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LENDING PRACTICES AND FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVES IN KERICHO COUNTY

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ABSTRACT

The primary aim of this research was to assess how lending practices impact the financial performance of SACCOs in Kericho County. A descriptive cross-sectional research design was deemed appropriate for this study, with a target population of 345 employees from seven different SACCOs in Kericho County. The Yamen (1967) formula was employed to determine the sample size, and stratified random sampling was used to select participants. Self-administered questionnaires were utilized to collect primary data on the independent variables, while secondary data on the dependent variable was gathered through a data collection sheet. The study's findings revealed that, Know Your Customer (KYC) procedures emerged as the most significant, followed by SACCO interest rates, loan security, and collaboration with credit reference bureaus. KYC procedures were particularly noteworthy due to their high level of significance (p-value). The study's conclusion highlighted the essential role of KYC principles in risk management and the prevention of money laundering within the industry. Furthermore, the study concluded that factors such as profitability, credit term, lending rates, and loan portfolio management significantly contributed to the financial performance of SACCOs. Regarding loan security, the research found that it impacted financial sustainability, profitability, financial efficiency, productivity, and portfolio quality. In the context of credit reference bureau procedures, the study noted that while many respondents were aware of these procedures, there was a lack of understanding regarding their chronological application. The researcher recommended that, to support the application of KYC principles, adequate technology and information systems be implemented to monitor customer transactions based on their individual profiles. For SACCO interest rates, it was suggested that SACCO management should enhance profitability strategies to consistently achieve their interest rate goals. Regarding credit reference bureau policies, the researcher recommended raising awareness among SACCO clients about these policies and their importance in accessing credit facilities, ensuring adherence at all times.

Key Words: *Know Your Customer Procedures, SACCO Interest Rates, Loan Security, Credit Reference Bureaus*

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INTRODUCTION

Savings and Credit Cooperatives (SACCOs) have a crucial role in a country's entrepreneurial development through providing affordable and market-oriented financial services that are aimed at meeting the specific needs of the members (Duncan, Njeru, & Tirimba, 2015). The responsibility of SACCOs is to effectively manage the funds that the members deposit to evade future problems for the firm, the borrowers, and the economy at large (Ndiege, Mataba, Msonganzila, & Nzilano, 2016). Financial performance is a tool used in planning and it indicates how best a company can use resources to generate incomes for the organization (Muriithi & Waweru, 2017). According to Nawaz and Haniffa (2017), financial performance indicates the level to which an organization achieves its financial objectives through measuring the guidelines and procedures in monetary terms and additionally used in the monitoring of financial risk management.

According to Salaton, Gudda, and Rukaria (2020), SACCOs in Kenya and the rest of Africa face internal as well as external challenges that affect their performance. The internal challenges to performance of SACCOs in Kenya include inadequate resources, technical knowhow, capital, and capital governance. The external factors comprise technology, competition from mainstream banks, and government legislation. Moreover, Kenyan SACCOs' financial performance is affected by huge operational costs, loan default, low interest rates, late payment, illiquid assets, and dormant assets.

A large number of Kenyan SACCOs comprise those that give loans to members. Several of the loans given out however become non-performing and end up being declared bad debts, affecting the financial stability of SACCOs (Ntoiti & Jagongo, 2021). Presently, there is a growing rate of non-performing loans in Kenya and it affects liquidity, profitability, and lending capability. The latest report by the Central Bank of Kenya shed light on Kenyan financial sector health and reveals that the NPLs for deposit-taking (DT) SACCOs increased from 2019's 6.15 to 9.12 percent in June 2020, which was the uppermost after 2012 when the percentage stood at 9.6 (Alushula, 2020).

Lending practices in SACCOs are key to the achievement of objectives of which financial performance is the baseline yardstick as weaknesses in the internal credit management practices results in failure of many financial institutions (Saidi, 2016). Lending informs the firm's credit risk status along with the performance of the firm's risk assets, impacting on the organization's financial performance. Lending practices have been a subject of debate and for several years up to 2007, the western nations have had very low interest rates and cheap money (Maina, 2016). Effective lending practices enhance liquidity management and financial performance, and therefore SACCOs need to preserve stability in the amount of the monetary resources (Namutenda & Muturi, 2017).

Financial performance signifies how effectively a business can generate revenues (Murithi & Waweru, 2017). As a tool used in planning, financial performance helps in determining the efficiency of a corporation in expending resources to create income for the organization. Financial ratios which are used in determining financial performance use data from the organization's statement of its financial position, cash flow, comprehensive income, as well as certain market data. Financial performance is shown by financial indicators such as profit after tax, ROA, ROE, and earnings per share (Grace *et al*., 2018). To ascertain the firm's financial performance, the organization requires proper analysis of the financial statements for the past periods as well as that of other firms in the industry.

The financial services rendered by SACCOs are different and well spread out (Duncan *et al.,* 2015). However, lending remains a principal operation of that forms the backbone of the services offered by the SACCOs. Lending practices are significant to the achievement of the SACCO'S goals (Makori, 2015).

SACCOs clearly understand how sensitive lending practices are and their prospect to impact a corporation's performance. The realization that lending practices form a major component of the SACCO operations makes the management ensure effectiveness in lending because any shortcoming can hurt the firm's overall financial performance significantly.

KYC monitors customer transactions against their noted profile, history on the account, as well as with peers. The KYC guidelines serve the objective of preventing financial institutions from being intentionally or unintentionally through criminal acts elements of activities of anti-money laundering (Maina, 2016). Know your customer procedures are essential in the effective management of credit risks. Therefore, the KYC procedures that this study will examine will include customer identification, analyzing customer profiles, monitoring adherence to KYC procedures, and reporting KYC violations.

A SACCO rate denotes the interest that a state's central bank charges to the local banks to borrow cash. Such rates dictated by the central bank are aimed at stabilizing the economy. As per the legal provisions of the Banking Act Amendment Act of 2016, financial institutions should not levy interest rates of 4 percent more the benchmark rate pegged at 10.5 percent (National Council of Law reporting, 2016). The national government's move intended to spur economic growth by increasing the investment level. However, financial institutions were unwilling to adjust centered on the new law, thus denying people operating small businesses from accessing credit despite having qualified. Interest rates lead to high profitability owing to the high rate of lending practices and in return high interest rates due to increased investment in risky ventures (Brigham *et al*., 2016). According to Mulongo (2017), the indicators of SACCO rates may include the capped interest rate set by the Central Bank of Kenya (CBK), revenue-income deposits, and increased accessibility of loans, and these will be the focus of this study.

According to Fujo and Ali (2016), SACCOs are independent financial establishments that carry out a considerable role in savings mobilization, provision of credit, and other SACCO products to the associates. These cooperatives are important in the financial sector of Kenya because they provide reasonable financial services to their members in the urban as well as rural settings (Wanyama, 2016). SACCOs offer Front Office Savings Activities (FOSAs), and Back Office Savings Activities (BOSAs). Lumbwa Cooperative Society near Kericho was Kenya's foremost cooperative society formed by European settlers in 1908 (Githaka, 2017). After attaining independence, the government of Kenya realized the importance of cooperatives in achieving economic development and therefore took the necessary steps leading to fast growth besides development of the SACCO Society Association (Daniel, 2017).

The SACCO subdivision is among the greater cooperative movements in Kenya. Kenya has over 13,000 legally operating cooperatives and more than 8 million members directly benefit, while an additional thirty-two million Kenyans benefit indirectly. Recently, SACCOs have recorded faster growth when compared to other cooperatives and all the SACCOs are controlled by the SACCOs Act of 2008 which places regulation under the SACCO Society Regulatory Authority (SASRA). The Kenyan Cooperative movement is at present rated position one in Africa and position seven globally (Duncan *et al.,* 2015). Like the banking business, the SACCO business flourishes on the trust as well as confidence of the members (Ngui, 2018).

Problem Statement

The financial products' use in SACCO saving rose to 10.6 in 2013 from 9.2 in 2009 whereas ratios for earning SACCO credit stood at 3.1 and 4.0 in that order, signifying increased activity (CBK & FSD Kenya, 2013). According to Salaton, Gudda, and Rukaria (2020), Kenyan SACCOs' financial performance is affected by huge operating costs, loan default, small interest rates, late payment, dormant assets, and illiquid assets. The greatest

proportion of SACCOs in Kenya is that which provides loans to the members. A large majority of the loans given out turn out to be non-performing as well as end up as bad debts, affecting the SACCOs financial stability (Ntoiti & Jagongo, 2021). In Kenya, there is a growing rate of non-performing loans, impacting liquidity, profitability, and lending capability. The CBK's 2020 statement sheds light on Kenyan financial sector health. It reveals that the NPLs for Kenyan deposit-taking (DT) SACCOs augmented from 2019's 6.15 to 9.12 percent in June 2020, which was the peak after 2012 when its percentage stood at 9.6 (Alushula, 2020).

Loan disbursement is on the rise in SACCOs in Kericho County. For instance, according to a report released by Chepkoech (2018), Imarisha SACCO's disbursed loans alone increased by 19% from 2016's Ksh. 7 billion to Ksh. 8.4 billion in 2017. In 2017, the loan insurance rose by Ksh. 26,455,748.55, from Ksh. 44,214,729 to Ksh. 70,670,477 and this raised a big concern since the board did not have an answer to justify it (Nyakundi, 2018). This signifies that the loan demand continues to rise at a faster rate than the growth of deposits, a challenge that SACCOs need to overcome by adopting better practices that will result in increasing the levels of liquidity of the societies.

A Financial Sector Stability statement by the CBK (2016) exposed that the non-performing loans' ratio to gross loan did not remain constant. The NPLs volatility showed that the upturn was extraordinary as equated to the reduction. The proportions between 2013 and 2015 portrayed these results, which were 4.72 percent in 2013, 5.73 percent in 2014 and 5.12 percent in 2015. The outcomes directed that there was a great proportion of nonperforming loans in deposit taking SACCOs. Thus, SACCO management continues to put emphasis on loan portfolio to ensure high quality and good performance of loans and continues to urge the members to always ensure prompt repayment of loans. Lending activities are the cornerstone of all financial institutions (Maina, 2016). Statistics show that the performance of many SACCOs has not been satisfactory thus SACCOs are adopting new lending practices to enhance performance including loan processing and timely disbursement, identification of high - risk borrowers, as well as bridging of loans (Nyaga, 2014). Nevertheless, there is limited research concerning whether changes in the lending practices significantly impact on SACCOs financial performance.

According to Chepkirui (2018) in an inquiry linking credit risk management and profitability of Kenyan SACCOs, non-performing loans impact the profitability of SACCOs. Nevertheless, the investigation disregarded the impact of lending practices in SACCOs in Kericho County. Maina (2016) concentrated on the role of lending procedures on Kenyan Commercial Banks' financial performance and revealed that KYC procedures, interest rates, and credit policy principles influence the financial performance. Nevertheless, the investigation restricted the results to commercial banks and thus outcomes cannot be universally applied to SACCOs in Kericho County.

Koskei (2018) paid attention to several financial aspects and associates' investment to Sacco products in Kenya whereby the study targeted the Tai and Imarisha SACCOs and the results showed an association between members' devotion to their SACCO's interest rates and variety of products. The study concluded that interest rates, disbursement mode, and range of financial products influence the loyalty of the SACCO members. However, the study ignored the critical aspect of financial performance as well as the lending practices which ensure the survival of the SACCO and continued service provision. From reviewing the above studies, little study had been conducted in SACCOs in Kericho County on lending practices and financial performance. Hence, this research delved into the lending procedures and financial performance of SACCOs in Kericho County.

Objectives of the Study

The main objective of this study was to establish the effect of lending practices on financial

performance of SACCOs in Kericho County. The study was guided by the following specific objectives;

- To establish the effect of know your customers' procedures on financial performance of SACCOs in Kericho County.
- To establish the effect of SACCO rates on financial performance of SACCOs in Kericho County.
- To assess the effect of loan security on financial performance of SACCOs in Kericho County.
- To establish the effect of partnership with credit reference bureau influences the financial performance of SACCOs in Kericho County.

LITERATURE REVIEW

Theoretical Framework

Performance Theory

This study's main objective was to establish the effect of lending practices on financial performance of SACCOs in Kericho County in Kenya. Performance of a business entails the organization's definite outcomes as measures against the envisioned results (Sonnentag & Frese, 2002). Therefore, the theory that anchored the dependent variable, financial performance of SACCOs in Kericho County was the performance theory. The performance theory originates from various fields, although it has its roots from the work of Richard Schechner (1985) and Victor Turner (1988). These authors concentrated on the societies' performative nature worldwide, the way rituals besides events, in addition to everyday life revolved around the code of performance.

The performance theory highlights that each individual contributes on performance in society. The performance theory develops as well as relates several basic concepts that can be helpful in explaining performance and enhancing the performance of a firm. Performing entails producing valued outcomes (Elger, 2007). In this investigation, the performance theory will be appropriate because the indicator of financial performance will be NPLs ratio, which is a result of implementing lending practices. Financial performance refers to how well a business is able to generate revenues (Murithi & Waweru, 2017). Additionally, the firm's financial performance guides the SACCOs' management in deciding on the policies as well as strategies that it needs to adopt to enhance performance.

Information Asymmetry Theory

The theory of information asymmetry is the result of the work of Akerlof (1970). Considering the automobile business, Akerlof noted that consumers have awareness of the whole set of goods that are obtainable in the market. Nonetheless, he perceived that retailers only have intimate understanding of the particular items they intend to retail. Thus, this causes inequity in knowledge amongst the buyers and the sellers. When traders are uncertain about the creditworthiness and financial health of their customers, they cannot consistently make the best-selling decisions (Moss, Neubaum, & Meyskens, 2015). In the same way, when buyers are faced with uncertainty about the products that their suppliers offer, they face the challenge of not being able to confidently make optimal buying decisions.

Therefore, sellers will be required to gather all the valuable information about the financial health of their customers through examining their payment patterns as well as their ability to take advantage of discounts offered for early payment. The market environments for today's businesses are imperfect (Erevelles, Fukawa, & Swayne, 2016). This theory argues that the reason behind this is because the parties operating in the market have unsatisfactory information to complete a transaction by themselves (Li *et al*., 2015). The highly significant market imperfections are asymmetries in information between the lenders and borrowers. The financial institutions screen and monitor borrowers.

The 5 C's Model of Client Appraisal

The 5 C's Model of Client Appraisal was developed by Myers and Forgy (2005) to be used to evaluate the potential of a customer to borrow. The 5Cs assist regulate the SACCOs to increase their credit performance because it helps them to know their borrowers better. The 5Cs represent capacity, capital, character, collateral, and condition (Ahmed & Malik, 2015). Character describes a tool which offers weighting values for several features of loan borrower and whole weighted mark of each credit applicant estimates their credit worthiness. Character represents the trustworthiness, discipline, maturity, integrity, reliability, honesty, and dependability of the borrower. Good character is an important quality that every customer should possess. Capacity describes the client's ability to settle their debt fully and financial service providers assess the capacity of borrower by enquiring on source of income of the client and subtracting all the commitments of the client. It is the record of client's performance.

Condition is the overall prevailing environment at the time the client is borrowing. The economic and business conditions influence the decision to grant credit to the client (Nyasaka, 2017). Collateral on the other hand is a security given to secure a loan in terms of non-encumbered assets. The lending person or firm considers the ratio of the collateral's value against the loan amount. Capital, also known as contribution is the commitment of the client to the project at hand. If the client has difficulties raising the required deposit, they are more likely to be unable to repay their installment and this will influence the performance of the lending firm (Ndiege *et al*., 2016).

Loanable Funds Theory

The theory describes a neo-classical market interest rate theory developed by Robertson and Ohlin (1930s). The theory argues that the demand as well as supply of the firm's loanable money defines the interest rate which is prerequisite in evaluation of credit requirements (Taylor, 2017). Interest rate denotes a risk premium that a borrower pays to acquire credit and thus it affects the loanable capitals. The loanable funds model describes a more practical approach to interest theory when compared to the other classical theories. This theory proposes that investment as well as savings control the level of long - standing rates of interests (Keynes, 2018). Temporary interest rates, conversely, are influenced by the financial and monetary situations of an economy.

According to this theory, there are three elements that govern the loanable fund's demand and these include investment, hoarding, and dissaving (Tily, 2016). The leading cause of demand for the loanable finances is investment demand and new capital goods like inventories form the broader class of investment since an entrepreneur compares the returns expected with the interest rate before making a decision to invest (Ehrhardt & Brigham, 2016). Hoarding is when people hold on to idle cash in order to meet their liquidity requirements. Dissaving, opposite to saving reduces interest rates since it occurs when individuals spend more than their income. The loanable funds theory thus applies to this study because when granting credit and when the customers are applying for the loan, they consider the amount of interests associated with that loan because it may affect their investment decisions as well as defaulting rates. The theory was suitable in finding out the impact of SACCOs' rates on Kericho County SACCOs' financial performance since more funds are borrowed by customers at lower interest rates than at higher rates of interest.

Adverse Selection Theory

The Adverse selection theory was formulated by Pagano and Jappelli (1993). Its argument is that information sharing helps in improving the number of credit borrowers, shrinks the number of defaulting, and lowers the interest rates. As a result, the amount of lending expands. Information exchanged results in an increase in borrowing for the safe borrowers as well as to people who appear as risky borrowers (Kiage, Musyoka & Muturi, 2015). Information sharing lowers the defaulting

and interest rates while an increase in lending is realized (Bos, De Haas & Millone, 2016). The credit bureau references promote competition by reducing data on rents or by enforcing cooperation from customers. In some cases, exchanging information may promote lending in markets that do not permit credit extension. The theory is founded on two key assumptions and the first one is that creditors lack the ability to differentiate loan borrowers of diverse amounts of risk while the second assumption is that that loan contacts are subjects to limited.

Information asymmetries are the leading obstacles for those financial institutions face (Makhurane, 2018). By sharing data about clients, financial firms are able to increase their understanding of the behavior as well as characteristics of their applicants (Kusi & Ansah-Adu, 2015). This theory is relevant in this investigation since if lenders interchange information regarding customer's loan worthiness, it is possible to weigh the quality of all credit seekers, including the non-local ones, and be in a position to provide credit safely. The theory anchors the fourth objective, to establish how partnership with credit reference bureau impacts SACCOs financial performance in Kericho County because debtors pay back their credits since they are aware that nonpayers will be barred, thus decreasing external funding in the future.

Empirical Review

Arasa and Ottichilo (2015) concentrated on the causes of know your client compliance in Kenyan commercial banks in an effort to help combat money laundering as well as other fraud related risks common in financial transactions. The inquiry surveyed 44 commercial banks, targeting the top and middle level supervisors and 30 commercial banks provided data. Findings disclosed that the size of the bank as well as staff competency are key determinants of KYC procedures and that the implementation of KYC could significantly reduce the risks associated with money laundering in financial institutions. The study however surveyed commercial banks in Kenya as well as ignored some critical lending practices such as interest rates, loan security, and partnership with CRB.

Lalon (2015) concentrated on Basic Bank Ltd.'s practices of credit risk management in Bangladesh, using secondary data that related to the bank's monetary status. The results revealed that the Basic Bank Ltd follows the rules as well as regulations provided by Bangladesh Bank in exercising credit risk management. The bank usually emphasizes on the sector credit policy unlike general credit. Basic Bank Ltd recovers its bad portfolio through recovery methods like early alert account, credit inspection, file transfer, write off management, and legal notice. Basic Bank Ltd.'s extent of credit risk is modest. The bank's quantity of overall credits, uncategorized and classified lends is in growing inclination. The bank upholds good total delivery against categorized credits. The research concluded that the association between banks' credit risk management and profitability is positive. Nevertheless, the study unnoticed the impact of KYC procedures, loan security, interest rates, and partnership with CRB and had the dependent variable as profitability. Also, the use of secondary data limits the generalizability of the results to SACCOs in Kericho County because it can be out of data as well as inaccurate.

Ahmed, Rehan, Chhpra, and Supro conducted a quantitative analysis to explore the impact of interest rates on the financial performance of banks in Pakistan, focusing on various variables (Rehan et al., 2018). The target population entailed twenty banks in Pakistan. Data used comprised that of seven years from 2007 to 2014. The choice of banks was based on the banks with the highest market share and return. Data analysis involved correlation together with regression analysis. Findings from the inquiry indicated that interest rates negatively impact banks' profitability. Since the study was based on Pakistan banks, there is a need to study how interest rates as a lending practice affect financial performance of SACCOs in Kericho County. Findings also contradict Maigua and Mouni (2016)

and therefore the need to determine the correlation between the variables.

Kavwele, Ariemba and Evusa (2018) studied interest rate capping and Kenya Commercial Banks' financial performance using secondary data that was analyzed by means of multiple linear regression as well as paired sample T-test owing to the association between variables. Research results specified that interest rate capping statistically significantly and negatively affected commercial banks' performance. Nonetheless, the study considered secondary data which has the limitation of unknown accuracy.

Rithaa, Munene and Kariuki (2019) concentrated on banks loan collateral obligation's effects on performance of small as well as medium businesses in Maua Town in Meru County in Kenya employing a descriptive research design. The research considered a population of 250 registered small and medium enterprises licensed in Maua Town by the Meru County Government. The investigation utilized simple as well as stratified random sampling and selected 153 enterprises as the sample size. Data analysis employed the statistical package for social sciences (SPSS) version 21 while frequency tables helped in data presentation. The study established the independent variable's influence on the dependent variable using the regression method. It was revealed that collateral requirements negatively affect the small and medium enterprises' performance and there is a need to review collateral demands to allow the use of more valuable items as loan security to encourage borrowing among the small and medium establishments. Nonetheless, the research highlighted only one facet of lending and targeted small and medium businesses in Maua town.

Kiai, Kiragu and Githinji (2019) focused on collateral prerequisite effect on financial performance of small and micro agribusiness businesses in Nyeri Central Sub-County Kenya through a descriptive design. Targeting 950 accredited agribusiness small and micro businesses and employing the Krejcie and Morgan's method, a sample size of 274 licensed small and micro agribusiness establishments in Nyeri Central Sub-County was chosen as the sample size. The Bivariate regression outcomes confirmed that collateral prerequisite negatively and statistically insignificantly impacted the financial performance of the studied enterprises. However, collateral requirement is just one of the lending practices and the investigation ignored the contribution of other lending practices. Besides, the study concentrated on small and micro agribusiness businesses in Nyeri Central Sub-County.

Koros (2015) scrutinized the impact of sharing credit information on commercial banks' performance in credit market, considering all the Kenyan 43 commercial banks. Data was secondary in nature and two CRB corporations, CRB Africa and Metropol CRB provided data that was analyzed descriptively, through correlational, and inferential analysis. It was confirmed that total loans minus NPLs to total loans, which is a measure of credit market performance, positively correlates with credit data sharing, total loans advanced as well as total assets. A surge in the performance of credit market was enhanced following the creation as well as operationalization of loans information mechanisms. Although the findings support results in other studies (Kioko, 2014; Munee, 2013), they also contradict findings by Thuo (2015) that credit information sharing shows an insignificant negative association with banks' financial performance. Additionally, it used secondary data that is sometimes inaccurate and outdated.

Oira and Wamugo (2018) was interested in credit data distribution with lenders and performance of carefully chosen commercial banks in Kenya using by means of a descriptive design. The study's target population entailed 43 commercial banks and data used was primary and secondary, scrutinized through descriptive statistics as well as inferential analysis. Outcomes from the investigation specified that competitive sharing of credit information does not significantly impact performance of banks in Kenya. These conclusions are in line with Thuo (2015) but contradict results from other studies

(Koros, 2015; Kioko, 2014; Munee, 2013) as their results argue that credit records distribution is positively associated with firms' financial performance, and inspiring the need to ascertain the results from these various authors by assessing whether partnership with CRB impacts financial performance of SACCOs in Kericho County.

Conceptual Framework

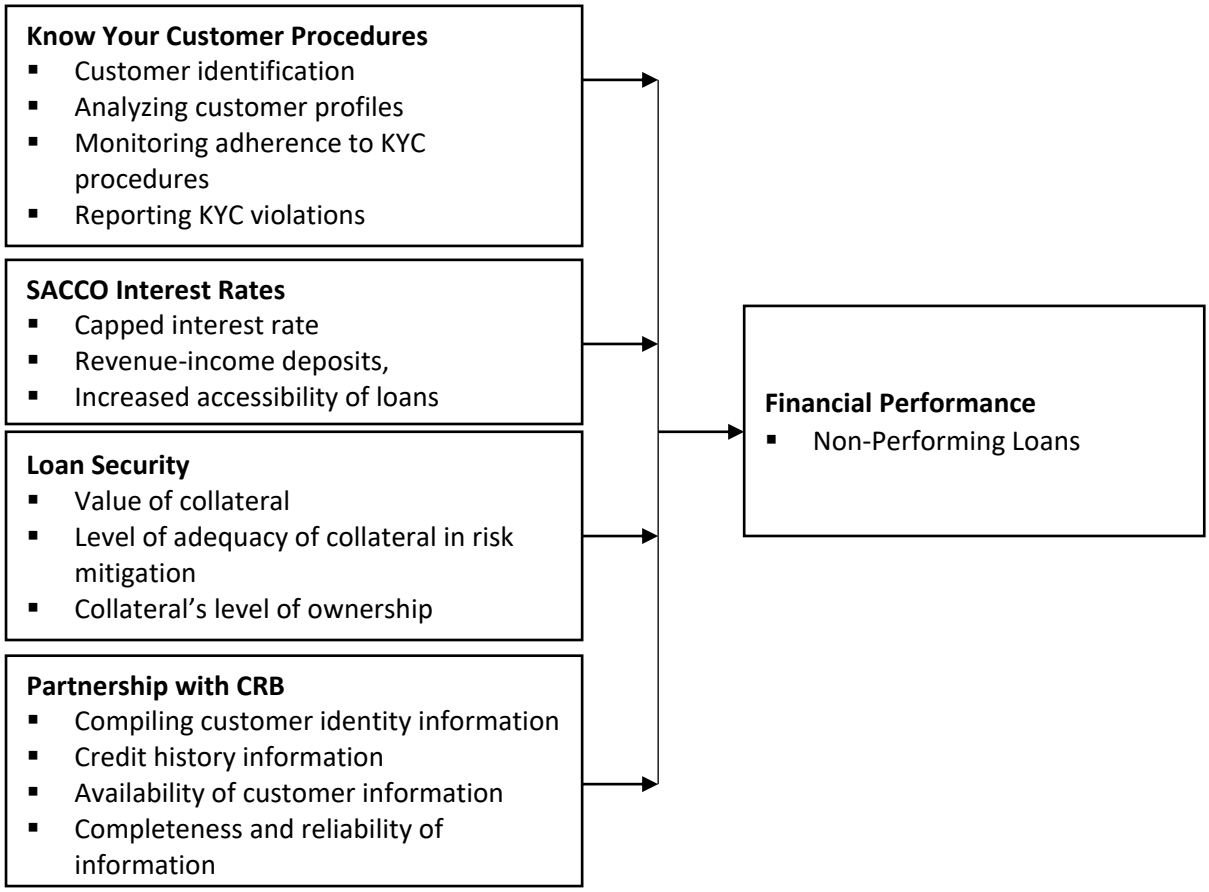

Figure 1: Conceptual Framework

Source: Researcher (2023)

METHODOLOGY

This research considered a descriptive cross-sectional research design because data was gathered from several SACCOs in Kericho County. The research design therefore was relevant because it aimed at establishing the link between lending practices and Kericho County SACCOs financial performance. The research focused on the licensed SACCOs in Kericho County; Kenya Highlands SACCO, Patnas SACCO, Kimbilio Daima SACCO, Ndege Chai, Imarisha SACCO Limited, Simba Chai, and Chai SACCO as per the SASRA (Sacco Societies Regulatory Authority [SASRA], 2022). The population of the study entailed 345 employees. The investigation's target population included the workers in licensed SACCOs in Kericho County. Each SACCO's sample size was arrived at by means of stratified random sampling technique. The study's sample size was 185 employees of SACCOs in Kericho County, determined by adopting the formula suggested by Yaro Yamane (1967) as it was challenging the use of the whole population.

Questionnaires were utilized to obtain primary data on the independent variables while the data collection sheet was adopted for secondary data collection on the dependent variable.

Operationalization of study variables in this study involved specifying concrete observations believed to empirically capture a certain concept in the real world. The questionnaires produced data that was prepared for analysis using the SPSS to produce descriptive and inferential statistics. Descriptive statistics involved percentages, frequencies, mean, and standard deviation, useful in assessing the characteristics of data (Gravetter & Wallnau, 2016). Inferential statistics involved correlational analysis and regression analysis to show the relationship (Harrell Jr, 2015), and the study used SPSS version 24. Data summaries was presented by means of percentages, regression tables, and figures to outline the findings in relation to the research questions.

Multiple linear regression model was applied in assessing how the lending practices employed by SACCOs in Kericho County in 2022 affect the SACCOs' financial performance. The Multiple linear regression model was applied in this research since it was assessing the lending practices' effect on Kericho County SACCOs financial performance. The overall multiple linear regression model was illustrated as follows:

$Y_i = +X1 + X2 + X3 + X4 + e$

Y_i= Financial performance of SACCO *i* in Kericho County at time *t*

X1*i*= Know your customer (KYC) procedures

X2*i* = SACCO interest rates

X3*i* = Loan security

X4*i*= Partnership with Credit reference bureau (CRB)

= constant (intercept): the value of the dependent variable when all independent variables have a value of zero.

+,,, and = regression coefficients induced by X1 X2, X3, and X4 on Y,

e= the composite error term of the empirical model

i= SACCO 1,...,7

RESULTS

Descriptive Findings

The study sought to establish the influence of lending practices on financial performance of SACCOs in Kericho County. Specifically, the study focused on know your customers' procedures, SACCO rates, loan security and partnership with credit reference bureau.

Know Your Customers' procedures

Table 1 presented the results of descriptive analysis on the status of the know your customers' procedures of SACCOs in Kericho County.

Table 1: Descriptive Statistics on Know Your Customers' Procedures

Statement	Mean	Std. Dev.
This SACCO's employees embrace customer identification	3.5904	1.25080
Employees at this SACCO gather all the relevant information about a borrower before granting a loan	3.9337	1.13424
The employees of this SACCO follow strict measures in analyzing borrowers' profiles.	3.4485	1.28976
The SACCO employees monitor adherence to know your customer.	3.7108	1.24589
The employees of this SACCO violate and report the know your customer procedures.	3.8976	1.18899
Overall Mean	**3.7162**	

Source: Research Data (2023)

The results in Table 1 indicated that the SACCO's employees embrace customer identification" recorded a mean of 3.5904 and a standard deviation of 1.250. The mean score suggests that, on average, respondents lean toward agreement with the statement that employees at this SACCO embrace customer identification. The standard deviation indicates that there is some variability in respondents' opinions, with some showing stronger agreement or disagreement than others. Similarly, the mean score of 3.9337 indicates that, on average, respondents generally agree with the

statement that employees at these SACCOs gather all the relevant information about borrowers before granting loans. The standard deviation of 1.13424 suggests that there is relatively less variability in their responses. Additionally, the mean score of 3.4485 indicates that, on average, respondents moderately agree with the statement that employees of the SACCOs follow strict measures in analyzing borrowers' profiles. The higher standard deviation of 1.28976 suggests that there is more variability in respondents' opinions. Moreover, the mean score of 3.7108 suggests that, on average, respondents generally agree with the statement that SACCO employees monitor adherence to know your customer procedures. The standard deviation of 1.24589 indicates some variability in responses, but it is not as wide. Finally, the mean score of 3.8976 suggests that, on average, respondents generally agree with the statement that employees of the SACCOs document and report violations of the know your customer procedures. The standard deviation of 1.18899 indicates some variability in responses, but again, it's not as wide. Overall, participants in the study generally agree with statements related to KYC procedures in the context of SACCOs in Kericho County. However, it's important to note that there is some variability in responses, for some statements such as KYC3, where opinions are more diverse.

The findings are consistent with literature review by Michugu (2016) who focused on investigating anti-money laundering guidelines and Chase bank's financial performance in Kenya through a descriptive case study design that targeted 1012 employees who were scattered among the 39 branches of Chase Bank and its 17 departments. The study findings showed that anti-money laundering rules impact on Chase Bank's operations. Anti-money laundering regulations were found to reduce the levels of internal and external fraud, increase client and investor assurance, broadened regulatory framework, as well as enhanced effectiveness in processes.

SACCO Rates

Table 2 presented the results of descriptive analysis on the status of interest rates of SACCOs in Kericho County.

Table 2: Descriptive Statistics on SACCO Rates

Statement	Mean	Std. Dev.
This SACCO adheres to interest rate capping.	3.7530	1.21823
The SACCO's lending interest rate is slightly below the prevailing rate in the market.	4.0606	1.05169
Increased interest rates reduce SACCO's income revenue.	3.8735	1.20691
This SACCO provides favorable loan rates to the customers.	3.7349	1.25127
This SACCO ensures that customers have access to loans.	3.4639	1.29634
Interest rates dictate financial performance of this SACCO.	3.4699	1.28711
Overall Mean	**3.7259**	

Source: Research Data (2023)

The results in Table 2 shows that the mean score of 3.7530 suggests that, on average, respondents tend to agree that SACCOs adhere to interest rate capping. The standard deviation of 1.21823 indicates some variability in responses, with some respondents expressing stronger agreement or disagreement. The mean score of 4.0606 indicates that, on average, respondents generally agreed that SACCO lending interest rates are slightly below the prevailing market rate. The lower standard deviation of 1.05169 suggests relatively less variability in responses. Moreover, the mean score of 3.8735 suggests that, on average, respondents agreed that increased interest rates have a negative impact on SACCOs income revenue, with the standard deviation of 1.20691 indicates some variability in responses. Relatedly, the mean score of 3.7349 suggests that, on average, respondents moderately agreed SACCOs offer more favorable loan rates to customers. The standard deviation of

1.25127 indicates some variability in responses. Additionally, the mean score of 3.4639 suggests that, on average, respondents were in agreement that SACCOs ensure that customers have access to loans. The standard deviation of 1.29634 indicates some variability in responses. Lastly, the mean score of 3.4699 indicates that, on average, respondents leaned toward agreement that interest rates dictate the financial performance of SACCOs. The standard deviation of 1.28711 indicates some variability in responses. In summary, based on the respondents' perceptions, it appears that SACCO interest rates in Kericho County have a notable influence on their financial performance. Generally, respondents tend to agree with statements related to interest rates, but there is variability in their opinions, particularly in items such as adherence to interest rate capping and the impact of interest rate changes on revenue. These findings provide insights into the role of interest rates in SACCO financial performance.

These findings match those of Kavwele, Ariemba, and Evusa (2018) who studied interest rate capping and Kenya Commercial Banks' financial performance using secondary data that was analyzed by means of multiple linear regression as well as paired sample T-test owing to the association between variables. Research results specified that interest rate capping statistically significantly and negatively affected commercial banks' performance.

Loan Security

Table 3 presents the results of descriptive analysis on the status of loan security of SACCOs in Kericho County.

Table 3: Descriptive Statistics on Loan Security

Statement	Mean	Std. Dev.
This SACCO considers the value of collateral when giving loans.	3.8855	1.20309
This SACCO lends to clients who secure the loan.	4.0964	1.03414
This SACCO stresses the level of adequacy of collateral in risk mitigation.	3.7470	1.15306
Collateral's level of ownership is a lending practice in this firm.	3.6807	1.35753
Overall Mean	**3.8524**	

Source: Research Data (2023)

Table 3 shows that the mean score of 3.8855 indicates that, on average, respondents agreed that SACCOs consider the value of collateral when granting loans. The standard deviation of 1.20309 suggests some variability in responses, with some respondents expressing stronger agreement or disagreement. The mean score of 4.0964 suggests that, on average, respondents generally agreed that SACCOs in Kericho County tend lend to clients who provide loan security. The lower standard deviation of 1.03414 indicates relatively less variability in responses. Similarly, the mean score of 3.7470 indicates that, on average, respondents agreed that SACCOs emphasize the importance of collateral adequacy in risk mitigation. The standard deviation of 1.15306 suggests some variability in responses. Additionally, the mean score of 3.6807 suggests that, on average, respondents moderately agreed that the level of collateral ownership is a lending practice in SACCOs. The higher standard deviation of 1.35753 indicates more variability. Therefore, based on respondents' perceptions, it appears that loan security practices play a significant role in the financial performance of SACCOs in Kericho County. Respondents generally agreed with statements related to the consideration of collateral value, lending to secured clients, and the emphasis on collateral adequacy in risk mitigation. However, there is some variability in responses, particularly in the item related to collateral ownership as a lending practice. These findings provide insights into the importance of loan security in SACCO financial performance.

The results collate with literature review by Ishak, Leon, and Usman (2021) who investigated whether asset securitization affects the banking monetary performance. The study explored the link between

independent variables, including loan loss provisions and asset-backed securities and return on assets (dependent variable). It was established that asset-backed securities significantly positively impact return on asset.

Partnership with Credit Reference Bureau (CRB)

Table 4 presents the results of descriptive analysis on the status of loan security of SACCOs in Kericho County.

Table 4: Descriptive Statistics on Partnership with CRB

Statement	Mean	SD
Credit reference bureau compiles borrowers' credit information, public record data, and identity information.	3.9458	1.26614
Credit bureau collects, organizes and consolidates information from several lenders who associate with the bureau and help to reduce non-performing loans.	3.8373	1.24708
Credit reference bureau makes borrowers' information available to lenders in the form of a credit report thus influencing the financial performance of SACCOs in Kericho County.	4.0843	.95606
Upon request, credit reference bureau provides SACCOs in Kericho County with credit reports that contain credit history of a particular person.	3.5602	1.35490
Provision of complete and reliable financial information of a borrower is important for SACCOs in Kericho County.	3.6386	1.31267
Overall Mean	**3.8132**	

Source: Research Data (2023)

The results in Table 4 indicated that mean score of 3.9458 suggests that respondents generally agree that credit reference bureaus compile borrowers' credit information, public record data, and identity information. The standard deviation of 1.26614 indicates some variability in responses, with some respondents expressing stronger agreement or disagreement. Moreover, the mean score of 3.8373 indicates that, on average, respondents generally agree that credit bureaus collect, organize, and consolidate information from multiple lenders to reduce non-performing loans. The standard deviation of 1.24708 suggests some variability in responses. Additionally, the mean score of 4.0843 suggests that, on average, respondents agree that credit reference bureaus make borrowers' information available to lenders in the form of a credit report, influencing SACCOs' financial performance. The relatively lower standard deviation of 0.95606 indicates less variability in responses compared to other items. Similarly, the mean score of 3.5602 indicates that, on average, respondents moderately agree (or lean toward agreement) that credit reference bureaus provide SACCOs with credit reports containing individual credit histories upon request. The higher standard deviation of 1.35490 suggests more variability in responses. Lastly, the mean score of 3.6386 suggests that, on average, respondents tend to agree that the provision of complete and reliable financial information of borrowers is important for SACCOs in Kericho County. The standard deviation of 1.31267 indicates some variability in responses. Based on respondents' perceptions, it appears that partnerships with credit reference bureaus have a notable influence on the financial performance of SACCOs in Kericho County. Respondents generally agree with statements related to the role of CRBs in compiling credit information, reducing non-performing loans, and providing credit reports. However, there is some variability in responses, particularly in items related to the provision of credit reports and the importance of complete financial information. These findings offer insights into the significance of CRB partnerships in SACCO financial performance.

This is consistent with the study by Omar and Makori (2018) on sharing of credit records and monetary performance of Kenya's commercial banks. The authors found that competitive sharing of clients' information, costs of operation, credit lending volume, as well as level of interest

positively as well as significantly affect fiscal performance of Kenya's commercial banks.

Financial Performance

Table 5 presents the results of descriptive analysis on the status of financial performance of SACCOs in Kericho County in terms of NPLs Ratio.

Table 5: Total Loans, NPLs and NPLs Ratio

Year	NPLs	Total Loans	NPLs Ratio
2017	15,476	631,401	2.45%
2018	21,616	687,955	3.14%
2019	29,870	720,622	4.15%
2020	29,926	805,977	3.71%
2021	36,635	875,805	4.18%

Source: Research Data (2023)

Over the period 2017-2021, there was a gradual increase in NPLs. The upward trend in indicates a potential concern, as it suggests that a growing portion of SACCO loans in the county are not being repaid according to the agreed terms, which poses a threat to the long-term sustainability of SACCO operations. As per the findings by Koskei and Naibei (2017), the performance of SACCOs is significantly reliant on the members' capacity to effectively handle their loans, thereby diminishing the incidence of loan defaults. This ability to meet loan obligations is strongly affected by the loyalty of members, which, in turn, is influenced by incentives like lending interest rates. NPLs ratio is the ratio of non-performing loans (NPLs) to total loans. In 2017, NPLs accounted for 2.45% of the total loan portfolio, which increased to 3.14% in 2018 and further rose to 4.15% in 2019. However, in 2020, there was a slight decrease to 3.71%, followed by another increase in 2021 to 4.18%. These figures illustrate the fluctuating trend in NPLs over this five-year period, reflecting changes in loan quality and potential credit risks for SACCOs in Kericho County.

Correlation Results

Correlation analysis is an important statistical tool that allows for unraveling relationships between variables within datasets. It allows researchers and analysts to quantify the strength and direction of associations between two or more variables, shedding light on the degree to which changes in one variable are related to changes in another (Mahdavi, 2013). The results of correlation analysis are presented in Table 6.

Table 6: Correlation Analysis Results

	Correlations				
	Know your customer	SACCO Interest rates	Loan Security	CRB Partnership	Financial Performance
Know your customer	1.000	.327	.047	.167	.224
Sig. (2-tailed)		.000	.549	.032	.004
SACCO interest rates	.327	1.000	.003	-.003	.175
Sig. (2-tailed)	.000		.970	.970	.024
Loan security	.047	.003	1.000	.274	.088
Sig. (2-tailed)	.549	.970		.000	.258
CRB partnership	.167	-.003	.274	1.000	.112
Sig. (2-tailed)	.032	.970	.000		.153
Financial performance	.224	.175	.088	.112	1.000
Sig. (2-tailed)	.004	.024	.258	.153	

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

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Research Data (2023)

Based on the results in Table 6 the variable “know your customer procedures” has a strong positive relationship with the financial performance of SACCOs in Kericho county (r=0.224, α = 0.05). The result suggests that as SACCOs improve their know your customer procedures, their financial performance improve as well. The correlation analysis between SACCO interest rates and financial performance shows a positive relationship exists (r = 0.175, α = 0.05). This suggests a positive but average relationship. It means that as SACCOs offer more attractive lending rates, their financial performance can improve. However, the relationship is not as strong as with know your customer procedures. The study also sought to determine whether there existed a significant relationship between loan security and Sacco’s financial performance. The correlation analysis shows that a positive but weak relationship exists (r = 0.088, α = 0.05). The weak suggests that loan security is not a major concern since SACCOs loans are primarily guaranteed by members’ shares. Finally, the correlation analysis sought to determine whether there was a significant relationship between partnership with credit reference bureau and financial performance of SACCOs. The results indicate that a positive but weak relationship exists (r = 0.112, α = 0.05). In summary, strong and positive correlation is only observed for know your customer procedures. Average but positive relationship is observed for SACCO interest rates. However, loan security and CRB partnership have positive but weak relationship with financial performance.

The correlation analysis of the variables reveals that significant relationships exist between "Know your customer" and "SACCO Interest rates," "Know your customer" and "CRB Partnership," as well as "Know your customer" and "Financial Performance," with p-values of less than 0.05, indicating statistical significance. However, the correlations between "Know your customer" and "Loan Security," "SACCO Interest rates" and "Loan Security," "SACCO Interest rates" and "CRB Partnership," and "Loan Security" and "CRB Partnership" are not statistically significant, as their p-values are greater than 0.05. Furthermore, the relationships between "Loan Security" and "Financial Performance," and "CRB Partnership" and "Financial Performance" do not show statistical significance.

These findings were in line with those of Kavwele, Ariemba and Evusa (2018) studied interest rate capping and Kenya Commercial Banks’ financial performance using secondary data that was analyzed by means of multiple linear regression as well as paired sample T-test owing to the association between variables. Research results specified that interest rate capping statistically significantly and negatively affected commercial banks’ performance.

Regression Analysis

Furthermore, the research conducted regression analysis to determine how the independent variables influenced the dependent variable. The outcomes of the regression analysis are detailed in the following sections.

Regression Analysis Model Summary

The result of regression analysis was depicted in Table 7 below.

Table 7: Regression Analysis Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.269[a]	.072	.049	.23351	.652

a. Predictors: (Constant), Customers’ procedures, SACCO rates, Loan security and Partnership with credit reference bureau

b. Dependent Variable: Financial Performance

Source: Research Data (2023)

Table 7 represents a model fit that assesses the degree to which the model equation aligns with the dataset. The R2 value was utilized to gauge the predictive capability of the research model, and it was determined to be 0.072, indicating that 7.2% of the variations in the financial performance of SACCOs in Kericho County are accounted for by factors such as know your customers' procedures, SACCO rates, loan security, and collaboration with credit reference bureaus. Despite the low R-squared value, low p-values, especially for know your customers' procedures, still suggest that a real relationship exists between SACCOs financial performance and the predictor variables in the model.

ANOVA Results

The result of Anova analysis are depicted in Table 8 below.

Table 8: Summary of ANOVA results

ANOVA[a]						
Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	.682	4	.171	3.129	.016[b]
	Residual	8.779	161	.055		
	Total	9.462	165			

a. Dependent Variable: Financial Performance

b. Predictors: Customers' procedures, SACCO rates, Loan security and Partnership with credit reference bureau

Source: Research Data (2023)

The results in Table 8 indicate that the regression model is statistically significant at a significance level of 0.05. This conclusion is based on several observations. Firstly, the F-Statistic (F), with a value of 3.129, assesses whether the variance explained by the model is significantly greater than the unexplained variance. The larger F-statistic suggests a stronger relationship between the predictor variables (know your customers' procedures, SACCO interest rates, partnership with credit reference bureau, and loan security) and the dependent variable (SACCO financial performance). Secondly, the significance level associated with the F-statistic is denoted by 0.016 (b). This p-value represents the probability of observing an F-statistic as extreme as the one calculated under the null hypothesis (no relationship between predictor variables and the dependent variable). In this case, the p-value of 0.016 is less than the conventional significance level of 0.05, indicating statistical significance. Therefore, given these results, it can be concluded that the combination of the predictor variables does have a statistically significant impact on the dependent variable. In other words, the model as a whole provides valuable insights into the relationship between these predictor variables and SACCO financial performance composite. The overall model is significant.

Regression Coefficients

The result of regression coefficients are depicted in Table 9 below.

Table 9: Coefficients of Regression Equation

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.625	.202		17.913	.000
	Know your customer	.075	.036	.171	2.096	.038
	SACCO Interest Rate	.053	.036	.119	1.484	.140
	Loan Security	.024	.031	.062	.781	.436
	Partnership with CRB	.026	.031	.066	.829	.408

Source: Research Data (2023)

FIN_PERF= 3.623+0.075KYC+0.053Interest+0.024 LOAN_SecURITY+0.026CRB_Partnership +α

Weak effect size can be a significant reason for non-significant coefficients in a regression analysis. In this context, it means that the impact of the predictor variable on the outcome variable is minimal. While there may indeed be a genuine relationship between the two variables, this relationship is so subtle that it becomes challenging to detect. The non-significant results in these situations does not necessarily imply the absence of a relationship but rather suggests that the data may not provide strong enough evidence to confirm it. The coefficients of the regression equation provide valuable insights into the relationships between the predictor variables and the dependent variable. The constant term represents the intercept of the regression equation. In this case, it is 3.625. This value represents the estimated SACCO financial performance when all predictor variables are set to zero. It is the baseline or starting point for financial performance.

Hypotheses Testing

The results of hypotheses testing are presented in the subsequent sections.

Know your customer has no significant effect on Financial Performance

The beta coefficient for know your customers' procedures is 0.075. This means that for every one-unit increase in this predictor's mean score, the estimated mean for financial performance is expected to increase by 0.075. The standardized coefficient (Beta) of 0.171 suggests that the variable has a moderate positive impact on financial performance. The t-statistic of 2.096 indicates that this coefficient is statistically significant at the 0.05 significance level. Therefore, a higher know your customers' procedures is associated with a higher financial performance. This suggests that a focus on improving know-your-customer procedures can lead to better financial performance for SACCOs in Kericho County.

SACCO Interest Rate have no significant effect on Financial Performance

Similarly, the beta coefficient for SACCO interest rates is 0.053. The figure implies that for every one-unit increase in the mean of this predictor, the estimated mean for financial performance increases by 0.053. The standardized coefficient (Beta) of 0.119 indicates a weak but positive impact of the variable on financial performance. However, the t-statistic of 1.484 is not statistically significant at the 0.05 significance level (p-value = 0.140). Therefore, although there is a positive relationship between SACCO interest rates and financial performance, it is not statistically significant. This suggests that the impact of SACCO lending rates on financial performance may be weaker or less clear in this context.

Loan Security has no significant effect on Financial Performance

Additionally, the beta coefficient for loan security is 0.024. The coefficient indicates that for every one-unit increase in the mean for loan security, the estimated financial performance increases by 0.024. The standardized coefficient (Beta) of 0.062 suggests a positive but weak impact. The t-statistic of 0.781 is not statistically significant (p-value = 0.436). Hence, the relationship between loan security and financial performance is weak and not statistically significant. This implies that the level of emphasis on loan security may not significantly impact financial performance in this context.

Partnership with CRB has no significant effect on Financial Performance

Finally, the beta coefficient for partnership with credit reference bureau is 0.026. The finding means that for every one-unit increase in CRB partnership mean score, the estimated financial performance mean score increases by 0.026. The standardized coefficient (Beta) of 0.066 suggests a relatively weak positive impact. The t-statistic of 0.829 is not statistically significant (p-value = 0.408). The partnership with a credit reference bureau (CRB) may have a positive but weak influence on financial performance. The relationship is not statistically significant. In summary, the regression coefficients offer insights into the impact of each predictor variable on financial performance. Based on the analysis, the most significant predictor appears to

be know your customers' procedures, which has a statistically significant positive effect on financial performance. However, the other predictor variables are weak and not statistically significant. These findings suggest that improving know-your-customer procedures may be a more influential factor in enhancing financial performance compared to the other variables considered in the model.

FINDINGS

The regression analysis revealed a significant positive correlation between the quality of KYC procedures and SACCO financial performance. Therefore, SACCOs should take proactive measures to strengthen these procedures as they play a pivotal role in mitigating credit risk and ensuring that loans are extended to creditworthy members. The statistical findings clearly indicate that an improvement in KYC procedures is associated with an enhancement in financial performance. This implies that by investing in better member profiling, conducting thorough credit risk assessments, and ensuring rigorous due diligence in the lending process, SACCOs can effectively reduce loan defaults and create a more stable financial environment. The empirical evidence strongly supports the idea that focusing on improving KYC procedures can be a fundamental step for SACCOs in Kericho County to strengthen their financial position and ensure their long-term sustainability.

The examination of SACCO interest rates in relation to financial performance revealed an interesting but statistically insignificant correlation. The regression analysis showed that while there was a positive association between SACCO interest rates and improved financial performance, this connection did not reach statistical significance. This suggests that the influence of interest rates on financial outcomes among SACCOs in Kericho County may be more complex and nuanced. The statistical insignificance implies that SACCOs should not solely rely on adjusting interest rates as a standalone strategy to enhance their financial performance. Instead, they should conduct further investigations into the dynamics at play and consider other factors that might be interacting with interest rates, such as market conditions, member preferences, and competition. Whereas there is an apparent link between SACCO interest rates and financial performance, the absence of statistical significance underscores the need for SACCOs in Kericho County to delve deeper into this relationship. This involves a more comprehensive examination and fine-tuning of interest rate policies to determine their optimal level and the extent of their impact on financial performance within the unique context of SACCO operations in the county.

The examination of loan security in relation to SACCO financial performance revealed a notable but statistically insignificant association. The regression analysis indicated that the relationship between loan security measures, such as collateral or guarantees, and SACCO financial performance was weak and did not attain statistical significance. This suggests that the conventional emphasis placed on stringent loan security measures may not significantly impact the financial performance of SACCOs operating in Kericho County. Instead of solely relying on traditional security measures, SACCOs may benefit from exploring alternative strategies and allocating resources to factors that have a more substantial influence on their financial success. This calls for a strategic shift in focus towards other factors that can more effectively bolster the financial health and sustainability of these SACCOs in the unique context of the county.

The examination of SACCOs' partnership with credit reference bureaus (CRBs) in relation to financial performance uncovered a positive yet statistically insignificant connection. That credit reference bureau makes borrowers' information available to lenders. The regression analysis indicated that while there was a positive association between CRB partnerships and SACCO financial performance, this correlation did not reach statistical significance. This implies that while CRB partnerships may offer some advantages, such as improved credit risk assessment and member creditworthiness, their

overall influence on the financial performance of SACCOs in Kericho County may be relatively weak. Although provision of complete and reliable of a borrower's credit history is important for SACCOs in Kericho County, SACCOs should critically evaluate whether the benefits derived from CRB partnerships outweigh the costs and resources invested in maintaining such collaborations.

CONCLUSIONS AND RECOMMENDATIONS

Firstly, the research demonstrated the importance of Know Your Customer (KYC) procedures in shaping SACCO financial performance. The significant positive correlation between the quality of KYC procedures and financial outcomes highlights the need for SACCOs to invest in enhancing these procedures. By focusing on member profiling, rigorous credit risk assessments, and robust due diligence, SACCOs can effectively reduce loan defaults and create a more stable financial environment.

Secondly, the study shed light on the complex relationship between SACCO interest rates and financial performance. While there was a positive association, the lack of statistical significance suggests that the impact of interest rates on financial outcomes is multifaceted. SACCOs should conduct further investigations to better understand the dynamics at play and consider additional factors that may interact with interest rates, ultimately determining their optimal level.

Furthermore, the research revealed that traditional loan security measures may not significantly influence the financial performance of SACCOs. The weak and statistically insignificant relationship between loan security measures, such as collateral or guarantees, and financial performance calls for a reevaluation of the emphasis placed on these traditional security methods. SACCOs should explore alternative strategies and allocate resources to factors that have a more substantial impact on their financial success.

Lastly, the study addressed the partnership between SACCOs and credit reference bureaus (CRBs). While a positive association was found, the lack of statistical significance suggests that the overall influence of CRB partnerships on financial performance may be relatively weak. SACCOs should carefully assess the cost-effectiveness of these collaborations, considering whether the benefits of improved credit risk assessment and member creditworthiness outweigh the associated costs and resources. This research underscores the need for SACCOs in Kericho County to adopt a nuanced and strategic approach to their lending practices. Prioritizing enhanced KYC procedures, conducting further research on interest rate dynamics, reallocating resources from traditional loan security measures, and critically evaluating CRB partnerships are vital steps in bolstering the financial health and long-term sustainability of SACCOs in the county.

Based on the findings and objectives of the study, the following recommendations can support SACCOs to improve on their financial performance.

To improve the influence of KYC procedures on the financial performance of SACCOs in Kericho County, it is recommended that SACCOs should invest in continuous training and capacity building for staff involved in KYC procedures. Training should focus on the latest KYC best practices, including member profiling, credit risk assessment, and due diligence techniques. In addition, SACCOs should establish a system for periodic review and improvement of KYC procedures to ensure they remain effective in identifying and mitigating credit risk. This includes staying updated with evolving regulatory requirements related to KYC. SACCOs should also consider member education and engagement programs to create awareness about the importance of providing accurate information during the KYC process. Informed and cooperative members are more likely to facilitate smoother KYC procedures.

To establish the influence of SACCO rates on the financial performance of SACCOs in Kericho County, SACCOs should conduct a thorough market analysis to understand the competitive landscape and

member preferences regarding interest rates. This analysis should take into account both the local and national economic conditions. Based on the market analysis, SACCOs should consider fine-tuning their interest rate policies to strike a balance between member affordability and financial sustainability. This may involve setting competitive rates that attract borrowers while ensuring they cover operational costs and generate reasonable returns. Furthermore, SACCOs should collect and analyze data on the response of their financial performance to changes in interest rates. Such a data-driven approach will help SACCOs determine the optimal interest rate level and make informed adjustments.

SACCOs should develop a comprehensive risk management strategy that goes beyond traditional loan security. This strategy should encompass credit risk assessment, portfolio diversification, and proactive monitoring of loan quality. Moreover, they can explore alternative collateral options that align with the local context, such as crop-based collateral or community-based guarantees. This can help make loans accessible to a wider range of members while mitigating risk. Lastly, they can implement in-house credit scoring models that incorporate non-traditional data points, such as payment histories with other service providers, to assess the creditworthiness of members. This can enhance risk assessment without solely relying on physical collateral. Through implementing these recommendations, SACCOs in Kericho County can not only address the specific objectives of the study but also enhance their overall financial performance and contribute to their long-term sustainability.

On Partnership with CRB the results argue that credit records distribution is positively associated with firms' financial performance, the study recommends that there is need to ascertain the results by assessing whether partnership with CRB impacts financial performance of SACCOs in Kericho County. CRB partnerships may offer some advantages, such as improved credit risk assessment and member creditworthiness; their overall influence on the financial performance of SACCOs in Kericho County may be relatively weak. The study recommends a need for provision of complete and reliable of a borrower's credit history as this is important for SACCOs in Kericho County, SACCOs should critically evaluate whether the benefits derived from CRB partnerships outweigh the costs and resources invested in maintaining such collaborations.

Recommendations for Further Research

Further research should investigate the influence of technological innovation, such as digital banking solutions and fintech partnerships, on the financial performance of SACCOs. Specifically, the study could explore how the adoption of digital technologies affects operational efficiency, member engagement, and risk management within SACCOs. It could also assess the potential trade-offs between embracing technological advancements and maintaining the personalized, community-oriented nature of SACCOs. A comprehensive analysis of how technology influences the financial performance of SACCOs in a specific context, such as county level, can provide valuable insights for both SACCOs and policymakers as they adapt to the evolving financial landscape.

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