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ABSTRACT

SACCOs that complied with SASRA's capital adequacy requirements demonstrated improved financial stability and profitability, indicating that a strong capital base enhances members' confidence and operational sustainability. Findings revealed that adherence to liquidity regulations positively influenced SACCOs' financial performance. SACCOs with adequate liquidity were better positioned to meet short-term obligations, reduce financial distress, and take advantage of investment opportunities. The study established that asset quality had a great influence on financial performance. SACCOs with good asset quality, depicted by lower levels of non-performing loans (NPLS), exhibited stronger financial outcomes. This justifies the importance of effective credit management and monitoring practices. The results indicated a strong link between risk management practices and financial performance. SACCOs that had effective risk identification, assessment, and mitigation mechanisms recorded higher financial performance. Risk-aware institutions were better prepared to navigate financial uncertainties and maintain operational efficiency. SACCOs should ensure strict compliance with SASRA's capital adequacy requirements to enhance their financial stability and resilience. SACCOs should adopt robust liquidity management strategies to meet both short-term obligations and regulatory requirements. Investment in tools and systems that monitor and forecast liquidity needs is recommended to avoid operational disruptions. SACCOs should strengthen their credit risk assessment frameworks, enhance due diligence processes, and develop effective loan recovery strategies. SACCOs should embed comprehensive risk management frameworks within their operations. SASRA should enhance support mechanisms, such as training and sensitization workshops, to help SACCOs comply effectively with prudential guidelines. Regulatory frameworks should also be periodically reviewed and updated to reflect the dynamic financial environment and unique SACCO sector challenges.

Key Words: *Capital Adequacy, Liquidity, Asset Quality, Risk Management, Risk Mitigation Mechanisms*

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INTRODUCTION

International Co-operative Alliance (2020) defines a SACCO as a member -based financial institution that provides savings and credit services to its members. It is owned, governed, and managed by its members who have a common bond. According to Barus et al (2017), the SACCO sector in Kenya is structured on a two-tier system based on their ability to accept deposits: The Non-Deposit -Taking SACCOs(NDTS) which do not accept demand deposits but instead mobilize savings through non-withdrawable deposits which can only be refunded upon exit.They operate Back office Service activity (BOSA).NDTS SACCOS were traditionally regulated under the ambit of Cooperative Societies Act Cap 490 but came under SASRA's regulatory oversight in 2021 following the enactment of the Saccos Societies (Non -Deposit Taking Business) Regulations,2020.Deposit-Taking SACCOs on the other hand are SACCOs licensed and regulated under the Sacco Societies Act ,2008 and the Sacco Societies (Deposit -Taking Sacco Business) Regulations ,2010.They offer a variety of financial services ranging from payment services, demand deposits and quasi-banking services like mobile banking ,internet banking and ATM services.

The global cooperative movement is recognized as a vital force for sustainable development, with the UN declaring 2025 as the International Year of Cooperatives to highlight their impact on social, economic, and environmental dimensions, aiming to foster inclusive growth and community resilience (UN,2023). From a global perspective the Co-operative movement can be defined as an independent/autonomous group of persons who unite voluntarily and democratically in order to advance a mutual economic, social and cultural goal, this is according to the guidelines set by the International Co-operative Alliance (ICA).Therefore, a co-operative is essentially a people's movement demonstrated by common believe, faith and trust and its major objective and focus being to ensure that its members advance towards economic growth and development. This form of association is considered an extended form of modern family and beyond the family no other solid formal association exists other than a cooperative (Curl,2010). Derr (2013) noted that in the context of 2008/2009 financial crises, cooperative proved to be resilient alternatives to mainstream financing companies and institutions. Even during COVID 19 pandemic which was world over, cooperatives still remained resilient. Despite all these cooperatives continue to be misunderstood, with many governments either wanting to control them or avoiding to support them altogether. Surprisingly, cooperatives that have adopted and carefully followed the practical idealists from Rochdale have found success in their own time. (Thompson ,1994)

The history of cooperatives in Africa is intertwined with the colonial period when European powers imposed cooperative systems to manage agricultural production and exploit resources. After independence, many African nations embraced cooperatives as a tool for rural development, self-reliance, and economic justice (Bennett, 2014). These cooperatives aimed to reduce dependency on colonial structures and support economic activities based on mutual benefit. Savings and Credit Cooperative Societies (SACCOs) play a significant role in financial inclusion in Africa. These cooperatives help individuals in rural and underserved areas access credit, savings, and insurance services that would otherwise be unavailable. SACCOs have been particularly effective in Kenya, where institutions like the Kenya Union of Savings and Credit Cooperatives (KUSCCO) have grown to become key players in the financial sector (Gichuki, 2013). Cooperatives have been instrumental in advancing gender equality and social empowerment in Africa, particularly for women and marginalized groups. In countries like Uganda, women's cooperatives have provided opportunities for economic independence, access to capital, and greater influence in decision-making processes (Ninsiima, 2019). These cooperatives are also vital in sectors like food production, healthcare, and education. Despite their potential,

cooperatives in Africa face several challenges. Many cooperatives struggle with poor governance, lack of member participation, limited access to capital, and political interference (Mussa, 2020). The lack of infrastructure, such as roads and electricity, also hampers their effectiveness in rural areas, affecting their ability to operate efficiently.

According to Nyaga (2014) Kenya's long history of co-operative activities dates back to 1908 when the first co-operative Lumbwa Dairy co-operative society was formed. Other co-operative societieties were formed in the years that followed but were majorly marketing affiliated societies and they include; Kenya Planters Co-operative Union (KPCU) (1923),Kenya Farmers Association (KFA) 1923 and Kenya Co-operative Creameries (KCC) (1923).In the years preceding independence consumer co-operatives gained ground and were majorly concentrated in urban dwellings (Wanyama,2009).Close to 300 primary societies were formed by the time of national independence in 1963 and the great majority were coffee marketing co-operatives (Porvali,1993).

Credit Cooperative Societies (SACCOs) and other cooperative entities (Star ,2023). In November 2024, during the 3rd Annual Cooperative Movement Stakeholders' Forum in Naivasha, Cabinet Secretary Wycliffe Oparanya called for actionable ideas to propel the cooperative sector forward. Discussions focused on enhancing governance, transparency, and accountability within cooperatives. The forum also addressed the need for structural reforms and the development of policies to strengthen cooperative value chains (Sacco review,2024).

The sacco subsector accounts for roughly 38% of the total registered co-operatives in Kenya with 53 regulated SACCOs controlling 73.34% of the total assets, while 39 regulated SACCOs hold 65.27% of total deposits in the SACCO industry (SASRA,2023). In 2023, a total of 357 SACCOs were regulated, comprising 176 Deposit Taking SACCOs and 181 Non-withdrawable Deposit -Taking SACCOs.Amongst the deposit taking Saccos Nyanza region has 12 deposit taking Saccos distributed across it's 6 counties of Kisii, Nyamira, Migori, Homa-Bay, Kisumu and Siaya

Statement of the Problem

There is tremendous growth witnessed by Deposit Taking SACCOs over the past years in terms of increased membership, branch network expansions and not limited to some starting banking services such as FOSA to increase efficiency in their operations. Following the stiff competition in this industry, this has resulted to liquidity concerns, capital violations, and malpractices in credit management hence diminishing levels of confidence among members. The above-mentioned developments, coupled with the challenges inherent in the SACCOs prompted the Kenyan government to design legislations that would supervise, monitor, regulate, and control the SACCOs' operations, thereby resulting to formulation of the SACCO Societies Act 2008.On the other hand there is a feeling in some quarters that strict regulations imposes legal and operational restrictions of DT-SACCOs that not only limit and confine their activities but also hinder their performance and growth.), strict regulation could affect various areas of SACCO operations such as the adoption of new technologies that negatively affect the productivity and performance (Temple et al. ,2005).In addition to the above SASRA (2017) acknowledged that the DT-SACCOs lack access to the open market for shares, national payment system grid, mechanisms of raising capital for other activities, and a central liquidity facility like commercial banks to turn to in times of liquidity challenges among others. Due to these limitations some DT-SACCOs have converted to micro-finance or commercial banking entities while others obtain controlling stakes in banking bodies to attain what they cannot do in their legal capacities

The stagnant growth of SACCOs in Nyanza is concerning because it undermines the broader objective of promoting financial inclusion in the region. SACCOs are critical in providing an alternative financial service in rural areas, where

commercial banks are often scarce. Without revitalization, these SACCOs risk becoming less relevant in meeting the financial needs of local communities, thereby limiting their potential to drive local economic development and improve livelihoods. Therefore, it is essential to explore the prudential Sasra regulations and financial performance of deposit-Taking Saccos in Nyanza region in order to develop effective strategies to revitalize these SACCOs and foster a conducive environment for their financial performance and growth. This required addressing issues of capital adequacy, liquidity level, Asset quality, and risk management to determine their influence on financial performance of these Saccos.

Objectives of the Study

The general objective of the study was to determine the effect prudential Sasra Regulations and financial performance of Deposit -Taking SACCOs in Nyanza region, Kenya. The study was guided by the following specific objectives:

- To determine the effect of capital adequacy regulation and financial performance of deposit taking Saccos in Nyanza region, Kenya.
- To examine the effect of liquidity level regulation and financial performance of deposit taking SACCOs in Nyanza region, Kenya.
- To study the effect of Asset Quality and financial performance of deposit taking SACCOs in Nyanza region, Kenya.
- To establish the effect of risk management and financial performance of deposit taking SACCOs in Nyanza region, Kenya.

LITERATURE REVIEW

Theoretical Review

Financial Public Interest Theory

This theory postulates that regulation is an attempt to correct for market failures, such as externalities, lack of information and monopolies, for instance the social cost of the failure of a financial institution may be much higher than the private cost to the institution itself. Therefore, financial institutions left to themselves will accept more risk than is optimal from a systemic point of view, thus forming the basic case for government regulation of banking activity and the establishment of capital requirements (Martin Feldstein 1996). On this basis, we can justify the case for external regulations on private sector behaviour on four broad grounds which all relate to market failure: First, the moral hazard argument. If a market participant believes that the state will underwrite his losses, then behaviour will change. A good example is how deposit insurance encourages depositors and bankers to engage in risky behaviour that forces the state to pay in the end, thus undermining market discipline and entailing regulation. Second, the widows and orphans argument. These regulations provide protection to poorly (asymmetrically) informed clients, based on the view that small depositors and investors cannot assess properly the riskiness of financial institutions they deal with. Third is the public policy argument. In free market economies, public policy arguments call for competition and free trade. An example would be anti-trust laws in some countries to prevent monopolization of certain markets. Fourth, the systemic risk issue, which allows the state to prevent the failure of one participant to destabilize the whole system. This justifies the regulation, for example, of the payment system and the banking sector. Regulation therefore has two important dimensions that must always be borne in mind. First, regulation is a cost that is like taxation: someone bears the cost of regulation and the public must always ask whether the benefits outweigh the costs. Secondly, regulation has a time element -regulations must change with the times. Old regulations may prevent or impede market growth. As markets change, so must regulations. Thirdly, regulation should not prevent the effective working of the market force. For example, bank failures should be avoided not to prevent all bank failures. Chairman Alan Greenspan of the US Fed (1997) said "our goal as supervisors should not be to prevent all bank failures, but to maintain

sufficient prudential standards so that banking problems that do occur do not become widespread."

Financial Stewardship Theory

In the context of corporate governance, stewardship theory contrasts with agency theory. While agency theory assumes that managers are self-interested and may not always act in the best interests of shareholders, stewardship theory suggests that managers are intrinsically motivated to act in the organization's and stakeholders' best interests. Financial stewardship, as part of this framework, involves the responsible management and allocation of financial resources to ensure sustainability, profitability, and ethical performance. The theory's idea is establishment of value maximization as the financial institution's goals, which are always reinforced by firms' vision (Contrafatto, 2014).Necessary amount of money amassed will afterwards be put to use in order to generate income .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 and this is according to various recommendations made by financial institutions

Stakeholder Theory

The theory postulates that every company maintains relationships with a diverse group of stakeholders .A company's primary objective should be to generate as much value as possible for its various stakeholders according to stakeholder theory(Stieb,2009).In order for an organization to be successful and maintain its viability over time ,its executive 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).According to Donaldson and Preston (1995), all stakeholders interests have intrinsic value, and no group of interests is assumed to dominate the others and the theory is focused on managerial decision-making. 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 (Dmytriyev, Freeman, and Hurisch ,2021).The stakeholder idea is very relevant to this study because SACCOs are expected to improve connections with their key stakeholders in order to maximize returns.

Agency Theory

Jensen and Meckling proposed agency theory in 1976.Split of ownership and control among owners or principals have brought problems in contemporary businesses. Grigore and tefani -Duicu (1976), also covered the conflict of interest between agents working as principal's best interests when both the principal and the agent are utility maximizers (Jensen and Merkling,1976). This results when the management of SACCOs appoints the management board as its representative. According to Fama (1980), 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. Agency conflict became more prevalent as a result of owners (Principals) hiring professionals (agents) to manage their companies. According to Smith (1776), 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 be less keen, careless and profuse. On the other hand, Grigore and Stefan -Duicu (1976) postulates that agents may not always act in the principal's best interests since they may engage in self-interest on opportunistic behaviour.Agency theory maintains the requirement of separating ownership from control in order to bring management's objectives and the owners' objectives into sync in light of these losses(Jensen andMeckling,1976).Jensen and Meckling (1976),further 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.The

main goal of finance theory according to agency theory is to make sure that managers behave to maximize shareholders wealth.

Conceptual Framework

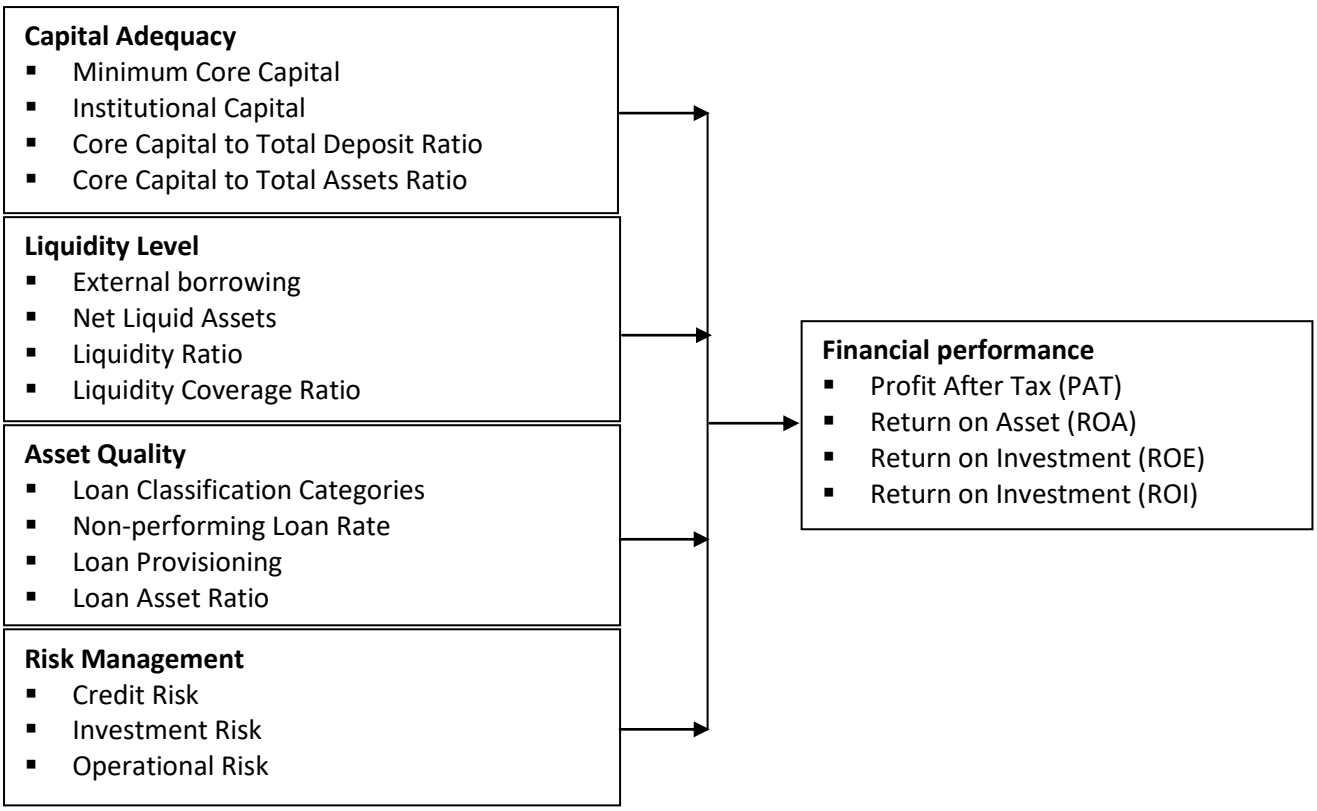

Figure 1: Conceptual Framework

Empirical Review of Literature

Kahuthu (2016) on his study on impact of prudential regulations on financial performance of DTS in Kenya targeted a population of 124 SACCOs.He used comparative research design and linear regression to establish the impact of prudential requirements on SACCOs' financial performance and found that core capital requirement was also a strong predictor of financial performance after prudential regulations were enacted. The study concurred with Mutinda (2016) which revealed that capital adequacy requirement had a positive impact on financial performance. Bouvatior, Vand L. Lepetit (2008) also carried out a study in United States for the period from 1983 to 1992 and his study showed that return on equity and capital asset ratio tend to be positively related.

According to research carried out by Ireri (2010), in Kenya on the effects of working capital policies on profitability of SACCOs in Nairobi. He used a multivariate regression model to explain the relationship between working capital management and profitability of a SACCO.A causal effect research design was used and carried out on a sample of 35 SACCOs selected on systematic random sampling found that working capital management is important because of effects on firms' profitability and consequently its value. Ireri concluded that firms with high liquidity working capital may have low risk then low profitability. Research conducted by Wanyoike (2013) concluded that complying with SASRA provisions on liquidity impacted financial performance positively. The study was assessing whether complying with SASRA regulations had any

effect on performance where regression model was used and 34 SACCOs

The chapter has covered the literature review, Theories informing the study variables have been discussed in detail through theoretical framework. Determinants of financial performance and the conceptual framework has also been discussed in the chapter. From the reviewed literature, there is inadequate empirical information to conclude based on the current study. The knowledge gap arising from the conceptual, contextual and methodological has been identified based on the previous studies review. There are some studies conducted in developed countries compared to developing countries like Kenya. Some studies were not conducted at deposit-taking Saccos in Kenya and specifically in Nyanza region where few research on saccos done before thus leading to emergence of the contextual gap. Methodological gap also exists in the form of the type of data, research design and sampling techniques, among others used. To address the gap there is need for the current study to be conducted.

METHODOLOGY

The study employed a cross sectional, descriptive and comparative research design to investigate the prudential SASRA regulations on the performance of DT SACCOs in Nyanza region based on secondary data from SASRA supervision reports and SACCOS audited financial statements for the period 2019 up to 2023 and also questionnaire based on primary data was provided. Descriptive survey is a progression of gathering data for the purpose of answering questions relating to the current status of the subject under the research while cross sectional study is a type that analyses data from a population or a representative subset at a specific point in time (Mugenda & Mugenda, 2003). Comparative research design was adopted in this study simply because the study compared financial performance of deposit taking SACCOs in the period before to introduction of SASRA regulations and period thereafter regulations.

A population is a large group of items with shared observable features (Blumberg, Cooper and Schindler, 2014). According to Ngechu (2004), a population is a set of events services, things or households or a set of people that is well defined and being investigated. The complete group of factors from which the researcher wants to draw conclusions is referred to as the population. The 'population' encompasses the entire group of individuals or elements that share a common characteristic relevant to the research, while the 'target population' refers to the specific subset of the population to which the research findings are intended to apply. The target population of this study included all deposit taking Saccos operating in Nyanza. At the time of research there were 12 deposit taking Saccos in Nyanza. A total of seven (7) respondents were selected from each SACCO forming a total target population of 84. This seven comprised three (3) board members, two (2) Sacco senior management and two (2) staff members. These were individuals involved in the daily running operations of the SACCOs and are knowledgeable about the performance of their SACCOs as well as SASRA regulations. The target population is the entire group of individuals or objects to which researchers are interested in generalizing the conclusions (Bhandari, 2023).

A sample Size of approximately 84 respondents was used, consisting of SACCO board of directors, Senior Management and Staff. This sample size enhanced the reliability of findings and provide a comprehensive view of the prudential guidelines being implemented. Census sampling technique was used since the target population was less than 100 as postulated by Mugenda and Mugenda (2008) for a population less than 100, sample size should be 100% of target population.

Data was collected from both primary and secondary sources. Primary data was obtained using self-administered structured questionnaires that was distributed to the respondents in the SACCO which included three (3) board members, two (2) senior management and two (2) staff. The

survey questionnaire had sets of questions. The first section covered the demographic characteristics of the participants while part two covered the aspects of SASRA prudential regulations being evaluated in this study (Capital Adequacy, Liquidity level, Asset Quality and Risk Management). Finally, the last part covered the performance of the SACCOS.The measurement part of the questionnaire had statements related to the impact of prudential SASRA regulations on the performance of DT -SACCOs in Nyanza region. The questionnaire included both open and closed ended and Likert -scale questions to quantify responses effectively (Bryman & Bell, 2015). The respondents were asked to provide their opinion on a five-point Likert scale, that is 1, for strongly agree ,2 for Disagree ,3 for Neutral ,4 for Agree, and 5 for strongly agree responses. The use of questionnaire to collect data is associated with several advantages including low cost and free of interview bias as well giving the respondents enough time to give elaborate response (Kothari, 2008). On the other hand, secondary data was obtained from SASRA annual supervisory reports and audited financial statements of the SACCOs for the period between 2019 and 2023. These secondary sources also provided metrics such as return on Investment (ROI), Return on Asset (ROA), Return on Equity (ROE) and profit after Tax (PAT) because publications from Sacco Societies Regulatory Authority (SASRA) always aggregates data on the regulated saccos. Market intelligence reports from research firms that highlight market share distributions; and industry surveys that offer insights on Sacco trends also formed part of secondary data collection. In addition to the above data was supplemented with information from co-operative sector studies, customers transactions and feedbacks, interviews with industry experts and doing comprehensive statistical analysis of the relationship between prudential regulatory standards and the financial performance variables in question.

Data was analyzed using descriptive statistics, correlation analysis and panel data. Both the descriptive and inferential analyses was performed using Statistical Package for Social Sciences (SPSS) version 28.0. The descriptive statistics was presented using frequencies, mean or median, and standard deviation. Since the study aims to establish the impact of prudential SASRA regulations on the performance of DT-SACCOs, regression analysis was used to determine the relationship between the variables. The dependent variable was the performance indicators including Return on Assets and the ratio between operating expenses to total assets. On the other hand, the independent variables were the prudential SASRA regulations including Capital Adequacy, Assets Quality, Liquidity level and Risk Management. The collected data was reviewed first to ensure it is clean to be used for the analysis. Any errors that might be present in the data was removed by going through the data first. Multiple linear regression model was applied to analyze the effect of prudential SASRA regulations on financial performance.

FINDINGS AND DISCUSSIONS

Prior to commencing the investigation, a preliminary pilot study was undertaken. This pilot study aimed to assess the reliability and validity of the questionnaires used. Questionnaires were distributed to all participants and then collected at a mutually agreed upon time. The pilot study picked 10% of the respondents which was equivalent to 10 respondents. The pilot study achieved a response rate of 100%, with all ten respondents completing the questionnaires and returning them for analysis. This was deemed sufficient for the purpose of analysis.

Response Rate

Primary data was collected using a questionnaire. Eighty-four questionnaires were issued. Seventy-four questionnaires were returned representing 88% response rate. The response rate is considered more than adequate given the recommendations by Saunders, Lewis and Thornhill (2007) who

suggest a 30-40% response. Based on these assertions, this implies that the response rate for this study was more than adequate.

Descriptive Findings

Descriptive statistics were used to analyze based on the 5-point Likert scale.

Capital Adequacy and Financial Performance

The respondents were asked to indicate the extent to which they agreed with the following statements relating to the capital adequacy and financial performance on a scale of 1-5 where; Strongly agree=5, Agree=4, Neutral=3, Disagree=2 and Strongly Disagree=1. The findings were presented using averages or mean weights and standard deviations as tabulated below;

Table 1: Capital Adequacy and Financial Performance

Statement	SA %	A %	N %	D %	SD %	Mean	Std. Dev
Do you agree that Board members, Senior management staff and other staff members are familiar with SASRA's capital adequacy requirements?	26.9	52.8	6.9	8.5	4.9	3.68	0.768
Do you agree that the minimum core capital requirement (as a percentage of total assets) set out by SASRA is 10% , the minimum institutional capital requirement according to SASRA is 8% and the minimum capital adequacy ratio (CAR) required by SASRA is 10%	27.5	57.7	6.9	4.6	3.3	3.72	0.865
There are some recent amendments by SASRA regarding capital adequacy and Your SACCO has met all the minimum capital adequacy ratios in the last financial Five years.	17.7	56.1	11.5	7.9	6.9	3.67	0.649
Your SACCO submit the Prudential Returns to SASRA as required and has not received any directives from SASRA regarding non-compliance with capital adequacy.	19.3	21.6	28.9	20.0	10.2	3.53	0.729
The SACCO have a capital planning strategy in line with SASRA guidelines	29.8	41.6	12.1	11.1	7.2	3.55	0.883

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The study established that the Board members, Senior management staff and other staff members are familiar with SASRA's capital adequacy requirements was represented with a mean of 3.68 and Std. Dev of 0.768, on the statement that the minimum core capital requirement (as a percentage of total assets) set out by SASRA is 10% , the minimum institutional capital requirement according to SASRA is 8% and the minimum capital adequacy ratio (CAR) required by SASRA is 10% was represented with a mean of 3.72 and a Std. Dev of 0.865, On the factor that there are some recent amendments by SASRA regarding capital adequacy and Your SACCO has met all the minimum capital adequacy ratios in the last financial Five years had a mean of 3.67 and Std. Dev of 0.649, on the factor that SACCO submit the Prudential Returns to SASRA as required and has not received any directives from SASRA regarding non-compliance with capital adequacy had a mean of 3.53 and Std. Dev of 0.729 and lastly, on the statement that SACCOs have a capital planning strategy in line with SASRA guidelines had a mean of 3.55 and Std. Dev of 0.883. This implies that capital adequacy factors had significant effect on financial performance.

Liquidity Level and Financial Performance

The second objective of the study was to establish the influence of liquidity level on financial performance. To this effect, the respondents were asked to indicate the extent to which they agreed with the following statements regarding effect of training design on a scale of 1-5 where; Strongly Agree=5, Agree=4, Neutral=3, Disagree=2 and Strongly Disagree=1

Table 2: Liquidity Level and Financial Performance

Statements	SA %	A %	N %	D %	SD %	Mean	Std. Dev
Your SACCO have a formal liquidity management policy which was reviewed a year ago and the Board and Management are responsible for overseeing liquidity management in your SACCO.	22.6	49.5	12.5	16.4	7.5	4.25	0.803
The SACCO has maintained the minimum liquidity ratio required by SASRA (15%) over the past 5 years and have not experienced liquidity crises within the last 5 years.	15.1	57.0	13.4	9.2	5.2	3.56	0.847
The SACCO has cash and cash equivalents held in the following forms; Cash, Bank balances and Marketable securities and Liquidity reports are submitted to SASRA regularly.	11.8	51.8	12.5	16.4	7.5	3.51	0.791
The following are your primary sources of short-term liquidity; Member deposits, Loan repayments, External borrowings and Investments.	14.8	42.3	13.1	16.4	13.4	3.67	0.834
The SACCO always perform liquidity stress testing and there are limits and guidelines set on asset/liability mismatches on the SACCO.	6.6	38.0	18.0	21.6	15.7	2.88	0.769

The respondents to a great extent agreed that liquidity level had a significant effect on financial performance. On the factor that SACCOs have a formal liquidity management policy which was reviewed a year ago and the Board and Management are responsible for overseeing liquidity management in your SACCO it had a mean of 4.25 and Std. Dev of 0.803, on the statement that the SACCO has maintained the minimum liquidity ratio required by SASRA (15%) over the past 5 years and have not experienced liquidity crises within the last 5 years it was represented with a mean of 3.56 and Std. Dev of 0.847, on the statement that the primary sources of short-term include; liquidity; Member deposits, Loan repayments, External borrowings and Investments had a mean of 3.51 and a Std. Dev of 0.834 and lastly on the factor that SACCO always perform liquidity stress testing and there are limits and guidelines set on asset/liability mismatches on the SACCO it had a mean of 2.88 and a Std. Dev of 0.769 respectively.

Asset Quality and Financial Performance

The respondents were therefore asked to indicate the extent to which they agreed with the statements with regard to the effect of asset quality on financial performance. The results were rated on a scale of 1-5 where; Strongly agree=5, Agree=4, Neutral=3, Disagree=2 and Strongly Disagree=1. The findings were as presented below;-

Table 3: Asset Quality and Financial Performance

Statement	SA %	A %	N %	D %	SD %	Mean	Std. Dev
Your SACCO assesses frequently the quality of its loan portfolio on a , Monthly, Quarterly, Semi-annually and annually	32.8	47.2	10.8	4.9	4.3	3.57	0.846
Does the SACCO classify loans into the following categories as per SASRA guidelines: Performing, Watch, Substandard, Doubtful and Loss.	12.8	53.1	14.4	12.5	7.2	3.33	0.901
Your SACCO track non-performing loans (NPLs) using the following methods, Manual records, Core banking systema External audit reports amongst others.	6.6	8.7	48.0	23.9	12.8	3.07	0.861
Loan loss provisions are made in accordance with SASRA's recommended percentages for each loan category and Your SACCO uses Risk-based assessment to calculate loan loss provisions.	35.1	54.1	6.2	1.3	3.3	3.98	0.719
The SACCO faces challenges like, Inadequate risk assessment systems, financial constraints	18.9	46.2	7.4	14.1	13.4	3.41	0.855

The respondents agreed that SACCO assesses frequently the quality of its loan portfolio on a , Monthly, Quarterly, Semi-annually and annually as indicated with a mean of 3.98 and Std. Dev of 0.719, on the factor that SACCO classify loans into the following categories as per SASRA guidelines: Performing, Watch, Substandard, Doubtful and Loss it had a mean of 3.57 and Std. Dev of 0.846, on the statement that SACCO track non-performing loans (NPLs) using the following methods, Manual records, Core banking system a External audit reports amongst others it had a mean of 3.41 and a standard deviation of 0.855, on the factor that Loan loss provisions are made in accordance with SASRA's recommended percentages for each loan category and Your SACCO uses Risk-based assessment to calculate loan loss provisions was denoted with a mean of 3.33 and Std. Dev of 0.901 and lastly, Training SACCO faces challenges like, Inadequate risk assessment systems, financial constraints had a mean of 3.07 and a Std. Deviation of 0.861. The results indicate that asset quality had a significant effect on financial performance.

Risk Management and Financial Performance

The respondents were asked to indicate the extent to which they agreed with the following statements regarding risk management and financial performance. On a scale of 1-5 where; Strongly agree=5, Agree=4, Neutral=3, Disagree=2 and Strongly Disagree=1. The data was analyzed and presented using means and standard deviations as presented below;

Table 4: Risk Management and Financial Performance

Statements	SA %	A %	N %	D %	SD %	Mean	Std. Dev
The SACCO have a documented risk management policies to manage the following risks: Credit risk, Liquidity risk, Operational risk, Market risk, Legal/regulatory risk, Strategic risk and Cybersecurity risk	11.5	56.1	15.4	9.5	7.5	3.52	0.739
There is a dedicated risk management committee in place and the risk management policy is reviewed often.	16.4	49.8	16.4	7.9	9.5	3.61	0.854
The following measures are in place to manage liquidity risk: Regular cash flow monitoring, Diversification of income sources, Contingency funding plans, and Investment in short-term assets	16.4	44.9	22.3	7.2	9.2	3.40	0.911
The most common operational risks your SACCO faces include: Fraud, System failure Staff errors, Governance issues amongst Others	9.	43.3	16.7	18.0	12.5	3.26	0.801
There are internal controls to detect and prevent fraud and the SACCO has never experienced any form of internal fraud in the last 5 years?	15.7	55.1	17.0	7.5	4.6	3.71	0.759

The study results highlighted that on the statement that SACCOs have a documented risk management policies to manage the following risks: Credit risk, Liquidity risk, Operational risk, Market risk, Legal/regulatory risk, Strategic risk and Cybersecurity risk it had a mean of 3.52 and Std. Dev of 0.739, on the factor that there is a dedicated risk management committee in place and the risk management policy is reviewed often it had a mean of 3.61 and a Std. Dev of 0.854, on the factor that Regular cash flow monitoring, Diversification of income sources, Contingency funding plans, and Investment in short-term assets it was indicated with a mean of 3.40 and a standard deviation of 0.911, on the statement that most common operational risks your SACCO faces include: Fraud, System failure Staff errors, Governance issues amongst Others it had a mean of 3.26 and a standard deviation of 0.801 and on the factor that internal controls to detect and prevent fraud and the SACCO has never experienced any form of internal fraud in the last 5 years was indicated with a mean of 3.71 and a standard deviation of 0.759. This shows that risk management factors made contributions to the financial performance.

Inferential Statistics

Pearson Correlation

The study sought to establish the strength of the relationship between independent and dependent variables of the study. Pearson correlation coefficient was computed at 95 percent confidence

interval (error margin of 0.05). Table 5 illustrates the findings of the study.

Table 5: Correlation Matrix

		Financial Performance
Capital Adequacy	Pearson Correlation	.686**
	Sig. (2-tailed)	.000
	N	74
Liquidity Level	Pearson Correlation	.795**
	Sig. (2-tailed)	.000
	N	74
Asset Quality	Pearson Correlation	.728**
	Sig. (2-tailed)	.000
	N	74
Risk Management	Pearson Correlation	.898**
	Sig. (2-tailed)	.000
	N	74

As shown on Table 5 above, the p-value for capital adequacy was found to be 0.000 which is less than the significant level of 0.05, (p<0.05). The result indicated that Pearson Correlation coefficient (r-value) of 0.686, which represented an average, positive relationship between capital adequacy on financial performance of SACCOs in Nyanza Region, Kenya.

As shown on Table 6 above, the p-value for liquidity level was found to be 0.000 which is less than the significant level of 0.05, (p<0.05). The result indicated that Pearson Correlation coefficient (r-value) of 0.795, which represented a strong, positive relationship between liquidity level on financial performance of SACCOs in Nyanza Region, Kenya.

As shown on Table 5 above, the p-value for asset quality was found to be 0.000 which is less than the significant level of 0.05, (p<0.05). The result indicated that Pearson Correlation coefficient (r-value) of 0.728, which represented a strong, positive relationship between asset quality and on financial performance of SACCOs in Nyanza Region, Kenya.

As shown on Table 6 above, the p-value for risk management was found to be 0.000 which is less than the significant level of 0.05, (p<0.05). The result indicated that Pearson Correlation coefficient (r-value) of 0.898, which represented a strong, positive relationship between risk management on financial performance of SACCOs in Nyanza Region, Kenya.

Regression Analysis

Multiple linear regressions were computed at 95 percent confidence interval (0.05 margin error) to show the multiple linear relationship between the independent and dependent variables of the study.

Coefficient of Determination (R^2)

Table 6 shows that the coefficient of correlation (R) is positive 0.239. This means that there is a positive correlation between influence of prudential SASRA regulations on financial performance of SACCOs in Nyanza Region, Kenya. The coefficient of determination (R Square) indicates that 56.0% of financial performance of SACCOs in Nyanza Region, influenced by SASRA Regulations. The adjusted R^2 however, indicates that 14.0% of financial performance of SACCOs in Nyanza Region is influenced by the effect of prudential Sasra regulations leaving 86.0% to be influenced by other factors that were not captured in this study.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.239[a]	.056	.014	.99661610

a. Predictors: (Constant), Capital Adequacy, Liquidity Level, Asset Quality and Risk Management

Analysis of Variance

Table 7 shows the Analysis of Variance (ANOVA). The p-value is 0.000 which is < 0.05 indicates that the model is statistically significant in predicting how prudential Sasra regulations influences on financial performance of SACCOs in Nyanza Region, Kenya. The results also indicate that the independent variables are predictors of the dependent variable.

Table 7: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.141	4	1.224	36.001	.268[b]
	Residual	112.430	71	.953		
	Total	117.571	74			

a. Dependent Variable: Financial Performance Of DT-SACCOs

b. Predictors: (Constant), Capital Adequacy, Liquidity Level, Asset Quality and Risk Management

Regression Coefficients

From the Coefficients table Table 8 the regression model can be derived as follows:

$$\mathbf{Y = 22.623 + 0.870X_1 + 1.121X_2 + 0.961X_3 + 0.792X_4}$$

The results in table 9 indicate that all the independent variables have a significant positive influence on financial performance of DT-SACCOs, Nyanza Region, Kenya. The most influential variable is liquidity level with a regression coefficient of 1.121(p-value = 0.000), followed by asset quality with a coefficient of 0.961 (p-value = 0.000) then capital adequacy with a coefficient of 0.870(p-value=0.000), and lastly risk management with a coefficient of 0.792 (p-value = 0.000). According to this model when all the independent variables values are zero, financial performance of DT-SACCOs will have a score of 22.623.

Table 8: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	22.623	3.912		47.456	.000
	Capital Adequacy	.870	.134	.642	3.324	.000
	Liquidity Level	1.121	.161	.363	3.496	.000
	Asset Quality	.961	.159	.336	3.421	.000
	Risk Management	.792	.176	.725	3.261	.000

From Table 8 above, capital adequacy (β = 0.870) was found to be positively related financial performance of DT-SACCOs in Nyanza Regions, Kenya. From t-test analysis, the t -value was found to be 3.324 and the ρ -value 0.000. Liquidity level (β = 1.121) was found to be positively related to DT-SACCOs in Nyanza Regions, in Kenya. From t-test analysis, the t -value was found to be 3.496 and the ρ -value 0.000. Asset quality (β = 0.961) was found to be positively related to financial performance of DT-SACCOs in Nyanza Regions, Kenya. From t-test analysis, the t -value was found to be 3.421 and the ρ -value 0.000. Risk Management (β = 0.792) was found to be positively related to DT-SACCOs in Nyanza Regions, Kenya. From t-test analysis, the t -value was found to be 3.261 and the ρ -value 0.000.

CONCLUSION AND RECOMMENDATION

Capital adequacy regulation plays a crucial role in enhancing the financial performance of deposit-taking SACCOs. Adequate capital serves as a cushion against losses, promotes financial stability, and builds stakeholder confidence. Therefore, SACCOs that maintain sufficient capital levels tend to perform better financially.

Liquidity regulations significantly contribute to SACCOs' ability to meet short-term financial obligations and reduce vulnerability to liquidity crises. The study concludes that effective liquidity management, in line with SASRA guidelines, positively impacts financial performance.

The study concludes that the quality of assets, particularly loan portfolios, is a strong determinant of SACCOs' financial performance. High levels of non-performing loans negatively affect profitability and sustainability. Therefore, maintaining high asset quality through prudent credit practices is essential.

Proper risk management practices are essential for the financial health of SACCOs. The study concludes that SACCOs that effectively identify, assess, and mitigate risks are more likely to achieve better financial outcomes. A proactive risk management approach enhances decision-making and operational efficiency.

SACCOs should ensure strict compliance with SASRA's capital adequacy requirements to enhance their financial stability and resilience. Management should consider regularly reviewing their capital structure to maintain the required capital buffers and to attract investor confidence.

SACCOs should adopt robust liquidity management strategies to meet both short-term obligations and regulatory requirements. Investment in tools and systems that monitor and forecast liquidity needs is recommended to avoid operational disruptions.

To improve asset quality, SACCOs should strengthen their credit risk assessment frameworks, enhance due diligence processes, and develop effective loan recovery strategies. Regular loan portfolio reviews and early warning systems should be implemented to minimize the risk of non-performing loans.

SACCOs should embed comprehensive risk management frameworks within their operations. This includes identifying, assessing, and mitigating various financial and operational risks. Capacity building and continuous training of staff in risk management practices should also be prioritized.

SASRA should enhance support mechanisms, such as training and sensitization workshops, to help SACCOs comply effectively with prudential guidelines. Regulatory frameworks should also be periodically reviewed and updated to reflect the dynamic financial environment and unique SACCO sector challenges.

Suggestions for Further Study

Future research could conduct a comparative analysis of the effect of SASRA regulations on SACCOs in other regions of Kenya. This would help establish whether regional differences influence how regulations impact financial performance. A longitudinal study could be undertaken to assess the long-term effects of SASRA regulations on SACCO performance over time. This would provide deeper insights into trends, compliance dynamics, and sustained financial outcomes.

Further research could explore the specific influence of other individual prudential regulations (e.g., governance requirements, ICT systems, or internal audit standards) that were not the focus of this study, to understand their unique contributions to SACCO performance.

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