

**EFFECTS OF SAVINGS MOBILIZATION ON FINANCIAL
PERFORMANCE OF SACCOS IN KENYA**


HENRY MOMANYI OMWOYO

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DECLARATION

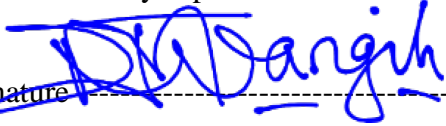
This research project is my own original work and has not been presented for an award of degree or diploma in any other university.

Signature -----Date 15-11-2022-----

Henry Momanyi Omwoyo

D61/8294/2017

This research project has been submitted for examination purposes with my approval as the university supervisor and chairman department of Finance and Accounting

Signature -----Date 19 November 2022-----

Prof. Cyrus Mwangi

Chairman Department of Finance and Accounting

Faculty of Business and Management Science

University of Nairobi.

DEDICATION

This research paper is dedicated to my dear wife Kezzy for her patience and encouragement and inspiration and support in the course of my study.

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ABSTRACT

This study's goal was to determine how consumer behavior in form of savings mobilization affected the financial performance of SACCOs in Kenya. The study was of great importance, since SACCOs contribute greatly to a nation's economic development, by making funds available to as many people as they can through advancement of loans and savings mobilization. Over the past few years, financial performance of many SACCOs has been on a declining trajectory as many have folded, raising questions as to whether the strategies employed to sustain them are working. Savings mobilization has been one of these strategies making it possible to undertake this study. Descriptive correlational research design was used, focusing on 10 DTS that were licensed by SASRA, and had been in operation for the last five years. SPSS was used to examine secondary data that was obtained from the SASRA website. The research results suggested that the financial performance of SACCOs in Kenya was not significantly affected by the mobilization of savings. According to the study's recommendation, SACCOs will have to provide savings solutions that are easy to use, adaptable, competitive, liquid, and appealing and that continuous training and or in-service courses should be mounted for SACCO staff to equip them with product knowledge and customer care services which will impact financial performance.

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LIST OF ABBREVIATIONS

CBK	-	Central Bank of Kenya.
DIC	-	Deposit Insurance Corporation.
DIS	-	Deposit Insurance Scheme.
DPFB	-	Deposit Protection Fund Board.
DTS	-	Deposit Taking SACCOs.
FDIC	-	Federal Deposit Insurance Corporation.
GDP	-	Gross Domestic Product.
IMF	-	International Monetary Fund.
LDCs	-	Less Developed Countries.
ROA	-	Return on Assets.
SACCOs	-	Savings and Credit Co-operative Societies.
SPSS	-	Statistical Package for the Social Sciences.
WOCCU	-	World Council of Credit Unions.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Savings and Credit Cooperative Societies (SACCOs) provide savings and credit services to clients of diverse income worldwide (Kiarie, 2011). In this realm, for the SACCOs to grow their expanding loan portfolios, they have shifted their focus into savings deposits as a stable, low-cost source of funds. According to Tuyishime *et al.* (2015), mobilization of savings is one of the core roles of a SACCO as it is an important source of working capital. It plays a critical role in providing satisfactory service to different operational activities of a SACCO hence, the financial performance greatly lies on the deposit mobilization.

Theories that supported this study include the life cycle hypothesis (Modigliani and Ando, 2009) which assume that households care about the long-term consumption opportunities and therefore, expounds consumption and savings in relation to expected future income. Agency theory explains the link between the agents and principals, and it helps in addressing the interests of the two parties, as conflict between them can impact a firm's performance (Ross and Mitnick, 1973). This theory was practical to this study in that SACCO managers are agents while principals are savers. SACCOs may collapse if agents engage in opportunistic behavior. Finally, Baumol's model of cash management theory attempts to balance income that is forgone, and transaction cost of converting cash into marketable securities against cash held by a firm and vice versa (Baumol, 1952). The theory was of significance to this study as it shades light on effects that policy may have on cash management to manage financial performance of SACCOs.

Previous studies on this topic had focused on banks and other financial institutions, ignoring SACCOs. Tuyishime *et al.* (2015) did a study on the banking field highlighting the effects of deposit mobilization on Rwandan banks' financial performance. Opala (2014) conducted a study underpinning whether financial sustainability had an impact on deposit taking saccos' financial performance within Nairobi County. In addition, Florence (2015) examined financial performance of SACCOs within Nairobi County and whether mobile SACCO services had any effect on it. These studies have been zoning the SACCOs in regions and counties hence not giving a national outlook on their findings. In addition, none of the studies have looked into the saving mobilization aspect on financial conduct and performance of SACCOs. This study, therefore, critically examined the gaps left by previous researchers and tried to fill them by looking into the financial performance aspect of SACCOs in Kenya and determining whether savings mobilization had an impact on it.

1.1.1 Savings Mobilization

Branch and Klaehn (2002) defines savings mobilization as a way of creating conducive financial institutions where households with intent to save can take their savings Under the understanding that upon withdrawal they will receive the whole amount of their funds plus some additional return. According to Chelangat *et al.* (2018), creating customized products to meet consumer needs for consensual savings services and marketing those products to savers of various income levels constitutes savings mobilization. Dynan *et al.* (2002) defines saving as revenue that is not spent or consumption that is postponed. A pension account, an investment fund, a cash account, and deposit accounts are all ways to save money. Any money that is not immediately used is referred to as surplus in economics. This study perceived savings

mobilization as encouraging clients' deposits that are made voluntary in form of savings, managing and protecting and using them to fund loans portfolios.

Among the requirements of the Kenyan Vision 2030 strategic plan, the financial sector is required to play a critical role in the mobilization of savings, by providing a better linkage between savings and investments. Among the zoned financial strategies, SACCOs are key in aiding the implementation of this exercise. Services provided by SACCOs will play a crucial role in enhancing access to financial services through savings mobilization, (Government of the Republic of Kenya, 2008).

Tuyishime *et al.* (2015) explains savings mobilization as deposit mobilization, and in the study, it was measured by the marketing strategy employed, changes in the interest rates on deposits and the banking technology. This study measured savings mobilization by looking into the customer deposit over a given period of time and the number membership enrolment in the SACCOs.

1.1.2 Financial Performance

According to Fatihudin *et al.* (2018), financial performance is the attainment of an entity's financial objectives for a stipulated time, measured by the availability of funds, and the investment of the funds into productive units. Isinta (2019), explains financial performance as how well an entity achieves set standards in terms of profit margins, by analysis of how the revenues relates to expenses as well as the entity's return on investments. Financial performance gauges how the factors of production i.e., capital, labor and management are employed by entities to yield profits (Hersey and Blanchard, 1998; Parker and Bradley, 2000). In this regard, financial performance

can be said to be how an organization, in this case, a SACCO, uses its assets to generate income.

Sacco's management can determine how well they are performing in terms of efficiency and effectiveness. By measuring their financial performance, they are in a good position to pinpoint the amount of savings they have been able to mobilize over time. A complete evaluation of a firm's financial performance and reporting the figures fulfils the accounting role of communicating financial information to stakeholders and other relevant users (Drury, 2004). Deposits and savings mobilization of SACCOs improves their financial performance by earning returns which are abnormal, driven by increased cash flows from savings and deposit by clients.

Financial performance of SACCOs has shifted from the obvious ratio analysis like return on assets or investments to parameter-based indicators like customer satisfaction, profits and losses, assets, and market value in terms of share to mention but a few (Seiford and Zhu 1999). A study conducted by Muchemi (2013) employed profit before tax and total assets to measure financial performance. Sreesha (2014) measured financial performance using ROA. This study utilized the return of asset as a measure of financial performance. The determinants of financial performance included savings mobilization, SACCO size, corporate governance, leverage, liquidity management and interest rate charged.

1.1.3 Savings Mobilization and Financial Performance

Branch (2005), outlines that Savings mobilization involves accepting deposits that have been brought voluntary by clients, managing them, and reinvesting it back by

funding loans through the funds saved. On the other hand, Isinta (2019) argues that financial performance determines how the SACCO generates returns to its stakeholders from the savings that have been mobilized.

In theory, better savings mobilization strategies if employed by SACCOs, will help in raising more funds through customer deposits and shares, this will supply a constant cash flow that will enable it to invest the cash to more productive investments, that will help in increasing the value of funds deposited. Eventually, the financial performance of the SACCO will improve, as it will start posting profits and paying better returns to the shareholders in terms of dividends. Empirically, this relationship has not been confirmed yet, creating a gap that this research sought to fill by providing evidence whether savings mobilization influences the financial performance of SACCOs in Kenya.

1.1.4 SACCO's in Kenya

In Africa, the history of SACCOs started in Ghana around 1955 (Ng'ombe and Mikwamba, 2004). In 1964, the first SACCO was formed in Kenya, in Mariira, Muranga. Later in 1967, a committee to promote the development of SACCOs was formed which resulted in the formation of two chapters in Nairobi, and Mombasa. In these early stages, there were several challenges, with liquidity of the SACCOs being the most common attributed to low members participation in savings and loans repayment (Bwana, 2013).

The government, in 1969, gave a directive to only members with approved payroll deductions by their employers to be able to form and join SACCOs. This would allow direct deductions of savings contributions and loan repayments from the members

salary thereby becoming a critical pivot for the rapid growth of SACCOs in the country. The first SACCO national forum was held in 1972 in Nairobi with the objective of forming a national apex that was intended to serve the needs of the SACCOs. This resulted into the formation of the KUSCCO Ltd.

According to Mbewa *et al.* (2012), among the fastest growing financial institutions, SACCOs are ranked among the top as they provide their members with convenient services and facilities enabling them to perfectly integrate into the mainstream financial market. Millions of Kenyans currently rely on SACCOs to finance their businesses and get loan facilities (Miriti, 2014).

1.2 Research Problem

SACCOs are crucial in wealth generation, as they help in bringing resources together for investments (Kinyua, 2013). They require a minimum monthly contribution from members which in a way instills a savings mentality and this money is not accessible to the members unless they take it in the form of loans or withdraw and close the account. This prevents impulsive spending on the cash saved. SACCOs empowers its members through savings mobilization and advancement of loans (Mudibo, 2005), and through this process they can accumulate more capital that enables them to be in the market for a long time. Agyei (2010) explains how careless savings mobilization techniques are among the main causes of failure for financial institutions. He argues if the savings strategies are wrong, profitability of the entity will be adversely affected.

In the recent past, many SACCOs have folded. Muturi *et al.* (2015), in their study, uncovers how Kenyan SACCOs experience multiple drawbacks which are not limited to lack of good leadership and members not having confidence in their SACCOs.

Opala (2014) further adds poor management and unformed investment decisions as causes of failure of SACCOs. He also notes that these challenges are brought about by poor financial management practices, high cost of capital, and delayed member payments. Omino (2014) explains how such problems hamper the accomplishment of the SACCOs goals and even lead to their decline in growth of wealth leading to insolvency.

In Kenya, despite the mutually beneficial opportunities for lenders, borrowers and savers in SACCOS, studies suggest there is financial segmentation since many local SACCOs provide partial financial services, leading to financial intermingling where households borrow from a SACCO and at the same time have Savings deposit at a financial intermediary such as commercial bank since SACCOs do not provide savings deposit services, or overdraft facilities. This has greatly impacted on the financial performance of SACCOs as they are not able to raise more funds to advance loans to their clients.

Over a long period, addressing members' demands through savings mobilization and granting loans has been the sole objective of SACCOs (Mbewa, 2012; Chelangat, 2018). Mobilizing savings allows them to become more independent from donor funds and government subventions. Despite this, their wealth has not grown exponentially by accumulation institutional capital with the aim of financing non-withdrawable capital funded assets.

Previous studies that have been conducted in Kenya have given more attention to the financial performance of SACCOs without looking at the savings or deposit mobilization aspect of the SACCOs. For instance, Miriti (2014) analyzed the elements affecting SACCOs' financial performance, and its findings showed that loans

defaulting was not a threat to the organizations' survival as it was a private issue that, specifically, solely affected profitability. since it's from the interest paid by loans that generate profits for SACCOs, the study in totality did not look at how SACCOs raise their capital.

Opala (2014) carried out a study with the goal of examining the efficiency of DTS in Nairobi City County in relation to financial stability, and the study discovered that factors like liquidity, total assets, Savings and credit cooperative size, and governance caliber all had a positive effect on the financial performance of these SACCOs.

Mutiso (2019) carried out research to examine the issues that could be detrimental to SACCOs' financial performance. in Kiambu County, capital inadequacy and poor liquidity management were identified from the study as what majority of the SACCOs were struggling with, orchestrated by poor governance and leadership.

From the analyzed previous studies, there emerged a research gap on whether savings impacted the SACCO's financial performance since none of the previous studies had investigated the issue, also these studies used different theoretical approaches to come up with their findings, this study sought to answer the gap by researching the Effect of savings mobilization on Kenyan SACCOs' financial performance.

1.3 Research Objective

The major goal of this study was to determine how saving mobilization affected Kenyan SACCOs' financial performance.

1.4 Value of the Study

This study's outcomes add to both theory and reality. The significance of this study emerged from the fact that, SACCOs play a crucial role in enhancing the economic performance of a country and providing critical service to Kenyans. This study empirically tested the effect of savings mobilization on financial performance of SACCOs in Kenya. Therefore, the board of directors and branch managers can get an opportunity to understand the implications of savings on their entities' financial performance and hence, they will be in a better position to use the findings of this research to come up with strategies that are centered towards encouraging SACCOs saving mobilization. In addition, the findings come in hand when devising solutions to challenges impacting the financial performance of any financial institution in relation to savings mobilization Findings of this study will assist proprietors of SACCOs to distinguish between the various determinants of financial performance to improve their financial management abilities.

The research topic has not been fully academically explored. The study will make a significant contribution to the knowledge that is already in existence, and scholars in the field of finance will get an opportunity to use literature provided by this study. Specific literature from all around the world on savings pattern and behavior of different households and savings mobilization strategies of financial institutions is scarce. The existing literature on this topic is outdated, making it unable to support current trends on global social and economic developments. Future researchers will also use the findings of this study to further research in this area since this topic has been given limited attention by many scholars.

The study will provide insights and information to stakeholders as to whether current interventions on savings mobilization have borne fruits in improving the financial performance of SACCOs. The findings will give an opportunity to those who are in a position to make policies make informed decisions on regulations and reforms that will ensure efficiency in SACCOs financial results.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section looked into selected ideas from other studies with similar topics. The theoretical and empirical review, financial performance determinants, conceptual framework, and literature review summary were the specific topics of interest.

2.2 Theoretical Review

Johnson and Christensen (2008), explain a theory as a group of accepted facts or presuppositions that look forward to explaining a causative link among observed outcomes. This section outlines the theoretical foundation that anchors the study. The theories are discussed in detail below.

2.2.1 Absolute Income Hypothesis

This hypothesis was a component of economist John Maynard Keynes' theory of consumption, which maintained that households divide their income between spending and saving. In the 1960s and 1970s, the theory underwent substantial revision, most prominently by American economist James Tobin (1918–2002), (Modigliani & Ando, 2009).

The critics of this theory have argued that the expenditure on consumption delineates Income and time series data demonstrate proportionality over a longer time period, however cross section data and short time periods reveal non-proportionality. Given that it confirms a non-proportional association between consumption and income, this contradicts the Keynesian absolute income theory.(Foster, 2018). Keynes came up with a short-term consumption function, which argued that, under

the assumptions that other factors remaining constant, as income increases, household expenditure slightly increase, and savings rate also increase considerably (Modigliani & Ando, 2009).

Going by the assumptions of the theory, for SACCOs to mobilize Savings better for purposes of their financial performance, they have to look at the level of income of their customers. This is because the higher the level of income of the client, the more the client can save without defaulting, thus, the SACCO will have more capital in the form of deposit for expansion of its operations, hence improving the financial performance.

2.2.2 Agency Theory

This theory was first coined by Stephen Ross and Barry Mitnick in 1973. It helps in understanding and sometimes explaining the connection between principals and agents as it addresses the interests of the two parties, since agents make decisions that affect the shareholder's interest (Jensen and Meekling, 1976; Donaldson and Davis 2012).

According to Mallin (2007), Agency theory is criticized by the fact that the proposed control mechanisms are economically futile and expensive since those protecting the interest of shareholders could easily disrupt the attainment of strategic decisions. He also claims that this theory has quite a good number of shortcomings within an organization as it gives an opportunistic outlook of agents in an entity.

This theory applies to this study in that SACCO managers are agents while principles are the savers and other stakeholders. SACCOs may not realize their potential if

agents engage in opportunistic behavior. A firm will succeed if the clients have the ability and the willingness to utilize the firm's resources such as finances.

2.2.3 Baumol's Model of Cash Management

This theory was first developed by Baumol in 1952. This theory attempted to balance the income that is forgone on funds held by an entity against the transaction cost of converting the funds into marketable securities. This helped determine with certainty the company's optimal cash balance. It was based on the hypothesis that, to decrease the cost of holding funds, an entity should keep the least amount of cash at hand. However, the entity can obtain funds by selling some of its marketable securities, should the cash at hand reduce.

Critics of this theory have argued that the model postulates a constant cash balance level, not allowing cash to fluctuate. However, realistically, it is difficult to predict the inflow and outflow of cash daily. SACCO's operations revolve around receiving cash in the form of deposit and savings as well as advancement of cash in form of loans to its members. Therefore, how SACCOs manage cash will influence financial performance. The significance of this theory in this study is to show the impact that policies may have on cash management, which can affect the financial performance of a SACCO.

2.3 Determinants of Financial Performance in SACCOs.

Below are detailed explanations of the determinants of financial performance in SACCOs.

2.3.1 Savings Mobilization

According to WOCCU (2002), savings mobilization is the art of coming up with reputable institutions where savers can deposit their money with the assurance that, upon withdrawal, they will get their money back in full as well as a meaningful return. As SACCOs encourage more members to join them and save, they are able to accumulate more capital as members submit their contributions. As more funds accumulate, the SACCOs can advance more loans, and charge an interest on them. The cost of borrowing money measured in shillings per year per amount borrowed is the interest rate (Miriti, 2014). In this research savings mobilization can be understood by looking at the customer deposit trends and how the enrollment of new clients has impacted the growth or decline of the SACCOs.

2.3.2 Liquidity

Liquidity is the ability of a SACCO to fulfil its obligation, especially to the depositors. Dang (2011) explains that appropriate level of liquidity within a SACCO is positively correlated with profitability. He further argues that the financial ratios that portray liquidity position of a SACCO are total loan to customer deposits and customer deposit to total asset.

Sufficient liquidity within a SACCO helps to prevent revenue fluctuations, which helps it to be operational in times of losses and reassurance that the SACCO will be operational by providing financial services also provides a measure of reassurance to the members that the SACCO will continue to provide financial services. This influences financial performance in that, if the SACCO is not able to raise sufficient

capital to service its obligation, then it may be an indicator that the SACCO is struggling and could lead to liquidation.

2.3.3 Corporate Governance.

According to Picazo *et al.* (2012), corporate governance depicts the ways that can be pursued to manage an organization. Bateman and Snell (2011) explain corporate governance as the responsibility of top management in making sure that a SACCO's activities are at par with the expectations and requirements of the stakeholders. To ensure that an entity's operations are in line with the interests of all of its stakeholders, corporate governance establishes a set of rules and procedures.

Better financial performance is the result of ethical business activities, which are the result of good corporate governance. Corporate responsibility creates Management Efficiency which is an internal organizational factor that determines the profitability and financial performance of a SACCO.

2.3.4 Leverage

Leverage is the extent of debt financing of an entity (Miller, 1991). When an entity uses more debt than equity in its financial structure, it is said to be highly leveraged and if it uses more equity than debt to finance its capital structure, it is said to be lowly geared/levered. Financial status of a SACCO will be promising when the SACCO employs a balanced capital structure management. Normally, huge debts attract interest charges which shield the organization from high tax burdens. If debt is not managed efficiently, stakeholders may risk losing their investments putting the future of the SACCO in limbo.

2.4 Empirical Studies

Various empirical studies reviewed have given varied conclusions as examined below.

Miriti (2014) examined the financial performance of SACCOs in Meru County in relation to the factors that had influence on it, guided by the goal of establishing how loan repayment, interest rates, membership enrolment, and duration of loan processing and, management of loan defaulters influence financial performance of SACCOs. The population was drawn from capital savings, data collected was analyzed using SPSS. The findings from the study made an establishment that defaulting on loans was not a hindrance to growth but greatly impacted profitability of the SACCO.

From the study, a scope gap was presented since it focused on one SACCO in Meru. It also had an objective of examining the factors influencing financial performance where it never looked at savings as a major source of funds that controls the financial performance of any deposit taking organization. Concentrating within one SACCO may not give results that are conclusive, giving this study an opportunity to focus on all DTS SACCOS within Kenya.

Opala (2014) conducted a study with an objective that wanted to establish whether financial stability of SACCOs registered under SASRA had an impact on performance. The study population consisted of 34 DTS which had complied with SASRA regulations by December 2013. The data was extracted from the audited financial statements for the year 31st December 2010 to 31st December 2013 and analyzed using SPSS software. From the regression model, the study found out that

financial performance of DTS in Nairobi County was influenced by some factors, including liquidity, capital adequacy, size of the SACCO and management quality.

This study is supported by the findings of Opala's research which confirmed that liquidity, capital adequacy, size of the SACCO and management quality positively influenced financial performance. Hence, prompting to use liquidity and size of the SACCO as determinants of financial performance as part of the dependent variable.

Mutiso (2019) conducted a study that sought to look into challenges threatening SACCOs financial performance within the county of Kiambu with the goal of coming up with realistic solutions that ensures SACCO survival. Descriptive survey design was used with a population of 50 deposit taking SACCOs. SPSS was used to analyze data collected using a self-administered questionnaire. The study findings established competition from financial institutions being a major challenge for SACCOs.

There was a clear gap in the context of this study as it focused on Kiambu county SACCOs, making it a challenge to generalize the findings to all Kenyan SACCOs. The study will concentrate on all DTS in Kenya.

Florence (2015) undertook a study that examined whether mobile SACCO services had an impact on the financial performance of Nairobi DTS with a focus on 42 licensed DTS within the county of Nairobi. Secondary data was used in the study covering a period of 4 years. A linear regression model was used to analyze the data. Findings from the study established that management quality, Investment and transaction count were among the actors influencing financial performance in relation to mobile SACCO services. The independent variables used in the study explained a

substantial 65.8% of financial performance in licensed DTS within Nairobi as represented by the adjusted R² (0.658).

Even though the study focused on financial performance of SACCOs, it only had interest on mobile SACCO service. It used secondary data within a period of four years, the findings cannot be confidently used since the sampled SACCOs are within one county, which may not be a true representative of all counties. This study will focus on all DTS under SASRA, in the whole of Kenya.

Riro *et al.* (2020) examined financial performance of DTS within the Mount Kenya region in relation to whether liquidity management influenced it. Since SPSS was used to analyze the data, the study utilized a descriptive survey design with both secondary and primary data. According to the study's findings, Mount Kenya SACCOs' financial performance was positively impacted by management competency. The study's breadth was constrained by its liquidity management focus. Since it has been demonstrated through research to have an effect on financial performance, the current study will use this as one of the predictors of financial performance.

Henock (2019) investigated the sustainability and financial performance of SACCOs in Eastern Ethiopia. The study utilized a causal and descriptive research approach with a population of 46 SACCOs with more than 3 years audited financial reports. Secondary data was used from financial statements that had been audited for the period ending 2016. Findings from the study showed SACCOs from the Eastern part of Ethiopia were financially sustainable and their financial performance was average.

However, this study brought a geographical gap since it was conducted in Ethiopia, hence generalizing the findings could be impractical in the Kenyan context.

In order to determine whether consumer deposits have any effect on the financial performance of Ghanaian banks, Baidoo et al. (2017) looked into this question. The data was analyzed using descriptive research and correlative analysis. The study's findings demonstrated that banks needed to mobilize savings to achieve the lending activities to earn their margin of income but needs to manage the savings mobilized effectively to earn the appropriate margin to maintain a stable liquidity. The study topic brought a gap in the context as it focused on banks based in Ghana. Giving a general conclusion on the finding may not present a clear picture of the Kenyan case. Hence prompted this study which will be done in Kenya focusing the attention on SACCOs.

A study by Akinola (2018) conducted in Nigerian banks had an objective of assessing the contribution of savings, on bank financial performance. Descriptive statistics was used in the study and Linear regression was used to analyze the data collected . Findings from the study indicated that savings improves the domestic savings that were advanced to the private sectors creating a big impact on the financial performance of the banks under review. Even though the focus of this study was on savings and financial institutions, it was conducted in a different geographical set up, with different economic and financial implications, giving a generalized conclusion on the result will not portray a clear picture of the Kenyan case.

Bayai and Ikhide (2016) conducted a study to identify whether the performance of micro-financial institutions in Ethiopia had any factor that affected it. Qualitative design was used in this study with a population of 14 micro-financial institutions over a period of 8 years 2002-2010. Panel data was used to analyze the results and findings from the study indicated that among the factors that influenced financial performance, dependency ratio and cost per borrower were key. They concluded that MFIs could improve their financial performance through saving mobilization. The study being conducted in Ethiopia and focusing on MFIs, presented a gap that needed to be filled within Kenya, since the findings could not be implicitly applied in the Kenyan case. Hence prompted this study which focused on SACCOs in Kenya.

2.5 Conceptual Framework

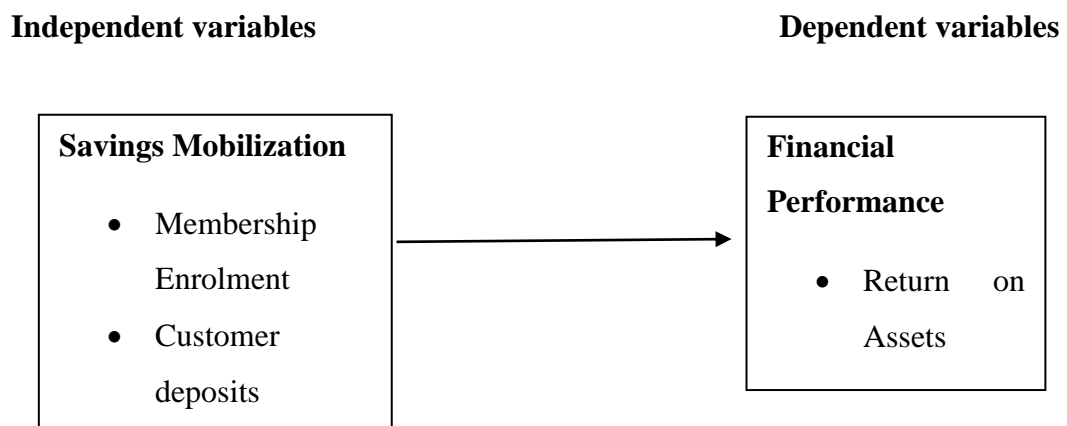


Fig 1.1 conceptual framework

The relationship between the independent and dependent variables is seen in the diagram above; the independent variables come from the mobilization of savings, while the dependent variable is financial performance. This framework is based on:

Membership enrolment - For SACCOs to mobilize Savings, they at least have to have members who make monthly deposits either in form of savings or handling a number of transactions via the SACCO. This is a requirement because of a few reasons; it gives SACCOs an opportunity to have enough deposits which allow them to advance more funds in form of credit to their clients and generate revenues when the balances are not properly maintained by the clients. It also helps them separate active accounts from dormant ones.

Customer deposits - this is the amount of cash deposited into the SACCO over a given period.

The SACCO's return on assets (ROA) over a specific period of time will be used to assess its financial performance.

2.6 Summary of Literature Review

The concepts examined in this study provided a basis to anchor the conceptual framework which gave a base for this research. These theories included: the life cycle theory, Agency theory, and Baumol's Model of Cash Management.

An empirical literature review that entailed similar studies from local and global researchers was carried out as follows: the researcher and the years of study, the objectives that were being researched together with the study context, population,

sample, study period, analytical model employed, study findings and a critic of the study.

In conclusion, it's clear that from the reviewed literature, previous local studies have extensively looked at deposit taking SACCOs regulated by SASRA, focusing attention on their financial performance, however, these studies have been zoning the SACCOs in regions and counties hence not giving a national outlook on their findings. In addition, none of the studies have done investigations on the saving mobilization aspect of SACCOs. Therefore, it is hoped that this research will bridge the gaps in the knowledge above, by concentrating on deposit-taking SACCOs in the financial sector, examining their long-term financial performance, and examining the effect that saving mobilization has on financial results.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed how the study met its goals. It helped to set out the various phases that were used in the study. Included are explanations on how the research was undertaken.

3.2 Research Design

The primary goal of research design is to provide a roadmap on how research questions are answered (Brink and Wood, 1998). This results in a plan that define the strategies used by the researcher in coming up with accurate, targeted and precise information. It is an outline of the methods the researcher will employ to produce accurate, impartial, and interpretive data.

This study focused on Kenyan SACCOs to determine the correlation between savings mobilization and financial performances, thus descriptive correlational design was considered the most appropriate research design.

3.3 Population

According to Kothari (2004), population is an entire set of units under study. Mugenda & Mugenda (2003), further explains population as a group of objects with a similar, visible characteristic.

The focus population for this study was all deposit taking SACCOs that are licensed by SASRA and had been in operation for the last five years.

Sample frame refers to the whole population from which a sample is taken (Cooper & Schindle, 2003). There were 172 deposit-taking SACCOs in Kenya as of 2021 and these were the ones considered for the study.

3.4 Sample Design.

Sampling is the process of choosing a portion of a population to represent the full population in order to draw conclusions about an interest occurrence (Taherdoost 2016). On the other hand, the sub-section of the population selected to participate in a study is a sample.

A sample size of 10–50% in descriptive research is considered acceptable (Mugenda and Mugenda, 2003) The sample size for this study was 10 SASRA-licensed SACCOs chosen at random. This resulted in a sample size of 20% of the target population since larger samples are more representative of the target group's mean and standard deviation.

3.5 Data Collection

Data collection is about deciding what to observe to obtain information significant to the questions whose answers are required (Burns & Grove, 1997). This study made use of secondary data sources to examine the impact of savings mobilization on the financial performance of SACCOs. The data used was collected from SACCO's annual financial reports published by SASRA on their website. The variables of interest we selected SACCOs total asset base, total revenue, customer enrolment for the period under study and customer deposits.

3.6 Data Analysis

According to Ott and Longnecker, (2014) data analysis is the mathematical process of looking for relationships between sets of data. The descriptive approach and SPSS were used to examine the data that was obtained for the study. To help identify the relationship between the dependent and independent variables, a multiple linear regression analysis was carried out.

3.6.1 Diagnostic Tests

The study utilized normality, multicollinearity, heteroscedasticity and autocorrelation to ensure data collected was correctly distributed.

3.6.1.1 Test for Normality.

Kothari (2012) narrates how normality assists in predicting the dependent variable and understanding the shape of distribution. The normality test helped in assessing whether the sample was from a normally distributed population. The normality of data was tested using the Shapiro-Wilk test on SPSS.

3.6.1.2 Multicollinearity Test.

Multi-collinearity is a phenomenon where in multiple regression model, one predictor variable can be linearly predicted from other variables with a high degree of accuracy. (Robert, 1967). Multicollinearity tests was done to ascertain whether there was relationship between values of the independent variables. The study used Variance Inflation Factor (VIF) to test multicollinearity calculated using SPSS. if all independent variables are less than 4 then the thumb rule suggests no

Multicollinearity, else if VIF exceed 10, then it indicates a problem of Multicollinearity

3.6.1.3 Autocorrelation Test

When a time series data shares a great deal of similarities with its own past and future values, autocorrelation arises (Box & Jenkins ,1976). This can result from leaving out a crucial variable from the regression when one of the Gauss-Markov assumptions breaks down and the error terms become connected.

SPSS was used to perform the Durbin Watson test to determine autocorrelation. This test generates a statistic with values ranging from 0 to 4, with 2 suggesting no autocorrelation, more than 2, exhibiting positive autocorrelation, and less than 2, denoting negative autocorrelation. According to the thumb rule, values between 1.5 and 2.5 suggest typical values, while values outside of this range might raise some red flags.

3.6.2 Analytical Model

A regression equation was utilized to summarize the association between the independent and dependent variables, as described in more detail below.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where.

α = constant

ε = error term

$\beta_1, \beta_2, \beta_3$ = regression coefficients

Y = financial performance, measured in terms of Return on Assets.

X1= Customer deposits

X2= Membership enrolment

Savings Mobilization will be measured by the amount of cash accumulated by SACCOs over time together with the growth of membership within the period under review. This data is available in SASRA records submitted by the SACCOs

3.6.3 Significance Tests

The study conducted F- test to establish the significance of the independent variables against the dependent variable. Variables' significance was evaluated at a 95% confidence level; those with p values of 0.05 or less were considered significant, whilst those with p values of 0.05 or above were considered insignificant. ANOVA was also performed to evaluate the model's suitability..

CHAPTER FOUR: DATA ANALYSIS, RESULTS, AND INTERPRETATION

4.1 Introduction

This study sought to establish the effect of savings mobilization on financial performance of SACCOs in Kenya. Secondary data was collected from SASRA website, analyzed, and the findings presented in this chapter.

4.2 Summary Statistics.

Secondary data was collected on 10 DTS registered under SASRA spanning a five-year period (2016-2021) from SASRA website. The variables that were of interest to this study obtained from the collected data included total asset base, total revenue which helped to determine the SACCO's ROA, customer enrolment for the period under study and customer deposits. Following analysis of the data, tables presenting both descriptive and inferential statistics findings are shown below..

4.3 Descriptive Statistics

The data were presented in a logical, effective, and more insightful manner with the aid of descriptive statistics. As shown in the table below, the study aimed to establish pertinent statistics, such as the minimum and maximum statistic, mean, standard deviation, variance, and skewness..

Table 4.1 Summary of variables

	Descriptive Statistics							
	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
ROA	50	0.02	0.17	0.1334	0.02438	0.001	-2.078	0.337
Customer Deposits	50	5.86	44.29	16.4376	9.92170	98.440	1.145	0.337
Membership Enrolment	50	9674.00	798909.00	114532.8000	127200.62641	16179999360.163	3.508	0.337
Valid N (listwise)	50							

Source: Research findings.

Table 4.1 shows the effects of savings mobilization on financial performance for five years as measured by the study variables. From the findings, the mean for Financial Performance (ROA), Customer deposit and Membership enrolment were found to be 0.13 , 16.44 and 114532.8 respectively and standard deviation of 0.02, 9.91 and 127200.6 respectively.

4.4 Regression Analysis

Regression analysis was used in the study to assess the connection between the mobilization of funds and the financial performance of SACCOs in Kenya over a five-year period (2016-2021).

4.4.1 Test for Normality.

Shapiro-Wilk test was used to confirm whether the sample was derived from a normally distributed population by applying the null hypothesis Principle (Shapiro &

will, 1965). In events where the outcome is significant, ($P < 0.05$) the spread is termed not normal, whereas in circumstances when the outcome of checking is not significant, it implies the spread is not normally distributed. In this instance the data was normally distributed as per the results of the Shapiro-Wilk test shown in table 4.2

Table 4.2: Tests of Normality

	Tests of Normality					
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ROA	.147	50	.009	.834	50	<.001
Customer Deposit	.182	50	<.001	.863	50	<.001
Membership Enrolment	.228	50	<.001	.653	50	<.001

a. Lilliefors Significance Correction

Source: Research findings.

4.4.2 Test for autocorrelation

Durbin-Watson test was also conducted to determine whether autocorrelation would have an impact on the model. Given that the Durbin-Watson value of 1.12 fell inside the permitted range, it can be said that the model residual showed positive autocorrelation.

Table 4.3: Test for autocorrelation

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.207 ^a	.043	.002	.02435	1.121

a. Predictors: (Constant), Membership Enrolment, Customer Deposit

b. Dependent Variable: ROA

Source: Research findings

The degree to which changes in the dependent variable can be explained by changes in the independent variables is described by the coefficient of determination.

4.3% of the variations in return on assets can be explained by the variations in the independent variables, according to an R squared of 0.043. This suggests that 95.7% of the variations in financial performance are caused by factors outside the model and cannot be accounted for by the independent variables.

Table 4.4: ANOVA

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	2	.001	1.049	.358 ^b
	Residual	.028	47	.001		
	Total	.029	49			

a. Dependent Variable: ROA

b. Predictors: (Constant), MembershipEnrolment, CustomerDeposit

Source: Research findings.

According to ANOVA statistics, the overall model was not significant. An F statistic of 1.05 and a p value of 0.358 corroborated this. The reported probability above the usual probability of 0.05 (5%) significance level. According to the ANOVA results, the independent variables are not reliable predictors of financial performance when used together.

Table 4.5: Coefficients

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.139	.007		19.270	<.001
	Customer Deposit	.000	.000	-.187	-1.307	.198
	Membership Enrolment	2.062E-8	.000	.108	.750	.457

a. Dependent Variable: ROA

The relationship between the independent variable and financial performance is positive and significant as indicated in table 4.5.

The regression analysis produced the following model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Financial performance = 0.14 + 0.001 customer deposit + 2.062e-8 membership enrolment

The results show that the profitability would be 0.14 if the independent variable were set to its null value. The regression model also demonstrates that, when controlling for all other variables, an increase of one unit in the customer deposit would result in a 0.001 increase in profitability, while an increase of one unit in membership enrollment would result in a 2.062e-8 gain in profitability.

4.5 Summary and Interpretations of Findings

The goal of this study was to ascertain how savings mobilization affected Kenyan SACCOs' financial performance. Financial success is assessed by the SACCO's operational effectiveness using the return on assets rounding up as the dependent variable and the customer deposit and membership enrolment as the independent variable.

The findings from the study confirmed that savings mobilization that was measured by customer deposits over a five-year period explained 4.3% of the variance in the profitability of SACCOs Kenya. This was a clear indication the variance that remained unexplained by the independent variables was 95.7% and this could only be explained by other variables that were outside the scope of this study. These findings are in line with those of Mbugua, who In an effort to ascertain if deposit taking had an effect on the financial success of microfinance institutions in Kenya, Mbugua (2012) found that deposit taking did not have a particularly favorable impact on the

financial success.. This is a revelation that although the savings mobilization variables have a significant impact on the profitability of SACCOs, there are other factors that account for more than half of the variance.

The idea that savings mobilization and financial performance have a meaningful link was thus rejected.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.

5.1 Introduction

This study investigated the impact of savings mobilization on Kenyan SACCOs' financial performance. Additionally, a number of findings are reported here in accordance with the study's goals before moving on to its conclusions. The chapter also offers suggestions for further research, discusses the study's limitations, and includes recommendations.

5.2 Conclusion

Addressing the study objectives, data from licensed DTS on financial performance was obtained and analyzed to determine the Return on Assets (ROA) which was the financial performance indicator. This finding from this study are in agreement with those conducted by Trichet (2005) where in his study, the findings underpinned an insignificant inter-linkages between savings mobilization and financial performance even though his study concentrated on commercial banks. The results of this study are interpreted to signify that savings mobilization in form of customer deposit relating on SACCOs are not substantial enough to affect financial performance.

5.3 Recommendations

The study's findings lead to the following suggestions:

Since membership enrollment does not have a substantial impact on financial performance, a proper analysis and segmentation of customer needs should be done, to enable SACCOs design savings products that are accessible, flexible, profitable,

liquid, and attractive. To ensure the security of savings accounts, SACCOs should put internal monitoring and risk management measures into place. Continuous training and or in-service courses should be mounted for SACCO staff to equip them with product knowledge and customer care services.

The study also recommends the development and extensive use of technology infrastructure to support the diverse savings services and products. The dissemination of best practices and tools for the promotion of savings should be the foundation of SACCOs' effective communication policies, which are intended to inform clients about how to manage their savings responsibly. The SACCOs should also increase interest rates on customer deposits payable to customers to encourage longer and bigger savings, reduce bank charges and make service provision increasingly customer friendly.

5.4 Study Limitations.

While doing the study, the researcher ran into a number of obstacles. This Included:

Due to statistical mistakes, the study's findings were restricted to the regression model that was utilized; exact data could not be collected, but estimations were used to draw conclusions. Five years, between 2016 and 2021, was the only time the factors under research were examined by the study, which may not have been enough time to allow for a conclusive analysis of the results. The SACCOs were limited to the licensed DTS only leaving behind the vast majority of SACCOs which specialize in customer deposit mobilization.

The study concentrated on Kenyan registered Deposit Taking SACCOs. This resulted from the researcher's inability to devote the necessary time and resources to studying

every SACCO in Africa. As a result, the findings would primarily be restricted to Kenya, and it is debatable whether or not these findings can be considered indicative of the entire continent.

Assuming that these are the only savings tactics that might have an impact on financial performance, the study only examined two aspects of mobilizing savings and their implications on financial performance. This may not always be the case.

5.5 Suggestions for Further Research

Given some of the limitations and observations, the researcher appreciates that there is still more room for further research in the field, especially in the Kenyan context.

First, future studies, especially when the DTS have practiced deposit-taking for a longer time, would generate better insight into its impact on financial performance, bearing in mind the impact of initial transformation costs. A similar study on savings mobilization should be carried out in the future to find out the impact of savings impediments on SACCOs performance and profitability.

Secondly, additional research should be carried out when there are more deposit taking SACCOS that have been licensed by SASRA. A larger population results in more accurate research as each of the SACCO would be pre-disposed to diverse economic conditions

Lastly, future research should be carried to assess the impact of deposit taking on the financial performance of community based SACCOs in Kenya. This would be helpful in assessing whether there is a significant difference in the impact of savings

mobilization on the financial performance of SACCOs located in communities versus
those operating nationally

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APPENDICES

APPENDIX I: LIST OF SACCOs USED IN DATA COLLECTION.

1. *Mwalimu National*
2. *Stima Dt*
3. *Kenya National Police*
4. *Harambee*
5. *Afya*
6. *Unaitas*
7. *Imarisha*
8. *Tower*
9. *United Nations*
10. *Ukulima*

APPENDIX II: DESCRIPTIVE DATA

ROA	Customer Deposits	Membership Enrolment
0.13	44.29	220,580
0.13	41.42	214,360
0.12	36.90	207,900
0.02	32.83	210,900
0.13	28.96	199,740
0.15	34.21	155,600
0.14	31.19	140,870
0.15	28.27	131,616
0.14	24.90	114,071
0.14	21.91	103,748
0.16	26.02	65,606
0.16	23.67	

		63,450
0.17	21.55	61,270
0.16	18.77	60,064
0.16	16.07	57,982
0.12	22.54	80,852
0.10	21.53	81,745
0.10	20.14	84,230
0.10	18.77	79,548
0.14	16.56	70,586
0.12	15.61	44,300
0.12	15.18	42,190
0.13	13.99	40,990
0.13	13.09	41,780
0.14	12.29	39 400
0.14	10.14	39,000
0.15	8.92	340,000
0.16	8.05	300,000
0.15	7.48	284,000
0.14	7.01	255,000
0.16	11.78	100,655
0.15	9.86	96,400
0.16	8.38	84,599
0.15	7.02	76,044
0.15	5.86	

		64,120
0.15	11.97	147,614
0.15	10.59	105,580
0.14	8.63	83,333
0.14	6.55	798,909
0.14	6.12	68,404
0.11	11.44	12,596
0.11	10.71	11,320
0.12	9.70	10,850
0.11	9.31	10,500
0.11	8.87	9,674
0.13	9.76	46,857
0.12	9.12	44,320
0.12	8.42	41,500
0.13	7.89	42,900
0.12	7.64	39,087