

**LEVEL OF COMPLIANCE TO SASRA REGULATIONS AND FINANCIAL
PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT CO-OPERATIVE
SOCIETIES IN NAIROBI COUNTY, KENYA**


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DECLARATION

This research project is my original work and has not been presented to any other institution or university.

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DEDICATION

I dedicate this project to my loving parents and family with whose support I have built my academic life to this level and hopefully beyond. I give it to them for their un-ending love and support that no words can describe. I also wish to dedicate this work to my fellow course mates who have always been there to offer me the support I need, I feel so indebted to them for their unwavering support.

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ABBREVIATIONS AND ACRONYMS

DTS	Deposit-Taking Saccos
FOSA	Front Office Service Activity
MDGs	Millennium Development Goals
NACOSTI	National Commission for Science, Technology, and Innovation
NLCD	National Liberation Council Decree
ROA	Return on assets
ROE	Return on Equity
ROI	Return on Investments
SACCO	Saving and Credit Cooperative Society
SASRA	Sacco Societies Regulatory Authority
SASRA Regulations	Regulations as per Sacco Societies Regulations 2010 including Prudential Guidelines by SASRA
SPSS	Statistical Package for the Social Sciences
WOCCU	World Council of Credit Unions

ABSTRACT

The primary goals of deposit-taking SACCO Societies are member empowerment through the mobilization of funds, the provision of credit, and the maintenance of SACCOs' long-term viability through sound financial management. However, there are a number of obstacles to encouraging good financial management, including a lack of capital investment, loan defaults, and the evaluation and management of risks. This study's main goal was to ascertain how the SASRA regulation affected deposit-taking SACCOs' financial performance. The study's particular specific objectives were to ascertain the impact of risk classification requirements, performance reporting guidelines, and capital adequacy regulations on the financial performance of deposit-taking SACCOs in Nairobi County. The study also identified the financial technology's moderating effect on the relationship between SASRA regulation and financial performance. The study was informed by Stakeholder Theory, Agency Theory and Financial Stewardship Theory. The study adopted cross-sectional study design and targeted all the forty-six licensed DT SACCOs. Census approach was used and the units of observation were the CEOs of these SACCOs. Data from the study were both primary and secondary. With the use of SPSS and the use of both descriptive and inferential statistics, the acquired data was examined. The independent factors were connected to the dependent variable using a multivariate linear regression model. The multiple linear regression analysis findings revealed R^2 of 0.507, implying that the independent variables used in this study; capital adequacy regulations, liquidity level regulations, performance reporting policy, risk classification requirements jointly were able to explain 50.7% of the variation in financial performance. The study also found that there was a positive and statistically significant relationship between all the independent variables and financial performance. The study also found that financial technology had a moderating effect on the relationship between SASRA rules and the financial performance. This was one of the conclusions drawn from the research. The research concluded that regulations imposed by SASRA have a considerable favorable effect on the financial performance of SACCOs in Nairobi County that accept deposits. Because of this, the research suggests that managers of DT SACCOs should strictly adhere to the conditions established by SASRA legislation in order to ensure that they continue to enjoy the benefits that have been outlined in this study. The research also suggests that the government, via SASRA and the Ministry of Industry and Co-operative development, should continue to foster the growth of DT SACCOs by creating an atmosphere that is conducive to their success and enacting helpful legislation.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Financial performance determines how well deposit taking Savings and Credit Cooperatives, often known as SACCOs, are producing value for the deposits and share capital contributed by their members (Yitayaw, 2021). Saccos' financial performance can be evaluated using a variety of different financial ratios, including return on assets, return on equity, earnings per share, and profit after tax (Alam et al. 2021). According to Okpamen and Ogbeide (2020), strong financial success generally takes the form of rising sales, turnover, employment, or stock prices and demonstrates management effectiveness and efficiency in using the company's resources. Financial success rewards shareholders for their investment, which in turn spurs other investment and fuels economic expansion. (Bowen & Makokha, 2021). Moreover, as envisioned in Kenya's development blueprint, Vision 2030, deposit taking SACCOs offer savings, credit, and investment alternatives to individuals, institutions, and group members. Saccos are already performing their crucial function of mobilizing resources for investments. (Kiprotich & Zipporah, 2021).

SACCOs account for more than half of all cooperatives in Kenya, and as financial institutions, they play an essential role of financial intermediation in Kenya's financial environment. This is due to the fact that SACCOs make up more than half of all cooperatives in Kenya. The improvement of people's lives is where they put the majority of their focus in their job (Mursoi, Muturi & Ndegwa, 2021). According to Aduda and Obondy (2021), SACCOs offer financial services, particularly to individuals who do not have access to traditional banking institutions.

SACCOs in Kenya have stepped in to fill the void left by the lack of available credit by offering loans on terms that are more favorable to the borrower (Mohamed, Njuguna, & Maende, 2022). In Kenya, the total assets owned by the SACCO sub-sector as of December 2019 reached Ksh 597 billion, showing an increase of 11% from the Ksh.398 billion that was reported in 2017 (SASRA, 2020). According to the report published by SASRA (2021), licensed deposit taking SACCOs in Kenya account for more than 72 percent of the industry's major financial metrics in terms of membership, assets, loans, deposits, and capital.

In recent decades, people all around the world have come to recognize the significance of deposit-taking SACCOs. It is estimated that around 780 million people around the world are members of SACCOs, which are responsible for the creation of 200 million employment (World Bank, 2020). In the United States, for instance, SACCOs were providing services to five million people and had gross businesses worth 103 billion dollars. Both Credit Mutual in France and Rabobank in the Netherlands are recognized as two of the most successful financial institutions in their respective nations (Bounie, Camara, Fize, Galbraith, Landais, Lavest & Savatier, 2020). For instance, majority of countries in South America, including as Argentina, Brazil, Chile, and Uruguay, have developed deposit-taking SACCOs to a satisfactory level (Ngondi, 2019). In Ghana, there are subsidiary legislations namely the Co-operative Credit Union Regulations of 2015 which regulate the operations of credit unions in Ghana and bye-laws of respective cooperative societies (Saeed, McDermott & Boyd, 2018).

Nevertheless, deposit-taking SACCOs in Kenya are confronted with a wide variety of issues, some of which include funding, competitiveness, and governance, as well as a lack of appropriate financial management and an inappropriate filing of audited financial reports on an annual basis, amongst many others (WOCCU, 2020). The SACCO societies regulations of 2010 included measures that were more specific in nature with the intention of regulating deposit-taking SACCOs and strengthening the SACCO industry. In spite of the fact that they submit audited financial reports on an annual basis, their reports suffer from major deficiencies, such as being unavailable on a consistent basis or being wholly absent altogether.

These shortcomings have a detrimental effect on the company's growth and financial performance (Kiplagat, Wanyama & Egesa, 2018). The most common financial controls include accounting standards, financial statements (cash inflows and cash outflows), segregation of duties, quality of financial reporting, information security, disbursement policies, audit trail, approvals, and cash reconciliation (Bialowolski et al., 2021). The current study is interested in establishing whether SASRA regulations have influence on the financial performance of the SACCOs in Nairobi City County, Kenya.

1.1.1 SASRA Regulations

The Sacco Societies Regulatory Authority was founded as a result of the passing of the Sacco Societies Act in 2008, with the intention of particularly regulating a sector that lacked a consolidated legislative framework prior to the implementation of the act (SASRA, 2017). The SACCO regulations of 2010 were the regulations that made the Act into something that could be done. These cooperatives were free to embrace a variety of management philosophies because there were no regulations governing their operations specifically. A deposit-taking Sacco society is expected to adhere to a set of minimum operational regulations and prudential standards, which are outlined in the regulatory framework established by SASRA (Ithuku, 2019).

In accordance with the Act, the Sacco Societies regulatory authority was established with the primary purpose of issuing licenses to Sacco societies, allowing them to engage in deposit taking businesses in accordance with the Act, as well as engaging in the regulation and supervision of Saccos. One of the SASRA regulations is on capital adequacy requirement. The capital adequacy guidelines are observed to shield or cushion members' deposits and creditors against damages arising from any business risk that the Sacco may face and as a measure of safety and soundness of a Sacco adequate capital promotes public confidence (SASRA, 2008).

To compute the capital adequacy ratio of the credit union, the credit union must divide its capital by its assets, and the least capital adequacy ratio is 10% of total assets (Nugroho, Arif & Halik, 2021). Due to the importance of capital adequacy for credit unions, management should have a strategy for achieving and sustaining an adequate capital level, and the board of directors should create both short- and long-term objectives for the institutional capital (Nugroho et al., 2021). Where a SACCO fails to achieve the capital adequacy requirement the SACCO Societies Act 2008 states that the SACCO may be suspended from loaning and investing, forbidden from acquiring through purchase or leasing of any additional assets, prohibited from taking any other credit or form of credit or any other actions that the authority finds reasonable. Deposit taking SACCOs are required by law to maintain an institutional capital to total assets ratio of at least 8%, always. (SACCO supervision annual report, 2018).

Deposit taking SACCOs are mandated to keep 15 percent of their total savings, deposits, and short-term obligations in the form of liquid assets (SASRA, 2019). Sacco Societies are obligated to create back-up plans for their liquidity management, which must detail the steps to take in the event of a crisis in which the organization experiences a shortage of liquid assets. It is required to establish a loaning policy that precisely details the loan concentration limit, the terms and conditions of insider lending, and the borrower should be furnished with quarterly statements of each outstanding credit facility (Ntoiti & Jagongo, 2021).

Before offering a new of loan product, a Sacco Society is required to obtain prior approval. SACCOs are not allowed to borrow more than 25% of their total capital and are required to charge interest that is at least 2% more than the rate at which they borrow money. The standards for the classification of loans shall be divided into the following five categories: performing, watch, substandard, and doubtful. In addition, the financial performing reporting regulations of deposit-taking SACCOs state that a SACCOs society is required to submit to the Authority by the 15th of each month a return of statements of the income and expenditure as well as a statement of financial position displaying the results of its operations for the previous month. This is to ensure that the regulations are followed. (SASRA regulations, 2010).

1.1.2 Financial Performance

This is an indicator of a firm's capacity to generate profits or its capacity to manage and govern its resources (Fatihudin, 2018). Financial performance is the company's performance in collecting and allocating funds over a specific time period as determined by capital sufficiency, liquidity, solvency, efficiency, leverage, and profitability (Kiswili, 2021). Nonetheless, applying only the financial indicators to measure performance may not be adequate due to the dynamics of the environment (Otwoko & Maina, 2021). Etoromat (2021) explains that the combination of financial and non-financial indicators to measure performance accurately illustrates the extent of performance, and that the financial performance of an organization gives its monetary value. The profitability which measures the difference between the sales revenue and the cost of sales is the most used measure of financial performance (Alabdullah, Ahmed & Ahmed, 2021).

In order to measure management, it is necessary to evaluate the organization's financial performance (Musah, Abdulai & Baffour, 2020). According to Murthy and Sree (2015), there are a variety of ratios that can be utilized in the process of analyzing a company's financial performance. Some of these ratios include return on equity, return on assets, and net interest margin, amongst others. Return on Equity, also known as ROE, is an essential measure that is utilized in the analysis of a bank's overall financial performance (Sari & Endri, 2019). According to Sarkar and Rakshit (2021), great financial performance on the part of financial institutions is one factor that helps to not only a healthy and profitable financial sector but also a more robust financial system that is better equipped to withstand adverse shocks.

Poor financial performance, according to Baba and Ashogbon (2019) can lead to runs on an institution, crises, and ultimately a significant financial crisis. The ability of a company's management to generate profits through the effective utilization of assets derived from its primary economic activities is what constitutes financial performance (Towo, Ishengoma & Mori, 2022). Financial success can be used to compare the performance of various companies within a given market or across industries. Financial ratios such as liquidity ratios, debt ratios, operation ratios, profitability ratios and so on are used to calculate financial efficiency (Sathyamoorthi *et al.*, 2020).

Firms' activities, including revenues generated from the operations and other incomes from the investments, are often used to assess financial performance (Geresem & Michael, 2021). As explained by Baba and Ashogbon (2019), profitability, dividend growth, turnover, asset base and capital investments are used to evaluate a company's financial performance. In view of this background, this study will measure financial performance using profits after tax, return on assets (ROA) and return on investments (ROI).

1.1.3 SASRA Regulations and Financial Performance

The primary goals of deposit-taking SACCO Societies are member empowerment through the mobilization of funds, the provision of credit, and the maintenance of SACCOs' long-term viability through sound financial management. However, there are a number of obstacles to encouraging good financial management, including a lack of capital investment, loan defaults, and the evaluation and management of risks. This study's goal

was to ascertain how the SASRA laws affected deposit-taking SACCOs' financial performance in Nairobi County, Kenya (SASRA, 2019). SACCOs and other financial institutions are frequently regulated, and many African nations have laws governing microfinance and non-banking financial firms (Jumba, 2021).

SACCO-related rules need to be monitored and enforced, according to Mutinda (2016), because of the enormous effects they have on the economy. Despite having fewer assets than commercial banks, SACCOs manage enormous sums of money on behalf of its numerous members who originate from the low-income community (SASRA, 2020). According to Jumba (2021), the SACCO regulations are founded on laws whose goals, in many different jurisdictions, are to strengthen governance by promoting transparency and accountability and expanding access to financial services for the purpose of social and economic empowerment of the people.

In Kenya, where the Co-operative Societies Act of 1997 was the law that applied to all SACCOs as well as their apex bodies and federations, there was for a very long time no distinct legal, regulatory, or supervisory framework for SACCOs. This situation persisted for quite some time (SASRA, 2020). As a result of the absence of prudential regulation and financial supervision, the structure of the SACCO's management team is flawed in a number of different ways. This included portfolio quality that was either not being monitored at all or was being monitored extremely poorly, as well as inadequate audit reports with no provisioning or loan write-downs for non-performing loans. Also included in this category was a lack of adequate loan documentation (SASRA, 2020). SACCO laws have been proved to have a favorable influence on capital ratio, which in turn leads to an increase in return on assets (ROA), but a rise in liquidity leads to a drop in ROA. This has been demonstrated through research (Jumba, 2021).

1.1.4 Deposit Taking SACCOs in Kenya

Deposits and no-deposit transactions the two subsectors that relate to SACCOs in Kenya are SACCOs and SACCOs (SASRA, 2021). While the commissioner for cooperatives oversees non-deposit-taking SACCOs, the SASRA controls the operations of deposit-taking SACCOs. SASRA issues licenses to SACCOs registered under the Cooperative Societies Act, CAP 490. (Muriungi & Maina, 2021). Only deposit-taking SACCOs will be

the subject of the investigation because they are regulated and have publicly accessible financial reports. There are 175 licensed deposit-taking SACCOs in Kenya (SASRA, 2021). Out of 175 DT SACCOs in Kenya, the study will concentrate on the 46 DT SACCOs in Nairobi City County. The justification is that all the 34-large, tiered DT SACCOs with total assets above Kshs 5 billion and control 72.03% of the total assets' portfolio are based in Nairobi City County (SASRA, 2020). The DT SACCOs play a crucial role in allocating loan products at comparatively lower interest rates.

However, the performance of some of the deposits taking SACCOs has been inadequate. It is reported by SASRA (2020) that 43-Teachers based DT SACCOs had their total assets' market share shrink from 36.69% recorded in 2019 to 36.29% recorded in 2020 and total deposits' market share decreased from 35.82% recorded in 2019 to 35.69% in 2020 (SASRA, 2019). Moreover, Atsango (2018) reports several DT-SACCOs in Kenya that SASRA has deregistered while others placed under statutory management due to poor performance. Thus, credit risk management practices such as putting limits to credits, debt collection policies, collateral requirements, monitoring, and screening could be critical in sustaining the financial performance of the DT SACCOs. Thus, the current study is interested in establishing whether SASRA regulations have had influence on the financial performance of the Deposit Taking SACCOs in Nairobi City County, Kenya.

1.2 Research Problem

The primary goals of deposit-taking SACCO Societies are member empowerment through the mobilization of funds, the issuance of credit, and guaranteeing the long-term viability of SACCOs by sound financial management (Kibanga, 2019). To promote quality financial management, there are a lot of obstacles to overcome, including restricted capital funding, loan default, and the evaluation and management of risks. In Kenya, deposit-taking SACCOs suffer issues include weak governance and a lack of member confidence, according to SASRA (2020), and Ndung'u (2019) adds that these issues are exacerbated by poor management and investment choices. The performance of the SACCO movement in Kenya has, for a significant amount of time, been far lower than the members' expectations, which has resulted in unhappiness among the vast majority of their members (Njenga & Jagongo, 2019).

Depositing money over the course of time SACCOs in Kenya have been attempting to meet the demands of their members by raising funds and extending credit; however, they have not been successful in growing their wealth to an adequate level by accumulating enough institutional capital to reach a reasonable level of non-withdrawable capital, fund assets, provide a cushion to absorb losses and prevent the impairment of members' savings (Njenga & Jagongo, 2019). However, past research has demonstrated that the viability of SACCOs has been put in jeopardy as a result of a lack of development in the wealth of SACCOs. As a consequence of this, SACCOs have been unable to absorb the operational losses that they have incurred. As a consequence of this, the losses have been covered by the savings and share capital of the members, which has resulted in the capital being impaired. Because of this circumstance, the value of the SACCO's capital has significantly decreased.

Njenga and Jagongo (2019) found that SACCOs have been borrowing more money from other financial institutions in order to make up for their lack of internal operating capital, even though SASRA (2018) found that external borrowing has decreased by 1.3% in the Kenyan SACCOs market. In addition, the dividend handed out by SACCOs is decreasing, and certain deposit-taking SACCOs are no longer paying dividends at all, according to a report by SASRA (2020). This paints a dismal picture for the long-term economic expansion of deposit-taking SACCOs. Considering the aforementioned study, it is clear that there are methodological, contextual, and conceptual gaps due to the researchers' use of varying research designs, models, contexts, and variables. Therefore, the purpose of this research was to analyze how SASRA rules have affected the bottom lines of deposit-accepting SACCOs in Nairobi County, Kenya.

1.3 Research Objective

1.3.1 General Objective

To determine the level of compliance to SASRA regulations on the financial performance of deposit taking SACCOs in Nairobi County, Kenya.

1.3.2 Specific Objectives

- i. To determine the influence of capital adequacy regulation on the financial performance of deposit taking SACCOs in Nairobi County, Kenya.
- ii. To examine the influence of liquidity level regulation on the financial performance of deposit taking SACCOs in Nairobi County, Kenya.
- iii. To assess the influence of performance reporting guideline on the financial performance of deposit taking SACCOs in Nairobi County, Kenya.
- iv. To establish the influence of risk classification requirement on the financial performance of deposit taking SACCOs in Nairobi County, Kenya.
- v. To determine the moderating role of financial technology on the relationship between SASRA regulations and financial performance of deposit taking SACCOs in Nairobi County, Kenya.

1.3.3 Research Questions

- i. What is the influence of capital adequacy regulation on the performance of deposit taking SACCOs in Nairobi County, Kenya?
- ii. What influence does liquidity level regulation have on the performance of deposit taking SACCOs in Nairobi County, Kenya?
- iii. How does performance reporting guideline influence the performance of deposit taking SACCOs in Nairobi County, Kenya?
- iv. What is the influence of risk classification requirement on the performance of deposit taking SACCOs in Nairobi County, Kenya?
- v. Does financial technology have moderating role on the relationship between SASRA regulations and financial performance of deposit taking SACCOs in Nairobi County, Kenya?

1.4 Value of the Study

The SASRA regulatory framework outlines the minimum prudential regulatory criteria and operational regulations that are necessary for a SACCO society to comply with in order to accept deposits. Share capital, which is a component of core capital, liquidity management systems, and tightened credit policies are the requirements that DTS must adhere to in order to be successful in accordance with the new regulations. These are the requirements that

are the most vital and crucial. These are the provisions that have been demonstrated to have the most influence, according to previous studies that were conducted on the subject of the influence that regulatory compliance has on the financial performance of DTS. For the purpose of this investigation, the researcher is centering their attention on the most important aspects of the prudential regulatory criteria, which include liquidity desirable levels, enough capital, financial performance reporting regulations, and risk classification requirements. The findings of this study will be of significance to the managements of DTS in Nairobi and Kenya at large in establishing the importance of observing SASRA regulations.

In addition, if the country is successful in assuring the stability of SACCOs, it would have made significant strides toward fulfilling the MDGs and the target of enhancing financial inclusion outlined in Vision 2030. Therefore, carrying out this study became relevant in the sense that the findings of the study will be beneficial to various stakeholders in the sense that they will be able to analyze the posture of SACCOs as well as the inherent issues they are facing in regards to financial control. In other words, they will be able to benefit from the study in the sense that it will provide them with the ability to analyze the study's findings. In addition, it is anticipated that the findings of this study will be valuable to a variety of stakeholders, present and potential investors, members, and management of DTS, as well as academics interested in comparable or related fields of study.

The government policy makers will also gain an understanding of the dynamics of SACCOs, which will help them develop proper procedures for regulating the stakeholders with the goal of attaining financial stability. Additionally, the study's conclusions will help the government and its authorities create regulations through the SASRA, the Sacco regulating authority. In a similar vein, it is anticipated that the findings of the study will be of significant help to potential investors in the process of identifying new and improved strategies of improving and running their operations with regards to adherence to Co-operative act to enhance their financial performance. This is because the findings of the study will have been gathered from a larger sample size than was used in the study. In conclusion, the study will determine the knowledge gaps and will offer recommendations for more research to aid academics who are interested in broadening the scope of their studies or conducting research that is connected to this area.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter includes the presentation of the literature review. The literature specifically presents the theoretical review, determinants of financial performance and conceptual framework. Each of the sections is comprehensively examined.

2.2 Theoretical Review

Theoretical review is an analysis of the existing theories based on research objectives/questions (Krasikova, Green & LeBreton, 2013). The current study was informed by three theories namely, Stakeholder Theory, Agency Theory and Financial Stewardship Theory. The relevance of the theories will be presented to show their significance for inclusion in the study.

2.2.1 Stakeholder Theory

The Stakeholder Theory was proposed by Freeman (1984). According to this notion, every company maintains relationships with a diverse group of stakeholders. According to the stakeholder theory, a company's primary objective should be to generate as much value as possible for its various stakeholders (Stieb, 2009). According to Freeman (2001), in order for an organization to be successful and maintain its viability over time, its executives need to ensure that the interests of its shareholders, customers, suppliers, employees, and communities are all aligned and moving in the same direction. (Padilla, 2002).

This theory is focused on managerial decision-making, all stakeholder interests have intrinsic value, and no group of interests is assumed to dominate the others, according to Donaldson and Preston (1995). They contend that this theory was created to deal with these problems. Dmytriiev, Freeman, and Horisch (2021) claim that because SACCOs make commitments to a variety of stakeholders, whose needs might not be fully met, stakeholder management must tailor its activities to limit the adverse effects of stakeholder interests that could ultimately result in stifling meaningful performance of SACCOs by ensuring capital adequacy.

The idea is applicable to this study since SACCOs are anticipated to improve connections with their key stakeholders in order to maximize returns. SACCOs engage in social

responsibility initiatives to cultivate moral capital among its stakeholders, which protects the business's reputation during trying times (Jia, Gao & Julian, 2020). Therefore, stakeholder management is an integral aspect of a SACCO's strategy and a factor that affects financial performance (Duran & Rodrigo, 2018).

Therefore, by considering stakeholder interests and guaranteeing capital adequacy, the managers of DT-SACCOs in Nairobi City County can exercise their decision-making duties with greater care. This further suggests that no group of interests is presumed to dominate others inside the company, and that stakeholder interests have intrinsic value (Odhiambo, 2012). Through enforcing compliance with capital adequacy laws, this theory allowed the researcher to establish the significance of allowing all stakeholders to play their respective roles in SACCO affairs.

2.2.2 Agency Theory

The Agency theory was proposed by Jensen and Meckling in 1976. According to the thesis, problems in contemporary businesses are brought on by the split of ownership and control among owners or principals. The conflict of interest between agents working as a principal's representative is a topic covered by agency theory (Grigore & tefan-Duicu, 1976). According to Jensen and Meckling (1976), it is most likely that the agent will not always behave in the principal's best interests when both the principle and the agent are utility maximizers. This occurs when the management of SACCOs appoints the management board as its representative.

The SACCOs employ professionals to oversee their daily operations, which includes making sure the regulations are followed, in order to guarantee good financial management and excellent member service (Fama, 1980). Agency conflict became more prevalent as a result of owners (principals) hiring professionals (agents) to manage their companies. The finest explanation of agency conflict is provided by Smith (1776), who claims that experts hired to manage the enterprises of others would not exert as much effort in managing those businesses as the actual owners would, but instead would be less keen, careless, and profuse.

In contrast, Grigore and Stefan-Duicu (1976) argue that agents may not always act in the principals' best interests since they may engage in self-interested or opportunistic behavior.

In light of these losses, agency theory maintains the requirement of separating ownership from control in order to bring management's objectives and the owners' objectives into sync (Jensen & Meckling, 1976). The agency theory was developed by Jensen and Meckling (1976), who argued that a decrease in equity ownership causes a rise in the gap between ownership and control of major corporations. The agency hypothesis is credited with having been developed by Jensen and Meckling in 1976. According to agency theory, the main goal of finance theory is to make sure that managers behave to maximize shareholder wealth.

It has been argued by Fama (1980) that difficulties with the Agency could result from either adverse selection or moral hazard. An instance of adverse selection takes place when a principal unintentionally enters a contract with an agent whose level of commitment or industry is lower than the principal anticipated, or whose interests are less aligned with the principal's own. On the other hand, moral hazard describes the taking of after-contractual activities that serve the agent's interests but are harmful to those of the principal. Before or after the contract is signed, these acts are possible (Chrisman et al., 2004). This theory was judged acceptable for this analysis because it gave the researcher a conceptual framework for comprehending SACCOs as entities that are controlled by two actors, namely the SACCO management and the shareholders. Second, despite the fact that shareholders want employees and managers in SACCOs to act and make decisions in ways that are advantageous to the shareholders, agency theory contends that they may have their own self-interests in mind. Additionally, shareholders anticipate that SACCO managers will adhere to SASRA rules.

2.2.3 Financial Stewardship Theory

This theory was proposed by Donaldson and Davis (1989). The financial stewardship idea established value maximization as the financial institution's goals, which are reinforced by the firms' vision (Contrafatto, 2014). The stakeholder theory, which contends that business decisions should take shareholders' interests into account, is important among these theories (Sundaram & Inkpen, 2004). After the necessary amount of money has been amassed, it will afterwards be put to use in order to generate income. According to the recommendations made by the various financial institutions, the implementation stage of

the investment entails using the money that was raised by the community toward achieving the goals that it has set for itself.

Each SACCO is required to generate income that is sufficient to cover all of its operating expenses, increase the amount of institutional capital, pay dividends and rebates, and meet regulatory requirements (Mudibo, 2005). In this context, good financial practice is founded on great financial management, a stable capital structure, and a strategic approach to allocating cash (Maina, 2007). In this context, there are various theories of financial management that explain the expansion of wealth in terms of financial stewardship (also called financial governance) (Chen, 1975; Meressa, 2017; Abdeljawad, Mat-Nor, Ibrahim & Abdul-Rahim, 2013; Olando, 2012). According to this hypothesis, stasis in the growth of wealth is caused by a lack of competent financial stewardship [Citation needed].

When the SACCO is making its routine financial decisions, which are part of financial stewardship, the organization should adhere to ethical business standards (Meressa, 2017). Additionally, this should focus on the SACCOs' financial discipline because it has a big impact on the success of all the businesses that they manage (Mudibo, 2005). Financial stewardship, for instance, include making crucial financial choices including the hiring of finance personnel, debt management, asset management, and product innovation. (Horne, 2003, and Mudibo, 2005). The financial stewardship should be able to work toward increasing the wealth of the SACCOs, maintaining the value of the SACCOs, and satisfying the demands of the shareholders. Additionally, the component of financial stewardship is accountable for the updating of accounts, the verification of the accuracy of accounts, the preparation of advance plans, and the reporting to members.

According to Davis, Schoorman, and Donaldson (2018), financial stewardship, which is the SACCO's regular financial decision-making, should embrace sound business practices and center on the organization's financial discipline with a significant impact on the success of all SACCO-conducted businesses (Bwana & Mwakujonga, 2013). For instance, hiring financial employees, managing loans, managing assets, and deciding on new product development are some of the key financial decisions that go into financial stewardship (Horne, 2003). This thesis argues that financial stewardship should be able to work to increase SACCO wealth, sustain the SACCOs' worth, and satisfy the shareholders' needs.

It is thought to be relevant to the current study. Additionally, the financial stewardship component is in charge of maintaining accounts, guaranteeing their accuracy, planning in ahead, and reporting to members.

2.3 Determinants of Financial Performance of Deposit-Taking Saccos

Any business's goal is to increase financial performance, and it is critical to evaluate management in terms of how well individuals and groups within the organization contribute to those goals (Musah, Abdulai & Baffour, 2020). According to Murthy and Sree (2015), there are a number of ratios that can be used to gauge financial success, including return on equity, return on asset, and net interest margin. Financial performance evaluates how effectively a company's management can turn a profit from its core business operations (Kilonzi, 2012). Financial efficiency is calculated using financial ratios such liquidity ratios, debt ratios, operating ratios, and profitability ratios. Financial success can be used to compare the performance of various SACCOs within a given market.

The SACCOs management structure has various flaws as a result of the lack of prudential legislation and financial supervision. This comprised portfolio quality that was either not being monitored or was being monitored very badly, as well as inadequate audit reports with no provisioning or writing down loans for non-performing loans (SASRA, 2020). It has been demonstrated that SACCO laws have a favorable impact on capital ratio, which raises return on assets (ROA), whereas increasing liquidity lowers ROA (Jumba, 2021). Since they are the primary engines for growth and financial development, the importance of financial institution regulation for financial performance cannot be overstated. Regulations can help the SACCO sector by introducing stronger financial practices and prudential requirements, claims SASRA (2021).

2.3.1 Capital Adequacy Regulation and Financial Performance of DTS

By using a descriptive research approach, Nanzala (2021) evaluated the impact of capital sufficiency laws on the performance of savings and credit cooperative societies in Kakamega County. The Front office Savings Activity, or FOSA, running SACCOs in Kakamega County were the study's target demographic, and a census of these SACCOs operating in the County was conducted. Respondents were chosen at random from inside the SACCOs for questionnaires and interviews, which were used to collect data. The

study's findings revealed a strong relationship between ownership, public trust in corporate governance, and performance at a significance level of 0.05. The study also showed that capital regulation greatly increased management effectiveness, which had a favorable effect on performance. This was ascribed to an increase in management effectiveness being covered by the fees and commissions paid by Deposit Taking SACCOs. According to the report, regulatory changes should focus on fostering more competition in the deposit-taking Sacco industry.

In a study by Kioko (2016), three questions, including why capital adequacy standards for SACCOs are necessary, were the focus of the study. What challenges did SACCOs have in satisfying the capital adequacy requirements, and what solutions did SACCOs choose? This descriptive research design focused on Front office Savings Activity, or FOSA, running SACCOs in Nairobi County, and a census of all 35 of these SACCOs operating in the county was undertaken. According to the study, SACCOs benefited greatly from the regulations in a number of ways, including managing credit risk, fostering public confidence, providing a safety net for members' deposits, supplying operating capital, increasing their capacity to lend, laying the groundwork for future growth, and avoiding insolvency. SACCOs had a variety of issues to overcome in order to follow the capital adequacy rules. The study concluded that in order to continue reaping the benefits discussed in this study, managers of SACCOs must closely adhere to the regulations' criteria.

Research was undertaken by Waiganjo, Wanyoike, and Koitaba (2015) was carried out with a primary purpose of the study was to investigate how factors such as corporate governance, the caliber of the board of directors, and employee competence all contribute to the financial performance of SACCOs. According to the findings, although though it had a lower level of significance compared to the other two factors, the quality of the SACCO's Board of Directors was an essential component in improving the organization's financial performance in relation to the requirements set forth by SASRA. Their research also revealed that the compliance of the SACCO employees with the regulations imposed by SASRA had a substantial bearing on the level of financial success enjoyed by the SACCOs located in the region. This study also discovered that corporate governance

significantly impacted SASRA rules and SACCO financial performance, emphasizing the importance of corporate governance for enhancing SACCO operations.

A research study by Ndung'u and Mutinda (2022) argued that since it is in the best interest of the deposit-taking savings to meet the minimum standards set by SASRA, it is in the best interest of the deposit-taking. According to the findings of the study, such methods would involve issuing additional capital, expanding membership base, diversifying product base, investing in capital assets, and modifying dividend pay-out ratio. These are all tactics that have been considered up until this point. As the SACCO works to increase the absolute value of its capital, it would also be prudent to pay attention to the other variable that affects the capital ratio, namely risk weighted assets.

2.3.2 Liquidity Level Regulation and Financial Performance of DTS

Banerjee and Mio (2018) looked into how liquidity regulation affected UK banks in their study. The study discovered that tighter liquidity regulation had an impact on bank balance sheets as a whole or had a detrimental impact on lending to the non-financial sector, either by lowering the quantity of credit that was available or by increasing the interest rates on loans. These results were both unfavorable. In response to stricter liquidity regulations, the banking sector as a whole traded its claims against other financial institutions for cash, reserves at the central bank, and government bonds. While lending to the real economy was unaffected, this lessened the banking sector's interconnectedness.

Celestin (2019) investigated the connection between commercial banks' financial performance and regulation in Rwanda. The study gathered information from eight commercial banks and discovered that there was no connection between Rwanda's commercial banks' financial performance and their liquidity ratio (profitability). Kagai (2018) investigated how Kenyan commercial banks' operating efficiency was impacted by their liquidity ratios. According to the study, there is a considerable correlation between the ratio of liquid assets to short-term liabilities, operational efficiency, and total capital. Ali and Okibo (2015) conducted research in Kisii County to ascertain the impact of prudential regulations on the financial performance of the local banks. The management of liquidity was the main topic. They discovered a significant, favorable association between commercial banks' liquidity management and their financial performance in Kisii County.

A study by Grundke and Kühn (2020) found that banks adapt their balance sheets by raising the share of stable means of funding when the difference between their necessary and actual liquidity ratios is lower than the long-term average, but the response of their liquid assets is negligible. Although we find adjustment to be more symmetrical after tighter liquidity regulation, which affects both the composition of assets and liabilities, this conclusion is generally consistent with our analysis. The analysis concluded that the Dutch Liquidity Ratio, adopted in 2003, was a major exception (DNB, 2003). According to the findings of the study, it is extremely important to take into account the impact of the operational procedures that are associated with the quantitative easing program. This is due to the fact that banks choose to meet their liquidity requirements by substantially increasing the amount of central bank reserves they hold.

2.3.3 Performance Reporting Guideline and Financial Performance of DTS

Anyango (2020) also found that there was a favorable correlation between liquidity and financial success, highlighting the necessity for businesses to have effective working capital practices in order to increase their overall worth. Given that there is an inverse correlation between leverage and performance, the preceding research recommends that businesses determine the ideal levels of gearing at which they can operate while still increasing their shareholders' value. According to the findings of the study, businesses should guarantee they improve their performance by implementing robust financial reporting methods. Additionally, the study suggested that provisions for accruals, particularly those that lead to profits management, should be prohibited. The study suggested conducting additional research to broaden the topic and the number of variables involved, as well as to investigate other nonlinear regression models such as vector error correction models.

Mwangi (2018) carried out research in Nairobi County, Kenya, to determine the connection between disclosure rules and the monetary success of deposit-taking savings and credit cooperatives. The research was published in Kenyan Journal of Accounting and Finance. The Sacco Societies Act, which is included in Title 490B of the Acts of the Republic of Kenya, was made into an operational law with the purpose of, among other things, improving corporate governance and transparency in Saccos that accept deposits. In the

financial statements, governance-related parties have a responsibility to give proper disclosures on significant regulatory criteria.

According to Gajevszky (2015), in order to reach this level, the financial reports must accurately describe the situation, be comparable, and be able to be verified, be presented in a timely manner, and be understood. As a result, it is crucial to avoid supplying users with misleading financial reports and to have transparent financial reports. Exactness and predictability are also significant indicators of high-quality financial reporting. In the study, corporate performance was measured by the market-to-book ratio, while the quality of reporting policy was operationalized as earnings quality, conservatism, and accruals quality. The study, which used a panel research design, found a favorable association between financial reporting quality policy and corporate performance that was significant.

In a previous study, Mutinda (2016) examined how Kenya's deposit-taking SACCOs' financial performance was impacted by the country's prudential regulatory environment. The research problem was addressed in this study using a descriptive survey design. Its headquarters were in Kenya, where there were 181 deposit-taking SACCOs. The regression model, a quantitative data analysis tool, was utilized in the study to examine secondary data. Using the results of the analysis, the study determined that the financial performance of SACCOs in Kenya was significantly impacted by the application of prudential regulatory requirements.

Mwenda (2018) sought to ascertain how the SASRA regulations impacted the monetary success of SACCOs in Kenya in various contexts. The study concentrated on the 98 SACCOs that SASRA has registered. The study's 30 Nairobi-based SACCOs were selected using the purposive sampling method. The analysis made use of secondary information acquired from the SACCOs' financial accounts. The analysis revealed that higher managerial efficiency and capital needs were beneficial to SACCO's profitability during the post-capital regulation period.

2.3.4 Risk Classification Requirement and Financial Performance of DTS

Wamalwa (2020) looked at front office service activity (FOSA)-offering savings and credit cooperative societies (SACCOs) in Kenya to investigate how regulations affected financial performance. The study targeted 122 of these SACCOs in Kenya and using a descriptive

research methodology. In order to choose a representative sample from this population, systematic random sampling was used. Structured and open-ended questionnaire questions were used to collect data. According to the study, adopting governance principles improved the financial performance of SACCOs. The study discovered that the specific prudential regulations on capital adequacy, the amount of external borrowing, the classification and provisioning of assets, the maximum loan size, the prohibition of insider lending, and the classification of risks were the prudential guidelines that had the greatest impact on financial performance. The investigation came to the conclusion that SACCOS' financial performance has improved as a result of the introduction of reporting regulations.

Mamet (2018) carried out research on SACCOS's financial performance and credit risk management strategies for the Uasin Gishu Enterprise Development Fund. The authors argued that cooperatives have not performed well in a liberated environment. In general, agricultural cooperatives were unable to offer farmers credit or farm inputs to finance output. Due to the hurried implementation of the policies, agricultural cooperatives performed poorly after liberalization, which highlighted the necessity for training and readiness for such reforms.

According to Christen and Rosenberg (2020), the credit categorization criterion will help determine which clients the credit facilities can be granted to and will distinctly specify which businesses, depending on the current conditions, the financial institutions should steer clear of. This will be done by assisting in identifying the clients to whom credit facilities can be offered. According to Christen and Rosenberg, credit policy makes it possible to evaluate a borrower's situation in relation to their cash flow trends, the feasibility of business endeavors centered on the projected returns, and the capital position of the customer. SACCOs will have a better chance of being able to take on funds that are then distributed to its registered members in the form of loans if they have good procedural policies in place. Tight credit rules, on the other hand, might cause an institution to lose customers, particularly as a result of an increased risk of loss brought on by bad debts; consequently, the absence of a clear credit policy can lead to an increase in bad debts and non-performing loans.

2.3.5 Financial Technology and Financial Performance of DTS

A study by Sum and Membwa (2016) targeted 10 SACCOs and random sampling was employed during data collection. The study indicated that use of mobile in banking increased income through commission charges and cashless services has reduced operational costs to the SACCO enabling it to retain more profits from operations. This meant that the financial performance of an organization depends on its mode of service delivery to meet its client needs. The study drew the conclusion that adoption of financial innovation enhanced the financial performance of the SACCO. The study had one major recommendation which urged SACCOs to adopt mobile banking to increase transactions among clients and create an online presence to create awareness of the existence of the SACCO.

Wanyonyi and Ngaba (2021) evaluated the connection between the use of digital financial services and the financial performance of savings and credit cooperative societies. They did this by employing a descriptive research approach and focusing their attention on the employees of the three SACCOs that were located in Kakamega County, Kenya. According to the findings of the study, the company had a reliable mobile banking system in which the majority of their customers had enrolled in it and in which the majority of customer inquiries and updates were handled through the mobile platform. According to the findings of the survey, a significant proportion of Saccos are making a slow but steady transition away from the conventional manual banking practices of the past and toward the provision of electronic financial services (e-banking) such as online banking, mobile banking, and support for automated teller machines. It was found that Saccos intentionally use digital financial services to offset the fiercer competition from traditional banking institutions and non-banking financial institutions, lower expenses, and improve their services to maximize benefits for its owners.

According to the findings of a study that was conducted by Maleto (2016) to examine the effect of financial innovation on the expansion of SACCOs, the adoption of electronic record keeping improved the performance of the 150 SACCOs that are now operating in Kenya. The research looked at the impact that new financial technologies had on microfinance institutions from 2011 to 2015, analyzing data taken from financial

statements and articles. For the purpose of assisting in the explanation of the data gathered through mean and frequencies, the study utilized a descriptive analysis kind of research. A regression analysis model was also utilized by the researcher in order to assist in the explanation of the connection that exists between the financial innovations on the market and the overall performance of SACCOs that are active in Kenya (Maletto, 2012). According to the findings of the study, additional research ought to be carried out on the expansion of SACCOs so that next researchers will have access to a broad range of literature sources on the subject of study.

A study on the significance of a well-structured accounting system that would allow enterprises to maintain accurate financial statements was conducted by Al-Dmour, Abbod, and Al-Balqa (2018). The purpose of the study was to investigate the methodologies that are applied to accounting data in order to evaluate the economic health of small and medium-sized firms. The Likert scale was utilized for the analysis, and questionnaires were sent out to the general public. According to the findings of the survey, the majority of owners of SMEs lack fundamental accounting skills and complain about the expense of creating financial statements; as a result, they choose to manually retain their businesses' records. According to the findings of the survey, the majority of respondents believe that one of the primary advantages of maintaining accurate records is having a better understanding of how well a company is doing. This lends credence to the notion that it is challenging to discover appropriate records in these SMEs. According to the research, small and medium-sized business owners and operators should make an effort to keep proper records and, if necessary, hire small and medium-sized business professionals to do so at a low cost. Even though the study placed a strong emphasis on the necessity of maintaining accurate company records, its scope was limited to the formal sector.

A local study by Njoroge (2020) to test effects of innovation on the financial performance of MFIs, proved that innovation is a key determinant in the performance of MFIs. The researcher adopted a descriptive and analytical design to analyze data collected through use of questionnaires. The study targeted a sample of all 47 MFIs operating under the Microfinance Act of 2006. The study however, only covered microfinance institutions and failed to capture data from other financial institutions such as banks and SACCOs and urged future scholars to focus on other variables such as market innovation that influence

the performance of MFIs in Kenya (Njoroge, 2020). In order to draw a more valid conclusion, a research on financial institutions was suggested to help obtain accurate results. Further studies could also be conducted on external and internal variables that have influence over the financial performance of MFIs in Kenya.

2.4 Conceptual Framework

Figure 2.1 is a representation of the conceptual framework that will serve to drive this inquiry and throw light on the link between the independent variables and the variable that will be investigated. The research examined the relationship between financial performance and financial technology as a moderator and dependent variable, respectively. The capital adequacy regulation, liquidity level regulation, performance reporting rules, and risk categorization criteria were the factors that were independent of one another.

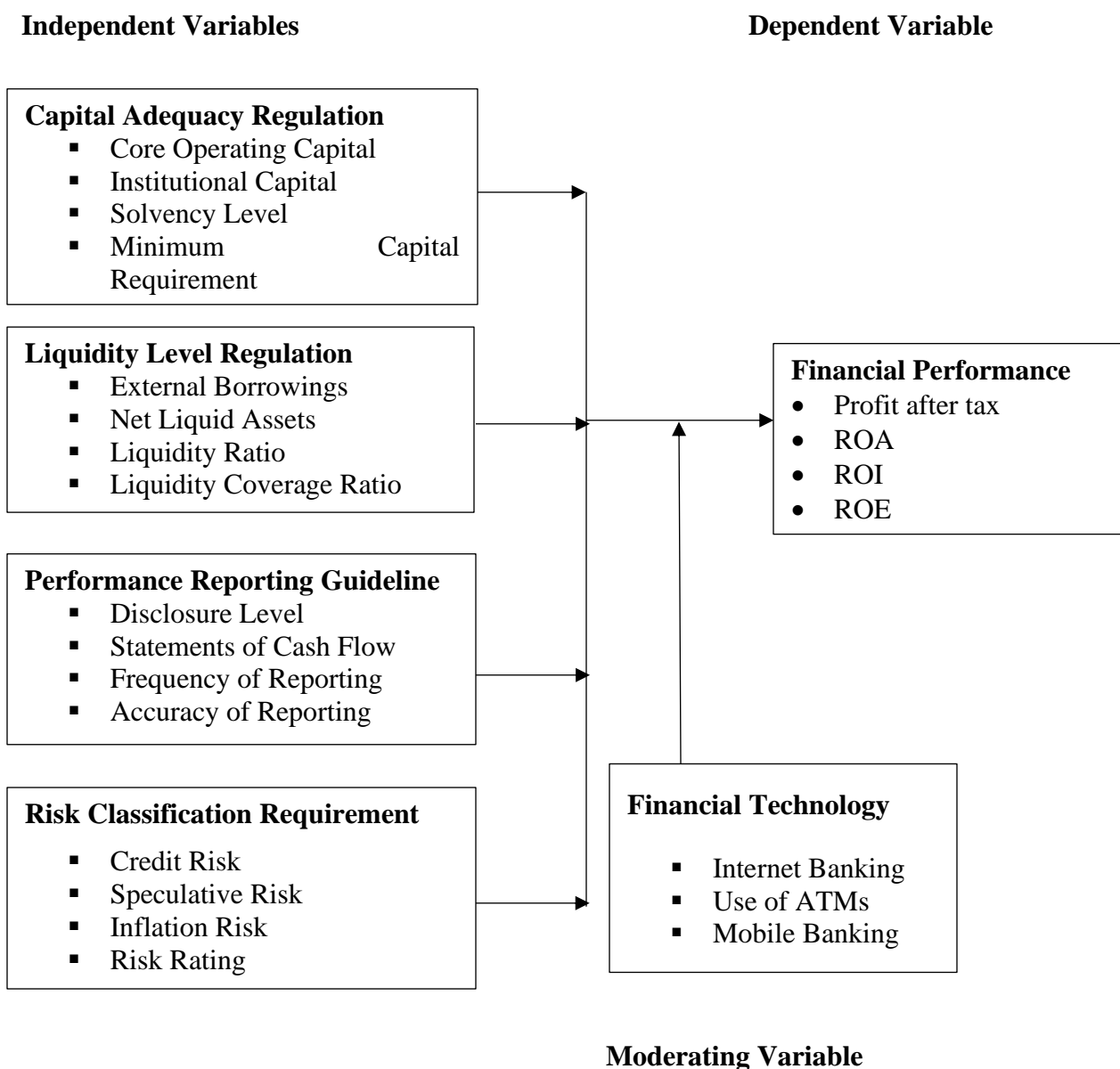


Figure 2.1: Conceptual Framework Model

Source: Derived from Literature Review

2.5 Summary of Literature Review

This chapter has covered the literature review. Specifically, the chapter has presented the theoretical framework in which relevant theories informing the study variables have been discussed in detail. The chapter has also discussed determinants of financial performance and the conceptual framework.

However, based on the reviewed literature, there is inadequate empirical information to conclude based on the current study. Based on the previous studies review, the knowledge gap arising from the conceptual, contextual, and methodological has been identified. Some studies were conducted in developed countries compared to developing countries like Kenya. Moreover, the contextual gap also emerges from the fact that some studies were not conducted at deposit taking SACCOs in Kenya.

It is further evident that the literature discussed in this chapter presented conceptual gaps as none of those studies particularly used the independent variables used by the current study which includes capital adequacy regulation, liquidity level regulation, performance reporting guideline and risk classification requirement. Furthermore, the methodological gap exists in the form of the type of data, research design and sampling techniques, among others. For instance, in some studies, the descriptive research design was used while the current study will adopt the cross-sectional design, thus, a methodological gap. The weakness of the descriptive research design is that descriptive studies cannot be used to establish the relationships/effects of the variables. Therefore, the scholars have only illustrated the theoretical understanding of the effects of SASRA regulations on the performance of deposit taking SACCOs. To address this gap, there is need for the current study to be conducted in Nairobi City County.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used by the current study. A research approach offers the study credibility and yields reliable scientific results. The method is streamlined, efficient, and manageable because to the chapter's comprehensive plan, which aids in keeping the researcher on course. Study design, target population, sample size and technique, data collecting, data analysis, and ethical issues are some of the elements included under the research methodology. Each study section's justification is thoroughly explored.

3.2 Research Design

The design for finding answers to the questions under investigation and overcoming some of the challenges that may arise during the research process is known as the research design (Lavrakas, 2008). The research design is a conceptual framework within which the research is carried out. It also contains a plan for the collecting of data, the measurement of data, and the analysis of data. According to Rahi (2017), a research design is a comprehensive blueprint for the study that specifies the appropriate approach to inquiry, the sorts of tools to employ, the strategy for sampling, and the data sources. In addition, a research design may be thought of as a plan for collecting the data. Research can be conducted using one of four primary designs: descriptive, cross-sectional, exploratory, or explanatory designs (Creswell, 2014).

The study adopted cross-sectional study design. The purpose of this study was to investigate the connection between the regulations imposed by SASRA and the levels of financial success achieved by SACCOs that accept deposits in Nairobi County. Therefore, a cross-sectional study design was deemed appropriate for this investigation since it allows for the examination of a wide variety of factors and contributes significantly to an improved comprehension of the connection between the independent and the dependent variables.

3.3 Population

A population is a large group of items with shared observable features (Blumberg, Cooper & Schindler, 2014). The complete group of factors from which the researcher wants to

draw conclusions is referred to as the population. This study targeted 46 SACCOs in Nairobi majoring in deposit taking and depicted by appendix IV. The unit of observation included board chairpersons and chief executive officers (CEOs) of the forty-six targeted DT-SACCOs.

This study settled on the board chairpersons and chief executive officers because they participate in the decision-making process in the SACCOs, and thus were expected to be more information with regards to SASRA regulations and how they affect the performance of the SACCOs. The chair serves as leader and manager of the board of directors in a SACCO. The chair controls debate, ensures that business is performed in an orderly manner, preside over board meetings, and makes an effort to guide the board toward consensus. The board chair often serves as the cooperative's officer and signs all contracts and loan documents.

3.4 Sample Design

A framework that offers a basis for selecting the sample to be used in the study is referred to as a sampling design (Lohr, 2021). According to Abmann et al. (2011), sample design encompasses all of the characteristics of how the units are grouped into sampling frames, as well as the determination of sample size and the selection of samples. On the other hand, a sample is a representation of a population taken from a larger whole. It is an accurate reflection of the whole population that is going to be researched (Erba, Ternes, Bobkowski, Logan & Liu, 2018). A good sample should represent the population whose results can be applied to make inferences.

Since the target population of 46 SACCOs was small, the study used census approach to study all the 46 licensed DT-SACCOs in Nairobi City County. The justification for picking licensed deposits taking SACCOs in Nairobi City County as representative was because majority of those SACCOs are concentrated in Nairobi City County. From each of the 46 SACCOs, one CEO were purposively selected to participate in this study, thus the sample size of the study involved 46 participants.

3.5 Data Collection

Structured questionnaire enabled the researcher to collect adequate data from the respondents more conveniently. The study used five points' Likert scale statements for the purposes of answering or the respondents. The questionnaires were separated into sections based on the research objectives. Secondary data on performance of the targeted SACCOs over a five year period (2017-2021) was collected using secondary data collection template.

3.6 Data Analysis

The process of turning unprocessed, raw data into a legible format that can then be interpreted, analyzed, and applied is known as data analysis (Chakravarthy & Jiang, 2019). The collected data was reviewed first to ensure it is clean to be used for the analysis. Going through the data first removes any errors that might be present in the data.

Data was analyzed making use of SPSS Version 26.0's descriptive statistics and inferential statistics aided statistical analysis capabilities. The broad description of the study variables, as well as their fundamental characteristics, were provided by the descriptive analysis. The descriptive statistics provide straightforward descriptions regarding the sample and the variables being measured.

As a result, SPSS version 26.0 was utilized to perform tasks such as data organization, coding, and analysis, as well as the generation of the quantitative report. This study was able to assess the extent to which the respondents agreed with the claims that were made in the questionnaire by utilizing descriptive statistics such as mean, frequencies, percentages, and standard deviation. These statistical methods were applied to the analysis of the data that was collected. Both a correlation analysis and a regression analysis were included as parts of the inferential study. The data that was gathered from the investigation was shown in front of the audience in the form of tables, charts, and graphs.

3.6.1 Diagnostic Tests

Before attempting to estimate the multiple regression equation, it was crucial to make sure that the assumptions of the classical linear regression model (CLRM) were not being violated. The linear relationship that exists between two or more variables is the focus of the concept of multicollinearity. The test for multicollinearity is extremely important

because, as the level of multicollinearity rises, the confidence intervals for the parameters become more spread out, and the p-values that result may be deceptive. As a result, it becomes more difficult to draw the correct inferences and come to the right conclusions. This reduced the reliability of the estimates of the model parameters.

In order to conduct the multicollinearity test, the variance inflation factor served as the foundation (VIF). If the value of the variable of interest (VIF) is more than ten, then it is determined that there is a high degree of multicollinearity since a large value of VIF indicates that there is some linear dependence between the predictors and the norm (Alin, 2010). In order to accept multicollinearity, the VIF should have a value that is lower than 5, as this is the rule of thumb. In the event that a high level of multicollinearity is found to exist, then one of the highly correlated variables will be removed from the analysis (Daoud, 2017). The purpose of the VIF test was to determine whether or not the values of all of the predictor variables fall within the range of five. These will indicate that there will be no threat of high multicollinearity problems.

Data distribution is typically assumed to be normally distributed in parametric statistical analyses; however, interpretation may not be reliable if this assumption is not met. In this particular inquiry, the Shapiro-Wilk test was utilized in order to establish whether or not the data were normal. In this experiment, the alternative hypothesis, which states that the disturbances do not follow a normal distribution, was contrasted with the null hypothesis (H_0), which states that the disturbances follow a normal distribution. If the estimated statistic does not meet the criteria for significance (P-value less than 0.05), then the null hypothesis should not be rejected. A value of one for the Shapiro test statistic indicates that the data are normally distributed, whereas a value of zero for the statistic indicates that normality has been rejected. The value of the Shapiro test statistic can range from zero to one. If the normality test failed, non-parametric statistical methods would be used as they do not assume normality. Additionally, if a few extreme residuals cause non-normality, then a dummy variable could be used to remove those observations (Brooks, 2008) effectively.

When a predicted variable's standard deviations are not consistent throughout time or when they are compared to earlier periods or different values of an independent variable,

heteroscedasticity has occurred (Schwert & Seguin, 1990). The errors are assumed to be separately identically distributed under this assumption; nevertheless, heteroscedasticity is evident if the errors are assumed to have distributions with different variances rather than independently identical distributions (Klein, Gerhard, Büchner, Diestel & Schermelleh-Engel, 2016). If the data is not homoscedastic, standard errors would be wrong, which will lead to misleading inferences.

B-P test creates a chi-distributed statistic with the null hypothesis (H0) that the error term is heteroscedastic against an alternative hypothesis that the error term is homoscedastic. If the LM- statistic exceeds Chi-squared critical values ($LM > \chi^2$), the null hypothesis would be rejected, providing sufficient evidence of heteroscedasticity. If the null hypothesis is rejected hence the data is heteroskedastic the other methods such as FGLS model would be run (Muller & Stadtmuller, 1987; Asteriou & Hall, 2007).

3.6.2 Analytical Model

The study adopted the following multiple regression model to analyze the data as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where: -

Y= Financial performance

X₁= Capital Adequacy Regulation

X₂= Liquidity Level Regulation

X₃= Performance Reporting Guideline

X₄= Risk Classification Requirement

β_0 =Constant

$\beta_1, \beta_2, \beta_3$ & β_4 = Coefficients

ε = Error term

Model for Moderation

The methodology of Baron and Kenny (1986) was used to test moderating variable as shown below:

$$Y = \beta_0 + \beta_1 X_1 * FT + \beta_2 X_2 * FT + \beta_3 X_3 * FT + \beta_4 X_4 * FT + \varepsilon$$

Where: -

Y= Financial performance

X₁= Capital Adequacy Regulation

X₂= Liquidity Level Regulation

X₃= Performance Reporting Guideline

X₄= Risk Classification Requirement

FT=Financial Technology (Moderator)

β₀=Constant

β₁, β₂, β₃ & β₄= Coefficients

ε= Error term

3.6.3 Significance Tests

At a significance level of 5%, correlation analysis was utilized in order to examine the importance of the links that existed between the variables. In addition, the Analysis of Variance, often known as ANOVA, was applied in order to determine whether or not the study model held any overall significance. In conclusion, the T values that were derived from the regression coefficients were utilized in order to validate the significance of the correlations that were being investigated between the various variables during this research.

3.7 Ethical considerations

The researcher started gathering data after receiving permission to conduct the study. The researcher made sure that the study was carried out in conformity with the 2013 Act by adhering to the guidelines established by NACOSTI.

The respondents' personal information was respected and kept confidential in this study with the utmost honesty. This was done on purpose to let them know that, according to the agreement between the researcher and the participants, the information they would provide would be treated with strict confidentiality and would only be used for academic purposes.

In addition, before filling out the surveys, the researcher left space for inquiries. This was done with the aim of giving them a clear understanding of the purpose of the study and their rights as participants during the whole process. The aspect of confidentiality as well as permission to discontinue with the participation in the study at any stage was strongly emphasized to the participants. Finally, the researcher ensured a soft copy of the research findings is given out to the SACCOs upon request.

3.8 Pilot Test

In this research study, a total of five participants, which constituted 10% of the sample size (46), were chosen to be a part of the final sampling units. This was done in order to acquire trustworthy feedback for the purpose of enhancing the questionnaire. According to Creswell and Creswell's (2017) research, a pilot test should involve at least ten percent of the total sample population.

3.9 Testing for Validity and Reliability

3.9.1 Reliability Test

This provided the researcher with assistance in determining whether or not the conceptions were understandable and whether or not different respondents could interpret the questions in the same way. Rule for Making a Decision: A Cronbach alpha coefficient of 0.7 or above was required in this research in order to get this conclusion from the test results. According to Kothari and Gaurav (2014), items in the questionnaire are reliable if they have a value of 0.7 or higher for Cronbach alpha. They explain that this shows that the items' internal consistency is reasonably good.

3.9.2 Validity Test

In order to ascertain whether the construct truly represents the domain, the supervisor and colleagues discussed the area of the principle in this research study, which embraced content validity, a descriptive sort of reputation. According to Creswell & Creswell (2017), validity is the extent to which the results of an instrument's test actually reflect the world being studied. Additionally, the degree to which a tool establishes what it claims to determine is referred to as authenticity (Creswell & Creswell, 2017). As a result, validity is interested in the significance of the research components.

Construct legitimacy explains how successfully a thought, recommendation, or behavior was operationalized, or changed from a construct into a working, operational reality. According to Creswell & Creswell (2017), there are normally two ways to assess the trustworthiness of content: by asking a variety of questions about the tool or assessment and/or by seeking advice from experts in the field, primarily supervisors and peers. Kaiser-Meyer-Olkin (KMO) values were used in this research investigation to examine the construct validity. Decision Rule: The construct is deemed acceptable if the KMO value is greater than 0.5 and the Bartley significance is less than 0.05 (Williams, Osnman & Brown, 2010).

Table 3.1: Operationalization of the Study Variables

Variable	Type of Variable	Indicators	Measurement Scale
1.Capital Adequacy Regulation	Independent Variable	<ul style="list-style-type: none"> ▪ Core Operating Capital ▪ Institutional Capital ▪ Solvency Level ▪ Minimum capital Requirement 	Ordinal
2.Liquidity Level Regulation	Independent Variable	<ul style="list-style-type: none"> ▪ External Borrowings ▪ Net Liquid Assets ▪ Liquidity Ratio ▪ Liquidity Coverage Ratio 	Ordinal
3.Performance Reporting Guideline	Independent Variable	<ul style="list-style-type: none"> ▪ Disclosure Level ▪ Statements of Cash Flow ▪ Frequency of Reporting ▪ Accuracy of Reporting 	Ordinal
4.Risk Classification Requirement	Independent Variable	<ul style="list-style-type: none"> ▪ Credit Risk ▪ Speculative Risk ▪ Risk due to Inflation ▪ Risk Rating 	Ordinal
5.Financial Technology	Moderating Variable	<ul style="list-style-type: none"> ▪ Internet Banking ▪ Use of ATMs ▪ Mobile Banking 	Ordinal
6.Financial Performance	Dependent Variable	<ul style="list-style-type: none"> ▪ Profit after tax ▪ ROA ▪ ROI ▪ ROE 	Ratio

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION, AND INTERPRETATION

4.1 Introduction

In this chapter, the findings of the analysis are addressed and the results are presented in accordance with the goals of the study. The chapter also provides research interpretation. The analysis was divided into sections and organized in accordance with the study's goals. The analysis was also discussed. Results on response rate, data validity, and dependability are presented in the chapter's opening paragraphs. The findings about the background information are then given. Also presented are descriptive, correlation, and regression data.

4.2 Response Rate

By adopting census approach, all the 46 SACCO CEOs were involved in the study. As a consequence of this, a total of forty-six (46) questionnaires were issued to the CEOs who had been sampled.

Table 4.1: Response Rate

Response	Frequency	Percentage
Returned	46	100
Unreturned	0	0.0
Total	46	100.0%

Source: Field Data, 2022

Based on the response rate results in Table 4.1, all the forty six administered questionnaires were dully filled and returned yielding 100% response rate. This was considered excellent for analysis.

4.3 Pilot Test Results

4.3.1 Reliability Test Results

The dependability of the responses and the extent to which the questionnaire used was appropriate for data collection were both evaluated through the use of reliability testing, which was carried out as part of the research project. In order to determine whether or not the questionnaire could be relied upon, the researchers utilized the Cronbach alpha

coefficient. In order to test the accuracy of the questionnaire, a preliminary investigation was carried out on five participants who were subsequently excluded from the primary research.

Table 4.2: Reliability Analysis

Variable	Number of items	$\alpha > 0.7$	Comments
Capital adequacy regulations	8	.811	Reliable
Liquidity level regulations	8	.746	Reliable
Performance reporting guideline	8	.713	Reliable
Risk classification requirements	8	.734	Reliable
Financial Performance	5	.861	Reliable
Financial Technology	8	.791	Reliable

The results in Table 4.2 show that all the study variables had Cronbach Alpha coefficient above 0.7 which was set as the cutoff point indicating that the items measuring the study variables were accurate and suitable for analysis.

4.3.2 Validity Test Results

In this study, the research assessed the validity of the questionnaire used to collect data. By adopting content validity testing technique, to evaluate the validity of the questionnaire's content, the researcher asked the project supervisors for their input. The supervisor's recommendations were put into practice before beginning the actual data collecting. Additionally, construct validity was employed in the study to check the reliability of the questionnaire given to the respondents. Table 4.3 provides a summary of the outcomes of the KMO and Bartlett's Test of Sphericity, also known as the significance test.

Table 4.3: Validity Test

Variable	KMO	Significance
Capital adequacy regulations	.766	.000
Liquidity level regulations	.660	.000
Performance reporting guideline	.750	.000
Risk classification requirements	.654	.000
Financial Performance	.781	.000
Financial Technology	.655	.000

Table 4.3's findings indicate that the KMO statistic for all of the variables (capital adequacy regulations, liquidity level regulations, performance reporting policy, risk classification requirements, and financial performance) were greater than 0.5, indicating that they were significantly more significant than the critical level of significance of the test, which was set at 0.5. This was due to the fact that all of the KMO statistics were greater than 0.5. This was shown by the fact that there was not a single variable that did not have a value that was greater than or equal to 0.5. (Field, 2013). In addition to the KMO test, the outcomes of the Bartlett's Test of Sphericity were found to have statistically significant differences ($p < .000$, at $p .05$) for all of the research variables. These findings offered a superb justification for conducting additional statistical analysis.

4.4 Demographic Analysis

The primary background factors that were examined were the respondent's age, gender, degree of education, the length of time the SACCO had been operating, and their employment history. These respondents' characteristics were identified and had an impact on the results.

4.4.1 Age of Respondent

The respondents were asked to provide information regarding their age brackets. The distribution of the respondent's ages.

Majority of the study participants were aged between 36-55 years, followed by 17.40% who were aged between 26-35 years, 15.20% were older than 55 years, while those aged

between 18-25 years formed only 2.20% of the sample. The responses imply that most of the DTS in Nairobi City County are under the leadership of mature CEOs capable of making informed decisions with regards to the implementation of SASRA regulations in the SACCO.

4.4.2 Gender of Respondent

In addition to providing information on their ages, the respondents were questioned regarding their gender. The findings make it abundantly clear that the majority of those who took part in the research were male (73.90%), while only 26.10% of them were female. This suggests that there is still a gender gap in the administration of deposit-taking SACCOs in Nairobi City County, as the majority of SACCOs are headed by males, while the percentage of female CEOs makes up a lesser proportion of the total.

4.4.3 Level of Education

Based on the results, majority of the CEOs (67.40%) were bachelor's degree holders, 21.70% were holder of master's degrees, 6.50% had diploma as their highest level of education, while 4.30% had doctoral degrees. The responses imply that most of the CEOs in Nairobi County are well educated individuals and as such were in position to provide the information sought by the study and could fill the questionnaire without assistance.

4.4.4 Age of SACCO

Moreover, the respondents were asked to indicate the period in years over which their SACCOs had been in existence. From the responses, most (47.80%) of DTS in Nairobi had been in operations for a period of between 5 and 10 years, this was followed by 32.60% of SACCOs that had existed for a period of between 2 and 5 years, 13% had operated within the city for barely two years, while 6.50% had existed for more than a decade. The responses imply that most DTS in Kenya have had interacted with SASRA regulation for long and so were in better position to provide answers to the questions of the study.

4.4.5 Work Experience

Finally, the respondents were asked to indicate the periods over which they had served as CEOs of SACCOs. The results indicated that a majority (41.30%) of the respondents had served as CEOs of SACCOs for a period of between 5-10 years, 26.10% for a period of

between 2-5 years, 17.40% had been CEOs of SACCOs for more than a decade, while 15.20% had less than 2 years' experience as CEOs. The responses imply that the CEOs that took part in the study were experienced in matters of handling SACCO issues at management level, so they were the best respondents to take part in this study.

4.5 Descriptive Analysis

Here, descriptive analysis for all the study variables have been presented. The analysis have been presented for capital adequacy regulations, liquidity level regulations, performance reporting policy, risk classification requirements and financial performance.

4.5.1 Capital Adequacy Regulations and Financial Performance of DTS in Nairobi County Kenya

The first objective of the study was to ascertain how Nairobi County's deposit-taking SACCOs performed in relation to capital adequacy regulations. The respondents were asked to indicate whether they agreed or disagreed with certain assertions about capital adequacy regulation.

Table 4.4: Descriptive Analysis on Capital Adequacy Regulations

Statement	SD	D	UD	A	SA	Mean	Std. Dev.
Our SACCO has been maintaining the required minimum core capital over the years.	6.50%	0.00%	6.50%	30.40%	56.50%	4.304	1.072
Our SACCO is consistent in maintaining the required minimum institutional capital.	2.20%	6.50%	13.00%	28.30%	50.00%	4.174	1.039
Members' deposits are the main source of our capital.	8.70%	4.30%	2.20%	47.80%	37.00%	4.000	1.174
Our SACCO acquires based on our core capital.	6.50%	2.20%	8.70%	32.60%	50.00%	4.174	1.122
Our SACCO is separating member deposits from capital	2.20%	0.00%	19.60%	28.30%	50.00%	4.239	0.923

Our SACCO is focused on Preventing insolvency.	2.20%	4.30%	13.00%	39.10%	41.30%	4.130	0.957
As a requirement, our SACCO is at all times maintaining minimum capital ratios.	4.30%	2.20%	8.70%	47.80%	37.00%	4.109	0.971
Our SACCO has been maintaining at least twenty-five percent of the prescribed minimum capital adequacy requirements	6.50%	0.00%	15.20%	30.40%	47.80%	4.130	1.108
Average Mean						4.158	

Based on the results in Table 4.4, majority of the CEOs (86.9%) agreed that their SACCOs had been maintaining the required minimum core capital over the years (Mean=4.304); majority of the respondents (78.3%) did agree that their SACCOs were consistent in maintaining the required minimum institutional capital (Mean=4.174); and a majority (84.8%) of them also indicated that members' deposits In their SACCOs were the main source of our capital (Mean=4.000). Moreover, the study established most SACCOs were acquiring based on their core capital as pointed out by majority of the respondents (82.6%).

The descriptive results also show that most (78.3%) of the study participants were positive that their SACCOs were separating member deposits from capital (Mean=4.239). Similarly, majority (80.4%) of the SACCOs were focused on preventing insolvency; majority (84.8%) of the respondents agreed that as a requirement, their SACCOs were at all times maintaining minimum capital ratios (Mean=4.109). Finally, study established that majority (78.20%) of the CEOs agreed with the statement that their SACCOs had been maintaining at least twenty-five percent of the prescribed minimum capital adequacy requirements (Mean=4.130). The findings are in line with Kioko's (2016) recommendation that SACCO managers should strictly adhere to the restrictions outlined in the regulation so that they can continue to enjoy the benefits that are outlined in this study. The results support this recommendation.

4.5.2 Liquidity Level Regulation and Financial Performance of DTS in Nairobi County Kenya

The study's second goal was to determine how deposit-taking SACCO performance in Nairobi County was impacted by regulations on liquidity levels. The respondents were asked to indicate whether they agreed or disagreed with certain assertions about the regulation of liquidity levels.

Table 4.5: Descriptive Analysis on Liquidity Level Regulation

Statements	SD	D	UD	A	SA	Mean	Std. Dev.
Our SACCO has maintained liquid assets not less than 15% of savings deposits and STLs.	4.30%	4.30%	4.30%	54.30%	32.60%	4.065	0.975
Our SACCO has policies in place governing external borrowing.	0.00%	6.50%	6.50%	19.60%	67.40%	4.478	0.888
Our external borrowing has never exceeded 25% of our total assets.	0.00%	0.00%	15.20%	15.20%	69.60%	4.543	0.751
Our members remit savings deposits on a monthly basis	0.00%	13.00%	17.40%	32.60%	37.00%	3.935	1.041
Liquidity requirements negatively affect the growth of our SACCO	0.00%	0.00%	4.30%	32.60%	63.00%	4.587	0.580
We have an effective loan policy for managing non-performing loans	0.00%	2.20%	8.70%	19.60%	69.60%	4.565	0.750
Our Sacco has high number of performing loans	2.20%	0.00%	10.90%	28.30%	58.70%	4.413	0.858
Our SACCO maintains the prescribed minimum level of < 5% of NPLs to gross loans.	0.00%	2.20%	13.00%	30.40%	54.30%	4.370	0.799
Average Mean						4.370	0.830

The descriptive analysis outcome in Table 4.5 show that majority (86.9%) of the SACCOs were maintaining liquid assets not less than 15% of savings deposits and STLs

(Mean=4.065); majority of the respondents (87.0%) agreed that their SACCOs had policies in place governing external borrowing (Mean=4.478), whereas 84.8% of the CEOs were in agreement that their external borrowing had never exceeded 25% of total assets (Mean=4.543). In addition, it is evident from the results that majority (69.6%) of the SACCOs had their members remit savings deposits on a monthly basis (Mean=3.935).

Furthermore, majority of the study participants (95.6%) agreed that Liquidity requirements negatively affected the growth of their SACCOs (Mean=4.587). It is also evident that most of the SACCOs (89.2%) had in place effective loan policy for managing non-performing loans (Mean=4.565). Similarly, majority (87.0%) of the respondents agreed with the statement that their SACCOs had high number of performing loans (Mean=4.413). Finally, majority of the respondents (84.7%) did agree that their SACCOs were maintaining the prescribed minimum level of < 5% of NPLs to gross loans. The results imply that DT SACCOs in Nairobi were fully adhering with the liquidity level regulation as prescribed by SASRA. These findings are in line with the assertions made by Mutinda (2016), which state that Sacco Societies are expected to put in place contingency plans to handle liquidity. These plans must include processes for making up gaps in liquidity in the event of an emergency.

4.5.3 Performance Reporting Guideline and Financial Performance of DTS in Nairobi County Kenya

Examining the impact of performance reporting guidelines on the financial performance of deposit-taking SACCOs in Nairobi County was the third study objective. The respondents were asked to indicate whether they agreed or disagreed with certain assertions about the performance reporting standard.

Table 4.6: Descriptive Analysis on Performance Reporting Guideline

Statement	SD	D	UD	A	SA	Mean	Std. Dev.
Our Sacco accounts are prepared in accordance with International Financial Reporting Standards.	4.30%	0.00%	34.80%	21.70%	39.10%	3.913	1.071
All our SACCO figures are shown in thousands	0.00%	0.00%	21.70%	43.50%	34.80%	4.130	0.749

of Kenya shillings as required by SASRA. All our SACCO returns are signed by at least two authorized signatories before submission to the Authority.	2.20%	0.00%	26.10%	30.40%	41.30%	4.087	0.939
Our SACCO provides all the required reports on net value of earnings arising from financial services.	2.20%	2.20%	10.90%	28.30%	56.50%	4.348	0.924
Our SACCO provide voluntary disclosure on all financial reports.	0.00%	8.70%	8.70%	34.80%	47.80%	4.217	0.941
Our SACCO does financial position reporting on a full disclosure basis	0.00%	0.00%	13.00%	39.10%	47.80%	4.348	0.706
There is a full disclosure of the liabilities of our SACCO	0.00%	4.30%	13.00%	37.00%	45.70%	4.239	0.848
In our SACCO Monthly summaries of comprehensive income are prepared and used.	2.20%	15.20%	4.30%	32.60%	45.70%	4.043	1.154
Average Mean						4.166	

As depicted by results in Table 4.6, majority of the respondents (60.8%) were in agreement that their SACCOs accounts were being prepared in accordance with International Financial Reporting Standards (Mean=3.913); most (78.3%) of the respondents also agreed that all their SACCO figures were being presented in thousands of Kenya shillings as required by SASRA (Mean=3.913). Furthermore, most (71.7%) of the CEOs of SACCOs agreed that all their SACCO returns were being signed by at least two authorized signatories before submission to the Authority (Mean=4.087). Moreover, majority (84.8%) of the study participants agreed that their SACCOs provide all the required reports on net value of earnings arising from financial services (Mean=4.348).

Additionally, most of the respondents (82.6%) agreed with the statement that their SACCOs were providing voluntary disclosure on all financial reports (Mean=4.348); majority (86.9%) agreed that their SACCOs carry out financial position reporting on a full disclosure basis (Mean=4.348); 82.7% of the SACCOs were found to be carrying out full

disclosure of the liabilities of the SACCO. Finally, the study established that most of the respondents (78.3%) agreed that in their SACCOs, monthly summaries of comprehensive income were being prepared and used. The results imply that most of the DTS in Nairobi City County are generally compliant with SASRA’s performance reporting policy.

4.5.4 Risk Classification Requirement and Financial Performance of DTS in Nairobi County Kenya

The study's fourth goal was to determine how Nairobi County's deposit-taking SACCOs performed in relation to the requirement for risk classification. The respondents were asked to indicate whether they agreed or disagreed with certain assertions about the risk classification requirement.

Table 4.7: Descriptive Analysis on Risk Classification Requirement

Statement	SD	D	UD	A	SA	Mean	Std. Dev.
Our SACCO adheres with all regulations regarding risk classification.	0.00%	8.70%	2.20%	43.50%	45.70%	4.261	0.880
The effectiveness of our SACCO's management can be gauged by looking at the ratio of active borrowers to management staff members.	2.20%	10.90%	2.20%	23.90%	60.90%	4.304	1.093
Adoption and implementation of credit risk management methods that are considered to be sound are practices that our SACCO engages in.	0.00%	2.20%	15.20%	34.80%	47.80%	4.283	0.807
To increase a SACCO's risk-adjusted rate of return, our SACCO ensures that efficient credit risk management is put into practice. Making sure that credit risk exposure is kept within reasonable limits does this.	8.70%	4.30%	2.20%	23.90%	60.90%	4.239	1.251
Our SACCO has classification of Speculative Risk which is the risk involving a possibility of profit or loss.	4.30%	4.30%	4.30%	34.80%	52.20%	4.261	1.042

Our SACCO classifies operational risk resulting from the SACCO business operations, loss resulting from inadequate or failed internal processes.	4.30%	2.20%	2.20%	19.60%	71.70%	4.522	0.983
Our SACCO reports financial risk relating to uncertainty or loss due to fluctuations in interest rates, foreign exchange rates and the value of money.	0.00%	4.30%	13.00%	39.10%	43.50%	4.217	0.841
Our SACCO reports Strategic Risk relation to SACCO's goals and objectives.	4.30%	6.50%	4.30%	28.30%	56.50%	4.261	1.104
Average Mean						4.293	

Based on the results in Table 4.7, majority (89.2%) of the respondents agreed that their SACCOs adhered with all regulations regarding risk classification (Mean=4.261); majority of them (84.8%) did agree that their SACCOs were doing management efficiency as measured by number of active borrowers per management staff (Mean=4.261), whereas majority (82.6%) agreed that their SACCOs were practicing adoption and implementation of sound credit risk management practices.

In addition, the research discovered that the vast majority of SACCOs, or 84.6% of them, practiced appropriate credit risk management in order to maximize a SACCO's risk-adjusted rate of return. This was accomplished by keeping credit risk exposure within acceptable bounds (Mean=4.239). Additionally, it is evident that majority (87.0%) of the DTS in Nairobi had classification of Speculative Risk (Mean=4.261). Furthermore, most of the study participants (91.3%) agreed that their SACCOs were classifying operational risk resulting from the SACCO business operations, loss resulting from inadequate or failed internal processes.

Similarly, majority (82.6%) of the respondents did agree that their SACCOs were reporting financial risk relating to uncertainty or loss due to fluctuations in interest rates, foreign exchange rates and the value of money (Mean=4.217). The survey also found that the majority of SACCOs (84.8%) reported strategic risk in relation to their aims and objectives

(Mean=4.261). The findings imply that the majority of Nairobi deposit-taking SACCOs are more in compliance with SASRA's risk classification criterion. According to SASRA (2020), the lack of prudential standards and financial oversight caused the SACCO management system to have a number of flaws. This comprised portfolio quality that was either not being monitored or was being monitored very badly, as well as inadequate audit reports with no provisioning or writing down loans for non-performing loans.

4.5.5 Financial Technology SASRA Regulations and Financial Performance of DTS in Nairobi County, Kenya

The descriptive findings in Table 4.8 depicts responses on financial technology

Table 4.8: Descriptive Analysis on Financial Technology

Statement	SD	D	UD	A	SA	Mean	Std. Dev.
The use of electronic funds transfer has contributed to an increase in income based on commission and fee structures.	6.50%	4.60%	13.90%	29.60%	45.40%	4.028	1.172
Creating an online presence of SACCOS has helped attract more clients.	4.60%	10.20%	15.70%	26.90%	42.60%	3.926	1.190
The launching new deposit accounts has contributed to a rise in the total amount of deposits.	4.60%	4.60%	19.40%	21.30%	50.00%	4.074	1.141
The automation of SACCO activities has led to an increase in the operations' efficiency.	6.50%	12.00%	16.70%	25.00%	39.80%	3.796	1.266
Mobile banking has contributed to an increase in commission and fee-based income, which is a good consequence.	4.60%	7.40%	10.20%	23.10%	54.60%	4.157	1.161
Cashless services have reduced operation costs.	6.50%	3.70%	13.00%	25.90%	50.90%	4.111	1.171
Our SACCO considers mobile banking	4.60%	7.40%	13.90%	22.20%	51.90%		

technology a key success in service delivery.						4.093	1.172
In our SACCO we consider money transfer services as a key success in customer satisfaction.	5.60%	4.60%	23.10%	28.70%	38.00%	3.889	1.138
Average Mean						4.009	

The data presented in the table reveals that seventy-five percent of respondents were in agreement that electronic funds transfer had contributed favorably to an increase in income based on commission and fees (Mean = 4.028). Additionally, the table shows that 69.5% of respondents agreed that creating an online presence for SACCOS has helped attract more clients (Mean=3.926). In addition, the majority of those who took part in the research agreed, making up 71.3% of the total, that the introduction of new deposit accounts has led to an increase in the total amount of deposits (Mean = 4.074). In addition to this, 64.8% of the CEOs who participated in the survey felt that the automation of SACCO activities has led to an increase in the efficiency of operations (Mean=3.796).

In addition, the majority of respondents (77.7%), were in agreement that mobile banking had a good influence on growing commission fee-based income (Mean=4.157). In addition, the majority of respondents (76.8%) concurred that cashless services had lower operating expenses (Mean=4.111). In conclusion, the vast majority of respondents (66.7% of all respondents) were in agreement that the provision of money transfer services was a critical success factor in ensuring customer satisfaction in their SACCOs.

4.5.6 Financial Performance of DTS in Nairobi County, Kenya

Table 4.9 depicts descriptive findings on financial performance of DTS in Nairobi.

Table 4.9: Descriptive Analysis on Financial Performance

Statement	SD	D	UD	A	SA	Mean	Std. Dev.
Our SACCO has maintained a positive Return on Assets over the year.	4.30%	8.70%	2.20%	43.50%	41.30%	4.087	1.092

Our SACCO has maintained a total assets ratio of more than 60% over the past five years.	6.50%	2.20%	8.70%	30.40%	52.20%	4.196	1.128
Our SACCO has maintained a positive expense Ratio consistently since its establishment.	6.50%	2.20%	10.90%	43.50%	37.00%	4.022	1.085
Our SACCO has been recording consistent improvement in return on investment.	4.30%	0.00%	6.50%	37.00%	52.20%	4.326	0.944
Our SACCO has been maintaining improvement in profit after tax since establishment.	2.20%	0.00%	17.40%	30.40%	50.00%	4.261	0.905
Average Mean						4.178	

Based on the results in Table 4.9, majority (84.8%) of the SACCOs were found to have been maintaining positive Return on Assets over the year, 82.6% of the SACCOs were found to have been maintaining a total assets ratio of more than 60% over the past five years, 80.5% of the SACCOs had been maintaining a positive expense Ratio consistently since its establishment. Additionally, it is evident that majority (89.2%) of the SACCOs had been recording consistent improvement in return on investment, whereas 80.4% of them had been maintaining improvement in profit after tax since establishment. These results signify that the financial performance of most deposit taking SACCOs in Nairobi City County have been improving over the years which can be attributed to compliance with SASRA regulations.

In addition to the primary data results presented above, the study collected secondary data from the financial records of the DT SACCOs in Nairobi County and analyzed to assess the overall financial performance of the SACCOs in a five-year period, between the year 2017 and 2021.

There was general improvement in the average return on assets for the DT SACCOs in Nairobi County between the year 2017 and 2021. The SACCOs recorded an average return on asset of 5.79% in the year 2017, this improved to 5.89% in 2018 before increasing

further to 6.67% in the year 2019. The results moreover show that the average ROA recorded by the SACCOs in 2020 was 7.06% which shot to a high of 7.36% in 2021. The results imply that the performance DT SACCOs in Nairobi had been improving consistently between 2017 and 2021, signifying good financial health.

In addition, the study sought to find out the financial performance of the SACCOs over the five-year period of 2017 and 2021 in terms of return on Investment (ROI). In addition, the study sought to find out the financial performance of the SACCOs over the five-year period of 2017 and 2021 in terms of return on Investment (ROI). The results depict an overall upward trajectory in performance of DTS in Nairobi City County (ROI) between the year 2017 and 2021. The SACCOs recorded an average ROI of 6.97% in 2017, an average ROI of 7.25% in 2018, which improved to 7.40% in the following year before shooting further to 7.43% in the year 2020. In the year 2021, the SACCOs recorded an average ROI of 7.73%.

The study also gathered secondary data on financial performance of DTS in Nairobi City County in terms of return on equity (ROE).

The SACCOs recorded an average ROE of 6.41% in the year 2017, this improved slightly in 2018 to 6.92% before improving slightly further to 7.33% in the year 2019. In the year 2020, the average ROE for the SACCOs stood at 8.19% and in 2021 the figure had improved to a high of 17.81%. This signifies consistent improvement in financial performance of the SACCOs between the year 2017 and 2021.

4.6 Diagnostic Tests

Diagnostic tests of the assumptions for regression were performed on the data using SPSS in order to check that the significance and other parameters are within the permitted range before moving on to the regression analysis.

4.6.1 Normality Test

This study used Shapiro Wilk test to test for normality. Normality test results are presented in Table 4.10.

Table 4.10: Shapiro-Wilk Test of Normality

	Shapiro-Wilk		
	Statistic	df	Sig.
Financial Performance	.836	46	.113
a. Lilliefors Significance Correction			

Based on the findings presented in Table 4.10, the data was drawn from a normal population.

4.6.2 Multicollinearity Test

If there is at least one precise linear relationship between some of the variables in a set, that set of variables is said to be perfectly multicollinear. In this study, multicollinearity was tested using the variable's tolerance as well as the VIF value. The results are presented in Table 4.11.

Table 4.11: Multicollinearity Test

Variable	Collinearity Statistics	
	Tolerance	VIF
Capital adequacy regulations	0.438	2.285
Liquidity level regulations	0.780	2.282
Performance reporting guideline	0.288	3.472
Risk classification requirement	0.332	3.014

Based on the results as depicted by the table, there existed no multicollinearity in the data.

4.6.3 Heteroscedasticity

The study used Waldman's recommended Breusch-Pagan test to test for heteroscedasticity (1983). The error variance being homoscedastic was the study's null hypothesis (Schober, Boer & Schwarte, 2018). Running a FGLS model would have accounted for any heteroscedasticity found in the data if the null hypothesis is shown to be incorrect and this is determined (Muller & Stadtmuller, 1987).

Table 4.12: Heteroscedasticity Results

<u>Breusch-Pagan / Cook-Weisberg test for heteroskedasticity</u>	
Ho: Constant variance	
Variables: fitted values of Financial Performance	

chi2 (1)	=	0.582
<u>Prob > chi2</u>	=	0.4212

According to the findings of this investigation, heteroscedasticity did not exist in the data.

4.7 Inferential Analysis Results

4.7.1 Correlation Analysis Results

The study sought to assess the strength and the direction of statistical association between the study independent variables of capital adequacy regulations, liquidity level regulations, performance reporting policy and risk classification requirements and the dependent variable financial performance.

Table 4.13: Correlation Matrix

		Financial Performance	Capital adequacy regulations	Liquidity level regulations	Performance reporting guideline	Risk classification requirement	Financial Technology
Financial Performance	Pearson Correlation	1.000					
	Sig. (2-tailed)						
Capital adequacy regulations	Pearson Correlation	.780**	1.000				
	Sig. (2-tailed)	0.000					
Liquidity level regulations	Pearson Correlation	.576**	0.270	1.000			
	Sig. (2-tailed)	0.000	0.070				
Performance reporting guideline	Pearson Correlation	.743**	.723**	.446**	1.000		
	Sig. (2-tailed)	0.000	0.000	0.002			
Risk classification requirement	Pearson Correlation	.640**	.686**	.416**	.798**	1.000	
	Sig. (2-tailed)	0.000	0.000	0.004	0.000		
Financial Technology	Pearson Correlation	.576**	.519**	.502**	.668**	.534**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000	
** Correlation is significant at the 0.01 level (2-tailed).							

According to the findings of the correlation analysis, which can be found in Table 4.13, there was a positive association that was statistically significant at the 5% level between capital adequacy regulations and the financial performance of deposit-taking SACCOs in Nairobi County. This correlation was found at the 5% level of significance ($r=0.780$, $p<0.05$). This suggests that the SACCOs' financial performance will likely improve the more they adhere to the capital adequacy requirements stipulated by SASRA. This is in line with Nanzala's (2021) claim that capital regulation significantly increases management effectiveness, which has a positive impact on performance and is generally attributed to an increase in management effectiveness that is probably absorbed in the fees and commissions of Deposit Taking SACCOs.

The research also discovered a positive and significant correlation between liquidity level rules and the financial performance of deposit-taking SACCOs in Nairobi County ($r=0.576$, $p<0.05$ at the 5% level of significance), indicating that the association is a positive one. This correlation was found at the 5% level of significance. This provides more support for the hypothesis that Banerjee and According to the findings of the study, there was a positive and significant correlation between performance reporting policy and the financial performance of deposit-taking SACCOs in Nairobi County ($r=0.743$, $p<0.05$ at the 5% level of significance), as shown by the findings of the study. The correlation was positive and significant at the level of 5%. The findings of the study also reveal that there is a correlation between performance reporting policy and the financial performance of deposit-taking SACCOs in Nairobi County. This is indicated by the fact that the correlation was found.

Similar to this, at a 5% level of significance, the study discovered a positive and significant correlation ($r=0.640$, $p<0.05$) between the risk categorization requirement and the financial performance of deposit-taking SACCOs in Nairobi County. Similar to the first find, this one was made. At the 5% level of significance, the study discovered a favorable and substantial correlation between financial technology and DTS's financial success in Nairobi City County ($r=0.576$, $p<0.05$).

4.7.2 Regression Analysis Results

Table 4.14 shows model summary results.

Table 4.14: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712a	0.507	0.503	0.39625

a Predictors: (Constant), Risk classification requirement, Liquidity level regulations, Capital adequacy regulations, Performance reporting guideline

Source: Field Data, 2022

Table 4.14's findings reveal coefficient of determination (0.507) for the study. This means that the independent variables used in this study, such as requirements for risk classification, liquidity level standards, performance reporting rules, and capital adequacy

criteria, together explain for 50.7% of the variation in financial performance. The analysis of variance results are presented in Table 4.15.

Table 4.15: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	26.871	4	6.718	67.066	.000 ^b
	Residual	4.107	41	0.1		
	Total	30.978	45			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Risk classification requirement, Liquidity level regulations, Capital adequacy regulations, Performance reporting guideline

Table 4.15 displays the findings obtained from conducting the ANOVA on the data. With a p-value of $0.000 < .05$, the findings indicate that the model was statistically significant in its ability to explain the influence of SASRA laws on the financial performance of deposit taking SACCOs in Nairobi County. This was determined by comparing the model's odds ratio to the likelihood ratio. This was further supported by an F-statistics value of 67.066 which was greater than the tabulated one. Table 4.16 shows regression coefficient results.

Table 4.16: Regression of Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.326	0.359		-3.696	0.001
	Capital adequacy regulations	0.394	0.109	0.311	3.613	0.001
	Liquidity level regulations	0.285	0.075	0.246	3.821	0.000
	Performance reporting guideline	0.287	0.122	0.249	2.354	0.023
	Risk classification requirement	0.393	0.119	0.325	3.293	0.002

a. Dependent Variable: Financial Performance

The regression model then became:

$$Y = -1.326 + 0.394X_1 + 0.285X_2 + 0.287X_3 + 0.393X_4$$

Where: -

Y= Financial performance

X₁= Capital Adequacy Regulation

X₂= Liquidity Level Regulation

X₃= Performance Reporting Guideline

X₄= Risk Classification Requirement

According to Table 4.16's regression coefficient data, there was a positive and statistically significant correlation between Nairobi County's deposit-taking SACCOs' financial performance and capital adequacy regulations ($\beta = .394$, $p = .001-.05$). This suggests that an increase of one unit in the adoption or adherence to the capital adequacy standards established by SASRA results in an increase of 0.394 units in the financial performance. This is consistent with research by Buluma, Kung'u, and Mungai (2017) that found a substantial positive association between SASRA regulations and financial performance and ROA at a 95% level of confidence. The report indicated that when developing policies guiding the operation of SACCOs in Kenya, SACCO management consider additional considerations in addition to SASRA requirements.

The study also discovered a strong and statistically significant relationship between Nairobi County's deposit-taking SACCOs' financial performance and regulations governing liquidity levels ($\beta = .285$, $p = .000$). This suggests that an increase of one unit in the adoption or compliance with the SASRA's liquidity level restrictions results in an increase of 0.285 units in the financial performance.

The research also discovered that there was a positive and statistically significant association between the performance reporting policy and financial success ($r = .287$, $p = .023-.05$). This was one of the more interesting findings of the study. This suggests that an increase of 0.287 units in the financial performance is caused by an improvement of one unit in the adoption or compliance with SASRA's performance reporting policy. These findings are consistent with those of a study that was conducted by

Finally, the findings showed that risk classification requirement had positive and significant effect on performance reporting policy and financial performance of deposit taking SACCOs in Nairobi County ($\beta = .393$, $p = .002 < .05$). This implies that, an

improvement in the adoption or compliance with SASRA’s risk classification requirement by one unit leads to an increase in financial performance by 0.393 units.

4.7.3 Model Summary of Moderating Effect of Financial Technology on the Relationship between SASRA Regulations and Financial Performance of DTS in Nairobi Kenya

The results in Table 4.17 show the model summary for the moderating effect of financial technology.

Table 4.17: Model Fitness for the Moderating Effect of Financial Technology

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892a	0.795	0.788	0.25841

a. Predictors: (Constant), Risk classification requirement*FT, Liquidity level regulations*FT, Capital adequacy regulations*FT, Performance reporting guideline *FT

Source: Author, 2022

The findings are presented in Table 4.17, which reveals that the R squared value, following moderation by financial technology, was 0.795. This value was higher than the R squared value, which was 0.507, for the effect that was not moderated. This suggests that the influence of SASRA laws on the financial performance of deposit-taking SACCOs in Nairobi City County is tempered by the presence of financial technology. and explain 79.5% of the variations in financial performance of the SACCOs.

b) ANOVA Analysis for the Moderating effect of Financial Technology

The results presented in Table 4.18 show the analysis of variance (ANOVA) results on the moderating effect of financial technology.

Table 4.18: ANOVA for the Moderating Effect of Financial Technology

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.13	4	7.532	112.803	.000 ^b
	Residual	7.746	41	0.067		
	Total	37.876	45			

a. Dependent Variable: Financial Performance
a. Predictors: (Constant), Risk classification requirement*FT, Liquidity level regulations*FT, Capital adequacy regulations*FT, Performance reporting guideline *FT

Source: Field Data, 2022

According to the findings, the regression model of the moderating influence of financial technology on the association between SASRA rules and DTS's financial performance was significant and supported by $F=112.803$, $p=0.000<.05$). According to the findings, financial technology may have an impact on DTS's financial performance in Nairobi City County.

c) Regression Coefficients for the Moderating Effect of Financial Technology

The results in Table 4.19 show the regression coefficients after moderation using financial technology.

Table 4.19: Moderating Effect of Financial Technology

Model		Unstandardized Coefficients		Standardized	Sig.	
		B	Std. Error	T Beta		
1	(Constant)	2.11	0.116	18.129	0.000	
	Capital adequacy regulations*FT	0.252	0.102	0.226	2.474	0.018
	Liquidity level regulations*FT	0.163	0.060	0.166	2.711	0.001
	Performance reporting guideline *FT	0.620	0.092	0.605	6.712	0.000
	Risk classification requirement*FT	0.540	0.242	0.055	2.235	0.023

a. Dependent Variable: Financial Performance

Source: Field Data, 2022

The Moderation model then became:

$$Y = 2.110 + 0.252X_1*FT + 0.163X_2*FT + 0.620X_3*FT + 0.540X_4*FT$$

Where: -

Y= Financial performance

X₁= Capital Adequacy Regulation

X₂= Liquidity Level Regulation

X₃= Performance Reporting Guideline

X₄= Risk Classification Requirement

FT=Financial, Technology (Moderator)

According to the findings, restrictions regarding capital sufficiency were shown to be statistically significant after moderation with a p-value of $0.018 < .05$. This leads one to believe that the relationship between the capital adequacy standards and DTS's financial performance in Nairobi City County is mediated by financial technology in some way. In addition, after adjustment, the restrictions regarding the degree of liquidity had a p-value ranging from $0.001 < .05$. This hints that the relationship between liquidity level rules and DTS's financial success in Nairobi City County is at least somewhat mediated by technological advances in the financial sector.

The performance reporting strategy also had a moderated p-value of 0.05, which is extremely small. This would imply that the relationship between the performance reporting policy and the financial success of DTS in Nairobi City County is regulated by the use of financial technology in some way. In light of the fact that the p-value for the risk categorization requirement was $0.023 < .05$, it is abundantly evident that it was significant after moderation. This would imply that the relationship between the requirement for risk classification and the monetary success of DTS in Nairobi City County is tempered by the use of financial technology.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

In this chapter, present a summary of the study's findings, as well as its conclusion and recommendations.

5.2 Summary of Findings

This research was conducted with the intention of determining the extent to which the regulations imposed by SASRA had an effect on the financial performance of deposit-taking SACCOs in Nairobi County. The target population of the study consisted of the 46 DT SACCOs that were licensed to operate in the county of Nairobi, and the SACCO chief executive officers served as the unit of observation (CEOs). The census method ensured that every one of the 46 SACCO chief executive officers participated in the study. A total of all 46 surveys that were given out were completely filled out and sent back, yielding a response rate of one hundred percent. According to the findings of the demographic analysis, the majority of SACCO CEOs were between the ages of 36 and 55, and the vast majority of them (73.90%) were men. In addition, according to the findings of the study, the vast majority of CEOs (67.40%) have at least a bachelor's degree, and the majority (47.80%) of DTS businesses in Nairobi had been operating for a period of time that ranged from 5 to 10 years.

5.2.1 Capital Adequacy Regulation and Financial Performance of DTS in Nairobi County, Kenya

The study found that majority of the SACCOs had been maintaining the required minimum core capital over the years; majority of the SACCOs (78.3%) were consistent in maintaining the required minimum institutional capital and a majority (84.8%) of them also indicated that members' deposits. In their SACCOs were the main source of our capital. Moreover, the study established most SACCOs were acquiring based on their core capital as pointed out by majority of the respondents (82.6%).

The study also found most (78.3%) of the study participants were positive that their SACCOs were separating member deposits from capital. Similarly, majority (80.4%) of

the SACCOs were focused on preventing insolvency; majority (84.8%) of the respondents agreed that as a requirement, their SACCOs were at all times maintaining minimum capital ratios. Finally, study established that majority (78.20%) of the CEOs agreed with the statement that their SACCOs had been maintaining at least twenty-five percent of the prescribed minimum capital adequacy requirements. This was shown to be the case by demonstrating that there was a correlation between the two. ($\beta=.394$, $p=.001<.05$). This was discovered to be consistent with research by Buluma, Kung'u, and Mungai (2017) that demonstrated a substantial positive association between SASRA regulations and financial performance and ROA at a 95% level of confidence. The report indicated that when developing policies guiding the operation of SACCOs in Kenya, SACCO management take into account additional considerations in addition to SASRA requirements.

5.2.2 Liquidity Level Regulation and Financial Performance of DTS in Nairobi County, Kenya

The study findings showed that majority (86.9%) of the SACCOs were maintaining liquid assets not less than 15% of savings deposits and STLs (Mean=4.065); majority of the SACCOs (87.0%) had policies in place governing external borrowing, whereas most (84.8%) of the CEOs were in agreement that their external borrowing had never exceeded 25% of total assets. In addition, it is evident from the results that majority (69.6%) of the SACCOs had their members remit savings deposits on a monthly basis.

Furthermore, majority of the study participants (95.6%) agreed that Liquidity requirements negatively affected the growth of their SACCOs. It is also evident that most of the SACCOs (89.2%) had in place effective loan policy for managing non-performing loans. Similarly, majority (87.0%) of the respondents agreed with the statement that their SACCOs had high number of performing loans. Finally, majority of the respondents (84.7%) did agree that their SACCOs were maintaining the prescribed minimum level of < 5% of NPLs to gross loans. The results imply that DT SACCOs in Nairobi were fully adhering with the liquidity level regulation as prescribed by SASRA. These findings were found to be in line with Mutinda's (2016) claims that Sacco Societies must implement liquidity contingency plans that include steps for filling liquidity gaps in emergency scenarios.

In addition, the findings of the correlation study demonstrated a significant and positive relationship ($r = 0.576$, $p < 0.05$, significance level of 5%) between the liquidity level regulations and the financial performance of deposit-taking SACCOs in Nairobi County. The findings of the correlation study provided clear evidence of this assertion. The research also discovered a favorable and statistically significant link between liquidity level norms and the economic success of deposit-taking SACCOs in Nairobi County ($\beta = .285$, $p = .000.05$). The study came to this conclusion as one of its findings. This lends credence to the findings of Santos (2019), which claim that financial institutions that do not meet the liquidity standards established for them are subject to paying higher interest rates on unsecured interbank loans. This revelation lends weight to the finding, despite the fact that the regulatory information in question is not made available to the public.

5.2.3 Performance Reporting Guideline and Financial Performance of DTS in Nairobi County, Kenya

Descriptive results indicated that majority of the respondents (60.8%) were in agreement that their SACCOs accounts were being prepared in accordance with International Financial Reporting Standards. Most (78.3%) of the respondents also agreed that all their SACCO figures were being presented in thousands of Kenya shillings as required by SASRA. Furthermore, most (71.7%) of the CEOs agreed that all their SACCO returns were being signed by at least two authorized signatories before submission to the Authority. Moreover, majority (84.8%) of the study participants agreed that their SACCOs provide all the required reports on net value of earnings arising from financial services.

Additionally, most of the respondents (82.6%) agreed with the statement that their SACCOs were providing voluntary disclosure on all financial reports; majority (86.9%) agreed that their SACCOs carry out financial position reporting on a full disclosure basis; 82.7% of the SACCOs were found to be carrying out full disclosure of the liabilities of the SACCO. Finally, the study established that most of the respondents (78.3%) were in agreement that in their SACCOs, monthly summaries of comprehensive income were being prepared and used. Based on the findings, it appears that the vast majority of DTS in Nairobi City County are, on the whole, compliant with the performance reporting policy of SASRA. This is in agreement with the findings of a research conducted by Mwangi

(2018), which found that financial performance of DS-SACCOs in Nairobi City County was significantly impacted by factors including capital constraints, large risk exposures, insider loans, and audit concerns.

5.2.4 Risk Classification Requirement and Financial Performance of DTS in Nairobi County, Kenya

The findings of the descriptive analysis indicated that the majority of respondents (89.2%) agreed that their SACCOs adhered to all regulations regarding risk classification; the majority of them (84.8%) did agree that their SACCOs were doing management efficiency as measured by number of active borrowers per management staff; and the majority (82.6%) agreed that their SACCOs were practicing adoption and implementation of sound credit risk management practices. All of these results were based on the respondents' perceptions of their SACCOs' compliance with the regulations.

In addition, the research discovered that the vast majority of SACCOs, or 84.6% of them, practiced appropriate credit risk management in order to maximize a SACCO's risk-adjusted rate of return. This was accomplished by keeping credit risk exposure within acceptable bounds. Additionally, it is evident that majority (87.0%) of the DTS in Nairobi had classification of Speculative Risk. Furthermore, most of the study participants (91.3%) agreed that their SACCOs were classifying operational risk resulting from the SACCO business operations, loss resulting from inadequate or failed internal processes.

Similarly, majority (82.6%) of the respondents did agree that their SACCOs were reporting financial risk relating to uncertainty or loss due to fluctuations in interest rates, foreign exchange rates and the value of money. Finally, the study established that majority (84.8%) of the SACCOs were reporting Strategic Risk relation to SACCO's goals and objectives. The results imply that most deposit taking SACCOs in Nairobi are to a greater extent compliant with SASRA's risk classification requirement. According to SASRA (2020), the lack of prudential standards and financial oversight caused the SACCO management system to have a number of flaws. This comprised portfolio quality that was either not being monitored or was being monitored very badly, as well as inadequate audit reports with no provisioning or writing down loans for non-performing loans.

5.2.5 Moderating Role of Financial Technology on the relationship between SASRA Regulations and Financial Performance of DTS in Nairobi County, Kenya

The results showed that the non-moderated effect's R squared was 0.507, whereas the R squared after financial technology's moderation was 0.795. This suggests that financial technology moderates the relationship between SASRA rules and the financial success of deposit-taking SACCOs in Nairobi City County and accounts for 79.5% of the variances in the SACCOs' financial success.

The study also discovered that capital adequacy rules were significant after moderation, with a p-value of 0.018.05. The relationship between the capital adequacy requirements and the financial performance of DTS in Nairobi City County is therefore suggested to be moderated by financial technology. Liquidity level restrictions were also significant after moderation, with a p-value of 0.001<.05. This suggests that the relationship between the rules governing liquidity levels and the financial success of DTS in Nairobi City County is moderated by financial technology.

Additionally, the performance reporting policy had a moderated p-value of 0.000<.05. This suggests that the relationship between the performance reporting policy and the financial success of DTS in Nairobi City County is moderated by financial technology. With a p-value of 0.023<.05, it is clear that the risk classification requirement was significant after moderation. This suggests that the relationship between the need for risk classification and the financial success of DTS in Nairobi City County is moderated by financial technology

5.3 Conclusion

Capital regulation vastly increases management effectiveness, which benefits performance. This can be ascribed to an increase in management effectiveness that will probably be covered by the fees and commissions paid by Deposit Taking SACCOs. According to the report, regulatory changes should focus on fostering more competition in the deposit-taking Sacco industry.

The research also came to the conclusion that the DT SACCOs in Nairobi City have largely profited from the imposed capital adequacy standards. This was one of the study's other main findings. The regulations have been of tremendous assistance to SACCOs in a variety

of areas, including the control of credit risk, a rise in public trust, a safety net for the deposits of members, the provision of operating capital, and extended lending. Regarding the regulation of liquidity levels, the study comes to the conclusion that such regulations have a favorable and considerable impact on the financial performance of deposit-taking SACCOs in Nairobi County.

The study also concludes that DT SACCOs in Nairobi are maintaining liquid assets not less than 15% of savings deposits and STLs majority of the SACCOs have policies in place governing external borrowing, whereas most of the SACCOs in Nairobi have not exceeded external borrowing of more than 25% of total assets. The study concludes majority of SACCOs in Nairobi have their members remit savings deposits on a monthly basis. Majority of SACCOs have high number of performing loans. And majority of SACCOs in Nairobi are maintaining the prescribed minimum level of < 5% of NPLs to gross loans. The study also comes to the conclusion that the majority of Nairobi City County's deposit-taking savings and credit cooperatives face liquidity risk when they are unable to finance their operations and member lending needs as and when circumstances necessitate..

In addition, the study comes to the conclusion that even though the regulator may provide the minimum liquidity ratio that This is due to the fact that the regulating body may stipulate the minimum liquidity ratio that SACCOs are required to maintain. The findings of the study led to the conclusion that even though the regulator may offer the least liquidity ratio that SACCOs should follow, SACCOs should still adhere to the liquidity ratio. This conclusion was reached because the findings of the study led to this conclusion. This recommendation can be traced back to that outcome. On the other hand, the findings of the study indicate that the regulatory rules for liquidity management, which are also referred to as the liquidity ratio, have a positive influence on the financial performance of DTS in Kenya. This interpretation is supported by the fact that the ratio is also referred to as the liquidity ratio.

The study comes to the further conclusion that the profitability and financial performance of SACCOs have been significantly impacted by the annual audited accounts in accordance with the performance reporting policy. The study's final finding is that the necessity for risk classification and the financial success of deposit-taking SACCOs in Nairobi County

are positively and significantly correlated. According to the study's findings, DT Sacco's performance in Nairobi City County has a strong association with risk avoidance. As a result, the DT SACCOs in Nairobi manage risks in conjunction with precise strategies, which improves the SACCOs' financial performance.

5.4 Recommendations

This report makes a number of recommendations based on its findings and conclusions. Since all have benefited from the adoption of SASRA laws such as capital adequacy regulations, this research suggests that the managers of the DT SACCOs in Nairobi should strictly comply with the restrictions established by regulation in order to ensure that they continue to enjoy the benefits that have been outlined in this research. The research also suggests that the government, via SASRA and the Ministry of Industry and Co-operative development, should continue to foster the growth of DT SACCOs by creating an atmosphere that is conducive to their success and enacting helpful legislation.

Based on the findings of this study, some of the SASRA regulations were found not to reap benefit to the SACCO, these were increased lending rates, writing off non-performing loans and investment in capital assets. It is recommended in the study that the managers of the DT SACCOs conduct a review of their lending rates using cost pricing methods. This will ensure that even though the rates are kept at a level that is competitively low, they still generate sufficient revenue to cover the costs that are associated with the provision of these products. The study furthermore recommends that the SASRA reviews legislation concerning investments made by DT SACCOs in order to open up avenues that the DT SACCOs can engage in and thus maximize wealth for their shareholders.

According to the findings of the study, DT SACCOs in Nairobi City County and other SACCOs across Kenya should adhere to the liquidity regulations. Additionally, they should consider investing any excess cash in profitable projects in order to generate more income. This should be done rather than holding more cash and cash equivalents for the sake of being liquid. This is due to the fact that the regulatory body specifies the minimum liquidity ratio that DT SACCOs are expected to maintain. In terms of the legislation governing the risk of liquidity, the regulator determines the minimum liquidity ratio that

DT SACCOs are required to maintain, however the study suggests that DT SACCOs observe a higher ratio.

In addition, according to the findings of this research and the conclusions that may be derived from those findings, it is essential for all of the DTS in Kenya to comply with the Liquidity Management Regulatory Standards that were just recently put into place. This is due to the fact that these standards have a beneficial effect on the overall financial performance of the many different types of financial institutions. If proper adherence is maintained, the DTS will be able to fulfill the day-to-day requirements of their clientele. Consequently, the Management of the DTS should be encouraged to increase their investment in liquid assets. If proper adherence is maintained, the DTS will be able to fulfill the day-to-day requirements of their clientele. Not only will this result in an improvement in financial performance, but it will also make it possible for DTS to satisfy its short-term obligations as they come up for renewal.

According to the findings of this research study, the researcher suggests that the management of DT SACCOs should provide ongoing risk assessment. This recommendation is based on the findings of the study. The SACCOs ought to make use of an external risk assessment, risk regions, or risk interpretation that the Sacco has not previously observed or focused on. The management of DT SACCOs ought to make use of effective risk management systems in order to guarantee proper standardization, tracking, and risk assessment in the activities of the SACCOs. Producing monthly reports that are then evaluated and analyzed will provide a more accurate picture of the SACCO's current standing.

5.5 Recommendation for Further Research

The findings of this study cannot be extended to apply to all of Kenya's DT SACCOs because they were only collected from Deposit Taking SACCOs in Nairobi City County. This is because the study was limited to that particular type of SACCO. As a consequence of this, the findings of this study imply that additional research ought to be carried out in order to evaluate the influence that SASRA regulations have on savings and credit cooperative societies situated in various other sections of the nation. After that, the findings of these other studies should be contrasted with the results of this study.

In addition, the conclusions of the current study are only restricted to the financial performance of DTS, despite the fact that there are a great deal of other factors that may be used to gauge performance in DTS. Based on the findings of this study, it is recommended that additional research be conducted in order to establish the other factors that influence financial success as well as the other implications that the SASRA laws have had on the DTS in Kenya. This will result in an increase in knowledge as well as a better grasp of the restrictions imposed by SASRA, which affect the performance of DTS in Kenya.

Finally, the findings of this study revealed that the independent variables used in this study of capital adequacy regulations, liquidity level regulations, performance reporting policy, risk classification requirements jointly explains 50.7% of the variation in financial performance. The remaining 49.3% can be attributed to by other factors which were not part of the current study. This study thus suggests that future studies should try and find out the other factors that can account for the remaining 49.3%.

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APPENDICES

Appendix: Letter of Introduction

Dear Sir/Madam,

RE: **REQUEST TO COLLECT DATA FOR ACADEMIC RESEARCH PROJECT**

My name is Amos Mwita, currently a Master's candidate the University of Nairobi working on my research project titled *“THE LEVEL OF COMPLIANCE TO SASRA REGULATIONS ON THE PERFORMANCE OF DEPOSIT TAKING SACCOS IN NAIROBI CITY COUNTY.”* I have chosen your establishment as one of my sample populations. I humbly request you to participate in this study by filling the attached questionnaire. Your participation in this study by responding to the attached questionnaire will be appreciated. All your responses will be treated with utmost confidentiality and the data collected will only be used for academic purposes.

Thank you in advance,

Yours faithfully,

Amos Mwita,

Appendix II: Questionnaire for SACCO Board Chairman and C.E.O

The researcher is seeking to use this questionnaire to collect data on the influence of SASRA regulations on the performance of deposit taking SACCOs in Nairobi County. The questionnaire is divided into a few short sections that should take only a few moments of your time to complete. Please respond appropriately in the blanks provided. This is an academic exercise and all information collected from respondents will be treated with strict confidentiality.

SECTION A: BASIC INFORMATION

1. How old are you?
 - a. 18-25 years
 - b. 26-35 years
 - c. 36-55 years
 - d. Above 55 years

2. Kindly indicate your gender
 - a. Male
 - b. Female

3. What is your highest level of Education?
 - a. Diploma
 - b. Bachelors
 - c. Master's
 - d. Doctorate

4. For how long your SACCO been in existence?
 - a. Less than 2 years
 - b. 2 to 5 years
 - c. 5 to 10 years
 - d. More than 10 years

5. For how long have you served in your current position?
 - a. Less than 2 years

- b. 2 to 5 years
- c. 5 to 10 years
- d. More than 10 years

6. Kindly indicate your designation.....

SECTION B: Capital Adequacy Regulation

Kindly indicate your level of agreement/disagreement with the following statements regarding the influence of Capital Adequacy Regulation on the financial performance of deposit taking SACCOs in Nairobi County. Use a scale of 1-5, where: **1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5=Strongly Agree.**

	Statement	1	2	3	4	5
1	Our SACCO has been maintaining the required minimum core capital over the years.					
2	Our SACCO is consistent in maintaining the required minimum institutional capital.					
3	Members’ deposits are the main source of our capital.					
4	Our SACCO acquires based on our core capital.					
5	Our SACCO is separating member deposits from capital					
6	Our SACCO is focused on Preventing insolvency.					
7	As a requirement, our SACCO is always maintaining minimum capital ratios.					
8	Our SACCO has been maintaining at least twenty-five percent of the prescribed minimum capital adequacy requirements					

SECTION C: Liquidity Level Regulation

Kindly indicate your level of agreement/disagreement with the following statements regarding the influence of Liquidity Level Regulation on the financial performance of deposit taking SACCOs in Nairobi County. Use a scale of 1-5, where: **1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5=Strongly Agree.**

	Statement	1	2	3	4	5
1	Our SACCO has maintained liquid assets not less than 15% of savings deposits and STLs.					
2	Our SACCO has policies in place governing external borrowing.					
3	Our external borrowing has never exceeded 25% of our total assets.					
4	Our members remit savings deposits monthly					
5	Liquidity requirements negatively affect the growth of our SACCO					
6	We have an effective loan policy for managing non-performing loans					
7	Our Sacco has high number of performing loans					
8	Our SACCO maintains the prescribed minimum level of < 5% of NPLs to gross loans.					

SECTION D: Performance Reporting Guideline

Kindly indicate your level of agreement/disagreement with the following statements regarding the influence of Performance Reporting Guideline on the financial performance of deposit taking SACCOs in Nairobi County. Use a scale of 1-5, where: **1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5=Strongly Agree.**

	Statement	1	2	3	4	5
1	Our Sacco accounts are prepared in accordance with International Financial Reporting Standards.					
2	All our SACCO figures are shown in thousands of Kenya shillings as required by SASRA.					
3	All our SACCO returns are signed by at least two authorized signatories before submission to the Authority.					
4	Our SACCO provides all the required reports on net value of earnings arising from financial services.					
5	Our SACCO provide voluntary disclosure on all financial reports.					
6	Our SACCO does financial position reporting on a full disclosure basis					
7	There is a full disclosure of the liabilities of our SACCO					
8	In our SACCO Monthly summaries of comprehensive income are prepared and used.					

SECTION E: Risk Classification Requirement

Kindly indicate your level of agreement/disagreement with the following statements regarding the influence of Risk Classification Requirement on the financial performance of deposit taking SACCOs in Nairobi County. Use a scale of 1-5, where: **1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5=Strongly Agree.**

	Statement	1	2	3	4	5
1	Our SACCO adheres with all regulations regarding risk classification.					
2	Our SACCO does management efficiency as measured by Number of Active Borrowers per Management Staff.					
3	Our SACCO practices adoption and implementation of sound credit risk management practices.					
4	Our SACCO ensures proper credit risk management to maximize a SACCOs risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters.					
5	Our SACCO has classification of Speculative Risk which is the risk involving a possibility of profit or loss.					
6	Our SACCO classifies operational risk resulting from the SACCO business operations, loss resulting from inadequate or failed internal processes.					
7	Our SACCO reports financial risk relating to uncertainty or loss due to fluctuations in interest rates, foreign exchange rates and the value of money.					
8	Our SACCO reports Strategic Risk relation to SACCO's goals and objectives.					

SECTION F: Financial Technology

Kindly indicate your level of agreement/disagreement with the following statements regarding the influence of financial technology on the financial performance of deposit taking SACCOs in Nairobi County. Use a scale of 1-5, where: **1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5=Strongly Agree.**

	Statement	1	2	3	4	5
1	Electronic funds transfer has had a positive effect of increasing commission fee-based income.					
2	Creating an online presence of SACCOS has helped attract more clients.					
3	The introduction of new deposit account has increased the number of deposits.					
4	Automation of SACCO operations have enhanced efficiency of operations.					
5	Mobile banking has had a positive effect of increasing commission fee-based income.					
6	Cashless services have reduced operation costs.					
7	Our SACCO considers mobile banking technology a key success in service delivery.					
8	In our SACCO we consider money transfer services as a key success in customer satisfaction.					

SECTION G: Financial Performance

Kindly indicate your level of agreement with the following statements regarding the financial performance of your SACCO. Where, **1=Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree, 5=Strongly Agree.**

	Statement	1	2	3	4	5
1	Our SACCO has maintained a positive Return on Assets over the year.					
2	Our SACCO has maintained a total assets ratio of more than 60% over the past five years.					
3	Our SACCO has maintained a positive expense Ratio consistently since its establishment.					
4	Our SACCO has been recording consistent improvement in return on investment.					
5	Our SACCO has been maintaining improvement in profit after tax since establishment.					

Appendix III: Data Collection Template

Year	Profit after Tax	ROA	ROI	ROE
2017				
2018				
2019				
2020				
2021				

Appendix IV: Licensed Deposit Taking SACCOs in Nairobi County

NO.	NAME OF SOCIETY	POSTAL ADDRESS
1	Acumen Sacco Society Ltd	P.O. Box 1325 – 00200, Nairobi
2	Afya Sacco Society Ltd	P.O. Box 11607 – 00400, Nairobi.
3	Airports Sacco Society Ltd	P.O. Box 19001 – 00501, Nairobi
4	Ardhi Sacco Society Ltd	P.O. Box 28782 – 00200, Nairobi.
5	Asili Sacco Society Ltd	P.O. Box 49064 – 00100, Nairobi.
6	Chai Sacco Society Ltd	P.O. Box 278 – 00200, Nairobi.
7	Chuna Sacco Society Ltd	P.O. Box 30197 – 00100, Nairobi.
8	Comoco Sacco Society Ltd	P.O. Box 3334 – 00200, Nairobi
9	Elimu Sacco Society Ltd	P.O. Box 10073 – 00100, Nairobi.
10	Fundilima Sacco Society Ltd	P.O. Box 62000 – 00200, Nairobi.
11	Harambee Sacco Society Ltd	P.O. Box 47815 – 00100, Nairobi.
12	Hazina Sacco Society Ltd	P.O. Box 59877 – 00200, Nairobi.
13	Jamii Sacco Society Ltd	P.O. Box 57929 – 00200, Nairobi.
14	Kencream Sacco Society Ltd	P.O. Box 300131 – 00200, Nairobi
15	Kenpipe Sacco Society Ltd	P.O. Box 314 – 00507, Nairobi.
16	Kenversity Sacco Society Ltd	P.O. Box 10263 – 00100, Nairobi.
17	Kenya Bankers Sacco Society Ltd	P.O. Box 73236 – 00200, Nairobi.
18	Kenya Police Sacco Society Ltd	P.O. Box 51042 – 00200, Nairobi.
19	Kimisitu Sacco Society Ltd	P.O. Box 10454 – 00200, Nairobi
20	Kingdom Sacco Society Ltd	P.O. Box 8017 – 00300, Nairobi.
21	Magereza Sacco Society Ltd	P.O. Box 53131 – 00200, Nairobi.
22	Maisha Bora Sacco Society Ltd	P.O. Box 30062 – 00100, Nairobi.
23	Mwalimu National Sacco Society Ltd	P.O. Box 62641 – 00200, Nairobi.
24	Mwito Sacco Society Ltd	P.O. Box 56763 – 00200, Nairobi.
25	Nacico Sacco Society Ltd	P.O. Box 34525 – 00100, Nairobi.
26	Nafaka Sacco Society Ltd	P.O. Box 30586 – 00100, Nairobi.
27	Nation Sacco Society Ltd	P.O. Box 22022 – 00400, Nairobi.

28	NSSF Sacco Society Ltd	P.O. Box 43338 – 00100, Nairobi.
29	Nyati Sacco Society Ltd	P.O. Box 7601 – 00200, Nairobi
30	Safaricom Sacco Society Ltd	P.O. Box 66827 – 00800, Nairobi.
31	Sheria Sacco Society Ltd	P.O. Box 34390 – 00100, Nairobi.
32	Shirika Deposit Taking Sacco Society Ltd	P.O. Box 43429 – 00100, Nairobi.
33	Shoppers Sacco Society Ltd	P.O. Box 16 – 00507, Nairobi
34	Stima Sacco Society Ltd	P.O. Box 75629 – 00100, Nairobi.
35	Taqwa Sacco Society Ltd	P.O. Box 10180 – 00100, Nairobi
36	Telepost Sacco Society Ltd	P.O. Box 49557 - 00100, Nairobi
37	Tembo Sacco Society Ltd	P.O. Box 91 – 00618, Ruaraka Nairobi.
38	Ufanisi Sacco Society Ltd	P.O. Box 2973 – 00200, Nairobi.
39	Ukristo Na Ufanisi Wa Anglicana Sacco Society Ltd	P.O. Box 872 – 00605, Nairobi.
40	Ukulima Saco Society Ltd	P.O. Box 44071 – 00100, Nairobi.
41	Unaitas Sacco Society Ltd	P.O. Box 38791 – 00100, Nairobi.
42	United Nations Sacco Society Ltd	P.O. Box 2210 - 00621, Nairobi.
43	Ushuru Sacco Society Ltd	P.O. Box 52072 – 00200, Nairobi.
44	Wana-anga Sacco Society Ltd	P.O. Box 34680 – 00501, Nairobi.
45	Wanandegge Sacco Society Ltd	P.O. Box 19074 – 00501, Nairobi.
46	Waumini Sacco Society Ltd	P.O. Box 66121 – 00800, Nairobi.

Source: SASRA (2021)