

## Effect of Core Capital Ratio Prudential Regulations on Financial Performance of Deposit-Taking Savings and Credit Cooperatives in Kenya

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### Abstract

*The objective of this study was to establish the effect of capital ratio prudential regulations on the financial performance of deposit-taking SACCOs (DT-SACCOs) in Kenya. The study was anchored on the public interest theory and adopted a positivist philosophy and mixed research design with primary and secondary data for the period 2014-2021 Core. The target population comprised 175 DT-SACCOs. Primary data was collected through questionnaires by stratified random sampling on DT-SACCOs regulated by the SACCO Societies Regulatory Authority (SASRA), and purposive sampling was done on the chief executive officer (CEO) of sampled DT-SACCOs. Panel data analysis was used to achieve the study objective. Both descriptive and inferential statistics were used to analyze data. The study findings revealed that core capital ratio requirement had a significant and positive effect on the financial performance of DT-SACCOs in Kenya ( $\beta = 0.218$ ,  $t = 6.180$ ,  $p < 0.05$ ). The study concluded that core capital ratio requirement was vital for the financial performance of DT-SACCOs in Kenya. Based on the study findings and conclusion, the study recommends to leadership in DT-SACCOs to enhance corporate governance and stability in their SACCOs since members seek to invest their resources in areas where they perceive stability and profit. Besides, the study recommends to SASRA to ensure that the risk appetite and investment prudential regulations and restrictions placed by shareholders are taken into consideration while creating DT-SACCOs' investment portfolio.*

**Key Words:** Core Capital ratio, Deposit-Taking SACCO, Financial performance, Prudential regulations.

### Introduction

This study sought to establish the effect of prudential regulations on the financial performance of deposit-taking savings and credit cooperatives in Kenya. A savings and credit cooperative (SACCO) is a cooperative that avails credit to members in the form of various kinds of credit facilities after first meeting the objective of pooling savings for its members (Birchall, 2021). The SACCO sector is structured on a two-tier system: The non-deposit taking SACCOs, which operate back-office services only, and the deposit-taking SACCOs (DT-SACCO) who, besides the basic savings and credit products, also provide basic banking services such as demand deposits, payment services, and quasi-banking services (Barus, 2017). Globally, SACCOs have played a critical part in savings mobilization and credit management for the members as a tool for social development and economic empowerment

(Mutinda, 2016). By the end of 2020, there were over 86,451 SACCOs spread across 118 countries and 6 continents. The movement boasted of a combined savings of \$ 2.69 trillion (US dollars) and an asset base of \$ 3.2 trillion (US dollars) out of which \$ 2 trillion (US dollars) constituted an active loan portfolio, with a membership of 375,160,065 and a penetration rate of 12.18% in the number of SACCOs established globally (WOCCU, 2020). SACCOs today represents one of the most important sources of national economic growth and household empowerment in developing countries (Mhembwe & Dude, 2017). The growth of SACCOs varies across continents and countries.

Borio *et al.* (2014) observed that DT-SACCOs play a vital role of providing financial inclusion where conventional banking has not taken root. DT-SACCOs play a vital role in Kenya's financial sector in terms of access, savings mobilization and wealth creation (Omollo, & Ronga, 2016). Marwa and Aziakpono (2015) indicate that the primary role of DT-SACCO in the financial market is financial inclusion and the provision of loans facilities to low-income earners who do not meet the credit criteria set forth by commercial banks especially with regard to collateral. The importance of DT-SACCOs in the economy necessitate efficient prudential regulations to ensure the sustainability of the DT-SACCOs. Prudential regulations are financial system requirements established by the government or affiliated institutions in the financial sector and require target entities to adopt standards that control risks and promote long-term stability (White, 2014). More often, they are set out as laws, rules, or standards designed to enhance the safety and soundness of both individual institutions and the system as a whole. The core objective of prudential regulation is to establish a legally backed framework that safeguards the stability of the financial system through protecting member's interests (Cuevas & Buchenau, 2018).

The introduction of prudential regulations has been largely driven by the financial crisis triggered by bank failure due to poor financial and economic risk management (White, 2014). However, due to the increased influence of non-commercial banking institutions in the financial systems, countries across the globe are increasingly robing in microfinance institutions and large SACCOs into a formal regulatory framework (Rosengard, 2011). The advent of prudential regulation for these previously excluded segments of the financial systems especially for SACCOs poses a significant regulatory dilemma on both the depth and the nature of regulation required (Alukwe *et al.* 2015). The adoption of rules has been difficult, and many SACCOs in Africa have been unable to comply with the standards outlined by authorities (Omollo & Ronga, 2016). Inadequate human resource capacity, lack of technology, poor corporate governance, low membership, and reliance on government support continue to manifest in many SACCOs across Africa (Allen & Maghimbi, 2009). The policy objective of establishing prudential regulation for DT-SACCOs in Kenya is to enhance transparency and accountability in the SACCOs sub-sector (SACCO Societies Regulatory Authority - SASRA, 2014). The renewed interest in the adoption of reforms in financial sector regulation that not only promotes sector-wide stability but also entrenches institutional development and performance has also been a key factor (Barth *et al.*, 2013). All active DT-SACCOs were expected to examine and align their policies and procedures in accordance with the new regulatory criteria after the act's passage, which demanded caution in the management of the business risks that were specific to them, including operational, credit, legal, and market risks (SSAR, 2012).

With the implementation of DT-SACCO regulations in Kenya in 2010, radical changes in the core operational and financial elements relating to capital were to be realigned in conformity with the new standards and operational benchmarks set by the SACCO Societies Regulatory

Authority (SSAR, 2013). As a result, DT-SACCOs were required to carry out drastic changes in realigning their capital structure (SSAR, 2011). SASRA prudential regulatory requirement demands that SACCOs must meet minimum core capital ratio requirements as criteria. The prudential regulations stipulate that a DT-SACCO shall at all times maintain a core capital of not less than ten million shillings, a core capital of not less than ten percent of total assets, core capital of not less than eight percent of total deposits and institutional capital of not less than eight percent of total assets (SSAR, 2023). These capital ratio requirements have been instituted since DT-SACCOs in Kenya are a crucial component of the financial sector as they offer savings and credit services to a significant segment of the populace. In 2021, there were 175 DT-SACCOs with a total number of memberships of 5.47 million (SSAR, 2020). DT-SACCOs operating in Kenya have encountered a range of obstacles that have posed threats to their long-term viability and financial outcomes. Regarding the Return on Assets (ROA), the financial performance of DT-SACCOs exhibited variability, with a decrease from 2.65% in 2020 to 2.52% in 2021, followed by a further decline to 2.39% in 2022 (SSAR, 2023). This was despite the capital ratio prudential regulation and other measures that had been instituted in the SACCO sector. This study hence seeks to determine the influence of the prudential regulations regarding core capital ratio on the financial performance of DT-SACCOs.

### **Statement of the problem**

DT-SACCO in Kenya have been facing various challenges that have threatened their sustainability and financial performance. In the period between 2015 and 2021, Mwalimu SACCO, Stima Investment SACCO, and Ekeza SACCO were mentioned by SASRA and department of Cooperatives as among the SACCOs in Nairobi County whose members had lost in excess of KES 3.6 billion through fraud and mismanagement by SACCO officials (SASRA, 2020). In terms of ROA, the financial performance of DT SACCOs fluctuated from 2.65% in 2020, to 2.52 in 2021 and further to 2.39% in 2022 (SSAR, 2023). Besides, the sector experienced an increase in the NPLs ratio which increased to 9.32% in 2022, compared to 8.61% in 2021, 8.39% in 2020, and 6.15% reported in 2019 (SASRA, 2023). All these points towards unfavorable trends in fundamental indicators of performance putting the multibillion-shilling sector at risk. This has happened despite the implementation period of the Act for DT-SACCO to comply with capital ratio prudential regulations lapsing in June 2014. This puts into question the role played by prudential regulations on the performance of financial institutions.

Osano and Kamau (2019) studied the effect of government regulations on the profitability of commercial banks in Kenya. The study established that there exists a significant and positive relationship between liquidity regulation ratio and profitability. This study, however, left a contextual gap as it was on commercial banks and not DT-SACCOs. Moreover, Musabi and Mbithi (2018) determined that prudential regulations had a statistically significant positive relationship with the financial performance of commercial banks in Kenya. Another study by King'ori et al. (2017) determined that capital adequacy requirement ratio has a significant relationship with financial performance of microfinance banks operating in Kenya. These studies left knowledge gaps as they were not on DT-SACCO but on commercial and microfinance banks. Based on the reviewed empirical studies, many questions still abound on whether the intention of the prudential regulations to improve the performance of DT-SACCOs has been achieved. Besides, in the Kenyan context, there are limited insights into the effects of the current DT-SACCO prudential regulatory requirements on the performance of DT SACCOs. Therefore, the current study sought to establish the effect of core capital ratio prudential regulations on the performance of DT-SACCOs in Kenya.

## **Study Objective**

The general objective of the study was to determine the effect of core capital ratio requirement on financial performance of deposit taking SACCOs in Kenya.

## **Literature Review**

### ***Theoretical Review***

This study was anchored on the public interest theory traces its origin to the work of Pigou (1932) in the quest to explore the role of regulation in the optimal allocation of scarce resources. The theory posits that regulation is generally devised to protect the public at large and seeks to explain the convergence of regulatory objectives and social benefit protection (Hantke, 2003). The theory builds on welfare economics and advocates for the maximization of social welfare through regulation when the workings of the perfect market are ineffective in realizing allocative efficiencies (Hertog, 2010). According to Hertog (2012), for regulation to be beneficial, increased social welfare should outweigh the cost of formulating, implementation, maintenance, compliance and the deadweight cost of distortive changes in the market. The theory supports the study by justifying the use of capital ratio prudential regulations as a tool for promoting economic efficiency when market imperfections exist. In DT-SACCOs where profitability comes second after service to members, a regulatory framework becomes a primary tool to ensure that managerial decision serves the interest of members (SASRA, 2013). In establishing a regulatory framework for DT-SACCOs in Kenya, the regulator (SASRA), as advocated by the theory, is obliged to find market solutions that are economically efficient and in the interest of the public. In the current study, it was expected that prudential regulations set out by SASRA are efficiency-enhancing and would be able to enhance performance of DT-SACCOs.

### ***Empirical Review***

A study in US by Pasiouras (2021) studied the relationship between bank performance and capital ratios. The study used the Granger-Casualty Methodology (GCM) to establish the relationship and the findings indicated that higher capital ratios had a positive significant relationship on performance and efficiency. These findings contradicted another previous study by Berger and De Young (2010) that assessed the relationship between capital ratios and efficiency of banks in the US. Panel data for period 1990-1995 was used. This study used the parametric distribution – free approach. In addition, the study found that performance and efficiency was affected negatively by high capital ratios. Besides, Das and Ghosh (2006) assessed the association between capital adequacy and DEA generated bank's efficiency in India using ten-year panel data (1992 – 2002) for 39 banks. They noted that there was a strong positive correlation based on the justification that adequately capitalized banks were more likely to report higher profitability, attract more customers, create more deposits, have higher lending, and are more efficient in their intermediation activities.

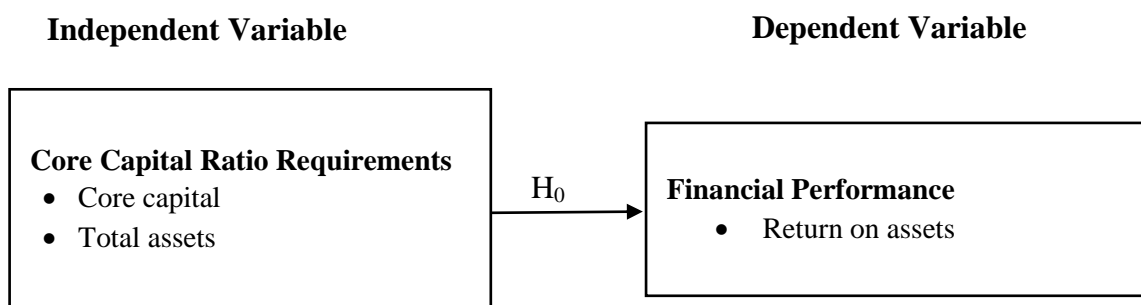
A study by Maghyreh and Awartani (2014) assessed the effect of capital regulation on bank efficiency among Gulf Cooperation Council countries and revealed that capital adequacy coupled with strong supervisory power improved bank efficiency. The study strongly recommends improvements in the regulatory conditions to strengthen banking supervision and monitoring as a way of improving efficiency. However, these findings were contradicted

by Gaganis and Pasiouras (2018) whose study in Canadian banks indicated that there is a correlation between capital adequacy requirements and financial performance, which is negative in nature. Another study by Shar (2016) found that an increase in minimum capital requirement negatively affects financial performance because it increases the cost of intermediation. Besides, Bitar et al. (2018) in their study of 992 banks across 39 OECD countries over four years (1999–2013) found that the imposition of higher capital ratios negatively affects the efficiency and profitability of highly liquid banks. In Japan, cooperative banks holding larger capital were found to not only be relatively inefficient but also had a higher risk profile (Deelchand & Padgett, 2009).

Paxton (2020) sought to determine the effect of capital requirement on the performance and efficiency of banks in Mexico. The study used panel data for the period 2004–2009. The study used Data Envelopment Analysis (DEA) to generate performance and efficiency scores in the first stage and multiple regression in the second stage. The study found that the smaller banks were less performing and efficient than the larger banks. Further, it established that capital adequacy had a positive significant effect on performance and efficiency, an indication that bank efficiency improved with capital requirements. Similarly, Gwahula (2019) found a positive and significant relationship between the capital ratio and operating efficiency of commercial banks in Tanzania. Intuitively, this meant that commercial banks that were facing stringent capital regulation were more likely to attain higher operating efficiency and financial performance. The impact of capital adequacy on the financial performance of SACCOs in Kenya was investigated by Barus (2017). The study employed Return on Assets (ROA) as a metric to evaluate the financial performance. The study found that capital adequacy positivity influenced the financial performance of SACCOs in Kenya. This study was undertaken on SACCOs and not on DT-SACCOs and hence left a contextual gap.

### ***Conceptual Framework***

The conceptual framework for the study is presented in Figure 1. Core capital requirement is the independent variable. The term "core capital" pertains to the essential level of equity that is required for a financial institution to possess in order to adhere to the standards set out by the regulatory authorities. The development of this measure was undertaken as a means of implementing a protective mechanism aimed at safeguarding customers from unforeseen financial losses (Chortareas et al., 2011). As set out by SASRA, core capital represents the sum of share capital, statutory reserves, retained earnings/accumulated losses, the net surplus after tax, capital grants (equity in nature), general reserves (including all losses), and other reserves, investments in subsidiaries and equity instruments of other institutions. SASRA requires all DT-SACCOs to have core capital that is equivalent to 10% of total assets. The dependent variable in the study was financial performance which was measured using return on assets which is a percentage of the surplus of the DT-SACCO to its total assets.



**Figure 1. Conceptual Framework**

## Methodology

The study adopted a positivism philosophy as it dealt with scientific and quantitative data to test hypothesis (Sekaran & Bougie, 2016). The study used a correlational research design which was most suitable because it has positivist philosophical assumptions as well as methods of inquiry and analysis of data and determines the influence of one variable on another (Kothari & Garg, 2019). Data was collected from target population of 175 DT-SACCOs registered by SASRA as at 31st December 2021 (SSAR, 2021). From the 175 DT-SACCOs, 175 CEOs were drawn for the questionnaire survey owing to the fact that they are the ones who have complete knowledge and understanding of the prudential regulations of individual SACCOs and their financial performance. Stratified random sampling was used to select a sample of 122 DT-SACCOs.

The study employed a combination of primary and secondary data sources. The secondary data was gathered from SASRA and from the audited and published annual financial reports of the 175 DT-SACCOs regulated by SASRA. The data was gathered for eight years (2014 – 2021) and the criteria for selection of secondary data included date of publication, identification of the authors, and dependability of the sources. Primary data was gathered from the CEOs of the sampled SACCOs using a questionnaire. Primary data was collected to provide explanations for the gaps identified in secondary data analysis specifically what DT-SACCOs considered crucial in as far as prudential regulations on capital is concerned, and view on the effects of the prudential regulations on financial performance. The data gathered was analyzed using descriptive statistics (frequencies, percentages and means) and inferential statistics (linear regression analysis). Stata Statistical software was used in the analysis of the data.

## Findings

The study administered questionnaires to 122 CEOs of DT-SACCOs and 105 filled the questionnaire which was a response rate of 86.1%. Regarding the gender of the respondents, 65% were male while only 35% were female. On age, 44.8% were aged between 31-40 years while 30.5% were aged between 41-50 years, 9.5% were aged between 51-60 years, 7.6% were above 60 years and another 7.6% were aged between 21-30 years. Based on the highest education level attained, majority of the respondents (60%) had undergraduate degrees, 28.6% had master's degrees, 5.7% had postgraduate degrees and 5.7% had diplomas.

**Descriptive Statistics on Financial Performance**

The dependent variable in this study was financial performance. Respondents were given a number of statements about financial performance and asked to rate how much they agreed with each statement as it related to their DT-SACCO in order to establish the extent of financial performance. On a five-point Likert scale (SD = Strongly disagree, D = Disagree, N = Neutral, A = Agree, and SA = Strongly agree), the respondents were asked to rate the statements. Percentages, means (M) and standard deviations (SD) were used to analyze the ratings. Table 1 presents the findings.

**Table 1. Financial Performance Summary Statistics**

Statement	SD	D	N	A	SA	Mean	Standard Deviation
Our lead time is efficient and meets our members expectations	15%	7.1%	30.1%	16.8%	31%	3.42	1.387
Our lead time focuses on quality-of-service delivery to our members	9.7%	19.5%	25.7%	28.3%	16.8%	3.23	1.225
Our performance is enhanced through members satisfaction	12.4%	7.1%	25.7%	28.3%	26.5%	3.50	1.296
There is improvement of members satisfaction in our SACCO	9.7%	12.4%	21.2%	35.4%	21.2%	3.46	1.232
The prudential regulations increase profits for our SACCO	5.3%	7.1%	30.1%	39.8%	17.7%	3.58	1.033
Our profits level is enhanced by adhering to prudential regulations	5.3%	10.6%	30.1%	29.2%	24.8%	3.58	1.132

The results presented in Table 1 show that the respondents agreed to a moderate extent that their lead time is efficiency to meet to our members expectations (Mean = 3.42, SD = 1.387). Respondents agreed to a moderate extent that their lead time focuses on quality-of-service delivery to our members (Mean = 3.23, SD = 1.225), their performance is enhanced through members satisfaction (Mean = 3.50, SD = 1.296), and agreed that there is improvement of members satisfaction in their SACCO (Mean = 3.46, SD = 1.232). The findings also highlighted that respondents agreed that prudential regulations increase profits in their SACCO (Mean = 3.58, SD = 1.344) and their profits level depend on prudential regulations (Mean = 3.58, SD = 1.231). The analysis of standard deviation values indicates that the financial performance responses were closely clustered around the mean, with small values (less than 2) indicating minimal deviation.

The study also analyzed the gathered secondary data. Descriptive statistics were used to compute summary statistics for the return of assets over the eight years. From Table 2, the number of observations was eight hundred and forty (840), the number of DT-SACCOs in Kenya assessed was 105 represented by (n) and the number of years was eight (2014-2021) represented by (T).

**Table 2. Summary Statistics of ROA**

Variable		Mean	Std. Dev.	Min	Max	Observations
ROA	Overall	.364	6.568	-147.277	79.205	N = 840
	Between		2.257	-18.466	8.525	n = 105
	Within		6.172	-128.447	71.044	T = 8

The mean of the ROA was given by 0.364. The standard deviation for the overall ROA is given by 6.568, standard deviation between the 105 DT-SACCOs was given as 2.257, while the standard deviation within the eight years was 6.172. The standard deviation values were slightly high which means that both the overall and within the 8-year period assessed the ROA of SACCO deviated slightly far from the mean. Consequently, the minimum overall ratio is -147.277 while the maximum is 79.205. The minimum value between DT-SACCOs is -18.466 while the maximum is 8.525. The minimum value within the eight years is given by -128.447 while the maximum within the years is given by 71.044. These findings show that there were some DT-SACCOs that had negative ROA in some of the years studied.

### *Descriptive Statistics on Core Capital Ratio Requirement*

The study used the core capital ratio requirement as the independent variable. The primary data gathered was evaluated utilising a 5-point Likert scale, with values ranging from 1 (strongly disagree) to 5 (strongly agree). Descriptive statistics were computed based on the 105 responses.

**Table 3. Core Capital Ratio Requirement Summary Statistics**

Statement	SD	D	N	A	SA	Mean	Standard Deviation
Not meeting the minimum regulatory requirement of 10% of core capital to total asset reduces performance	13.3 %	8%	19.5%	26.5%	32.7 %	3.58	1.368
Meeting the minimum regulatory requirement of 10% of core capital to total asset increases performance	9.7%	12.4 %	21.2%	35.4%	21.2 %	3.46	1.232

The minimum regulatory requirement of 10% of core capital to total asset makes the SACCO stable financially	5.3%	7.1%	30.1%	39.8%	17.7%	3.58	1.033
It is necessary to have the 10% of the core capital requirement reduced to 5% to increase the movement of cash flow of the SACCO	5.3%	10.6%	30.1%	29.2%	24.8%	3.58	1.132

The results obtained in Table 3 established that most of the respondents agreed that not meeting the minimum regulatory requirement of 10% of core capital to total asset reduces performance (Mean = 3.58, SD = 1.368). Respondents also agreed to a moderate extent that meeting the minimum regulatory requirement of 10% of core capital to total asset increases performance (Mean = 3.46, SD = 1.232) and agreed to a great extent that the minimum regulatory requirement of 10% of core capital to total asset makes the SACCO stable financially (Mean = 3.58, SD = 1.033). The findings also highlighted that respondents agreed to a great extent that it is necessary to have the 10% of the core capital requirement reduced to 5% to increase the movement of cash flow of the SACCO (Mean = 3.58, SD = 1.132). The standard deviation values obtained revealed that the core capital ratio requirement responses did not deviate far away from the mean as the values were small (less than 2).

The study also analyzed the secondary data gathered. Capital adequacy was measured as a ratio of core capital to total assets. Descriptive statistics was used to compute summary statistics for capital adequacy over the eight years. The findings are presented in Table 4.

**Table 4. Summary Statistics of Capital Adequacy**

Variable		Mean	Std. Dev.	Min	Max	Observations
Capital Adequacy	Overall	.293	0.263	-0.9707	3.756	N = 840
	Between		0.108	0.08537	0.746	n = 105
	Within		0.239	-0.762	3.380	T = 8

Findings provided in Table 4 indicate that the number of observations was eight hundred and forty (840), the number of DT-SACCOs that were studied were 105 represented by (n) and the number of years was eight (2014-2021) represented by (T). The mean of the capital adequacy was given at 0.293. The standard deviation for the overall ratio is given by 0.263 while between the 105 DT-SACCOs was given by 0.108 while the standard deviation within the eight years was given by 0.239. The standard deviation values were quite low which means that there were no significant deviations of capital ratios from the mean. Consequently, the minimum overall ratio is -0.971 while the maximum is 3.756. The minimum value between DT-SACCOs is 0.086 while the maximum is 0.746. The minimum

value within the eight years is given by -0.762 while the maximum within the years is given by 3.380.

### **Regression Analysis of Capital Ratio on Financial Performance**

The study sought to determine whether core capital ratio influence the financial performance of deposit-taking SACCOs. Pooled ordinary least squares regression was used to analyze the panel data gathered. Before analysis, various diagnostic tests were undertaken including test of normality of residuals, stationarity, heteroscedasticity and serial correlation. The model was then fitted and the findings are provided in Table 5.

**Table 5. Effect of Core Capital Ratio on Financial Performance**

<b>Model Summary</b>					
R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std. Error	F Change	Sig.
.664	.456	.413	0.2869	29.65	.001
<b>Regression Coefficients</b>					
	Beta	Std. Error	t-statistics	Sig.	
(Constant)	0.564	.127	4.456	.000	
Core Capital	0.218	.035	6.180	.002	

The results presented in Table 5 indicate that the r-square was 0.456. This implies that up to 45.6% of the variation in financial performance in DT-SACCOs is explained by core capital ratio. The remaining percentage, that is, 54.4%, is explained by other factors other than the one assessed. The model was however a good fit ( $F = 29.95$ ,  $p < 0.05$ ). This shows that the overall regression model to examine the effect of core capital ratio on financial performance of DT-SACCOs in Kenya was appropriate. The regression model confirms the importance of core capital ratio as a critical determinant of financial performance of DT-SACCOs in Kenya.

The regression results also provided the beta coefficients, t-statistics, the constant and their significance. The study established that the model was significant using both P values as well as critical t values.

The regression model obtained was;

$$Y = 0.564 + 0.218 X_1$$

Where: Y = Financial Performance,  $X_1$  = Core Capital Ratio

The unstandardized regression coefficient for core capital ratio was 0.218 which indicates that a unit increase in core capital ratio is likely to improve the financial performance of DT-SACCOs in Kenya by 0.218. The t-statistic for the regression coefficient for core capital ratio was significant at 5% level of significance ( $T = 6.180$ ,  $P < 0.05$ ).

## Discussion of Findings

The study findings showed that core capital ratio had a significant positive influence on financial performance of DT-SACCOs. These findings support the findings by Gwahula (2019) who found a positive and significant relationship between capital ratio and operating efficiency of commercial banks in Tanzania. Similarly, the study agrees with the findings of Maghyereh and Awartani (2014) who revealed that capital adequacy coupled with strong supervisory power improved bank efficiency. Additionally, Gaganis and Pasiouras (2018) established that capital adequacy had a positive significant effect on performance and efficiency which is similar to the findings from the current study. Another study by Pasiouras (2021) indicated that higher capital ratios had a positive significant relationship to efficiency. Another study that agrees with the findings from the current study is by Barus, (2017) who studied the effect of capital adequacy on the financial performance of SACCOs in Kenya. Besides, the findings from this study that capital adequacy ratio requirements positively affect performance of SACCOs agrees with the findings from a longitudinal study by Kivuvo and Olweny (2014) which provided a justification for a higher capital requirement for improved financial stability in the SACCO sector. However, the study contradicted some prior studies. Findings by Shar (2016) found that an increase in minimum capital requirement negatively affects financial performance because it increases the cost of intermediation which contradicted the findings from the current study. Another study by Bitar et al. (2018) used 199 banks across 39 OECD countries over four years (1999–2013) found that the imposition of higher capital ratios negatively affects the efficiency and profitability of highly liquid banks. The findings from this study regarding the positive effect of capital adequacy ratio on financial performance contradicts the study by Berger and De Young (2010) which assessed the relationship between capital ratios and efficiency of banks in the USA.

## Conclusion and Recommendations

The study set out to establish the effect of core capital ratio requirement on the financial performance of DT-SACCOs in Kenya. The results of the regression analysis indicated that core capital ratio has a positive and statistically significant influence on the financial performance of DT-SACCOs in Kenya. The study thus concluded that core capital ratio requirement is essential for the financial performance of deposit taking SACCOs in Kenya. Therefore, this study recommends to leadership in DT-SACCOs to enhance corporate governance and stability in their SACCOs since members seek to invest their resources in areas where they perceive stability and profit. Besides, management in DT SACCOS should market their SACCOS to enhance membership by maintaining a strong online presence which is expected to enhance the issued shares and thus increasing the core capital. The study also recommends to SASRA to play a monitoring role and regularly ensure that all DT-SACCOs adhere to the prudential guidelines regarding core capital and assist those who may be having challenges.

## Recommendations for Future Studies

The findings of this study indicate additional avenues of research. This study centred on DT-SACCO and subsequent study endeavours could potentially investigate how prudential regulations influence financial performance of the non-deposit taking SACCOs, microfinance institutions and even commercial banks. Conducting such study would facilitate the process of generalizing conclusions to the wider economic context. Moreover, this study focussed on

core capital prudential regulations and how they influence financial performance. Future empirical investigations could concentrate on additional prudential regulation variables that may impact financial performance within SACCOs, including corporate governance, complaint management guidelines, risk management guidelines, procurement guidelines and dividend payment guidelines.

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