

**EFFECT OF PRUDENTIAL REGULATORY STANDARDS ON THE
FINANCIAL PERFORMANCE OF DEPOSIT TAKING SACCOS IN KENYA**

NGUNYU DOMINIC MUTINDA

**A research project submitted to the School of Business and Economics in partial
fulfillment of the requirement for the award of the degree of Master of Business
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DECLARATION

I understand that plagiarism is an offence and I therefore declare that this research project originates from my own hands and hasn't been presented to any other institution for any other award.

Signature.....Date.....

**Dominic Mutinda Ngunyu
D61/KIT/20699/2016**

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

Signature.....Date.....

Dr. Robert M. Ombati,

Department of Business and Entrepreneurship.

South Eastern Kenya University

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DEDICATION

I wish to dedicate this research project to my family in general that is my wife, parents, brothers and not forgetting my sisters for their tremendous support offered during the research period.

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ABBREVIATION AND ACRONYMS

ANOVA	Analysis of Variance
BOSA	Back-Office-Saving-Activity
CBK	Central Bank of Kenya
FOSA	Front-Office-Saving-Activity
KG	Kenya Government
GDP	Gross-Domestic-Product
ICA	International C-operative Alliance
KUSCCO	Kenya Union of Saving & Credit Co-operative.
MFI s	Micro Finance Institutions
MCDM	Ministry of Co-operative Development & Marketing
NPL s	Non Performing Loans
PRS	Prudential Regulatory Standards
SACCO	Saving and Credit Co-operative Society
SASRA	Sacco-Societies-Regulatory-Authority
SD	Standard Deviation
SPSS	Statistical Packages for Social Scientist
WCCU	World Credit Council of Credit Union

DEFINITION OF TERMS

- Camel standards** It is a standard measure of SACCO's performance based on capital, asset mix, management quality, earnings ratio and liquidity.
- Capital Structure** This is how different firms and organizations finance their operations using various sources of funds that mostly include debt and or equity, Buch et al (2014)
- Core Capital** This refers to the minimum amount of capital component that is a mandatory requirement for DTs usually minimum of Kshs 10 Million. (Deposit taking- SACCO Business) Regulations, 2010, Legal notice no 95.
- Institutional Capital** Refers to that part of capital component of a Deposit taking SACCOs other than share capital contributed by general members of the SACCO Societies (Deposit taking- SACCO Business) Regulations, 2010, Legal notice no 95.
- Liquidity** this is the ability of a firm to meet its short term obligations with ease; its component include; Physical cash that Notes and Coins, Balances held in banks, treasury bills and treasury bonds (Government of Kenya 2008).
- Pearls Standards** These are abbreviations where P represents Protection of Assets, E represents Effective capital structure, A represents asset quality, R represents rate of returns, L represents liquidity ratios and S represents signs of growth, Berhane (2013).
- Regulations** These refer to rules and procedures made by an Authority to provide guidelines on various areas of operation to mitigate risks and ensure safety of member interests (Government of Kenya, 2008).

ABSTRACT

A SACCO is a financial institution or organization that is formed by members who come together with a common goal or objective of offering savings and credit facilities at affordable interest rates usually less than the market rate among them. Previously the SACCOs have witnessed growth in their operations inform of increased membership, branch network expansions and some starting banking like services (FOSA) in view of increasing efficiency in their operations but due to competition in the industry this has led to liquidity issues, capital; violations, credit management malpractices and hence decreasing level of members confidence. This tremendous growth coupled with such failures indicated above in the SACCO industry made the Government of Kenya to come up with a legislation to monitor, supervise, control and regulate the operations of SACCOs and therefore this led to the introduction of the SACCO Societies Act (2008). Therefore the main theme of this study was to internalize the effect of Prudential Regulatory Standards on Financial Performance of Deposit taking SACCOs in Kenya. Specifically the study aimed at establishing the effect various prudential regulatory standards had on the financial performance of DTS in Kenya; such standards included only liquidity; loan provisioning and core capital requirements. The knowledge gap was attained by reviewing the relevant literature done by earlier scholars. All 175 DTS registered and operate in Kenya formed the target population where random sampling technique was employed and a comparative research design was used. With the help of SPSS data analysis was done both for inferential and descriptive statistics, also secondary source of data was used. The study found out that as per SASRA guidelines the liquidity requirement had high significant effect on financial performance of Deposit Taking SACCOs before enactment of SACCO prudential legislation. After introduction of PRS liquidity ratio and Loan allowance both had a high effect on financial performance of DTS in Kenya while Core Capital had less effect on financial performance of DTS during the two periods. Upcoming scholars should focus further research particularly on Core Capital influence on other aspects measures of performance of DTS other than the Net Income before Tax and Donations because their influence on Net Income before Tax and Donations was less significant.

CHAPTER ONE

1.0 INTRODUCTION

The chapter is divided into six sections and gives the reader a comprehensive general content of the study which includes background information, the problem, and aim of the study, among others. It also contains significance.

1.1 Background to the study

A cooperative is an association of people who come together with a common aim or objective of supporting one another in various aspects such as economic well being, also addresses the concern of social and cultural need of the members International Cooperative alliance (ICA, 2007). The cooperative are jointly owned and democratically managed. There are majorly seven cooperative principles that govern any cooperative movement in Kenya and these include; democratically member controlled, voluntary and open membership, economical participation of members, offering education and information to general membership, autonomy and independence, giving back to the community through corporate social responsibility, voluntary and open membership and cooperation among cooperatives witnessed through Ushirika days. According to Marvin (2006) he further found out that that the above mentioned cooperative principles still remain relevant in the operation of cooperative entities.

According to Mudibo (2005), the main aim of imposing regulation is to curb against risks associated with imbalances of financial organizations financial position. This is because they serve as prudential measures that mitigate the effects of economic crisis on the stability of the financial institution system and subsequent accompanying macroeconomic results. Prudent regulation at the end helps financial institution achieve their goals, objectives and live to their mission and vision and thereby offer cheap, reliable and affordable loans as well as protecting customer funds.

To protect customer rights and interests there is need to have a regulation in the specific industry this is because previous theories have suggested that markets and business firms

do not always operate in the best interests of their clients. This research is based on the principles of agency theory as outlined by Jensen and Meckling (1976) where they implied managers who operate business on behalf of the owners are bound to make prudent financial decisions that go along in maximizing the value of ordinary shareholders. The agency theory critically explains the relationship between the principals and the agents. According to this theory members who are the owners or principals of the Sacco, elect the management board as their agent to run the affairs of the SACCO (Mitnick, 2006; Bruton et al., 2000). Clarke (2004) clearly pinpointed out that the agents that are the management boards are delegated to operate the business on behalf of the clients who are the principals.

Regulations are developed to set specific requirements on the six tools used to measure performance (PEARLS) that is (protection of assets; effective capital structure; asset quality; rate of return; liquidity ration and growth). Because of the specific requirement set SACCO performance and regulation have a direct relationship (Financial Sector Deepening, 2009). Therefore like other institutions DTS also require regulation that offers guidelines on managing the affairs of the SACCO and protect member interests.

1.1.1 Prudential Regulatory Standards

According to Baskin et al. (2012), regulation has been defined as a mode of monitoring, controlling and supervising institutions to adhere to laid down processes and procedures and guidelines with the main aim of maintaining financial system integrity. Therefore in conduct of their affairs institutions have to abide to the laid down processes, guidelines and provisions that are reviewed from time to time by various regulators. PRS are standards that are offered to an institution to help and guide in operations and eventually minimize risks and offers safety of members funds (Government of Kenya, 2008).

1.1.2 Prudential Regulation Standards in Deposit Taking SACCOs

Previously the SACCOs have witnessed growth in their operations inform of increased membership, branch network expansions and some starting banking like services (FOSA) in view of increasing efficiency in their operations but due to competition in the industry this has led to liquidity issues, capital; violations, credit management

malpractices and hence decreasing level of members confidence. This tremendous growth coupled with such failures indicated above in the SACCO industry made the Government of Kenya to come up with a legislation to monitor, supervise, control and regulate the operations of SACCOs and therefore this led to the introduction of the SACCO Societies Act (2008).

For a DTS to operate it must meet the minimum guidelines both operational and prudential as required by SASRA, the regulator. Chumo (2013) in his research pinpointed that for DTS to succeed under the new regulation they must and critically comply with the key provisions such as core capital requirement; liquidity management and enhance credit practices. Therefore for the purpose of this research, the researcher has focused on the key guidelines of the prudential regulatory standards; Liquidity desirable levels; Capital adequacy that is Core Capital and loan provisioning requirements.

SASRA on liquidity desirable level commonly known as liquidity position recommends a liquidity ratio of 15% that is arrived by summing up total cash and cash equivalent and then divided by the sum of short term deposits and liabilities. This ratio helps the SACCO meet their short term obligations as well as meeting daily cash demands for member savings without any difficulties and therefore a similar view was shared by Ruth (2001). On monthly basis SACCOs that is DTS are required to submit to the SASRA a liquidity statement on 15th of every month this helps them to monitor and track the SACCOs liquidity position.

Loan provisioning requirement was also a point of focus by the researcher. According to SACCO societies Act no.14 of 2008 DTS should ensure that loan administration process that is loan appraisal, approval and disbursements adhere to the procedures as guided by the approved credit policy document of the SACCO; classify in accordance with the classification criteria prescribed in the regulations. DTS should classify loans into five categories and provide loan allowance loan (loan provisioning) as follows; 1% for loan a classified as performing; 25% for a loan classified as watch; 50% for loan a classified as substandard and 100% for a loan classified as loss. Christen and Rosenberg (2010)

stressed the importance of these classifications and pointed out that its ideal for such institutions offering credit solutions.

Capital adequacy requirement is also another subject the researcher was interested. Jansson (1997) defined capital adequacy as a relative measure and establishes the maximum level of leverage that a financial institution is allowed to reach on its operations. In an effort to regulate DTS in Kenya, SASRA outlines the minimum requirements that DTS should have a Core capital of shillings ten million or more; Core capital 10% of total assets or more; Institutional capital of 8% of total assets or more and Core capital of 8% of total deposits or more.

1.1.3 Deposit Taking SACCOs in Kenya

Government of Kenya (2008) defined DTS as SACCOs carrying out the business of accepting savings and in turn offers credit facilities to her clientele. The DTS also accepts to undertake business of depositing and withdrawing monies on daily basis like what banks do. Non-Deposit taking SACCOs are SACCOs that operate back office only and are not licensed by SASRA to operate a front office. FOSAs have proved to be one of the key profit centers for SACCOs and members have appreciated the services offered by these FOSAs (Kilonzi, 2010). The introduction of FOSAs has contributed positively to the performance of SACCOs through improved profitability which has led to the declaration of a high dividend rates to the members (IFSB, 2005).

According to Mudibo (2005), Deposit taking Savings and Credit Co-operatives (SACCOs) have impact on the Kenyan economy in a great way. They contribute 45% of the gross domestic product (GDP) in Kenya (Mudibo, 2005). This is despite the fact that they were not previously incorporated in the formal financial system. Since enactment of SACCO Societies Act no.14 of 2008 in 2010 the Deposit taking SACCOs have grown tremendously. According to the SASRA Annual report (September, 2017) at the close of the year 2016 the number of DTS stood at 175 against 110 DTS in 2011 this translates to a growth 59%. Total assets controlled by DTS in 2016 was over 393 billion compared to 167 billion in 2011 an increase of 135% in the last six years.

1.1.4 Financial Performance in Deposit Taking SACCOs

Terence (1989) defined financial performance a way of ensuring effective and efficient use of available resources optimally while ensuring maximum returns. Gupta (1992) defines financial performance how firm can best generate revenues from optimal use of available resources. Institution Financial performance is important in that the directors or management boards are duty bound to make sound financial decisions that assure the going concern is not at stake. According to Piesse and Townsend (1995) reliable, affordable and low cost of accessing credit facilities such as loans is what most members of SACCO are interested with, again they also need to be assured safety of their deposits and savings as well as ensuring SACCOs venture into profitable venues. Therefore efficient SACCOs would minimize their running expenditures and those employ interest free and cheaper sources of capital while ensuring maximum return on investments.

There are many ways of measuring financial performance such as use cash flow statements; industry set standards and financial ratios. Therefore like any other financial institution SACCOs' financial performance can be measured using such methods. Weston (1986) classified ratios into six fundamental types which include; liquidity ratios, leverage ratios, activity ratios, profitability ratios and valuation ratios. Ratios play a key role in measuring financial performance of a firm due to various reasons such as; they are easy to understand and calculate; it helps firm managers to quickly interpret risk areas as well as profitable areas and also insolvency status.

Institutions are rated using a combination of specific financial ratios and examiner qualitative judgments (Brockett et al. 1997). Based on W OCCU's standards of measuring performance, the factors which determine the performance of SACCOs include; asset base, Liabilities, Performance of the loan book, corporate governance and the quality of staff and Regulations in the industry. Financial is as a result of mixture of many activities that transpire through an organization with the aim of creating value. According to Cole (2004) there are common examples financial performance including operating income, earnings before interest and taxes, and net asset value. Net income before taxes and donations was used by researcher to measure financial performance of DT-SACCOs for the purpose of the study.

1.2 Statement of the problem

Previously the SACCOs have witnessed growth in their operations in form of increased membership, branch network expansions and some starting banking like services (FOSA) in view of increasing efficiency in their operations but due to competition in the industry this has led to liquidity issues, capital violations and irregularities, credit management malpractices and hence decreasing level of members confidence. This tremendous growth coupled with such failures indicated above in the SACCO industry made the Government of Kenya to come up with a legislation to monitor, supervise, control and regulate the operations of SACCOs and therefore this led to the introduction of the SACCO Societies Act (2008).

According to Manyara (2003) some of the critical factors that impact on financial performance of an institution and more so the SACCOs include; insufficient capital, poor credit collection practices, and low levels of liquidity position. However earlier studies conducted focusing on effect of SASRA prudential regulatory standards on financial performance of deposit taking SACCOs in Kenya remain few, despite the critical role played by SASRA on enhancing prudential management of DTS.

Majority of previous researchers have paid more attention on management of credit risk and financial performance of SACCOs like, a study done by Gisemba (2010) in Kenya focused on how SACCOs' financial performance related with practices of credit risk management. Gaitho (2010) carried out a study on survey of credit risk management practices adopted by SACCOs in Nairobi. Ngaira (2014) studies the impact of SACCO regulatory authority guidelines on SACCO operations in Kenya specifically examining the level of knowledge and understanding that SACCOs have in respect to the SASRA proposed regulations and supervision and any improvement in the performance of the FOSA's as a result of the new SASRA regulations. Kilonzi (2012) carried out a research that tried to access the relationship between SASRA regulations and financial performance of SACCOs in Kenya. The results of the research showed that there was general increase in performance of DTS in respect to finance areas as indicated by income levels with respect to equity.

From the above it is clear that there is need to determine the effects of prudential regulatory standards on financial performance of deposit taking SACCOs in Kenya, and therefore this was the reason why the study was conducted as well as contributing further knowledge.

1.3 Objectives of the study

1.3.1 General objective

The general objective of this study is to determine the effect of prudential regulatory standards on financial performance of Deposit Taking SACCOs in Kenya.

1.3.2 Specific objectives

- a. Determine the effect of liquidity management regulatory standards on financial performance of DTS in Kenya.
- b. Examine the effect of loan provisioning requirements on financial performance of DTS in Kenya.
- c. Assess the influence of core capital on financial performance of DTS in Kenya.

1.4 Research Questions

- a. What is the effect of liquidity management regulatory on the financial performance of DTS in Kenya?
- b. How does loan provisioning relate to financial performance of DTS in Kenya?
- c. Does the core capital have impact on SACCOs' financial performance in Kenya?

1.5 Significance of the study

The results of this research are expected to significantly provide vital inputs to various sectors and stakeholders in different fields both nationally and internationally. The policy makers in various institutions and more so the SACCOs regulator will help the government of Kenya to assess whether regulating cooperative movement will restore order in prudential management of SACCO affairs.

To those in practice such as the SACCO managements through the directors, SACCO chief officers and other members of staff will find this study useful as it

will provide a guide on which of the factors being studied has great impact on financial performance.

Future researchers, scholars and academicians in the field of cooperative management will find the study useful as it will provide a base for conducting a future research and add knowledge to the existing literature.

1.6 Limitations of the study

Time management was an issue and this greatly poised the major limitations of this study since time was not available as the researcher was a full time employee and had to fully discharge his duties and finances were also a challenge to finance the project.

1.7 Delimitations of the study

To address the limitation as indicated above the research established a time schedule to guide events and sought well wishers to overcome the problem of funds.

1.8 Scope of the study

The scope of this study only addressed only prudential regulatory standards as indicated earlier in the specific objectives and the study also focused only 175 DTS SACCOs that were registered and operated in Kenya.

CHAPTER TWO

2.0 LITERATURE REVIEW

This chapter presents theoretical literature, conceptual framework, Empirical Review, critique of the existing Literature and summary.

2.1 Theoretical Framework

This section on theoretical review presents the relevant theories that support the study; the effect of prudential regulatory standards on performance of Deposit taking SACCOs in Kenya. The research greatly revolved on the agency theory.

2.1.1 Agency Theory

The agency theory was developed by Jensen and Meckling (1976) as a comprehensive theory of a firm under agency arrangements. This theory stipulates that we have two or more parties entering into a contractual agreement where we have one party as the principal and another, agent (Mursalim, 2009). A conflict of interests arises where the principal prefers to work for his own and personal interests rather than those of the agent and therefore this in turn affects company performance. According to Abdullah & Valentine (2009), agency theory explains the relationship between the principals, such as members and agents. In this theory, members who are the owners or principals of the Sacco, hires by electing the management board as their agent (Mitnick, 2006; Bruton et al., 2000). Principals delegate the running of business to the management board which in turn hire and delegate authority to the managers (Clarke, 2004).

In deposit taking SACCOs and in cooperative movement in general there exists several types of agency relation scenarios for example; Board of directors and the chief officers, financiers who provide credit facilities and the management boards of SACCOs, Various government agencies like Kenya Revenue Authority who collect taxes on behalf of government and the management board of SACCOs among other agency relationships. Since the owners of capital (principals) have neither the requisite expertise nor time to effectively run their enterprises, they hand them over to agents (managers) for control and day-to-day operations, hence, the separation of ownership from control.

According to the perceived wisdom the main objective of a company is to maximize its stock market value. Managers of the company are responsible for achieving that objective. However Padilla (2002) argues that due to self interests and opportunistic behavior the agents may not effectively make decisions that favor principals. At the expense of the shareholders the agents try to concern more on their personal interests and hence the company goal of shareholders value maximization is always at risk. Agency problems arise within a firm whenever managers have incentives to pursue their own interests at shareholders expense (Jensen & Meckling, 1976). With such setbacks, agency theory reinforces the need for a separation of ownership and control in order to align the goals of the management with that of the owners (Bhimani, 2008; Jensen & Meckling, 1976).

The theory has also been criticized for its capacity as a theory. According to Perrow (1986), agency theory does not have a clear problem to which it offers a solution and it is hardly subject to empirical test since it tries to explain actual events or makes predictions. The public sector and non-profit applications of the theory have also received criticism. As an economic theory developed in a private sector environment, agency theory is unfit for public sector and non-profit settings (Broadben et al., 1996).

There is a relationship of this research and the agency theory in that the liquidity management framework and standards issued by SASRA to the SACCOs helps the SACCOs to prudentially plan ahead the cash withdrawal demands for their members who have made deposits with them anticipating high returns in turn. This helps the SACCOs to have adequate cash to meet such clients cash withdrawals and meet day to day operations.

The theory was important to this study because member, principals contribute such funds as deposits which are used by managers, agents to grant loans to the members. The managers need to adhere to loan provisioning regulatory requirement as outlined by SASRA to enable them continuously improve loan repayments hence profitability.

This theory was also important to this study because share capital is part of core capital which is contributed by members of the SACCO who are now the principals and these are

part of members' funds which are managed by board of directors through the hired managers, agents. This gives an agency relationship.

2.2 Empirical Review

The empirical review of literature presents a discussion of studies done in line with the study objectives. Pyrczak and Bruce (2011) notes that empirical review helps in creating insight on the available literature on the study area. This section thus presents a discussion of studies in line with the study objectives to facilitate in the identification of statement of the problem that the study aimed at addressing.

2.2.1 Liquidity Requirement and Financial Performance

Mutinda (2016) in his research conducted in Kenya found out that liquidity standard though was a prerequisite requirement had less significant impact on SACCOs' financial performance. However the study used descriptive research design and a regression equation to establish how liquidity requirement was related to financial performance. The study title was impact of PRS on financial performance of SACCOs.

Saunders and cornet (2011) in their study on the research in liquidity risk management of Chinas' commercial bank targeting all commercial banks in China found out that the liquidity is a lifeline for commercial banks and this portrays how commercial banks consider how significant the liquidity is to them. An empirical research design was used.

Ileri (2010) carried out a study in Kenya on the effects of working capital policies on profitability of the SACCOs in Nairobi. Ileri 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 risk and consequently its value. He concluded that firms with high liquidity working capital may have low risk then low profitability.

Wanyoike (2013) conducted a research that concluded complying with SASRA provisions on liquidity impacted financial performance positively. The study was accessing whether

complying with SASRA regulations had any effect on performance where regression model was used and 34 SACCOs were sampled.

2.2.2 Loan Provisioning Requirement and Financial Performance

Nagash (2015) in the study conducted in Ethiopia, Non-performing Assets and Their Impact on Financial Performance of Commercial Banks in Ethiopia, found out that loan loss provision and capital adequacy ratios reflected an inverse and direct causal relationship with financial performance of commercial banks (ROA) respectively. Therefore, it is recommended that commercial banks in Ethiopia should enhance their capacity in credit analysis and loan administration while the regulatory authority should pay more attention to bank's compliance to relevant provisions of the bank and other prudential guidelines. A quantitative approach was employed for the required data collection and a sample of six commercial banks were selected for data collection on a cross sectional basis for nine years.

Ngaira (2011) did a study in Kenya on the impact of SACCO regulatory authority guidelines on SACCO operations in Kenya. The case of Nairobi deposit taking SACCOs which adopted descriptive research design and a sample of 50 SACCOs. Multivariate regression model was used to look at the impact SASRA has had on SACCO performance since its inception. Based on this study, it can be concluded that, SASRA regulations have greatly impacted on the SACCOs performance in terms of outreach and sustainability. Most SACCOs reported recent improvement in their performance both in membership, portfolio and loan cycle and general efficiency. This was attributed to a number of factors ranging from increased membership, high efficiency, high demand and quick recoveries and one can easily attribute this to be as a result of SASRA regulatory framework.

Metzemakers (2005), found a significantly positive impact of loan growth on provisions due to application of prudential regulations in his study carried out in Kenya. The main regulatory changes which affected provisioning were changes in loan classification standards, which were particularly intense in the late 1990s and early 2000s, when Japan tightened its guidelines on loan classification, which had come under attack

for its overly slow recognition of problem loans (Packer, 2000).

Mbogo (2010) explains that the cost of running deposit-taking SACCOs is set to go up significantly due to the new regulations threatening the low interest rates regime that has for decades given the co-operative movement an edge over commercial banks in the lending market. The regulations covering 220 Deposit Taking SACCOs also known as FOSAs, with an estimated membership of five million and assets worth Sh 50 billion, demands that societies converting from the non-deposit taking to the deposit-taking platform invest in new banking halls and install sophisticated security equipment, including armed security personnel from the Administration Police and private security guards.

Findings from the above previous studies carried out by different researchers who used different models tend to explain that credit management practices had a positive impact on financial performance of a firm.

2.23 Capital Requirement and Financial Performance

Kioko (2016) carried out a study in Kenya on effects of capital adequacy regulations of SACCOs. A descriptive research design was used and a sample of 35 SACCOs. Descriptive statistics was employed to assess the impact capital adequacy regulations on SACCOs and the study concluded that SACCOs had benefited significantly from the regulations in various ways such as, managing credit risk, improved public confidence, providing a safety net for members' deposits, provision of operating capital, increased lending capacity, providing a base for future growth, and preventing insolvency. SACCOs had faced various challenges in complying with capital adequacy regulations. These were reduced pay-out on members' funds, recruitment of new members, restricted avenues for investment, and reduced lending capacity.

Wanjiru (2012) did a descriptive study on the effect of financial regulation on financial performance of deposit-taking microfinance institutions in Kenya targeting the 6 deposit-taking microfinance institutions. The study found that the supportive Deposit Taking Microfinance Regulations of 2008 led to the improvement in financial performance of

DTMs. The regulations contributed to increase in the value of loans outstanding, total assets of DTMs, the profitability of DTMs and the respective shareholders' equity. The study recommends comprehensive impact analyses prior to implementation of new regulations in the financial sector particularly micro finance institutions; a long-term view when structuring regulatory framework to provide DTMs a clear view of the thresholds to attain on the path to institutional development and transformation (CBK, 2011).

Meagher (2002) investigated the effects of capital adequacy requirements as the main regulatory tools for the financial institutions and found that the requirements performed two main duties. First, as a risk sharing function of buffering against losses and protecting depositors and limits the recourse to deposit insurance. Second, they limit the moral hazard issue of shareholders incentive to take on excessive risk in order to maximize share value. This positive correlation between capital and profitability has also been concurred to by Gale (2010) and Kerwer (2005) who all assert that increase in minimum capital requirements reduce the risk of bank distress which will then result in increased profitability.

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. This concurred with mutinda (2016) study that capital adequacy requirement had a positive impact on financial performance. Bouvatier, V and L Lepetit (2008) carried out a study in United states on the relationship between the return on equity and the capital asset ratio for a number of banks in the 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.

From the above previous studies it is evident that capital adequacy requirements which include core capital and institutional capital had a positive impact on financial performance.

2.3 Conceptual Framework

Mugenda and Mugenda (2003), define a conceptual framework as a hypothesized model identifying the concepts under study and their relationships. It provides an outline of the preferred approach in the research and also outlines the relationships and the desired effects, forming independent and dependent variable. In this regard the Liquidity Requirement; Loan Provisioning Requirement and Capital Requirements are the independent variables that have effect on dependent variable; the Financial Performance. The framework illustrates the relationship between the prudential regulatory standards and financial performance of DTS.

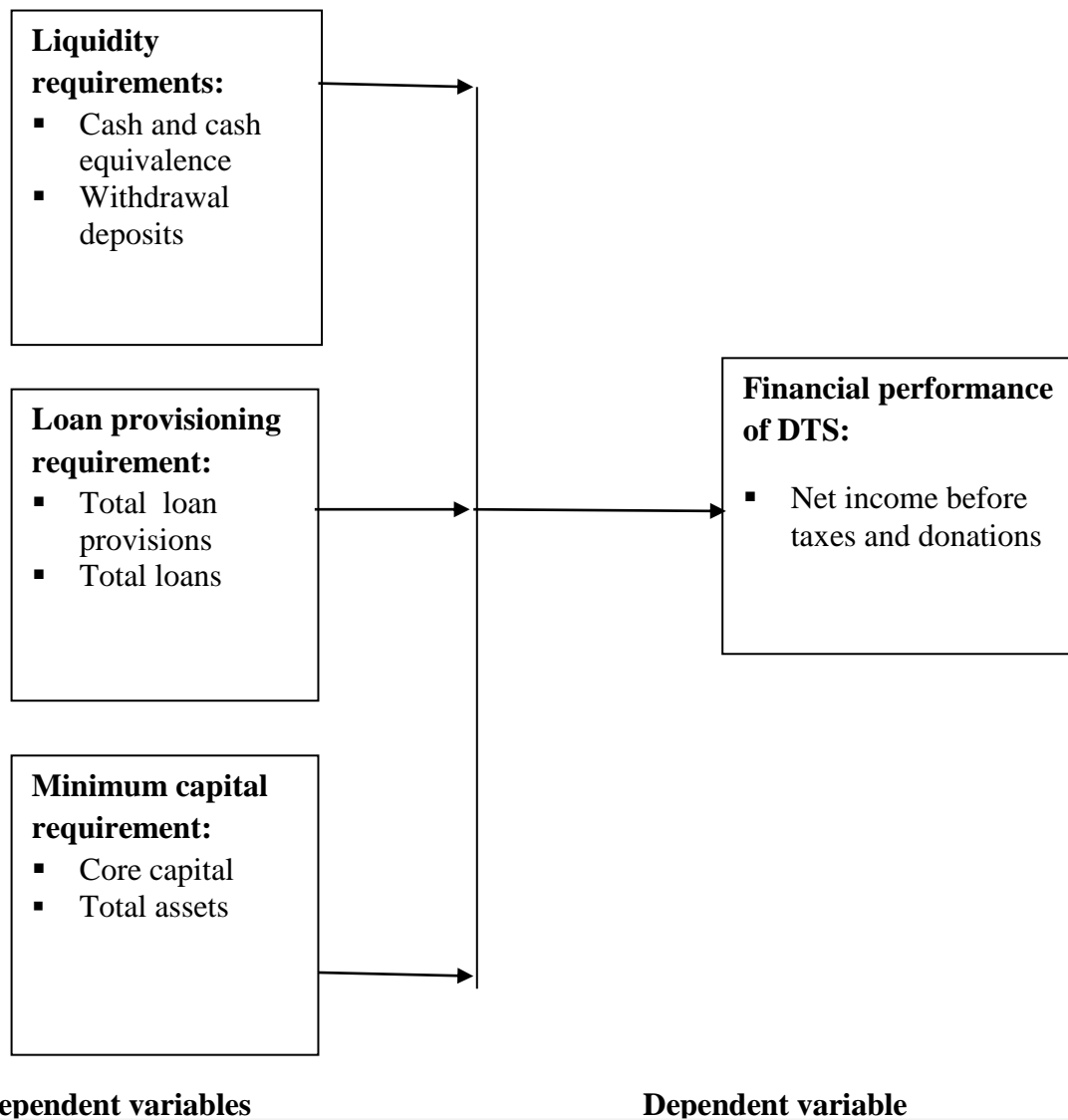


Figure 2.1: The Conceptual Framework

Source: The Researcher 2018

CHAPTER THREE

3.0 METHODOLOGY

This was chapter three of the research and basically dealt with how the research methodologies were undertaken.

3.1 Research Design

According to Ngau and Kumssa (2004), Research design is defined as the way in which study is planned and conducted that also includes procedures and techniques employed to answer the research questions. Again research design can be defined as the method used to carry out the entire research or the way the research is designed (Mugenda and Mugenda, 2003). In this study a comparative research design was adopted simply because the study compared performance of SACCOs in the period before to introduction of SASRA regulations and the period thereafter regulations.

3.2 Target Population

A population is a set of events, services, things or households or a set of people that is well defined and being investigated (Ngechu, (2004)). All the deposit taking SACCOs that were registered and operated in Kenya formed the entire target population and there were 175 as at 31st December 2016 (The SASRA Annual Report, September 2017).

3.3 Sampling Frame

Cooper & Schindler (2003), defined a sampling frame as a schedule or list of events, people, things that are identical are relate to the entire population from where a sample is selected. Defining early in advance the sample frame of a study is important this is because according to Saunders et al (2012), it establishes the sampling method to be used. As shown in the appendixes all the deposit taking SACCOs that were registered and operated in Kenya formed the sampling frame. The data used was of six years; financial years ending 31st December 2007 to 2009 and 2010 to 2012 (before and after SASRA regulations respectively).

3.4 Sample Size and Sampling Techniques

A stratified random sampling method was adopted for this research. According to Saunders et al. (2003), they defined stratified random sampling as a technique used by researchers based on several characteristics divide the entire population into some sub groups either into two or more and the method gives high rate of representation from the entire population as argued by (Babbie ,2001). A sample size of between 10% and 30% was a good representation of the target population provided that the study population was less than 10,000 units or objects (Mugenda and Mugenda, 2013) and therefore 17 % was adequate for this analysis.

Table 3.1: Sample Size

SACCOs Class	SACCOs in No.	17% Distribution	Size of Sample
Class I	18	17% @ 18 =3.06	3
Class II	59	17% @ 59 =10.03	10
Class III	98	17% @ 98 = 16.66	17
Sum	175		30

Source: The Researcher 2018

The table above shows how a sample size of 30 SACCOs was arrived at; Class I SACCOs with asset base of 5Billion and above; Class II SACCOs with above 1.5 to 5Billion and Class III SACCOs with less than 1.5 Billion.

3.5 Data Collection Instruments and Procedures

The audited financial statements of the deposit taking SACCOs as in the sampling frame were primarily used by the researcher as the secondary source of data. This was majorly accessed from the SASRAs' website because the DTS are required to submit monthly, quarterly and yearly financial reports and there are penalties imposed on failures hence the data was considered appropriate. Data collection template as per appendix "A" was used to record and compile the data.

3.6 Data Analysis

To enable faster and accurate of data analysis data cleaning and coding undertaken by the

researcher for all data collected and the same was quickly entered in the computer. Also to enable further analysis tabulation was done and summarized data was analyzed through the use of descriptive and inferential statistics. Descriptive statistics include mean, median, standard deviation and frequency distribution. To test for reliability, the study used the internal consistency technique which was assessed using Cronbach Alpha Coefficient. Internal consistency of data was determined by correlating the scores obtained from one time with the scores obtained at other times using the same research tool. The coefficient obtained was 0.8 hence the data was acceptable for examination. A pilot study was carried out to pretest and validate the data collection table. The pilot study enabled the researcher to be familiar with the research and its administration procedure as well as identifying items that required modification (Mugenda, 2008).

Multiple correlation analysis was used to determine the relationship between the dependent and the independent variables. Multiple linear regression models were applied to analyze the effect of prudential regulatory standards on the financial performance of Deposit taking SACCOs in Kenya. Previous researchers in area of CBK regulatory requirement and financial performance also used the similar model (Ngumi, 2013; Ogilo, 2012; Ngige, 2012).

The regression model used was illustrated here as;

$$Y = C + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where:

Y = Financial performance I.e. Net income before interest and Donations

C = Regression constant

$\beta_1, \beta_2, \text{ \& } \beta_3$ = coefficient for the variables on X_1, X_2, X_3

X_1 = Liquidity requirements

X_2 = Loan provisioning requirements

X_3 = Capital requirements

ϵ = Stochastic error term whose value was take as 0

In the process of examining the relationship between variables, researchers used T-test or ANOVA to compare the means of two groups on the dependent variable (Green & Salkind, 2012) and hence in this study ANOVA was used to test the significance of the at 95% confidence level and 5% significant level. If the significance number was found to be less than the critical value (p) 0.05 set, then the conclusion was that the model was significant in explaining the relationship.

3.7 Ethical Considerations

During the entire period of study all ethical matters relating to this study were put into consideration by the researcher and that all information obtained in the course was entirely used for the purpose of the study and confidentiality was observed.

CHAPTER FOUR

4.0 RESULTS

4.1 INTRODUCTION

This chapter contains data presentation, analysis and interpretation in the following areas: the descriptive statistics (mean, median, frequency distributions and standard deviations), correlations and multiple linear regression models which include ANOVA. With the help of SPSS the quantitative data collected by the researcher was analyzed using inferential statistics the results then tabulated according to the study objectives.

4.2 Descriptive Statistics

In this study based on the data collected by the researcher, data analysis was carried out for 6 years that is 3 years before and 3 years after enactment of SASRA regulations and the entire period covered 2007 to 2012. The researcher computed from the data so collected the averages of all the 4 variables for all the pre and post implementation years where the same was used to establish the relationship of SASRA regulations on financial performance of SACCOs.

This study had four variables: three (3) independent variables: Liquidity ratio a component of cash and cash equivalence and member saving balances, Loan Allowance (measured in Kshs), Core Capital (measured in Kshs) and one (1) dependent variable: Financial Performance, (expressed as net income before tax and donations in Kshs). The Loan allowance, Core Capital and Financial Performance were broken down into six (6) categories: 1: 0.1-1 million, 2: 1.1-2 million, 3: 2.1-3 million, 4: 3.1-4 million, 5: 4.1-5 million and 6: 5.1 million and above. The Liquidity ratio was divided into six (6) categories where 1: 0.1-10.9 %, 2: 11-20.9%, 3: 21-30.9, 4: 31-40.9, 5: 41-50.9% and 6:51% and above. The frequencies for the four variables were represented as shown in table 4.1 below.

Table 4.1: Descriptive Statistics

Variables	N	Mean	Std. Deviation
	Statistic	Statistic	Statistic
Pre-PRS			
financial performance	30	2.3333	1.70867
liquidity ratio	30	2.2333	.89763
loan allowance	30	1.7667	1.22287
core capital	30	1.5333	.89955
Post-PRS			
financial performance	30	2.4000	1.69380
liquidity ratio	30	2.7333	1.04826
loan allowance	30	1.9000	1.32222
core capital	30	2.1333	1.00801

In the two periods; before and after enactment of SASRA regulations the standard deviation and mean of financial performance was 2.4000(1.69380) and 2.3333(1.7087) respectively while the mean and standard deviation (SD) of the liquidity ratio for the same period was reported as 2.2333(0.89763) and 2.7333(1.04826) respectively. The loan allowance mean and standard deviation for period before and after PRS were 1.7667(1.22287) and 1.9000(1.32222) respectively. The core capital mean and standard deviation before and after PRS were 1.53333(0.89955) and 2.13333(1.00801) respectively.

4.3 Correlation Analysis

Correlation Analysis was used to determine the association of prudential regulatory standards on financial performance of DTS in Kenya the Pearson correlation coefficient was used to determine the relationship of the variables in terms the direction and strength . This was done to assess if there existed any relationship between the variables before carrying out further analysis. According to Ngumi (2013) three classifications were used; strong correlation for values ≥ 0.7 , moderate correlation for values $\geq 0.4 < 0.7$ and weak correlation for values $\geq 0 < 0.4$. The results were as shown in tables 4.2 and 4.3 below.

Table 4.2: Correlation coefficients –Before Prudential Regulatory Standards

		Financial performance	Liquidity ratio	Loan allowance	Core capital
Financial performance	Pearson Correlation	1	.361	.999**	.586**
	Sig. (2-tailed)		.050	.050	.000
Liquidity ratio	Pearson Correlation	.361	1	.353	.181
	Sig. (2-tailed)	.050		.056	.340
Loan allowance	Pearson Correlation	.999**	.353	1	.583**
	Sig. (2-tailed)	.000	.056		.001
Core capital	Pearson Correlation	.586**	.181	.583**	1
	Sig. (2-tailed)	.001	.340	.001	

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

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

In the period before SASRA regulations as indicated in table 4.2, liquidity ratio had weak positive correlation against financial performance at $r=0.361$ while a strong positive correlation between loan allowance and financial performance of DTS was experienced in period before PRS at $r=0.999$ and finally there was a moderate positive correlation between core capital and financial performance of DTS before prudential regulatory standards (PRS) at $r=0.586$. The relationship between financial performance and loan allowance as well as core capital were statistically significant at $P=0.000$ and $P=0.001$ respectively.

Table 4.3: Correlation coefficients –After Before Prudential Regulatory Standards

		Financial performance	Core capital	Liquidity ratio	Loan allowance
Financial performance	Pearson Correlation	1	.893**	.998**	.642**
	Sig. (2-tailed)		.000	.000	.000
Liquidity ratio	Pearson Correlation	.893**	1	.892**	.560**
	Sig. (2-tailed)	.000		.001	.000
Loan allowance	Pearson Correlation	.998**	.892**	1	.623**
	Sig. (2-tailed)	.000	.000		.000

Core capital	Pearson Correlation	.642**	.560**	.623**	1
	Sig. (2-tailed)	.000	.001	.000	

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

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

In the period after SASRA regulations indicated in table 4.3 above, a strong positive correlation was attested between financial performance and liquidity ratio as well as Loan allowance at $r=0.893$ and $r=0.998$ respectively and there was a moderate correlation between core capital and financial performance of DTS in period after PRS at $r=0.642$. The relationship between all the independent variables and financial performance of the DTS after PRS was statistically significant at $P=0.000$.

4.4 Regression Analysis

In this research to access how and to what extent the dependent and independent variables related to one another regression model was used. The coefficient of determination R square ranges from 0 to 1 where 0 implies that there is no relationship between variables and 1 implies a perfect relationship, 0.5 implies a moderate relationship and 0.7 and above implies a strong relationship between the variables under consideration. The regression analysis results for period before regulation and after regulations were summarized in table 4.4 and 4.5 below respectively.

Table 4.4: Model Summary – Before Prudential Regulatory Standards

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999 ^a	.997	.997	3046280.72180

Table 4.5: Model Summary – After Prudential Regulatory Standards

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918 ^a	.844	.826	41039178.84309

a. Predictors: (Constant), Loan allowance, Core capital, Liquidity Ratio

b. Dependent Variables: Financial Performance

The study established that there was a strong relationship between all the independent

variables (liquidity ratio, loan allowance and core capital) and financial performance of the DTS before the introduction of prudential regulatory standards in Kenya. From the findings in table 4.4 and 4.5, R represents multiple correlation and it shows a strong correlation between the variables at $R=0.999$ and 0.918 during before and after prudential regulatory standards while the coefficient of determination (R Square) is 0.997 for before and 0.844 after prudential regulatory standards which depict a strong relationship between the variables.

4.5 ANOVA

In this study to test whether the overall regression equation used was a good fit for the data analysis of variance was used and the data is good if the significance level value $P<0.05$. The ANOVA results were as show in table 4.6 and 4.7 below for both periods before and after prudential regulatory standards respectively.

Table 4.6: Analysis of Variance Model – Before Prudential Regulatory Standards

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.808	3	9.269	4.239	.014 ^b
	Residual	56.859	26	2.187		
	Total	84.667	29			

The results in table 4.6 above show that the independent variables can statistically and significantly predict the dependent variable, $F(3, 29)=4.239$, $P<0.05$ in period before PRS and this implies that the regression model was a good fit of the data.

Table 4.7: Analysis of Variance Model – After Prudential Regulatory Standards

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.771	3	9.924	6.494	.002 ^b
	Residual	39.729	26	1.528		
	Total	69.500	29			

a. Dependent Variable: financial performance

b. Predictors: (Constant), loan allowance, Liquidity ratio, Core capital

The results in table 4.7 above show that the independent variables can statistically and significantly predict the dependent variable, $F(3, 29)=6.494$, $P<0.05$ in period after PRS which implies that the regression model was a good fit of the data.

4.6 Model of Coefficients

In the study to establish the direction and strength of the independent variable (Liquidity ratio; Loan allowance and Core capital and dependent variable (Financial performance) for both period before and after PRS the tests on model coefficient were carried out. Tables 4.8 and 4.9 below shows the results obtained as summarized.

Table 4.8: Regression Coefficients - Before Prudential Regulatory Standards

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1890191.184	1553869.607		-1.216	.235
1 Liquidity Ratio	62074.418	67923.614	.010	.914	.369
Loan allowance	2.383	.031	.992	76.602	.000
Core capital	.040	.082	.006	.484	.632

a. Dependent Variable: Financial performance

From the results in table 4.8 above, the following regression equation before PRS was obtained from unstandardized beta coefficients as shown below:

$$\text{Regression Model: } Y = C + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

$$\text{Specific Regression Model: } Y = -1890191.184 + 62074.418X_1 + 2.383X_2 + .040X_3 + \epsilon$$

Financial Performance = $-1890191.184 + 62074.418X_1 + 2.383X_2 + .040X_3 + \epsilon$ before PRS, the regression model obtained showed that holding all other factors constant a unit increase in Liquidity ratio results to increase in Financial Performance by 62074.418; a unit increase in Loan allowance increases Financial Performance by 2.383 while a unit increase in Core capital increases Financial Performance by .040

Table 4.9: Regression Coefficients – After Prudential Regulatory Standards

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-154994107.864	17429774.743		-8.892	.000
1 Liquidity Ratio	4929440.365	696342.577	.713	7.079	.000
Loan allowance	11657198.124	6842132.688	.157	1.704	.100
Core capital	1.896	1.024	.176	1.852	.075

a. Dependent Variable: Financial performance

From the results in table 4.9 above, the following regression equation after PRS was obtained from unstandardized beta coefficients as shown below:

$$\text{Regression Model: } Y = C + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Specific Regression Model: $Y = -154994107.864 + 4929440.365X_1 + 11657198.124X_2 + 1.896X_3 + \epsilon$ Financial Performance = -154994107.864 + 4929440.365X₁ + 11657198.124X₂ + 1.896X₃ + ϵ after PRS, the regression model obtained showed that holding all other factors constant, a unit increase in Liquidity ratio results to increase in Financial Performance by 4929440.365; a unit increase in Loan allowance increases Financial Performance by 11657198.124 while a unit increase in Core capital increases Financial Performance by 1.896 after PRS. From the above analysis liquidity ratio had a statistical significant effect on the financial performance of deposit taking SACCOs than all other factors before enactment of SASRA regulations while in the period after introduction of SASRA regulations loan allowance greatly impacted the financial performance.

CHAPTER FIVE

5.0 DISCUSSION

5.1 INTRODUCTION

This was the fifth chapter of the study and gives the researcher a comprehensive overview of findings of the study that was to determine the effect of Prudential Regulatory Standards on Financial Performance of DTS in Kenya. In a summary form the chapter discusses the findings of the study in line with the specific objectives.

5.2 Summary of Findings

5.2.1 Effect of Liquidity Requirement on Financial Performance

The researcher sought to establish the effect of liquidity requirement on Financial Performance of DTS in Kenya. A liquidity ratio was used by the researcher to establish its effects on Net Income before Taxes and Donations. As per the findings from the study there was a weak positive correlation between the liquidity ratio and financial performance before enactment of SASRA regulations while in the period after SASRA regulations there was a strong positive correlation between the two factors. The regression model facts obtained from the study shows that while holding all other factors constant a unit increase in liquidity ratio would lead to an increase in Net Income before Taxes and Donations before and after PRS of DTS by a factor of 62,074.418 and 4,929,440.365 respectively.

The findings of the study are in agreement with those of Saunders & cornet (2011) in their study on the research in liquidity risk management of Chinas' commercial bank targeting all commercial banks in China found out that the liquidity is a lifeline for commercial. The findings were also in line with those of Wanyoike (2013) that liquidity requirement had a positive relationship with performance. However the findings of the study were not in agreement with findings of Mutinda (2016) that liquidity requirement had a least impact on financial performance this was because he used different research methodology, a descriptive survey design while the researcher in this study used

comparative research design. Likewise to Ileri (2010) who used a casual effect research design had a diverse finding.

5.2.2 Effect of Loan Provisioning Requirement on Financial Performance

The researcher sought to establish the effect of loan provisioning requirement on financial performance of DTS in Kenya. Loan allowance amounts were used by the researcher to establish its effects on Net Income before Taxes and Donations. As per the findings from the study there was a strong positive correlation between the loan allowance and financial performance before enactment of SASRA regulations while in the period after SASRA regulations there was a strong positive correlation between the two factors. The regression model facts obtained from the study shows that while holding all other factors constant a unit increase in loan allowance would lead to an increase in Net Income before Taxes and Donations before and after introduction of SASRA regulations for deposit taking SACCOs by a factor of 2.383 and 11,657,198 respectively.

The findings of the study particularly on the above objective have been also supported by Nagash (2015) who found out that Loan loss provision reflected a direct casual relationship with financial performance of Commercial banks in Ethiopia the same case with findings of Metzmakers (2005) and Ngaira (2011). However the findings of the study were not in agreement with Mbogo (2010) where he concluded that the cost of running DTS would go up due to regulations hence affecting financial performance.

5.2.3 Influence of Capital Requirement on Financial Performance

The researcher sought to establish the influence of Capital Requirement on Financial Performance of DTS in Kenya. Core capital was used by the researcher to establish its effects on Net Income before Taxes and Donations. As per the findings from the study there was a moderate positive correlation between the core capital and financial performance before enactment of SASRA regulations while in the period after SASRA regulations there was also a moderate positive correlation between the two factors. The regression model facts obtained from the study shows that while holding all other factors constant a unit increase in core capital would lead to an increase in Net Income before

Taxes and Donations before and after introduction of SASRA regulations for deposit taking SACCOs by a factor of 0.040 and 1.896 respectively.

In reference to the study Core Capital and Financial Performance, the findings of the study are in agreement with the findings of also Meagher (2002) that there was a positive correlation between Capital and Profitability and also the findings by Gale (2010) and Kerwer (2005) who all assert that increase in minimum Capital requirement reduce the risk of bank distress which then results in increased Profitability.

The findings of the study differed with the findings of Kioko (2016) who found out that due to Capital adequacy regulations, there were reduced pay out on member funds, recruitment of new members, restricted revenues and reduced lending capacity this was due to fact that a different research methodology was used.

CHAPTER SIX

6.0 CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

This was the last and final chapter of the study and gives the researcher a comprehensive overview of the conclusions drawn from the study on conducted on effect of Prudential Regulatory Standards on the Financial Performance of DTS in Kenya. All data analysis and results were discussed in chapter four.

6.2 CONCLUSIONS

To determine the effect of Prudential Regulatory Standards on the Financial Performance of Deposit Taking SACCOs in Kenya was the main objective of the study and therefore all subsequent conclusions on the same emanate from this research entirely.

6.2.1 Effect of Liquidity Requirement on Financial Performance

In the period before enactment of SASRA regulations, the data analyzed by the researcher indicate that liquidity requirement had more impact on SACCOs' financial performance in respect to all other factors that researcher analyzed in the study, Likewise even after PRS period and therefore SACCOs should comply with liquidity provisions at all times and consider investing excess cash in profitable projects; hence liquidity impacts financial performance more than the core capital.

6.2.2 Effect of Loan Provisioning Requirement on Financial Performance

The aspect of introducing loan provisioning element in financial institutions is paramount in that it plays a key role on the loan administration and management procedures and therefore from the study it is evident that there exists a positive effect between loan allowance and financial performance. This helps to minimize loan default and this will lead Management of SACCOs to employ stringent measures that will aid in loan recovery and hence profitability of the SACCO subsector improves.

6.2.3 Influence of Core Capital on Financial Performance

Again from the findings of this study, core capital was found to have less impact on the financial performance of SACCOs in Kenya as compared to all other factors data collected and analyzed by the researcher. However there exists a positive and significant association financial performance and core capital and therefore the study also concludes that Core Capital has an influence on financial performance.

6.3 Recommendations for Policy

The policy makers; that is Government of Kenya through the SASRA, the regulator should strengthen the implementation and carry out frequent onsite surveys on SACCOs so as to realize the full benefits of regulation this is because all the independent factors analyzed were found to have effect on dependent variable.

6.4 Recommendations for Practice

To the practice since all the independent factors that is liquidity, loan provisioning and core capital requirements affect the financial performance of SACCOs as witnessed in the findings earlier the SACCO boards of management, staffs heading various departments and general staff ensure that the SACCOs comply with every aspect of SASRA provisions.

Complying with such provisions and guidelines will ensure that at any given time SACCOs have adequate cash to meet their short term obligations that fall due. Again therefore the study recommends that SACCOs should keep their amount of NPL to low levels since such loans affect the profitability of the deposit taking SACCOs. At the same time the study recommends the Management of DTS to grow their loan portfolio while focusing on minimal loan default as this will also aid in improving financial performance.

From the findings an increase in Core Capital leads to a less significant increase in financial performance of DTS than all other factors therefore the study recommends that capitalization should be encouraged in all SACCOs and other financial institutions so that performance can be improved positively. SACCOs should put more efforts to retain more of their surplus in order to boost the firms' Capital and consider other avenues of

boosting Capital growth such as plough back the dividends paid in a given year this will ensure financial stability.

6.5 Recommendation for Future Researchers

Since the main objective of the study was to determine the effect of prudential regulatory standards on the financial performance of the DTS in Kenya. The study therefore recommends upcoming scholars should focus further research particularly on Core Capital influence on other aspects measures of performance of DTS other than the Net Income before Tax and Donations because their influence on Net Income before Tax and Donations was less significant.

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BUDGET

SERIALNUMBER	ACTIVITY	AMOUNT in Kshs
1	Travelling costs	30,000
2	Printing and stationeries	15,000
3	Postage and Telephone	10,000
4	Subsistence; Accommodations	40,000
5	Other Contingencies	10,000
TOTALS		105,000

TIME FRAME

SERIAL NUMBER	ACTIVITY	TIME FRAME
1	Topic Approval	By 15 th November 2018
2	Conducting Literature Review	By 10 th December 2018
3	First defense of Proposal	By 15 th December 2018
4	Data Collection, Analysis and Interpretations	By 30 th December 2018
5	Second defense of the Final Project	By 10 th January 2019
6	Submitting Final Project	By 25 th March 2019
7	Project Publishing and Binding	By 5 th April 2019

APPENDICES

APPENDIX I: Sample of Data collection table

Years	Capital adequacy		Loans				Liquidity			Financial performance
	Core capital	Total assets	Coverage ratio	Gross loans	Net loans	Allowance for loan loss	Total cash	Total withdrawable deposits	Liquidity ratio	Net income (before taxes and donations)
2007										
2008										
2009										
2010										
2011										
2012										
201										

3

201

4

201

5

201

6

APPENDIX II: List of Deposit Taking SACCOs as at 31st December 2016

NO.	NAME OF DT-SACCO	TOTAL ASSETS (ksh. Millions)
LARGE TIER DT-SACCOs (TOTAL ASSETS ABOVE KSHS 5 BILLION)		
1.	MWALIMU NATIONAL	37,410.25
2.	STIMA	24,481.93
3.	HARAMBEE	22,009.20
4.	KENYA POLICE	20,024.39
5.	AFYA	14,820.43
6.	METROPOLITANT	11,008.83
7.	UNITED NATION	10,854.95
8.	ANAITAS	10,739.25
9.	UKULIMA	9,975.27
10.	IMARISHA	8,254.60
11.	INVEST AND GROW	7,332.75
12.	BANDARI	6,814.05
13.	KENYA BANKERS	6,763.17
14.	GUSII MWALIMU	6,750.68
15.	HAZINA	5,779.74
16.	IMARIKA	5,711.12

17.	TOWER	5,348.46
18.	NEW FORTIS	5,106.88
	MEDIUM TIER DT-SACCOs(TOTAL ASSETS BETWEEN KSHS 1-5 BILLION)	
19.	BORESHA	4,941.54
20.	MENTOR	4,877.11
21.	SHERIA	4,407.61
22.	MAGEREZA	4,190.50
23.	SAFARICOM	4,144.97
24.	COMSMOPOLITAN	4,122.16
25.	BIGWA	4,065.76
26.	MOMBASA PORT	3,870.98
27.	WINAS	3,432.58
28.	SOLUTION	3,381.70
29.	KITUI TEACHERS	3,276.06
30.	WAUMINI	3,221.34
31.	NACICO	3,185.77
32.	OLLIN	3,153.89
33.	KWETU	3,141.62
34.	JAMII	3,090.07
35.	K-UNITY	2,906.23

36.	AMICA	2,904.37
37.	TRANS NATION	2,847.54
38.	CHAI	2,815.25
39.	CAPITAL	2,592.98
40.	TAIFA	2,469.21
41.	NDEGE CHAI	2,427.97
42.	EGERTON	2,421.27
43.	YETU	2,415.33
44.	FORTUNE	2,380.50
45.	MAISHA BORA	2,352.41
46.	CHUNA	2,326.77
47.	SHOPPERS	2,228.92
48.	UNISON	2,220.13
49.	NYATI	2,210.10
50.	KENYA HIGHLAND	2,158.71
51.	KENPIPE	2,105.26
52.	SHIRIKA	2,025.91
53.	ASILI	1,958.43
54.	TEMBO	1,914.81
55.	KENVERSITY	1,909.87
56.	TAI	1,857.12

57.	NGA'ARISHA	1,595.09
58.	ARDHI	1,577.81
59.	THE NOBLE	1,530.88
60.	MOI UNIVERSITY	1,437.21
61.	NATION	1,407.92
62.	UKRISTO NA UFANISI	1,386.51
63.	NASSEFU	1,370.39
64.	DIMKES	1,354.10
65.	WAKENYA PAMOJA	1,351.32
66.	QWETU	1,333.32
67.	MWITO	1,276.14
68.	NAWIRI	1,253.74
69.	MWANANDEGE	1,228.98
70.	WANANCHI	1,228.75
71.	SIMBA CHAI	1,210.80
72.	GITHUNGURI	1,200.04
73.	AZIMA	1,140.33
74.	TRANS NATION TIMES	1,122.72
75.	WANAANGA	1,110.63
76.	ELIMU	1,041.71
77.	BIASHARA	1,001.13

SMALL TIER DT-SACCOs SOCIETIES
(ASSETS BELOW KSHS 1BILLION)

78.	TELEPOST	976.86
79.	KINGDOM	975.88
80.	SOUTHERN STAR	969.28
81.	SUKARI	962.37
82.	SKYLINE	953.69
83.	TRANS ELITE COUNTY	938.29
84.	SMART LIFE	930.92
85.	ECO-PILLAR	827.09
86.	2 NK	816.32
87.	COMOCO	778.78
88.	DAIMA	763.63
89.	UNIVERSAL TRADERS	760.40
90.	ORIENT	757.65
91.	FUNDILIMA	756.50
92.	KITE	731.61
93.	JITEGEMEE	722.56
94.	FARIF	720.18
95.	MAFANIKIO	696.98
96.	GOOD HOPE	649.95

97.	MUKI	612.77
98.	PRIME-TIME	600.95
99.	AIRPORTS	581.99
100.	CENTENARY	532.60
101.	TABASAMU	514.15
102.	KIMBILIO DAIMA	512.74
103.	BI-HIGH	504.78
104.	DHABITI	487.26
105.	VISION POINT	477.62
106.	MAGADI	475.77
107.	THAMANI	462.10
108.	MWINGI MWALIMU	457.70
109.	NITUZE	420.49
110.	TARAJI	418.93
111.	NAFAKA	402.11
112.	MMH	401.93
113.	TIMES U	375.45
114.	KENYA ACHIEVAS	354.97
115.	NDETIKA RURAL	354.53
116.	PATNAS	327.63
117.	LAINISHA	320.74

118.	KMFRI	311.01
119.	COUNTY	310.76
120.	K-PILLAR	305.54
121.	WAKULIMA COMMERCIAL	305.47
122.	JUMUIKA	301.18
123.	SIRAJI	298.05
124.	NYALA VISSION	294.98
125.	SUPA	283.11
126.	BARAKA	280.47
127.	WEVARSITY	278.75
128.	IMENTI	271.83
129.	PUANI	261.06
130.	TENHOS	253.73
131.	NYAMIRA TEA	252.88
132.	NANDI HEKIMA	235.46
133.	LAMU TEACHERS	231.23
134.	DUMISHA	213.74
135.	NYAMBENE ARIMI	211.98
136.	NDOSHA	211.25
137.	MUDETE	209.50
138.	VISION AFRIKA	207.24

139.	JOINAS	202.02
140.	SMART CHAMPIONS	192.06
141.	KENYA MIDLAND	191.75
142.	SOTICO	190.16
143.	STAKE	185.28
144.	ELGON TEACHERS	171.32
145.	UFANISI	171.29
146.	WASHA	154.65
147.	VIKTAS	149.93
148.	TRANS- COUNTIES	148.29
149.	LENGO	147.22
150.	RACHUONYO TEACHERS	144.99
151.	JACARANDA	142.06
152.	FARIJI	135.50
153.	ENEA	133.87
154.	SUBA TEACHERS	132.56
155.	NUFAIKA	130.88
156.	AGROCHEM	126.29
157.	NANDI FARMERS	123.53
158.	KALONGE	118.71
159.	BARATON	114.34

160.	KIPSINGIS	110.22
161.	ILKISONKO	109.82
162.	NANYUKI EQUATOR	108.64
163.	AINABKOI RURAL	91.02
164.	UNI-COUNTY	88.01
165.	MWIETHERI	86.17
166.	KATHERA RURAL	82.31
167.	ALL CHURCHES	69.61
168.	KORU	69.04
169.	GOOD GAITH	62.10
170.	BIASHARA TOSHA	58.54
171.	UCHONGAJI	51.64
172.	KAIMOSI	49.45
173.	GOODWAY	43.64
174.	VIHIGA COUNTY	40.20
175.	MILKI	39.53
	GRAND TOTAL	393,498.67

Source: SASRA Database

APPENDIX III: Transmittal Letter



SOUTH EASTERN KENYA UNIVERSITY
OFFICE OF THE DIRECTOR
BOARD OF POST GRADUATE STUDIES

P.O. BOX 170-90200
KITUI, KENYA
Email: info@seku.ac.ke

TEL. 020-4213859 (KITUI)
Email: directorbps@seku.ac.ke

Our Ref: D61/KIT/20699/2016

DATE: 28th March, 2019

Ngunyu Dominic Mutinda
Re g. No. D61/KIT/20699/2016
Masters of Business Administration
C/O Director, Kitui Campus

Dear Mutinda

RE: PERMISSION TO PROCEED FOR DATA COLLECTION

This is to acknowledge receipt of your Master in Business Administration Proposal document entitled: *"Effect of Prudential Regulatory Standards on the Financial Performance of Deposit Taking SACCOS in Kenya"*.

Following a successful presentation of your Masters Proposal, the School of Business and Economics Board of Examination in conjunction with the Directorate, Board of Postgraduate Studies (BPS) have approved that you proceed on and carry out research data collection in accordance with your approved proposal.

During the research work, you will be closely supervised by Dr. Robert Ombati. You should ensure that you liaise with the supervisor at all times. In addition, you are required to fill in a Progress Report (*SEKU/ARSA/BPS/F-02*) which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection exercise as a critical stage in your Master of Business Administration.

Prof. Felix Ngunzo Kioli
Director, Board of Postgraduate Studies

Copy to: Deputy Vice Chancellor, Academic, Research and Students Affairs (Note on File)
Dean, School of Business and Economics
Chairman, Department of Business and Entrepreneurship
Director, Kitui Campus
Dr. Robert Ombati
BPS Office To file

