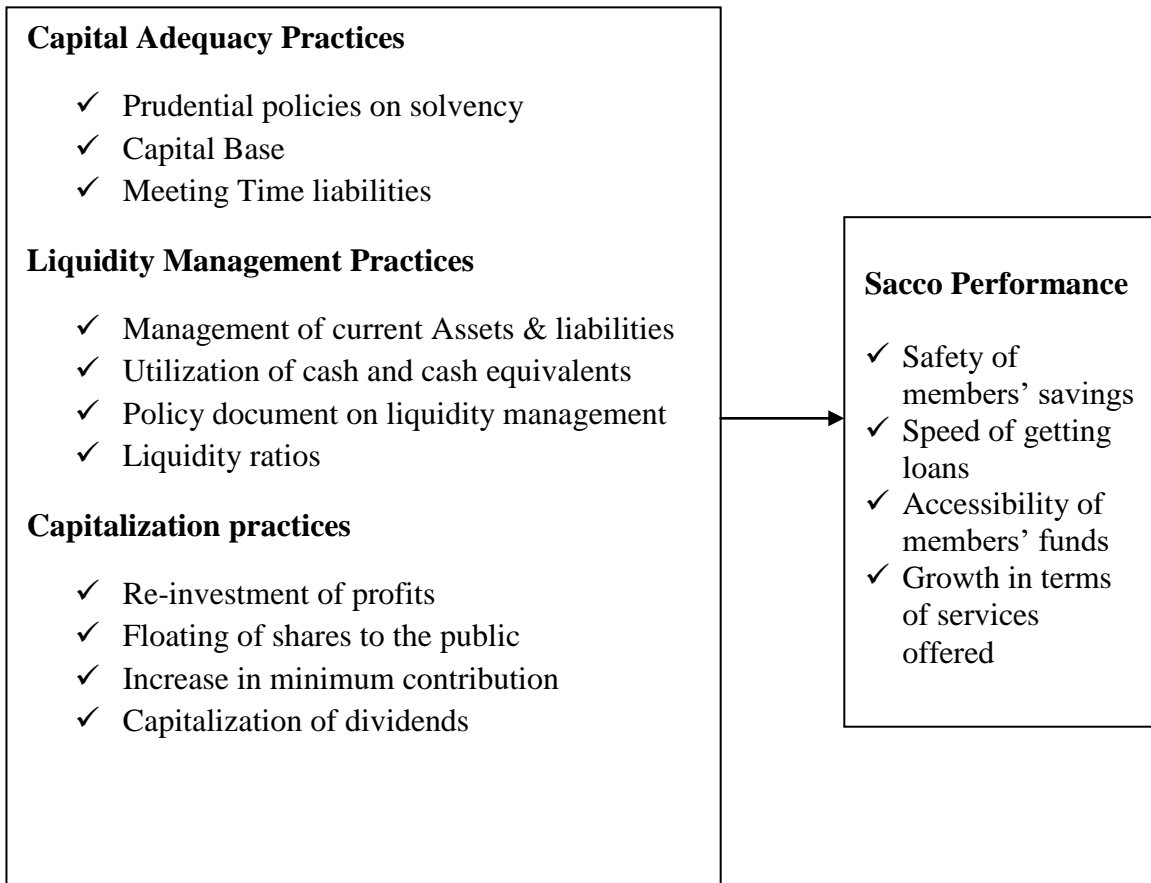
1.6: Significance of the study

The recommendations of this study will benefit policy makers in the SACCO sector on policy formulation and regulatory framework aimed at enhancing performance and management of the SACCO sector. SACCO members in the country will also benefit through higher returns to their investment as sound financial performance measurement practices and stringent controls will be implemented geared towards better results. It will also enable the Sacco members or savers to know whether to increase savings in the SACCOs or seek alternative investment options. The study will also be used by scholars and researchers as it will give highlight on areas for further research on gaps established and also contribute to new knowledge on SACCO performance. The study will be useful to trainers in addressing the problem of analyzing the performance of SACCOs and the sector at large.

1.7: Conceptual framework

The conceptual framework hypothesizes that Capital adequacy practices; liquidity management practices and Capitalization practices all directly affect the performance of deposit taking SACCOs licensed to operate in Kisumu County. This relationship is shown in the figure below:

Sacco Prudential practices



Independent variables

Dependent variable

Fig. 1.0 Conceptual Framework

CHAPTER TWO

LITERATURE REVIEW

This chapter looked at the existing literature on SACCOs which are relevant to the study. It also reviewed the existing theories on SACCO prudential practices in Kenya as well as the previous research work done on the SACCOs. The first part deals with the theoretical framework on financial sector regulations and SACCOs with specific focus on SACCO prudential practices while the second part focused on the empirical evidence.

2.1: Theoretical literature

A theory is a set of systematic interrelated concepts, definitions and propositions that are advanced to explain and predict phenomena (Cooper & Schindler, 2011). The researcher should be conversant with those theories applicable to his area of research (Kyotomotho & Tromp, 2009, Smyth, 2004). According to (Trochim, 2006; Agular, 2009; & Tomo, 2006), a theoretical framework guides research, determining what variables to measure, and what statistical relationship to look for in the context of the problems under study. Thus, the theoretical literature helps the researcher see clearly the variables of the study; provides a general framework for data analysis and helps in the selection of applicable research design. A number of theories can be used to explain the performance of deposit taking SACCOs. The study focused on the Sacco Theories and the Market power Theory.

2.1.1: The SACCO Theories

The theories explain the evolution of SACCOs from initiation in the early 19th century to the present position. The original mode of existence is supported by the shareholders theory where members unite with a view of solving a certain economical problem and then benefit from their efforts, Freindman (1970) and Coolho et al (2003). The SACCO's corporate governance is in the hand of the "invisible hand" the AGM where the joint principals (members) guide the destiny of the SACCO and delegate some responsibilities to the management Committee. Most small SACCOs with total asset size below Ksh 1,000,000 are in this category. (David Kahuthu, 2016).

The agency theory is similar to shareholders theory which states that the SACCO exists to maximize shareholders wealth, Olando et al (2013). The theory is an efficient market model (Blair 1995; Keasey et al, 2004), which stresses that the firm value is determined by the

firm's short term performance and thus sacrificing long term investments. However, the neo-classical growth theory (Gatner, 2006) recognizes the importance of long term investments and capital growth.

As the SACCO expands both in membership and total assets, the need to hire a manager arises who acts as the steward responsible for protecting and maximizing shareholders value and hence the stewardship theory, Davis et al (1997). The steward is satisfied when the organizational objectives are achieved, Donaldson and Davis (1991). Olando, Jagongo and Mbewa, (2013) extended it and called it financial stewardship which is meant to increase and sustain SACCOs' value while satisfying the needs of the members at the same time. Davis et al (1997) propounded that stewards are satisfied and motivated when organizational objectives are achieved. The theory recognizes the importance of governance structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). At registration, the SACCO board performs all the responsibilities and only later employs a manager to take responsibilities on extended tasks. The managers are the stewards and success is attained when SACCO objectives of receiving deposits and granting loans to members is achieved. (David Kahuthu, 2016).

Abdullah and Valentine (2009), advanced "stakeholders theory" which acknowledged that all the stakeholders' interests in the SACCO need to be addressed adequately for the success of the institution and overall membership. The theory asserts that satisfying shareholders only is only beneficial in the short term while satisfying all stakeholders is more sustainable and benefits shareholders more in the long term.

Jagongo et al (2013) proposed the Solow-Swan class growth theory which focuses on capital and labour with major findings that capital is added when SACCOS invest but is lost due to depreciation. The indication is that there is capital growth in wealth only when the investment exceeds depreciation (Gatner, 2006). He asserted that increment in total assets only increases if the monetary value of investments exceeds the monetary estimate of assets loss in value through depreciation. The theory is strongly supported by Damar (1946) which explains growth rate in terms of savings and productivity of capital. It explains that increase in investments leads to accumulation of capital.

However, the degeneration theory can largely explain the diversity in the SACCOs objectives among the existing SACCOs. Cornforth et al (1988), appreciates the change in paradigm by the SACCOs due to pressure it receives from other market forces and amplified by members'

demands for higher returns. The capitalistic attitude driven by expected returns on investments by members compromised the original principles of SACCOs. SACCOs are subcategories of cooperatives dealing with savings and loans and are guided by distinct principles. Cooperatives are guided by cooperative principles, namely; voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation among cooperatives and concern for the community (Mirie, 2014).

The principles aforementioned are compromised and hence degeneration theory. As the SACCOs expand to become financial institutions like banks, they often respond to market pressures to operate like other financial institutions. Unlike the initial objective of saving with a major objective of obtaining credit, the shareholders start demanding more immediate services using the current technology like ATMs and higher returns on their investments among others. The change in paradigm leads to increased risks and hence the prudential regulation on the deposit taking SACCOs by the government. Thus, the importance of SACCO theories is to narrate how SACCOs have evolved over time and how the government regulations have changed over time. Particularly, at the current time where degeneration theory practices are prevalent, the government introduced prudential practices to guarantee safety of members' deposits. Thus, membership is a critical variable. (David Kahuthu, 2016).

2.1.2: Market Power Theory

Modigliani and Miller (1950) approach to capital theory advocates capital structure irrelevancy theory, he further states that the market value of a firm is affected by its future growth prospect apart from the risk involved in the investment (Jane J. Barus, 2017). Its propositions were that financial leverage is in direct proportion to the cost of equity and no taxes based on the following assumptions: there is no taxes, transaction cost for buying and selling securities as well as bankruptcy cost is nil, There is symmetry of information, the cost of borrowing is the same for investors as well as companies and debt financing does not affect companies EBIT. The market power theory postulates that the existence of entry barriers is the major determinant of firm profits. According to the theory, high costs of entry makes it easier for existing firms to maintain monopoly profits. Entry barriers can be in the form of strict regulations. In the SACCO industry in Kenya, this is portrayed by capital adequacy requirements that prevent easy entry into the industry. New entrants will diminish the level of those profits. Capital requirements often lock out new entrants resulting in

monopoly tendencies. The rate of entry is relatively low in the SACCO industry in Kenya. However, this is not to say that capital requirements are main barriers of entry to the SACCO industry. Entry barriers can also be designed to increase efficiency. Such barriers are referred to as structural barriers (OECD, 2007). They reflect the basic industry conditions. With regard to capital adequacy requirement, SASRA seeks to protect investors and member's interests. The market power theory is relevant to this study since the SACCO with a strong position in the market (market share) is likely to achieve higher performance or efficiency.

2.2: Concepts of SACCO prudential practices

2.2.1: Liquidity management practice

Liquidity is the ability of a SACCO to fund increases in assets and meet obligations as they come due without incurring acceptable losses (Basel committee of banking supervision report, 2008). Tonui, C. K., & Otinga, H. N. (2019) defines Liquidity as the degree to which an asset or security can be quickly bought or sold in the market without changing the asset's price. Liquidity describes the SACCOs capacity to honor its commitments, particularly the one for those who have deposited their money with the SACCOs. (Atsango, 2018).satisfactory levels of liquidity are straightforwardly corresponding to the profitability of DT-SACCOs. DT-SACCOs that have low levels of liquidity may have a problem of settling daily obligations when they fall due. It is therefore evident that inadequate liquidity arising from liquidity mismanagement may be harmful to the smooth operations of financial lending institution (Janglani & Sandhar, 2013. After the 2008 financial crisis liquidity risk has gradually been considered among the major risks that can potentially interfere with the going concern of SACCOs (Osoro, E. M. & Muturi, W. (2015). It indicates whether the Credit Union or SACCO is administering its cash so that it can meet deposit, withdrawal requests and liquidity reserve requirements, while at the same time, minimizing the amount of idle funds that earn no economic returns. (Kwadwo, 2001). The provisions of Section 30 of the SACCO Societies Act as read with Regulation 13(2) of the Regulations 2010 require SACCOs to maintain a minimum of fifteen (15%) percent of its savings deposits and short-term liabilities in liquid assets (SASRA,2018).

2.2.2: Capital adequacy practice

Capital is the amount of own funds available to support the bank's business and act as a buffer in case of adverse situation (Athanasoglou et al., 2005).Capital adequacy describes the

capital level needed in a DT-SACCO to permit them to survive through risks, for example credit risk, risk inherent in the market and finally operational oriented risks they are inclined to with the end goal to retain the potential losses and secure the interest of the firm creditors. (Atsango, 2018). Capital is a crucial major characteristic of SACCOs that directly affects the performance level of the DT-SACCOs. Capital describes the sum total of financial resources needed to eliminate the possibilities of the firm landing into financial problems. Great levels of capital limit the odds of misery inside managing an account organization. Capital creates liquidity for the financial institution due to the fact that deposits are most fragile and prone to the organization's runs (Onchwari, 2018). Moreover, greater capital reduces the chance of distress (Diamond, 2000). Section 30 of the SACCO Societies Act as read with Reg. 9 of the Regulations 2010 requires DT-SACCOs to maintain at all times the prescribed minimum core capital of not less than Kshs 10 Million; in addition to the prescribed capital adequacy ratios of core capital to total assets, core capital to total deposits and institutional capital to total assets of 10%, 8% and 8% respectively (SASRA, 2017).

2.2.3: Capitalization practices

Typically, the capital structure refers to the components of the permanent source of financing (funds used to acquire fixed assets). The capital structure can either be composed entirely of equity or debt or consist of a mix of debt and equity (Wetsi, 2015). The major concern for managers is to establish the optimum mix between debt and equity in order to be able to finance growth initiatives such as research and development, acquisition of assets and expansion capacities (Pandey, 2010). In the current business environment, SACCOs and firms are forced to use a mix of internal sources and external sources of financing. (Mwatu 2018). Traditionally, the sources of funding for SACCOs consisted of member savings, member deposits, issue of membership shares, retained earnings, statutory reserves, interest earned on loans and other investments, grants, subsidies and donations (Mwakabumbe, 2013). However, as the SACCOs continue to grow in size and scope, the internal sources of funds have proved to be insufficient in meeting the needs of the members. In order to be able to fulfil their mandate, the SACCO's have sought external sources of funding. External financing consists of total debt in a Sacco that is attributed to outside source (Saleemi, 2009).

In Kenya the providers of external financing include the government of Kenya, foreign governments, donor agencies, commercial banks, cooperative entities such as (Kenya National Union Of Cooperatives And Credit Associations, Cooperative Insurance Company,

Africa Confederation of Cooperatives and Credit and WOCCU), International Monetary Fund and World Bank (Ondiek, Okiogal, Okwena, & Onsase, 2012). The non-withdrawable deposits made by members of the SACCO's also constitute part of the debt held by Deposit Taking SACCO's (Institute of Certified Public Accounts of Kenya, 2016). According to the provisions of section 34 of the SACCO Societies Act of 2008, the DT-SACCOs cannot grant loans or advances to a member that exceed the core capital and cannot grant loans or credit against security of the core capital of the Sacco Society (Republic of Kenya, 2012).

2.3: Concept of performance

Performance is said to be the ability to accomplish certain tasks. This is measured against the criteria of accuracy, speed, costs and levels of completeness (Lebas, 1995). Organizational performance measurement can be defined as an analysis of an organizations actual performance as compared to the preset goals and objectives (Moulin, 2012). The preset goals and objectives are mainly in terms of profitability, liquidity, growth and stock market performance. Performance measurement practices have been defined as the main components to creating a performance measurement framework that is practical and sustainable and which will provide worthwhile management information about an organization. These practices include metrics, approaches, tools systems and processes used in performance measurement. Metrics continuous learning and model success (Kamau, 2014) . It is to be noted that the identified determinants for firm performance are profitability performance, growth performance, market value performance, customer satisfaction, environmental performance, and environmental audit performance, corporate governance performance and social performance. (Murugesan, 2016). Approaches include; Financial and non-financial approaches. The tools include Key performance indicators, balanced scorecard, self-evaluation and feedback. For purposes of this study, the researcher will gauge the performance of DT-SACCOs in terms of safety of members' savings, growth in terms of services offered, the speed of processing members' loans and accessibility of members' savings.

2.4: Empirical Literature Review

In this section, a discussion on the prior studies done on effect SACCO of prudential practices performance of DT-SACCOs in general is considered. According to SASRA (2012), the SACCO society prudential practices are meant to improve the competitiveness of SACCOs by setting financial and operating standards commensurate to the deposit taking

business conducted by SACCOs (Onchwari,2018). This is ultimately expected to drive efficiency and improve the level of savings in the SACCO societies as envisaged in the financial sector strategy in vision 2030. SACCO prudential practices and performance relate in that the prudential practices are meant to set specific requirements on the tools used to measure performance leading to a direct relationship (Financial Sector Deepening, 2009).

While there have been several reform initiatives in SACCO subsector in the past, the introduction of Sacco's specific law is a recognition of the unique financial intermediation function that SACCOs play in an economy. Thus the operational regulations and performance standards are specific and prescriptive; not to make SACCOs societies noncompetitive and stifle their growth but to ensure that they operate and grow within a framework that promotes sound financial and business management practices (Onchwari, 2018). For the purposes of this study, we reviewed some of the SACCO prudential practices and their effect on performance of deposit taking SACCOs.

2.4.1: Liquidity management and performance of DT-SACCOs

Empirically, Nyabate (2015) conducted a study on effect of liquidity on the financial performance of financial institutions listed in the Nairobi securities exchange. The research sought to establish the effect of liquidity on the financial performance of financial institutions listed in the Nairobi Securities Exchange. The study adopted descriptive research design where secondary data was retrieved from the balance sheets, income statements and notes of 19 financial institutions in the NSE for period covering 2010-2014. The results indicated that liquidity was a significant predictor of financial performance. This study only considered the effect of liquidity on financial performance of financial institutions listed in the Nairobi security exchange, ignored the fact that other variables like capital adequacy and capitalization can also affect financial performance, and that not all financial institutions are listed in the Nairobi security exchange, the gap which the current study sought to fill.

Mugambi et al. (2015) researched on effect of cash management on financial performance of deposit taking SACCOs in Mount Kenya region. The study used descriptive survey in soliciting the information. By use of data of 30 SACCOs through the use of correlation coefficient they concluded that cash management is critical as a liquidity management tool in deposit taking SACCO's. Hence cash management policy should be put in place to attain optimal financial performance of deposit taking SACCOs. It only focused on deposit taking

SACCOs in Mount Kenya region hence the current study sought to determine if similar results would be replicated for DT-SACCOs in Kisumu County.

Mutinda (2016) carried out a study in Kenya on the impact of prudential regulatory framework on financial performance of deposit taking SACCOs in Kenya. The study used a regression model to assess the relationship between the minimum liquidity requirement and financial performance of DTS and found that the liquidity requirement had the least impact in influencing financial performance of SACCOs in Kenya. A descriptive survey design found that the application of prudential regulatory requirement was even among all the SACCOs in Kenya. The study concluded out that though liquidity though was a requirement had little impact on financial performance. This study assumed that profitability is the only parameter that can be used to measure the performance of DT-SACCO; it only used return on assets (ROA) as a measure of performance for the DT-SACCOs ignoring other factors not related to profitability but can be used to measure the performance such as safety of members funds and efficiency in service delivery a gap which the study sought to fill.

Shafana (2015) examined the link between liquidity and financial performance of financial institutions in Sri Lanka. The study adopted panel research design covering 2009 to 2013. The study collected secondary data from annual financial statements of 16 listed commercial banks. Liquidity position was measured by cash position indicator, capacity ratio and total deposits. Both correlation and regression analysis were used to analyze the data. Results of the study revealed a positive and significant relationship between cash position indicator, total deposit and firm performance while capacity ratio had negative and significant influence on firm performance. However, multiple regression assumptions were not considered in the study which could cause statistical analysis errors posing a threat to validity of study conclusions. The study also did not consider the savings and credit cooperative societies (SACCOs) as being financial institutions, a gap left which the current study sought to fill.

In contrast some studies have also found a negative relationship between liquidity and firm performance. For instance, Khan and Syed (2013) conducted a study on liquidity risk and performance of the banking system in Pakistan. Data was collected from the income statements and balance sheet of 15 Pakistani banks during 2006-2011. Nonperforming loans and liquidity gap were the two independent variables which exacerbate the liquidity risk i.e., creating a negative association with profitability. Further, Marozva (2015) carried a study on Liquidity and bank performance in South Africa for the period between 1998 and 2014. The

study employed the Autoregressive Distributed Lag bound testing approach and the Ordinary Least Squares to examine the nexus between net interest margin and liquidity. The study findings showed that there is a negative significant deterministic relationship between net interest margin and funding liquidity risk. However, these studies were only conducted to gauge the performance of commercial banks leaving out SACCOs which are also financial institutions, a gap that the study intended to fill.

In another study on liquidity risk mitigation measures and financial performance of savings and credit Co-operative societies (SACCOs) in Kisumu County-Kenya by Omino (2014), the study revealed that the liquidity risk mitigation approaches adopted by different SACCOs within the County had a significant effect on their financial performances. Whenever SACCOs adopted a more cautious position in handling its current liabilities this resulted in an increase in operating cash flows for the SACCOs thus enabling them to have sufficient cash flows to cover the short terms obligations of the SACCOs. Another finding by the study showed that by increasing the debtor collection periods the SACCOs voluntary membership for the SACCOs was increased. The study recommends that SACCOs should put measures to ensure that they have sufficient cash flows to cover their immediate financial needs. The study by Omino assumed that the only variable affecting performance of SACCOs in Kisumu County is liquidity risk mitigation factors; he ignored other factors which also influence performance, a gap that this study sought to fill.

2.4.2: Capital adequacy and performance of DT-SACCOs

Kivuvo and Olweny (2014) examined the performance of SACCO's in Kenya using the Altman Z Score Model of Corporate Bankruptcy. The study focused on predictor variables of bankruptcy and the financial stability of SACCO's. The study found that liquidity and leverage had significant impact of SACCO performance. According to the study, financial stability enhances economic performance. The study concluded that SASRA was right in advocating for additional capital base for SACCO's. They recommended that SACCO's improve their liquidity, profitability, operating efficiency and total assets turnover if they must remain in business and meet the capitalization threshold of SASRA. The gap is that the study on focused on the predictor variables of bankruptcy and financial stability to gauge the performance of SACCOs in Kenya.

Kioko (2016) carried out a study in Kenya on effects of capital adequacy regulations of SACCOs. A descriptive research design was used and a sample of 35 SACCOs. Descriptive

statistics was employed to assess the impact of capital adequacy regulations on SACCOs and the study concluded that SACCOs had benefited significantly from the regulations in various ways such as, managing credit risk, improved public confidence, providing a safety net for members' deposits, provision of operating capital, increased lending capacity, providing a base for future growth, and preventing insolvency. SACCOs had faced various challenges in complying with capital adequacy regulations. These were reduced pay-out on members' funds, recruitment of new members, restricted avenues for investment, and reduced lending capacity. The gap is that even though the study made recommendations on how SACCOs can achieve their capital adequacy requirements in Kenya, it never looked at other aspects of prudential practices like capitalization and liquidity which also affect SACCO performance.

Kahuthu, Muturi and Kiweu (2015) investigated influence of core capital on performance of SACCOs. The study used census Survey design and a linear regression model to establish the influence of core capital and membership retention on SACCO's financial Position. It compared the Betas of various independent and dependent variables before the regulatory reforms and after. The study conclusions on the basis of findings revealed that core capital and membership growth have positive impact on SACCO's financial performance. However the major gap in the study was that the data analyzed was a set of various SACCOs within Kenya. This set might not have given a correct view of the SACCOs within Kisumu as the needs of SACCO members within Kisumu may be different to those within the rural areas.

Njihia and Muturi (2015) investigated determinants of financial performance in Savings and Credit Co-Operative Societies. The study involved the use of a descriptive design. The research focused on all the 12 Sacco's in Kiambu County licensed by SASRA the regulatory body by the end of 2014. The study was based on data published from the audited annual reports of the Sacco's and covered a period of 5 years from 2010-2014. The study revealed that dividend policy and membership affected positively the financial performance of Sacco's whereas loan default negatively affected the financial performance. The beta coefficients indicated the relative importance of each independent variable (Membership, loan default and dividend policy) in influencing the dependent variable (ROA). Dividend policy was the most important in influencing Return on Assets since it has the highest beta value (beta=0.458). The second most influential is the Loan default with a beta value (beta= -0.385). Membership had the weakest influence on ROA with a beta value (beta=0.201). The findings of the study recommended that the Sacco should work towards joining the credit reference bureau and to educate their members in prompt payment. It also recommended that the Sacco

should take insurance covers for the loans to reduce the loan losses. The Sacco should aim on onboarding more members to their Sacco thus will increase the members saving and also expand on the investment avenue so as to establish a consistent way of paying the dividend. The main gap in the study was among the factors considered; Capital adequacy requirements did not feature anywhere yet SASRA (2010) clearly indicated Capital adequacy practices as a requirement for all Deposit Taking SACCOs to help protect the members, deposits.

Adelakun and Olufemi (2015) examined the relationship between capital adequacy and bank profitability through linearity approach. The study adopted panel research design, collected five secondary data from selected commercial banks financial statements. Results of the study revealed a positive and significant relationship between capital adequacy and bank profitability. The results revealed that the higher the equity levels the better the prospects for superior performance. It concluded that to maintain investor confidence there is need to continuously ensure that commercial banks adhere to minimum capital requirement ratios and consequently increase the level of credit creation and safeguard customers' deposit. Although, the study used panel secondary data regression model assumptions were not considered and their violation could challenge validity of the study conclusions. The gap is that the study only focused on relationship between capital adequacy and bank profitability ignoring SACCOs which are also financial institutions.

In a study with insignificant results, Odunga et al. (2013) studied the effect of credit risk and capital adequacy on the performance of commercial banks in Kenya and found that capital adequacy had no significant impact on bank performance. In another study with negative results, Saona (2010) investigated the relationship between the capital structure of commercial banks in the United States and performance and study revealed that a negative relationship existed between the capital ratio and the profitability for the banking industry. However, a study by Berger and Bowman (2012) indicated that capital helps small banks to increase their probability of survival and market share at all times (during banking crises, market crises, and normal times) and further argued that capital enhances the performance of medium and large banks primarily during banking crises. The gap is that though these studies determined the relationships and made recommendations, they only considered commercial banks as financial institutions and not SACCOs.

2.4.3: Capitalization and performance of DT-SACCOs

Iorpev and Kwanum (2012) conducted a study to evaluate the relationship between capital structure and the financial performance of manufacturing companies listed on the Nigerian Stock Exchange. The study used a multiple regression model to investigate performance over the period between 2005- 2009. The performance was evaluated using profit margin (PM) and return on assets, while the capital structure was measured using long term debts to total assets (LTDTA), short- term debts to total assets (STDTA) and total debt to equity (TDE). The study established that STDTA and LTDTA had an insignificant negative relationship with ROA and PM. The TDE was found to have a positive relationship with ROA and negative relationship with PM. The study was thus able to conclude that capital structure was not a key determinant of the firm's performance. That study was relevant to this research study since it provides a framework to measure performance. Additionally, the findings are contrary to theoretical literature that maintains that there is a positive relationship between performance and capital structure. This creates a research gap for evaluating theory and empirical findings.

Iavorskyi (2013) investigated the impact of capital structure on the performance of 16,500 companies operating at the Kiev Security Exchange during the period 2001-2010. The study measured performance using ROA, Earnings before Interest and Tax margin and the logarithm of Total Factor Productivity. The capital structure was measured using leverage. The study also included industry dummies and annual dummies. The study established that the relationship between leverage and firm performance was negative. This relationship was observed across all the sectors of the economy. The gap is that this study only focused on companies listed on the Kiev security exchange thereby excluding SACCOs from their study.

Gweyi and Karanja (2014) investigated the effect of leverage on the financial performance of deposit taking SACCOs in Kenya during the period 2010 to 2012. The study sampled 40 SACCOs registered by SASRA. The study used secondary data collected from the financial statements of the organizations. That study adopted descriptive and analytical research design. The study established that there was a positive correlation between leverage (measured by debt to equity ratio) with return on equity and profit after tax. The relationship between leverage and return on assets and income growth was positive and weak. The study only focused on financial leverage. This study focused on all the elements of capital structure, liquidity and capitalization practices.

Onyango (2016) conducted a study to investigate the effect of external financing on the growth of Savings and Credit Co-operative Societies wealth in Nairobi County in Kenya during the period 2010-2014. In the study, wealth was measured using borrowings, capital and assets adequacy, earnings and liquidity. The study used descriptive research design. The target population of the study was the 43 licensed SACCOs in Nairobi County as at December 2014. The study used both primary and secondary data which was analyzed using Anova. The study found that the growth in SACCOs' wealth had been increasing yearly during the study period. The study established that external financing has a positive and significant effect on the growth of wealth. The study also established that it was possible to use non-withdrawable capital assets to provide a cushion to absorb losses and impairments of members' savings. That study only focused on SACCOs operating in Nairobi. This study intended to fill the research gap by focusing on DT-SACCOs licensed to operate in Kisumu County to determine if similar results would be replicated.

Siddik, Kabiraj, and Joghee (2017) sought to determine the effect of capital structure on the performance of banks in a developing country by focusing on Bangladesh. Performance was measured using ROA and ROE while the capital structure was measured using the ratios of Short-Debt to Total Assets (STDTA), Long-Term Debt to Total Assets (LTDTA) and Total Debt to Total Assets Ratio (TDTA). The study established that TDTA, LTDTA, and STDTA had a significant negative effect on the ROA. The TDTA and STDTA were found to have a significant and negative impact on the ROE. The LTDTA was found to have a positive effect on the ROE. The study thus concluded that in Bangladesh, the effect of the capital structure on performance was negative and significant. The results were attributed to the underdeveloped capital market that is common in developing countries like Bangladesh which results in information asymmetry, stringent debt requirements and high cost of debt. The gap is that this study only focused on capital structure and performance of banks in Bangladesh.

2.5: Summary of the literature gaps

The researcher managed to review five theories related to SACCO prudential practices and performance of deposit taking SACCOs. The researcher was able to link the theories to the study in order to improve the research further. The study was represented in a conceptual model highlighting the relationship between the independent and dependent variable and how they correlate and link up to help in the study of the problem at hand. Finally the researcher

managed to highlight empirical literature from other scholars on the SACCO prudential practices and their contribution to the performance of DT-SACCOs in Kenya in order to build up on the case at hand on effect of SACCO prudential practices on the performance of deposit taking SACCOs licensed to operate in Kisumu county.

From the literature above, it can be concluded that; growth and sustainability of SACCOs link with not only legal framework and stewardship but also funds allocation strategy and capitalization; liquidity management and maintaining capital adequacy requirements. When SACCOs are financially stable, it will consistently improve its financial performance. Different aspects of prudential practices have been found to explain financial performance levels of firms and some are positively while others are negatively related to performance as shown above. SACCOs therefore need to understand the effect of each variable so that they can find ways of enhancing those that are positively related while mitigating those that are negatively related in order to improve their overall performance. Most of the studies on effects of core capital, capitalization and liquidity on growth of SACCOs have been carried out by international authors in other countries who do not have similar financial and strategic footing with Kenya. Sddik, Kabrij and Joghee (2017), Iavorskyi (2013), Onyango (2016) Most of them also focus on other financial institutions other than the SACCOs. Khan & Syed (2015), Shafara (2015) and Nyabate (2015). There has also been conflicting finding where some researchers have found negative relationship while others have found positive relationship in the variables in banking industry. There is therefore a literature gap as identified from the review of empirical literature. Consequently, this research aimed at examining liquidity, Capitalization, capital adequacy practices and other cash management problems faced by most SACCOs in the country which has led to collapse status of some players in SACCO sector in Kenya, with a view of offering solutions that can assist in resuscitating the sector towards achieving economic development. The focal study area for most past studies has been the commercial banking sub-sector, yet SACCOs which have significant share in financial institutions market have not been well researched. There was also no related study done in Kisumu County, thus making existing generalizations contextually non-comprehensive this study, thus, sought to fill the literature gap by looking at liquidity management practices, capitalization and capital adequacy and performance from the SACCOs perspective in the context of Kisumu County.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter outlines how the study was conducted. The key components included research design, location of the study, target population, sampling technique, research instrument, data collection and data analysis and presentation.

3.1: Research design

According to Mugenda and Mugenda (1999), research design is the outline plan or scheme that is used to generate answers to research problems. It's basically the structure and plan of investigation (Onchwari, 2018). The study utilized correlational research design.

3.2: Study area

The scope of the study is the deposit taking SACCOs licensed to operate in Kisumu County, Kenya. Kisumu County is one of the 47 counties in the republic of Kenya. Its boundaries follow those of the original Kisumu district, one of the former administrative districts of the former Nyanza province in western Kenya. Its headquarters is Kisumu city. It has a population of 968,909 (2009, Census). Kisumu County neighbors Siaya County to west, Vihiga County to the north, Nandi County to the North East and Kericho County to the East. Its neighbor to the south is Nyamira County and Homabay County to the South West. The selection was prompted by the researcher's professional interest to conduct research in the area based on familiarity and accessibility of the Deposit Taking SACCOs.

3.3: Target population

Target population in statistics is the specific population about which information is desired (Mugenda, 2016). According to Cooper and Schindler (2003) a population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated. The target population for the study will be 66 Senior and Middle level management staff of all the 11 DT-SACCOs licensed to operate in Kisumu County. The senior and middle level management staff will include Chief Executive Officers (CEOs); Deputy Chief Executive Offices; Finance Managers; Fosa Managers; credit Managers and Internal Auditors.

3.4: Sampling

Sampling can be defined as the process of selecting units (e.g., people, organizations) from a population of interest so that by studying the sample we may fairly generalize our results back to the population from which they were chosen (Trachoma, 2006, n.p.). It is possible therefore to use sampling techniques to select a smaller group - or sample - from the population that will statistically represent the whole population. It is often necessary to use sampling because researchers usually do not have the time, energy, money or resources to study the whole population.

3.4.1: Sampling frame

In statistics, a sampling frame is the source material or device from which a sample is drawn. The frame refers to the list of units in the survey population. Since the selection of the sample is directly based on this list, the frame is one of the most important tools in the design of a survey. It determines how well a target population is covered, and affects the choice of the data collection method (Gamaliel, Ngugi, Ogolla & Orwa, 2015). The sampling frame is a list of all those within a population who can be sampled, and may include individuals, households or institutions (Sarndal, Swensson, and Wretman, 2013). In this study the sampling frame consisted of Senior and Middle level management staff of all the 11 DT-SACCOs licensed to operate in Kisumu County who included Chief Executive Officers (CEOs); Deputy Chief Executive Offices; Finance Managers; Fosa Managers; credit Managers and Internal Auditors.

3.4.2: Sample size and Sampling techniques

Sample as noted by (Kothari, 2008) is a physical representation of the target population comprising all the units that are potential members of a sample. The ever increasing demand for research has created a need for an efficient method of determining the sample size needed to be representative of a given population (Gamaliel, Ngugi, Ogolla & Orwa, 2015). The study was a census of all senior and middle level management staff of the 11 DT-SACCOs licensed to operate in Kisumu county.

3.4.3: Data sources

The study collected primary data. Cooper and Schindler (2005), define primary data to be data collected at source whereas secondary data is data which already exists.

3.4.4: Data collection procedures

The researcher booked an appointment with relevant SACCO heads and sought clearance from the relevant SACCOs. Data was collected primarily using structured questionnaire. The researcher personally administered the questionnaires to ensure correct information was received from the respondents.

3.4.5: Data collection instruments

Although several tools exist for gathering data, the choice of a particular tool depends on the type of research. According to Kothari (2006), a questionnaire is the best tool for the researcher who wishes to acquire the original data for describing a population. Questionnaires enable the researcher to reach a large sample within a short time. Barrick and Mount (2001) assert that matrix questions share the same set of response categories and the most commonly used form of the category is the Likert type scale. For convenience and better analysis, a five point Likert scale was used for the study. A self-administered questionnaire was constructed based on the above-mentioned instruments.

3.4.6: Pilot Study

Piloting is done to ascertain the reliability and validity of the instrument to be used for collecting data (Mugenda & Mugenda, 2003). This is essential as it reveals the weakness that may be in the questionnaire, for instance unclear directions, ambiguous questions and general layout. The data collection instrument was pretested in TARAJI SACCO in order to ensure its reliability and validity. This SACCO was chosen because it's regulated by SASRA and operates out of Kisumu County. Piloting was done on 5 respondents who did not form part of the sample for the study.

3.4.7: Reliability of instruments

The reliability of any instrument refers to its ability to produce consistent and stable measurements. Bagozzi (1994) explains that reliability can be seen from two dimensions: reliability (to the extent of accuracy) and unreliability (to the extent of inaccuracy). A questionnaire with a high reliability would receive similar answers if it is done again or by other researchers (Bryman and Bell, 2007). Utilizing data from the pilot study, the reliability of the questionnaire was tested using the Cronbach's Alpha correlation coefficient with the aid of SPSS software. the Cronbach's alpha coefficient analysis was used to measure internal

consistency of the questionnaires. A total of 4 questionnaires were obtained from the targeted SACCO. According to George and Mallery (2003) Cronbach Alpha value greater than 0.7 is regarded as satisfactory for reliability assessment. As shown in Table 3.1 Cronbach alpha values for all the variables; Capital adequacy, Liquidity, and capitalization practices were greater than 0.7. From these findings it can be concluded that the constructs measured had the adequate reliability for the subsequent stages of analysis since all the Cronbach Alpha values were greater than 0.7.

Table 3.1: Cronbach Alpha for Reliability Assessment

Variables	Number of items	Cronbach Alpha Values
Capital Adequacy	4	0.836
Liquidity practices	4	0.799
Capitalization practices	4	0.817

3.4.8: Content Validity

Validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study (Mugenda & Mugenda, 2003). It is concerned with establishing whether the questionnaire content is measuring what it is supposed to measure. It is concerned with how accurately the data obtained in the study represents the variables of the study. It also addresses the criterion and constructs validity. Construct validity is a measure of the degree to which data obtained from an instrument meaningfully and accurately reflects or represents a theoretical concept (Mugenda & Mugenda, 2003). Content validity is a measure of the degree to which data collected using a particular instrument represents a specific domain of indicators or content of a particular concept (Mugenda & Mugenda, 2003). The validity of the questionnaire was tested and enhanced by giving the questionnaire to two senior officials from the Ministry of co-operative development and marketing and three SACCO managers who were able to assess the validity of the statements on the questionnaire. Their views and responses about the questionnaire were reviewed and were used to improve the study instruments where appropriate.

3.5: Data analysis

According to Onchwari (2018); Data processing and analysis is the categorizing, manipulating and summarizing data in order to obtain answers to research questions. The study used descriptive and inferential statistics; Pearson correlation was used to establish the relationship between the independent variables (capital adequacy practices, liquidity management practices and capitalization practices) and the dependent variable (performance

of Deposit taking SACCOs). Simple and multiple regressions done to test for the significance of the hypotheses indicated significance.

The study hypothesizes the following relationship:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where: Y = Performance of DT – SACCOS

X₁ = Capital Adequacy practices

X₂ = Liquidity Management practices

X₃ = Capitalization practices

β₀, β₁, β₂, and β₃ = Beta coefficients, & ε = Error Term

3.6: Demographic Representation of Respondents

The study sought to establish the demographic representation of the respondents' data by examining the gender, age distribution, professional and academic experience of the respondents and the experience in the SACCOs. The study targeted 66 participants in regard to Sacco's prudential practices and 95.45% of the targeted primary information was obtained from the respondents themselves.

3.6.1: Gender Distribution of respondents

The gender distribution of the respondents indicated that forty (40) of the respondents were men represented by (63.49%) sixty three point four nine percent, while twenty three (23) were women signifying (36.51%) thirty six point five one percent. This was in agreement with one third gender rule of the Kenya constitution and also in terms of good Co-operate governance policies and showed that management for SACCOs licensed to operate in Kisumu County were balancing gender of their senior and middle level management staff. The table 3.2 shows the distribution of respondents by their gender;

Table 3.2: Distribution of Respondents by Gender

Gender	Frequency	Percent (%)
Male	40	63.49
Female	23	36.51
TOTAL	63	100

3.6.2: Age Bracket of the respondents

The researcher wanted to establish the distribution of ages of the senior and middle level management staff of the Deposit Taking (DT) SACCOs in Kisumu County since previous studies had linked age to various performance measures. The findings indicated that a majority of respondents in the targeted SACCOs were in the age group 31–40 years (57.14%) while the least age group was between 21–30 years (11.11%). The researcher attributed this trend to the nature of progression of employees in SACCOs where senior and middle level management positions are often filled by those who have progressed through the ranks which would always take longer periods to achieve. The distribution of respondents by their ages is shown in table 3.3.

Table 3.3: Distribution of Respondents by Age Group

Age bracket	Frequency	Percent (%)
21 – 30 years	7	11.11
31 – 40 years	36	57.14
41 – 50 years	12	19.05
Above 50 years	8	12.70
TOTAL	63	100

3.6.3: Academic Qualifications of the Respondents

The level of education is a key determinant in the performance of the employees. Education is correlated to the quality of services offered and the better educated personnel are more of a human capacity resource since they form part of organizational learning which is a key competency in offering competitive advantage to the organization. The more SACCOs are able to engage educated employees the better they are able to improve the knowledge of employees hence becoming competitive in the Kenyan financial service sector. The data gathered by the researcher showed that fifty point eight (50.8%) of the respondents had diploma level of education, thirty three point three (33.3%) of the respondents had bachelor's degree while fourteen point three (14.3%) and one point six (1.6%) had masters and doctorate degrees respectively. This showed that staff in the management level are highly educated and are in a position to undertake critical managerial decisions in relation to meeting prudential practices to improve Sacco's performance. The table 3.4 below shows the distribution of the respondents by the level of education attained.

Table 3.4: Distribution of Respondents by Attained Educational Level

Educational level	frequency	Percentage (%)
Diploma	32	50.8
Bachelor's Degree	21	33.3
Master's Degree	9	14.3
Doctorate Degree	1	1.6
TOTAL	63	100

3.6.4: Length of Service

The researcher wanted to establish the experience of the respondents' in terms of the number of years in the SACCOs chosen. This is critical since it reviews key human resource indicators and the ability of the institution to build and harvest the potential of the staff. Data from the field showed that fifty five point five six percent (55.56%) of the respondents had served the institution for less than 3 years, twenty three point eight one percent (23.81%) of the respondents had served the institution for between 4–7 years, Nine point five two percent (9.52%) of the respondents had served the institution for between (8 –10) years while eleven point eleven percent (11.11%) had served the institution for more than 10 years. This showed that there was job security within the SACCOs and the management was offering fair rewards hence the distribution of the length of the service of the respondents to the SACCOs. This also indicated that SACCOs are good employers in Kenya and the Kenyan Government needs to strengthen them since it would highly contribute towards the achievement of vision 2030 and also bridge the unemployment gap since most of Kenyan youths are educated but not employed hence the stronger the SACCO the better in contribution on the employment of the Kenyan youth (IEA 2013).the distribution of the respondents according to the number of years of service in the SACCOs is shown in table 3.5 below.

Table 3.5: Distribution of Respondents According to Working Experience

Length of service	Frequency	Percentage (%)
0 – 3 years	35	55.56
4 – 7 years	15	23.81
8 – 10 years	6	9.52
Over 10 years	7	11.11
Total	63	100

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1: Introduction

This study investigated the effect of SACCO prudential practices on performance of Deposit taking Savings and Credit Cooperative Societies licensed to operate in Kisumu County, Kenya. Specifically, the study investigated the influence of Capital adequacy practices, liquidity management practices, and Capitalization practices on performance of DT-SACCOs licensed to operate in Kisumu County. The study relied on primary data. The data collected was analyzed, with respect to the study objectives, using both descriptive and inferential statistics. The tools of analysis adopted in this study were Statistical Package for Social Sciences (SPSS) version 21. The data was analyzed using descriptive statistics such as mode, median, mean, standard deviation. Research hypothesis were tested by use of F-Statistics (one-way ANOVA), because the research had one dependent variable and more than two independent variables. The responses on all the independent and dependent variables were on a 5-point scale in which 1, 2, 3, 4 and 5 represent strongly disagree, disagree, neutral, agree, and strongly agree respectively.

4.2: Response Rate

The number of questionnaires administered to all the respondents was 66. A total of 63 questionnaires were properly filled and returned from the respondents. This represented an overall successful response rate of 95.45% as shown in table 4.1 below. The response rate is considered adequate to make conclusions for the study as observed by Mugenda (2003), who noted that 50% response rate is sufficient, 60% good and any rating above 70% is considered very well done.

Table 4.1: Response rate

Response Rate	Frequency	Percent (%)
Returned	63	95.45
Unreturned	3	4.55
TOTAL	66	100

4.3: Descriptive Findings of the Study Variables

This section illustrates the descriptive findings of the variables as per the study objectives. The study focused on the effect of SACCO prudential practices on performance of deposit taking Savings and Credit Cooperative Societies licensed to operate in Kisumu County, Kenya. The selected prudential practices were capital adequacy practices; Liquidity management practices and Capitalization practices. The findings are presented in form of percentages, mean and standard deviations. The responses are in line with a 5 point Likert scale where 5, 4, 3, 2, and 1 represented strongly agree, agree, neutral, disagree, and strongly disagree respectively.

4.3.1: Capital Adequacy Practices and Performance of DT-SACCOs

In the first objective, the study sought to assess the effect of capital adequacy practices on performance of deposit taking SACCOs licensed to operate in Kisumu County, Kenya. Results were presented in Table 4.2

Table 4.2: Capital adequacy practices and performance

Statement	Frequency as a percentage (%)					Mean	SD Dev
	1	2	3	4	5		
The Sacco has had a high capital adequacy ratio	9.5	20.6	6.3	58.7	4.8	3.36	1.104
The Sacco adequately meets all its obligations in time	7.9	17.5	34.8	55.6	14.3	3.60	1.160
Sacco's with high levels of capital tends to perform better than the undercapitalized ones	12.7	27	4.8	41.3	14.3	3.26	1.304
Adequate capital provides ultimate protection against insolvency and liquidation arising from risks in Sacco business	9.5	33.3	11.1	41.3	4.8	3.13	1.191
Higher capital level arising from adherence to regulations	12.7	17.5	7.9	52.4	9.5	3.41	1.257

N=63

Results in table 4.2 shows that 63.5% of the respondents agreed that their SACCOs had a high capital adequacy ratio due to the strict adherence to prudential practices, 69.9% agreed that the SACCOs adequately met all their obligations in time, Further results found that SACCOs with high levels of capital performed better than the undercapitalized ones as indicated by (55.6%) of the respondents. Results also showed that 61.9% of the respondents agreed that higher capital level arising from adherence to prudential practices in the SACCOs had enhanced the risk mitigation process. The respondents were however unsure whether adequate capital provides the ultimate protection against insolvency and liquidation arising

from the risk in SACCO business as indicated by a lower number of respondents who agreed (46.1%). This implied that some SACCOs in Kisumu County had not embraced prudential policies on solvency thus, may fall into indebtedness risk. The average Likert scale of the responses is 3.54 which indicates that majority of the respondents agreed to the statements. The standard deviation is 1.24 which indicated that the responses were varied. The results imply that generally, capital adequacy practices influence performance of DT-SACCOs licensed to operate in Kisumu County. The findings are in agreement with study findings by Kivuvo and Olweny (2014) which concluded that SASRA was right in advocating for additional capital base for SACCOs in Kenya. Study by Kahuthu, Muturi and Kiweu (2015), revealed that core capital has a positive impact on financial performance. Another study by Adalakun and Olufemi (2015) concluded that in order to maintain investor confidence, there is need to continuously ensure commercial banks adhere to minimum capital ratios and consequently increase the level of credit creation and safeguard customer deposits.

4.3.2: Liquidity management practices and Performance of DT-SACCOs

The study sought to assess the influence of Liquidity management practices on performance of deposit taking Savings and Credit Cooperative societies licensed to operate in Kisumu County, Kenya. The findings are shown in Table 4.3.

Table 4.3: Liquidity management practices and Performance

Statement	Frequency as a percentage (%)					Mean	SD Dev
	1	2	3	4	5		
The Sacco has enough cash to meet obligations	9.5	20.6	4.8	52.4	12.7	3.47	1.213
There is efficient management of assets & liabilities	7.9	11.1	9.5	55.6	15.9	3.70	1.121
The Sacco has a well-defined policy document on liquidity management	7.9	22.2	46.3	50.8	12.7	3.51	1.213
There is efficient utilization of cash and cash equivalents	20.6	7.9	4.8	52.4	14.3	3.46	1.390
All Sacco debts are fully collected in time	12.7	14.3	4.8	54	14.3	3.56	1.270

N=63

From table 4.2, most respondents agreed (52.4%) and strongly agreed (12.7%) that the SACCOs had enough cash to meet their obligations effectively. This implied the 20.6% and 9.5% who disagreed and strongly disagreed could be coming from SACCO that are either young in operation or possibly those with liquidity problems hence were having financial issues with meeting their SACCOs obligations. Secondly, most respondents agreed (71.5%)

that there was efficient management of assets and liabilities by the SACCOs due to reliance on prudential practices, while still a sizeable number of respondents disagreed (11.1%) and strongly disagreed (7.9%) to the statement. Further, most respondents agreed (54%) and strongly agreed (14.3%) that the SACCOs debts were duly collected in time as a result of adherence to prudential practices; while a further 52.4% and 14.3% agreed and strongly agreed respectively that there was efficient utilization of cash and cash equivalents; this means that most SACCOs in Kisumu County had effective management of both financial and non-financial assets which boosts their liquidity management levels. This was further affirmed by 50.8% and 12.7% of respondents who agreed and strongly agreed respectively that there was a well-defined policy document on liquidity management. That is, a SACCO's well defined liquidity management policy guides the SACCO in effective utilization of cash and cash equivalents. On an average Likert scale the responses had an overall mean of 3.54 which indicated that the respondents agreed to the majority of the questions asked. The standard deviation of 1.24 indicates that the responses were varied. The results imply that liquidity management practices influence performance of DT-SACCOs licensed to operate in Kisumu County. This is supported by Mugambi et.al (2015) who concluded that cash management is critical as a liquidity management tool in Deposit taking SACCOs hence cash management policy should be put in place to attain optimal financial performance and Omino (2014) who asserted that wherever SACCOs adopted a more cautious position in handling its current liabilities, this resulted in an increase in operating cash flows for the SACCOs thus enabling them to have sufficient cash flows to cover the short term obligations of the SACCOs. They however contradict the findings by Mutinda (2016) who concluded that liquidity management had the least impact in influencing the financial performance of SACCOs in Kenya and Khan and Syed (2013) who established in their study that the relationship between liquidity and performance of banks in Pakistan was negative.

4.3.3: Capitalization practices and Performance of DT-SACCOs

The study sought to investigate the influence of Capitalization practices on performance of deposit taking Savings and Credit Cooperative societies licensed to operate in Kisumu County, Kenya. The findings are shown in Table 4.4.

Table 4.4: Capitalization practices on Performance

Statement	Frequency as a percentage (%)					Mean	SD Dev
	1	2	3	4	5		
The Sacco has a policy on capitalization of dividends	20.6	9.5	6.3	58.7	4.8	3.13	1.284
The Sacco encourages members to engage in bonus deposit	7.9	17.5	4.8	55.6	14.3	3.49	1.151
The Sacco normally floats shares to the members of the public	12.7	27	4.8	41.3	14.3	3.21	1.295
The Sacco encourages members to raise monthly contributions	9.5	23.8	6.3	50.8	9.5	3.34	1.178
The Sacco engages in re-investment of profits generated	9.5	33.3	11.1	41.3	4.8	3.00	1.167

N=63

From table 4.3, most respondents agreed (58.7%) and strongly agreed (4.8%) that the SACCO had a policy on capitalization of dividends. This implied that though capitalization of dividends was a new strategy to attract saving from members, most SACCOs in Kisumu County had embraced this strategy though some respondents disagreed to the statements implying that some SACCO were either not aware of this strategy or had not yet crafted the capitalization policy. Secondly, 55.6% and 14.3% of respondents agreed and strongly agreed respectively that the SACCO encouraged members to engage in bonus deposits. This meant that SACCOs which had already rolled out the capitalization strategy were already wooing their members to boost their SACCO shares on varied percentage bonus deposits if one capitalizes their dividends. These encouraged members with high dividend payouts to reinvest their dividends at an attractive percentage to gain bonus deposits. Thirdly, only 41.3% agreed while a sizeable percentage (14.3%) disagreed that SACCOs normally floats shares to members of the public. This meant that only few SACCOs that had implemented the capitalization policy that allows floating shares to members of the public as a SACCO's savings mobilization strategy. More so, 50.8% and 9.5% agreed and strongly agreed respectively that the SACCO encourages members to raise minimum contributions; implying that a good number of SACCOs in Kisumu County were geared toward raising their capital base by encouraging members to raise minimum share contributions; which also improves members' share growth and eventually attracting high loanable funds. Similarly 41.3% and 4.8% agreed and strongly agreed respectively that SACCOs engaged in reinvestment of profits; implying that a fairly good number of SACCOs in Kisumu County had embraced this capitalization strategy. On an average Likert scale the responses had an overall mean of 3.234 which indicated that the respondents agreed to the majority of the questions asked but gave

varied responses as indicated by the standard deviation of 1.215. The above findings concur with study findings by Gweyi and Karanja (2014) who asserted that there was a positive correlation between leverage and profit after tax.

4.3.4: Performance of DT-SACCOs

The study sought to determine the respondent's level of agreement with the statements relating to performance of DT-SACCOs licensed to operate in Kisumu County, Kenya. The findings are presented in table 4.5.

Table 4.5: Descriptive Statistic for Performance

Statement	Frequency as a percentage (%)					Mean	SD Dev
	1	2	3	4	5		
The safety of members funds in the Sacco has greatly improved due to adherence to prudential practices	0	0	0	63.5	36.5	4.36	0.483
The waiting period for loans applied has reduced since adoption of prudential practices	0	0	0	39.7	60.3	4.59	0.496
The Sacco members are able to access their funds as and when they need since adoption of prudential practices	0	0	0	61.9	38.1	4.44	0.500
The Sacco has reduced members complaints due to adoption of prudential practices	0	0	0	27	73	4.76	0.432
Generally, Sacco members are satisfied with the services offered since the adoption of prudential practices	0	0	0	66.7	33.3	4.40	0.493

N=63

Table 4.5 indicates that the respondents 63.5% and 36.5% agreed and strongly agreed respectively that the safety of member's funds in the SACCOs had greatly improved due to adherence to prudential practices. Respondents were also in agreement that the waiting period for loans applied had reduced due to the adoption of prudential practices by the SACCOs in Kisumu County indicated by 39.7% and 60.3% of the respondents who agreed and strongly agreed respectively. The findings further indicated that the Sacco members were able to access their funds as and when they needed due to the adoption of prudential practices (mean = 4.44). The respondents also concurred with the statement that the SACCOs had reduced members complaints due to the adoption of prudential practices (mean = 4.76); and that Generally, SACCOs members were satisfied with the services offered since the adoption of prudential practices represented by 66.7% and 33.3% of the respondents who agreed and

strongly agreed respectively. This findings therefore indicate that the variables are positively associated with the performance of DT-SACCOs with an average mean of 4.51 and standard deviation of 0.48 where increasing the independent variables would result to increase in the dependent variable. These findings concur with those of Kahuthu (2016) who found that prudential regulations had a positive effect on financial performance of deposit taking SACCOs in Kenya. He further asserted that innovation increases firms' profits, market share and savings and reduces the operating costs

4.4: Correlation analysis

Correlation analysis is the statistical tool that can be utilized to determine the level of association between two variables. Prior to carrying out a multiple regression analysis, a correlation matrix was developed to analyze the strength of association between the independent variables as this would assist in developing a prediction multiple model which will reveal no relationship in cases where the value of the correlation is 0. On the other hand, a correlation of ± 1.0 means there is a perfect positive or negative relationship (Hair, Sarstedt, Ringle & Mena, 2012). Also, the relationship is considered small when $r = \pm 0.1$ to ± 0.29 , while the relationship is considered medium when $r = \pm 0.30$ to ± 0.49 , and when r is ± 0.50 and above, the relationship can be considered strong.

The table 4.6 presents findings resulting from correlation analysis between the independent variables capital adequacy practices; liquidity management practices and capitalization practices on one hand and the dependent variable, SACCO performance on the other hand.

Table 4.6: Correlation between dependent and independent variables

		Liquidity management	Capitalization Practices	Capital Adequacy Practices	SACCO Performance
Liquidity management	Pearson Correlation Sig. (2-tailed)	1			
Capitalization Practices	Pearson Correlation Sig. (2-tailed)	.969** .000	1		
Capital Adequacy Practices	Pearson Correlation Sig. (2-tailed)	.960** .000	.972** .000	1	
SACCO Performance	Pearson Correlation Sig. (2-tailed)	0.712** .000	0.759** .000	-0.768** .000	1

N=63

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

Results in Table 4.6 indicated that there was a positive association of 0.712 between liquidity management practices and performance ($r=0.712$). The results showed that liquidity management practices was significant on performance since the p-value is less than 0.05 ($p=0.000$) implying that an increase in liquidity management practices leads to an increase in performance. This is in agreement with studies of Mugambi et.al (2015) effect of cash management on performance; Nyabate (2015) on effect of liquidity on performance; Omino (2014) on liquidity risk mitigation factors; Marozva (2015) on liquidity and bank performance in South Africa and Shafana (2013) on link between liquidity and financial performance.

Results in Table 4.6 indicated that there was a positive relationship of 0.759 between capitalization practices and performance ($r=0.759$). The results showed that capitalization practices was significant on performance since the p-value is less than 0.05 ($p=0.000$). This is an indication that an increase in capitalization practices would lead to an increase in the performance of a Deposit Taking SACCOs in Kisumu County. The results are in agreement with Gweyi and Karanja (2014) who

did a study on the effect of leverage on the financial performance of Deposit Taking Saccos in Kenya and found a significant relationship between leverage and profit after tax. The findings however contradict the results by Iavrskyi (2013) who did a study on the impact of capital structure on performance and established that the relationship between leverage and firm performance was negative and Iorpev and Kwanum (2012) who conducted a study to evaluate the relationship between capital structure and performance of manufacturing companies listed in Nigerian stock exchange and concluded that capital structure was not a key determinant of the firms performance while Siddik, Kabiraj and Jogee (2017) on their study on the effect of capital structure on the performance of banks in Bangladesh concluded that the effect of capital structure on performance was negative but significant.

Finally, results in Table 4.6 indicated that there was a negative relationship of -0.768 between capital adequacy practices and performance ($r=-0.768$). The results showed that capital adequacy practices was significant on performance since the p-value is less than 0.05 ($p=0.000$). This implies that an increase in capital adequacy practices would lead to a reduction in performance of Deposit Taking SACCOs. This is in agreement with the findings of Kioko (2016) who concluded that even though SACCOs benefited significantly from the regulations in ways such as managing credit risk, improved public confidence and preventing insolvency, most of the SACCOs faced various challenges in complying with the capital adequacy regulations thereby lowering their performance. The findings conflict Kivuvo and Olweny (2014) who established in their study on performance of SACCOs in Kenya that liquidity and leverage had significant impact on Sacco's performance and concluded that SASRA was right in advocating for additional capital base for SACCOs.

4.5: Regression Analysis

As stated by Gujarati (2004) and Brook (2008), the linear regression equation is a model which indicates the nature of relationship between independent variables and the dependent variable. Simple linear regression was conducted for hypotheses testing. The study sought to determine the significance of the independent variables (Capital adequacy practices, liquidity management practices and capitalization practices) to the dependent variable (performance). When the p-value is less than 0.05 then it implies that the result is significant.

4.5.1: Capital adequacy practices

The first objective of the study was to establish the effect of capital adequacy practices on performance of Deposit taking SACCOs licensed to operate in Kisumu County, Kenya. Ordinary least square regression analysis was conducted and the results represented on table 4.7.

Table 4.7: Model Summary for capital adequacy practices and performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	-.768 ^a	.589	.583	.08249

a. Predictors: (Constant), Capital Adequacy Practices

The coefficient of determination also known as the R square for capital adequacy practices was 58.9%. This means that capital adequacy practices explain 58.9% of the variations in the dependent variable which is performance of SACCOs licensed to operate in Kisumu County, Kenya.

Table 4.8 presents the Analysis of Variance (ANOVA) statistics.

Table 4.8: ANOVA capital adequacy practices and performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.596	1	.596	87.547	.000 ^b
	Residual	.415	61	.007		
	Total	1.011	62			

a. Dependent Variable: SACCO Performance

b. Predictors: (Constant), Capital Adequacy Practices

The results indicate that the model with one predictor variable (Capital Adequacy practices) was statistically significant and predicts the dependent variable (performance of SACCOs in Kisumu County, Kenya). This result is supported with the F-statistic equal to 87.547 and the calculated p-value equal to $0.00 < 0.05$. Regression of coefficient results is presented in Table 4.9.

Table 4.9: Coefficients-Capital adequacy practices and performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	4.770	.032		147.027	.000
	Capital Adequacy Practices	-.089	.009		-9.357	.000

a. Dependent Variable: SACCO Performance

Table 4.9 showed that there is a negative relationship of -0.089 between capital adequacy practices and performance ($r=-0.089$). Thus, a unitary percentage Increase in capital adequacy practices leads to a decrease in performance by 8.9%. The constant unstandardized coefficient of 4.770 implies that in the absence of capital adequacy practices, performance will be at 4.770 meaning that there are other could be drivers of performance like liquidity management practices and capitalization practices. The results showed that capital adequacy practices was significant on performance since the p-value is less than 0.05 ($p=0.000$). The results are in agreement with odunga et al. (2013) who sought to assess the effect of credit risk and capital adequacy on performance of banks in Kenya and found that capital adequacy had no significant impact on bank performance. Saona (2010) did a study on the relationship between capital structure of commercial banks and in the United States and performance and revealed a negative relationship between capital ratio and profitability for the banking industry. The capital adequacy practices model is in the equation below:

$$\text{SACCO Performance} = 4.770 - 0.089 (\text{Capital Adequacy Practices})$$

In testing for the hypothesis by using simple linear regression (table 4.9, above), the acceptance or rejection criteria were that, if the p value is greater than 0.05, the null Hypothesis (H_0) is not rejected but if it's less than 0.05, the H_0 fails to be accepted.

The null hypothesis was that capital adequacy practices have no significant influence on performance of Deposit Taking SACCOs licensed to operate in Kisumu County, Kenya. Results in table 4.9 above show that the p-value was $0.000 < 0.05$. This indicated that the null hypothesis was rejected hence capital adequacy practices have a significant influence on performance of deposit Taking SACCOs in Kisumu.

4.5.2: Liquidity Management Practices

The second objective of the study was to assess effect of liquidity management practices on performance of Deposit Taking SACCOs licensed to operate in Kisumu County, Kenya. Ordinary least square regression analysis was conducted and the results represented on table 4.10.

Table 4.10: Model Summary liquidity management practices and performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712 ^a	.507	.499	.09035

a. Predictors: (Constant), Liquidity management

Liquidity management practices were found to explain performance of Deposit Taking SACCOs in Kisumu County. This is supported by coefficient of determination also known as the R square of 50.7%. This means that liquidity management practices explain 50.7% of the variations in the dependent variable which is performance of Deposit Taking SACCOs in Kisumu County. Liquidity management is the ability of a SACCO to have a well-defined policy on liquidity management, be efficient in utilization of cash and cash equivalents and be in a position to meet all its obligations as and when they become due. The results are in agreement with Mugambi et al. (2015) who did a study on cash management and financial performance of deposit taking Sacco's in Mount Kenya region and concluded that cash management is critical as a liquidity management tool in deposit taking SACCOs and Nyabate (2015) who concluded in his study on effect of liquidity on financial performance of financial institutions that liquidity was a significant predictor of financial performance.

Table 4.11 presents the Analysis of Variance (ANOVA)

Table 4.11: ANOVA –Liquidity management practices and performance

	Model	Sum of Squares	df	Mean Square	F	Sig.
	Regression	.513	1	.513	62.838	.000 ^b
1	Residual	.498	61	.008		
	Total	1.011	62			

a. Dependent Variable: SACCO Performance

b. Predictors: (Constant), Liquidity management

The results indicate that the model with one predictor variable (Liquidity management practices) was statistically significant and predicts the dependent variable (performance of SACCOs in Kisumu County). This results is supported with the F-statistic equal to 62.838 and the calculated p-value equal to $0.000 < 0.05$. SACCOs should ensure that they employ efficient utilization of cash and cash equivalents in order to improve their performance. This finding is consistent with that of Shafana (2015) who studied on the link between liquidity and financial performance of financial institutions and found a significant relationship between cash position indicator and performance. Regression of coefficient results is presented in Table 4.12.

Table 4.12: Coefficients-Liquidity management practices and performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.738	.034		138.707	.000
1 Liquidity management	.075	.009	.712	7.927	.000

a. Dependent Variable: SACCO Performance

Table 4.12 showed that there is a positive relationship of .075 between Liquidity management practices and performance ($r=.075$). Thus, a unitary percentage increase in Liquidity management practices leads to an increase in 1 performance by 7.5%. The constant unstandardized coefficient of 4.738 implies that in the absence of Liquidity management practices, performance will be at 4.738 meaning that there are other could be drivers of financial performance like capital adequacy practices and capitalization practices. The results showed that Liquidity management practices was significant on performance since the p-value is less than 0.05 ($p=0.000$). The results are in agreement with Omino (2014) sought to assess the liquidity risk mitigation measures and financial performance of SACCOs in Kisumu county. From the analysis, liquidity risk mitigation approaches adopted by different SACCOs within the county had a significant effect on their performance.

The Liquidity management practices model is shown below:

Model performance = 4.738 + 0.075 (liquidity management practices).

In testing for the hypothesis by using simple linear regression (table 4.12, above), the acceptance or rejection criteria were that, if the p value is greater than 0.05, the null Hypothesis (H_0) is not rejected but if it's less than 0.05, the H_0 fails to be accepted.

The null hypothesis was that liquidity management practices have no significant influence on performance of Deposit Taking SACCOs in Kisumu County. Results in table 4.12 above show that the p-value was $0.000 < 0.05$. This indicated that the null hypothesis was rejected hence liquidity management practices has a significant effect on performance of Deposit Taking SACCOs in Kisumu County.

4.5.3: Capitalization practices

The third objective of the study was to determine the effect of capitalization practices on performance of deposit taking SACCOs licensed to operate in Kisumu County, Kenya.

Ordinary least square regression analysis was conducted and the results represented on table 4.13.

Table 4.13: Model Summary- Capitalization practices and performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.759 ^a	.577	.570	.08374

a. Predictors: (Constant), Capitalization Practices

Capitalization practices were found to explain performance of Deposit Taking SACCOs in Kisumu County. This is supported by coefficient of determination also known as the R square of 57.7%. This means that capitalization practices explain 57.7% of the variations in the dependent variable which is performance of deposit taking SACCOs in Kisumu County. The results are in agreement Onyango (2016) who did a study on effect of external financing on the growth of Sacco's wealth in Nairobi County and found that external financing had a positive and significant effect on the growth of wealth. Table 4.14 presents the Analysis of Variance (ANOVA) statistics.

Table 4.14: ANOVA –Capitalization practices and performance

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.583	1	.583	83.135	.000 ^b
Residual	.428	61	.007		
Total	1.011	62			

a. Dependent Variable: SACCO Performance

b. Predictors: (Constant), Capitalization Practices

The results indicate that the model with one predictor variable (Capitalization practices) was statistically significant and predicts the dependent variable (performance of SACCOs in Kisumu County). This result is supported with the F-statistic equal to 83.135 and the calculated p-value equal to $0.000 < 0.05$. This finding is not consistent with Siddik, Kabiraj and Joghee (2017) in their study on effect of capital structure on the performance of banks in Bangladesh found that capital structure had a negative and significant influence on performance. Regression of coefficient results is presented in Table 4.15.

Table 4.15: Coefficients-Capitalization practices and performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.745	.031		154.943	.000
1 Capitalization Practices	.082	.009	-.759	-9.118	.000

a. Dependent Variable: SACCO Performance

Table 4.15 showed that there is a positive relationship of .082 between Capitalization practices and performance ($r=.082$). Thus, a unitary percentage increase in Capitalization practices leads to an increase in performance by 8.2%. The constant unstandardized coefficient of 4.745 implied that in the absence of Capitalization practices performance will be at 4.745. Capitalization practices was significant on performance as the p-value is less than 0.05 ($p=0.000$).

This means that there is a valid regression relationship that can be expressed as an equation, i.e.

$$\text{SACCO Performance} = 4.745 + 0.082 (\text{Capitalization Practices})$$

In testing for the hypothesis by using simple linear regression (table 4.15, above), the acceptance or rejection criteria was that, if the p-value is greater than 0.05, the H_0 is not rejected but if it's less than 0.05, the H_0 fails to be accepted. The null hypothesis was that Capitalization Practices have no significant influence on Performance of SACCOs in Kisumu County. Results in Table 4.15 above show that the p value was $0.000 < 0.05$. This indicated that the null hypothesis was rejected hence Capitalization Practices have a significant influence on performance of SACCOs in Kisumu County.

4.6: Multiple Regression Analysis

The results presented in Table 4.16 present the overall fitness model used for the Regression model in explaining the study phenomena

Table 4.16: Model Summary-dependent and independent variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.782 ^a	.612	.592	.08153

a. Predictors: (Constant), Capital Adequacy Practices, Liquidity management , Capitalization Practices

Independent variables were found to be satisfactory in explaining financial performance of deposit taking SACCOs licensed to operate in Kisumu County, Kenya. This is supported by coefficient of determination also known as the R square of 61.2%. This means that

independent variables explain 61.2% of the variations in the dependent variable which is performance of deposit taking SACCOs in Kisumu County. Table 4.17 provides the results on the analysis of the variance (ANOVA).

Table 4.17: ANOVA Dependent and Independent Variables

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.619	3	.206	31.017	.000 ^b
	Residual	.392	59	.007		
	Total	1.011	62			

a. Dependent Variable: SACCO Performance

b. Predictors: (Constant), Capital Adequacy Practices, Liquidity management , Capitalization Practices

The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of performance. This was supported by an F statistic of 31.017 and the reported p-value of 0.000 which was less than the conventional probability significance level of 0.05 implying that the independent variables (capital adequacy practices, liquidity management practices and capitalization practices) were significant in predicting the dependent variable (performance). Regression of coefficient results is presented in Table 4.18.

Table 4.18: Regression Coefficients^a - Dependent and Independent Variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.759	.033		144.430	.000
	Liquidity management	.062	.036	.589	1.717	.021
	Capitalization Practices	.067	.044	.623	1.520	.034
	Capital Adequacy Practices	-.084	.042	-.727	-2.007	.049

Dependent Variable: SACCO Performance

Regression of standardized coefficients results in table 4.18 shows that liquidity management practices and performance are positively related at .589 ($\beta=.589$) and Significant ($p=0.000<0.05$). The table further indicates that capitalization practices and performance are positively related at .623 ($\beta=.623$) and significant as indicated by ($p=0.000<0.05$). It was further established that capital adequacy practices and Performance were negatively and significantly related ($\beta=-.727$, $p=0.000<0.05$) respectively. The multiple regression indicated that capitalization practices and liquidity management

practices had the largest influence on performance with a standardized Coefficient of 0.623 and 0.589 respectively, followed by capital adequacy practices with a standardized coefficient of -0.727.

The large influence in capitalization practices meant that deposit taking SACCOs that follow the capitalization practices requirements could attract and retain members, improve in shares, membership and savings growth; thus boosting their capital base. This was supported by the Center for Financial Training (2010) argument that inefficiencies or frustrations by some SACCOs can lead to a disincentive to save among the citizens or members, thereby affecting their levels of investments adversely and impacting on their financial performance negatively. The deposit taking SACCOs in Kisumu county should therefore strive to adopt the capitalization practices especially the modern strategies of raising capital such as floating shares to public members and reinvestment of generated profits to boost their capital base and ultimately improve their performance.

Additionally, liquidity management practices is also key to performance because the more Deposit taking SACCOs adopt a more cautious position in handling its current liabilities, this resulted in an increase in operating cash flows for the SACCOs thus enabling them to have sufficient cash flows to cover the short term obligations of the SACCOs.(Omino,2014).If liquidity management practices performance by SACCOs increase, their performance will also increase(Nyabate,2015). This therefore implies that SACCOs that are efficient in management of assets and liabilities as well as the cash and cash equivalents will improve their performance.

Capital adequacy practices is essential with the increased operations and membership in growth in Deposit taking SACCOs. This implies that SACCOs in Kisumu County should have efficient credit risk management mechanisms to be able to timely meet their liabilities; thus generally, capital adequacy influences SACCO performance. These results are consistent with Kahuthu, Muturi and Kiweu (2015) who examined the joint significant contribution of core capital and membership growth on financial performance on deposit taking credit and cooperative societies in Kenya. Results of the study revealed that there was a positive and significant relationship between capital adequacy and firm performance. The study concluded that there was need to sensitize on Sacco members on the need to adhere to acceptable requisite ratio so as to boost shareholders' confidence.

The regression model of the study was $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$

Substituting the coefficient in the model, the optimal model for the study is:

$$\text{SACCO performance} = 4.759 - 0.084 \text{ Capital adequacy practices} + 0.062 \text{ Liquidity management practices} + 0.067 \text{ capitalization practices}$$

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents a summary of the findings, conclusions, recommendations, limitations and suggestions for further research in line with the study objectives to enrich relevant knowledge under the study on the effect of SACCO prudential practices on performance of DT-SACCOs licensed to operate in Kisumu County, Kenya.

5.1: Summary of the Findings

The study sought to investigate the effect of SACCO prudential practices on the performance of deposit taking SACCOs licensed to operate in Kisumu County, Kenya. Specifically, the study investigated capital adequacy practices, liquidity management practices and capitalization practices effect on performance. The empirical literature showed that prudential practices are essential for the performance of deposit taking SACCOs in Kenya. Other literature revealed that Sacco's growth and developments have remained stagnant in areas where prudential practices have not been adopted.

5.1.1: Effect of capital adequacy practices on Performance of DT-SACCOs.

The first objective of the study was to establish effect of capital adequacy practices on Performance of Deposit Taking SACCOs licensed to operate in Kisumu County, Kenya. Correlation analysis in table 4.6 showed that capital adequacy practices and performance of deposit taking SACCOs were negatively related ($r = -0.768$) and significant ($p = 0.000 < 0.05$). Regression analysis in table 4.18 indicated that capital adequacy practices had a negative ($\beta = -0.727$) and significant ($p = 0.000 < 0.05$) effect on performance of Deposit taking SACCOs. The hypothesis results indicated that there is a significant relationship between capital adequacy practices and performance of Deposit taking SACCOs licensed to operate in Kisumu County, Kenya. Though capital adequacy practices had a negative relationship with performance, it significantly influences performance of SACCOs, thus, improvement in effective capital adequacy practice requirements by SACCOs can have a positive impact on the performance of SACCOs.

5.1.2: Effect of liquidity management practices on performance of DT-SACCOs.

The second objective of the study was to assess effect of liquidity management practices on performance of Deposit taking SACCOs licensed to operate in Kisumu County, Kenya. Correlation analysis in table 4.6 showed that liquidity management practices and performance of Deposit taking SACCOs were positively ($r = 0.712$) and significantly ($p = 0.000 < 0.05$) associated. Regression analysis in table 4.18 indicated that liquidity management practices had a positive ($\beta = 0.589$) and significant ($p = 0.000 < 0.05$) effect on performance of Deposit taking SACCOs licensed to operate in Kisumu County, Kenya. The hypothesis results indicated that there is a significant relationship between liquidity management practices and performance of deposit taking SACCOs licensed to operate in Kisumu County, Kenya.

5.1.3: Effect of Capitalization practices on Performance of DT-SACCOs

The third objective of the study was to determine effect of capitalization practices on Performance of Deposit Taking SACCOs licensed to operate in Kisumu County, Kenya. Correlation analysis in table 4.6 showed that Capitalization practices and performance of Deposit taking SACCOs were positively ($r = 0.759$) and significantly ($p = 0.000 < 0.05$) associated. Regression analysis in table 4.18 indicated that Capitalization practices had a positive $\beta = 0.623$ and significant ($p = 0.000 < 0.05$) effect on performance of Deposit Taking SACCOs. The hypothesis results indicated that there is a significant relationship between Capitalization practices and performance of Deposit Taking SACCOs licensed to operate in Kisumu County, Kenya.

5.1.4: The overall effect of the variables

The study findings showed a great influence of all three variables on the performance of deposit taking SACCOs licensed to operate in Kisumu County. The study found out that the variation of 61.2% in performance of DT-SACCOs was due to the interaction of the three variables. The overall test of significance of all the three variables jointly, capital adequacy, liquidity management and capitalization using ANOVA, at 0.05 level of significance found the model to be significant in predicting the relationship between SACCO prudential practices and performance of Deposit Taking SACCOs.

5.2: Conclusions of the study

The results of the findings indicate that there is a significant and positive relationship between liquidity management practices; capitalization practices and performance thus strict adherence to liquidity management practices and capitalization practices would be suitable for improving performance of deposit taking SACCOs. The findings on capital adequacy practices however indicated a negative and significant relationship with performance. The multiple regressions indicated that liquidity management practices and capitalization practices had the largest influence of performance, followed by capital adequacy practices. However, all the three prudential practices were found to be suitable for improving the performance of deposit taking Sacco's in Kisumu County. The study further made the following conclusions based on the above findings, that improvement in effective capital adequacy requirements by SACCOs can have a positive impact on the performance of SACCOs. Secondly, that liquidity management is a significant predictor of financial performance of SACCOs, thus liquidity position of a SACCO in terms of cash position, capacity ratio and total deposits really influence financial performance of a deposit taking SACCOs. Lastly, that capitalization practices has shown to be a significant predictor of performance therefore deposit taking SACCOs should prudently embrace the new capitalization policy as a savings mobilization and customer retention strategy so as to boost their capital and membership base. In particular, DT-SACCOs should encourage their members to engage in bonus deposits, encourage their members to raise minimum monthly contributions and engage in re-investment of profits generated to improve their service delivery and performance in general.

5.3: Recommendations

Based on the results of the findings and the conclusions drawn from the study, the various recommendations for the management were made. Deposit Taking SACCOs should adhere to the capital adequacy practices so as to cushion themselves against insolvency risks. Management should also put tighter internal control systems on capital adequacy practices to ensure that SACCOs are not undercapitalized. This will enhance the ability of the SACCOs to deal with any risks that may arise as a result of the SACCO business. The SACCOs should also abide by all the requirements as provided in the SACCO laws and regulations to enable them enjoy the benefits of increased business.

To realize the full benefits intended by liquidity management practices, Deposit Taking SACCOs should employ prudent measures on liquidity management practices especially on efficient management of assets and liabilities and utilization of cash and cash equivalents. The SACCOs should adopt resilient liquidity management practices to enable them boost their financial performance in both good and bad economic times, develop policy document on debt management to enable them meet all their obligations in time including meeting member's loans demand, and also introduce quarterly financial reporting in the sector to ensure the market is efficient and the members and external investors are able to monitor liquidity management and detect liquidity and credit risks exposed to their investments early enough. This will go a long way in helping the deposit taking SACCOs to boost the confidence of their members, a necessary requirement if the Sacco is to realize improved performance.

For full benefits of capitalization practices to be realized, the Deposit Taking SACCOs should prudently embrace the new capitalization practices especially floating of shares to the members of the public and re-investment of their generated profits as a savings mobilization strategy so as to boost their capital base and also improve loanable funds. This will improve not only the capital base but also the income generated by the deposit taking SACCOs which can be used to meet obligations as and when they fall due and also providing loans to members promptly. The SACCOs management should also ensure that all the accumulated savings are immediately channeled to further investments and prosperity. Finally, SACCOs should also develop polices on all key areas as a standard practice to guide employees especially in the new era of performance management in the SACCOs

5.4: Limitations of the Study

The study findings are limited to Deposit taking SACCOs and may not be generalizable to other players in the financial sector. Also, there was difficulty in gaining access to the sampled respondents because they were busy and also suspicious of the intention of information to be given. Further, there was difficulty in gauging the objectivity of the respondents in responding to the research instruments especially owing to the information sought by the study because some of the senior managers delegated their juniors as respondents. However, these limitations were overcome by obtaining official consent to carry out this study among the sampled SACCOs and assuring the respondents that confidentiality

would be maintained and the information would be used for academic purposes only and their identity will not be disclosed.

5.5: Suggestions for Further Research.

There is always increase of knowledge, hence the researcher recommends the following areas for further research. It is suggested that a similar research can be done using a panel study and time series data so as to compare results. Secondly, further research can be conducted to investigate the same variables but using purely secondary data over some period of time to further provide clear empirical data. Similarly, other scholars should also undertake a comparative analysis of Deposit taking and the Non-Deposit taking SACCOs to ascertain whether these prudential practices have helped SACCOs meet their objectives. Lastly, more research should be conducted to understand the reporting procedures of SACCOs so as to ascertain the various levels of compliance.

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APPENDICES

Appendix 1

List of SACCOs licensed by SASRA to operate in Kisumu County

1. Agro –Chem Sacco society limited
2. Harambee Sacco society limited
3. Imarisha Sacco society limited
4. Jumuika Sacco society limited
5. Kite Sacco society limited
6. Koru Sacco society limited
7. Metropolitan national Sacco society limited
8. Mwalimu National Sacco society limited
9. Ukulima Sacco society limited
10. Unaitas Sacco society limited
11. Nacico Sacco society limited

Source: SASRA SACCO supervision report 2018.

Appendix II

Letter of Introduction

Rasugu

Stephen Onyango

Maseno University
Private Bag, Maseno

To the Chief Executive Officer,

_____ SACCO

Dear Sir/Madam,

RE: REQUEST FOR DATA

I am a Master of Business Administration (Accounting) student at Maseno University conducting a research on “**Effect of SACCO prudential practices on performance of deposit taking SACCOs licensed to operate in Kisumu County, Kenya**”. Your organization has been identified and selected for the study.

The purpose of this letter is to request you for permission to interview you and your employees using the questionnaires attached. The information obtained shall be treated confidentially and shall be used for purposes of this research only.

Yours faithfully,

Stephen Onyango Rasugu
Mobile: 0716476640

Appendix III

Questionnaire

The questionnaire is intended to collect information related to **effect of SACCO prudential practices on performance of DT-SACCOs licensed to operate in Kisumu County, Kenya**. Be assured the assured the information you provide will be solely for academic purposes and will be treated in confidence.

Section A: Background information

Kindly fill the bank with a tick where appropriate

1. What is your gender
Male []
Female []

2. What is your age bracket
Below 21 years []
21-30 Years []
31-40 years []
41-50 years []
51 years and above []

3. What is your highest education level?
Primary School []
Secondary School []
Certificate []
Diploma []
Degree []
Masters []
Doctorate []

4. How long have you in the SACCO sector?
Between 0-3 years []
Between 4- 7 years []
Between 8- 10 years []
Over 10 years []

Section B: Capital Adequacy practices. Using the scale below; please indicate your level of agreement to the following propositions relating capital adequacy practices.

5-Strongly Agree; 4-Agree; 3-Neutral; 2-Disagree; 1- Strongly Disagree

	5	4	3	2	1
The SACCO has had a high Capital adequacy ratio due to the strict adherence to regulations					
The SACCO adequately meets all its obligations on time due to the adoption of prudential practices					
SACCOs with high level of capital tend to perform better than their undercapitalized peers					
Adequate capital provides the ultimate protection against insolvency and liquidation arising from the risk in the SACCO business					
Higher capital level arising from adherence to regulations in our SACCO has enhance our risk mitigation process					

SECTION C: Liquidity management. Using the scale below, please indicate your level of agreement to the following propositions relating liquidity management practices.

5-Strongly Agree; 4-Agree; 3-Neutral; 2-Disagree; 1- Strongly Disagree

	5	4	3	2	1
The SACCOs has enough cash to meet obligations due to strict adherence to SACCO prudential practices					
There is efficient management of assets and liabilities by the SACCO due to reliance of prudential practices					
The SACCO has a well-defined policy document on liquidity management					
There is efficient utilization of cash and cash equivalents by the SACCO due to strict adherence to prudential practices					
All SACCO debts are duly collected in time as a result of adherence to prudential practices					

Section D: Capitalization practices. Using the scale below; please indicate your level of agreement to the following propositions relating capitalization practices.

5-Strongly Agree; 4-Agree; 3-Neutral; 2-Disagree; 1- Strongly Disagree

	5	4	3	2	1
The SACCO has a policy on capitalization of dividends					
The SACCO encourages members to engage in bonus deposits					
The SACCOs normally floats shares to the members of the public					
The SACCO encourages members to raise minimum monthly contributions					
The SACCO engages in re-investment of profits generated					

Section E: SACCO Performance .Using the scale below, indicate your level of agreement to the following propositions relating to the SACCO performance following the adoption of prudential practices.

5-Strongly Agree; 4-Agree; 3-Neutral; 2-Disagree; 1- Strongly Disagree

	5	4	3	2	1
The safety of members funds in the SACCO has greatly improved due to the adherence to prudential practices					
The waiting period for the loans applied in the SACCO has reduced since the adoption of prudential practices					
The SACCOs members are able to access their funds as and when they need since the adoption of prudential practices					
The SACCO has had reduced member complaints since the adoption of prudential practices					
Generally, SACCO members are satisfied with the services offered to them since the adoption of prudential practices					

Appendix IV

STATEMENT	FREQUENCY				
	5	4	3	2	1
LIQUIDITY MANAGEMENT PRACTICES					
The SACCO has enough cash to meet obligations effectively.	8	33	3	13	6
There is efficient management of assets and liabilities.	10	35	6	7	5
The SACCO has well defined policy document on liquidity management.	8	32	4	14	5
There is efficient utilization of cash and cash equipments.	9	33	3	5	13
All SACCO debts are dully collected in time.	9	34	3	9	8

CAPITALIZATION PRACTICES					
The SACCO has a policy on capitalization of dividends.	3	37	4	6	13
The SACCO encourages members to engage in bonus deposit.	9	35	3	11	5
The SACCO normally floats shares to the members of the public.	9	26	3	17	8
The SACCO encourages members to raise monthly contributions.	6	32	4	15	6
The SACCO engages in re - investment of profits generated.	3	26	7	21	6

CAPITAL ADEQUACY PRACTICES					
The SACCO has had a high capital adequacy ratio due to strict adherence to prudential practices.	3	37	4	13	6
The SACCO adequately meets all it's obligations in time.	9	35	3	11	5
SACCOS with high level of capital tends to perform better than the undercapitalised ones.	9	26	3	17	8
Adequate capital provides ultimate protection against insolvency and liquidation arising from the risk in SACCO business.	3	26	7	21	6
Higher capital level arising from adherence to capital regulations in mutigation process.	6	33	5	11	8

SACCO PERFORMANCE					
The safety of members funds in the SACCO has greatly improved due to adherence to prudential practices.	23	40	0	0	0
The waiting period for loans applied has reduced since adoption of prudential practice.	38	25	0	0	0
The SACCO members are able to access their funds as and when they need since adoption of prudential practices.	24	39	0	0	0
The SACCO has reduced members complaints due to adoption of prudential practices.	46	17	0	0	0
Generally, SACCO members are satisfied with the services offered since the adoption of prudential practices.	21	42	0	0	0