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CAPITAL ADEQUACY AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KENYA

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Abstract: **The purpose of this study is to establish whether capital adequacy has any effect on the financial performance of deposit taking savings and credit co-operative societies in Kenya. The study used a comparative research design where a census survey was carried using DT-Saccos empirical data from SASRA supervision reports and Saccos audited accounts. The target population comprised of 175 fully licensed DT-Saccos in Kenya as at 31st December 2016 as per the SASRA register. The research design utilized is descriptive since it compared two periods between 2007-2011 when SASRA requirements on capital adequacy had not been fully enforced as the law allowed for 4 years compliance period and 2012-2016 when the capital adequacy was fully in force. According to Sacco Societies Act 2008 article 10, all Sacco societies carrying out deposit taking business were given four years to build their capital to the regulatory standards. The four years given were to end officially in 2011 and thereafter full implementation of the Act would take place. The relevant secondary data was analyzed and inferences made about the relationships between capital adequacy and performance of DT-Saccos in Kenya. The data involved time series and cross sectional attributes which gave it a longitudinal element. To remove bias, a period of 10 years was subdivided into two, pre-full implementation of SASRA core capital requirements period 2007-2011 and post-full implementation of SASRA core capital requirements 2012-2016. The study concluded that capital adequacy influenced the financial performance of DT-Saccos in Kenya as explained by the findings. To continue strengthening the DT-Saccos in Kenya, the study recommended the review of the core capital requirements by SASRA and improving the ratios through issuing more specific parameters on how to monitor the same. For example, Deposit taking societies would benefit a lot through adjusting their dividend payout ratios. A one percentage reduction of dividend payout would significantly improve the institutional capital of the DT-Sacco.**

Keywords: **Capital Adequacy, Financial Performance, Deposits, Savings.**

1. INTRODUCTION

As co-operative enterprises, DT-Saccos are driven by certain internationally accepted core values and principles, not just profit. It is these core values; ethical beliefs and international principles that distinguish co-operative enterprises from the conventional corporate businesses, in which profits remain the bottom-line. Woccu (2012) expounds that the core values in the co-operative movement include Self-help, Self-reliance, Self-responsibility, Democracy, Equality, Equity and Solidarity. On the other hand the international co-operative principles which govern co-operative enterprises world-wide include Voluntary and open membership; Democratic member control; Member economic participation; Autonomy and independence; Education, Training and Information; Co-operation among co-operatives; and Concern for community. The Deposit Taking SACCO Societies form a significant segment of the wider co-operative sector in Kenya. Firstly, they are co-operatives in their legal form. Secondly, they are financial intermediaries in their business model. As co-operatives, DT-Saccos are universally defined as autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise (SASRA 2017).

According SASRA (2015) supervision report, Deposit-taking Sacco Societies (DT-Saccos) is a segment of the wider SACCO sub-sector in Kenya. The wider Sacco sub-sector comprises the deposit-taking (DT-Saccos) and the non deposit taking Sacco Societies. The deposit-taking (DT-Saccos) segment of the sub-sector is composed of those Sacco Societies which undertake both with-drawable and non-with-drawable deposits. Whereas the non-withdrawable deposits portion of the business may be used as collateral and are not refundable unless on cessation of membership from the Sacco Society, the with-drawable deposits portion of the business can be accessed by the members at any time, hence are demand deposits.

The Sacco Societies Act No. 14 of 2008 defines "deposit-taking business" as- (a) A Sacco business in which the person conducting the business holds himself out as accepting deposits on a day-to-day basis; and (b) Any other activity of the Sacco business which is financed, wholly or to a material extent, by lending or extending credit for the account and at the risk of the person accepting the deposit, including the provision of short-term loans to members.

Sacco Societies Act, 2008 defines Core Capital as fully paid up members' shares, retained earnings, disclosed reserves, grants and donations all of which are not meant to be expended unless on liquidation of the Sacco society. Thus, Core Capital equals to fully paid up members' share capital plus statutory reserves, retained earnings, disclosed reserves and grants/donations. On the other hand, Institutional capital equals core capital less the members' share capital i.e. Institutional capital refers to the portion of the core capital that belongs to the SACCO society as an institution such that no one member can individually lay claim on it. Financial Performance is a measure of how well firm use assets from its primary mode of business to generate revenues. It measures the financial health of an organisation. The common indicators of financial performance are; profits, return on investment, return on assets, value added and margins among others. Financial performance guides management on the strategies and policies to adopt to improve sustainability of the organisation (Almazari, 2011).

SACCO Societies is the acronym representation of *"Savings and Credit Cooperative"* societies, which are a specific type of cooperative societies registered under the Co-operative Societies Act. The key object and purpose for their incorporation is usually to deal with the mobilization of savings and advancement of credit on the collateral of such savings, and thus the acronym "*SACCO*" simply denotes the "*Savings and Credit Cooperatives*". On the other hand, savings and credit activities are principally financial services, and this has led to Saccos being referred to in some jurisdictions as financial services cooperatives, while in other jurisdictions particularly the USA, the UK and the Latin Americas, they are specifically referred to as Credit Unions. In Kenya, Saccos as a subset of the wider cooperatives have further expanded in the types of savings and credit financial services that they offer to their membership. Key among these financial services is the venturing into the deposit-taking financial business, similar to the one undertaken by commercial banking institutions except for the fact that, such deposits are taken from members (SASRA Supervision Report, 2016). This expansion of the financial services to deposit taking led to the emergence of the Deposit-Taking Sacco Societies (DT-Saccos), thereby giving rise to two clusters of Saccos namely the Deposit-Taking segment (DT-Saccos) and the non-deposit-taking segment (non- DT-Saccos). It is important to underscore that this is unlike other jurisdictions where there is no distinction between deposit-taking and a non-deposit taking Saccos. For instance all Credit Unions in USA, UK & Ireland, Brazil, and Latin America are by law authorized to take deposits from their members; and so is with the Cooperative Banks in South Africa, India, and continental Europe.

There are currently two major statutes which govern the regulation and supervision in Kenya namely the Co-operative Societies Act and the Sacco Societies Act. The Co-operative Societies Act which has been in force since the early independence days of the country, albeit through various amendments, principally deals with the registration, incorporation and general supervision of all cooperatives societies, including DT-Saccos and is administered by the office of the Commissioner for Cooperative Development. However, the Co-operative Societies Act does not provide for a framework for the prudential supervision of deposit-taking Sacco Societies (DT-Saccos). The legal framework for the supervision of DT-Saccos is founded in the Sacco Societies Act, which provides the legal mechanisms for the prudential regulations of DTSs in Kenya in line with international best practices of financial regulation and supervision of deposit-taking financial institutions. The Sacco Societies Act is administered by the Sacco Societies Regulatory Authority.

Capital adequacy, asset quality, earnings and liquidity remains the key criteria for monitoring, evaluating and measuring the financial soundness and stability of the DT-SACCO system. The key parameters of monitoring the trends in the growth performance of DT-Saccos remain the assets, deposits, loans, member share capital, reserves and membership. Prior to 2008 regulatory reforms which became operational in 2011, there were no conscious efforts made to regulate the SACCO subsector prudently because the organizations were not thought to pose any significant risk to the country's financial system. However, the organizations expanded financially and even started banking like services which were called FOSA (Front Office Services Activity) in attempt to increase efficiency in services delivery but instead led to illiquidity, capital inadequacy, poor credit management and low confidence among members. In 2008, the government and the SACCO stakeholders formulated and legislated SACCO Societies Act 2008 and subsidiary deposit taking SACCO regulations of 2010.

The requirement for Capital adequacy is to ensure that each deposit taking SACCO Society maintains a level of capital which is adequate to protect or cushion member deposits and creditors against losses resulting from business risks that the SACCO, as a financial institution faces. These risks include credit, investment, legislative, liquidity, interest rate and competitive risks. Thus as a measure of a financial institution's safety and soundness, adequate capital promotes public confidence in the institution. Unless a higher minimum capital adequacy ratio has been set by the SASRA, for an individual SACCO Society based on criteria set under regulation 10, every institution shall, at all times, maintain minimum capital ratios;-A core capital of not less than ten (10) percent of total assets, A core capital of not less than eight (8) percent of its total deposit liabilities, and An institutional capital of not less than eight (8) percent of its total assets. The minimum core capital for a SACCO Society shall at all times be Kshs.10 million (ten million shillings). This must be met before a license is issued. A SACCO Society's capital levels will be monitored on a continuous basis by the Authority and may be reviewed from time to time.

2. STATEMENT OF THE PROBLEM

Where a Sacco Society is undercapitalized or does not meet the Capital Adequacy ratios, then SASRA may pursue any or all remedial actions as provided under Sections 51 and 66 of the SACCO Societies Act and regulations 68 thus adversely affecting the performance of the deposit taking SACCO and its members at large. Members might lose their deposits, lack credit or miss out on dividends and other investment opportunities.

Sacco Societies Regulatory Authority says in its supervision report for the period ending December 31, 2016 that only 69 of the 175 deposit-taking Sacco's met and maintained the prescribed minimum institutional capital adequacy (ICA) ratio of eight per cent, meaning more than half the lenders are in breach of the law. Continued non-compliance could lead to the regulator suspending and eventually withdrawing licenses of the defaulting DT-Saccos. The poor level of compliance with the ICA ratio thus demonstrates that many deposit-taking Sacco's are not retaining sufficient earnings to build capital, proportionately to the growth of their asset base. This is indicative of the fact that many deposit taking Saccos might be paying out dividends either on shares or as interest on deposits rather than retaining the same to build capital.

Further, the report raises mounting concern that most DT-Sacco's may be using whatever cash is available to pay out dividends even in the face of apparent insolvency to lure new customers rather than invest in the business. Saccos use members' savings to disburse loans and some Sacco managers have insisted that if members are not rewarded appropriately through dividend payouts, they will not save and ultimately starve the Sacco of funds it needs to lend and this leads to low capital adequacy ratios.

3. LITERATURE REVIEW

WOCCU, the world credit union proposed before the Basel committee on Banking supervision, the essential prudential standards for credit unions. Basel is an international standards setting body that was established by the bank for international settlements to formulate policy on prudential standards and best practices among financial regulators globally (WOCCU, 2006), which countries were expected to ratify and Kenya ratified and adopted. On adoption, it was discussed in parliament and resulted in new legislation currently known as Sacco Societies Act, 2008. The various parameters of gauging financial performance are well established in the act and it is on ratios provided that a SACCO can determine if it is performing well financially or not. Berger A. N (1995) suggested that prudential management and capital adequacy are important for protecting deposits and maintaining stability in a financial system. Buch et al (2014) stated that increased capital led to decreased loans and hence reduction in income. However, Buch et al (2014) claim is only true under the environment where capital funds are strictly restricted from being loaned to members.

In Kenyan Saccos Scenario, capital requirements are provided for in law, (Republic of Kenya, 2008), namely; the Sacco Societies Act 2008, Kenya Gazette supplement No. 98. Core capital means the fully paid up members' shares, capital issued, disclosed reserves, retained earnings, grants and donations all of which are not meant to be expended unless on liquidation of the SACCO society, (Republic of Kenya, 2008) and has the following requirements;- (a) Core capital of not less than ten million (Ksh.10, 000,000) (b) Core capital to total assets of not less than ten percent (10%) (c) Institutional Capital to Total Assets of not less than eight percent (8%) (d) Core capital of not less than eight percent (8%) of the total deposits

From the above definitions, it implies that the component of equity is only 2%, meaning that Saccos should devise a way of sustaining capital from own funds (retained earnings, capital reserves, grants and donations). Olando et al (2013) recommended institutional capital as an important strategy to help Saccos accumulate on wealth and thus improve services to members. Therefore, Saccos are expected to make policies on dividends and interest on members' deposit that would ensure enough retained earnings. The retained earnings would not only improve liquidity but also sustain core capital. Thus the change in paradigm for Kenyan Saccos is to avoid distributing surplus on the whims of populism that would give leaders votes to join Sacco directorship boards or other elective Sacco bodies. Klinedinst (2012) noted that with proper policies, Saccos can become alternative to banks in providing funds to citizens.

Odhiambo (2011) researched on relationship between working capital management and financial performance by deposit taking Saccos licensed in Nairobi County. Findings of the study indicated that efficient working capital management leads to better financial performance of a SACCO hence positive relationship existed between efficient working capital management and financial performance. Olando (2013) study looked at the assessment of financial practice as a determinant of growth of Sacco's wealth in Kenya, a case study of Meru County. This study used a comparative design in soliciting information among forty four (44) Saccos. The research data methodology tool used was a questionnaire and the questionnaires were distributed to the forty four Saccos in the county. The study found out that Saccos which inadequately complied with their by-laws and did not have incomes from their investments were unable to adequately cover their costs. The study recommended that the government should review legal framework to ensure that institutional capital was used to grow Sacco's wealth. Ademba (2012) reported on cash management and stated that cash management was the most important item in the operations of a SACCO. He asserted that financial institutions should manage cash adequately to avoid panic withdrawals by depositors. The Saccos therefore should maintain cash and cash equivalents of 15% ratio to short term deposits and short term liabilities, as provided by the SACCO societies Act in Kenya (GoK, 2008).

However, Kenyan Saccos, capital is utilized for expansion programs and the rest utilized for loaning to members and hence not likely to draw the same conclusion made by Buch (2014). Thus the assertion by Mckillop and Wilson (2014) that capital adequacy regulation is effective in safeguarding deposits and stability of financial system supports prudential regulations to Saccos. Kilonzi (2012) appreciated the fact that the eligible Saccos applied to SASRA (Sacco Societies Regulatory Authority), a government body for regulating Saccos for two reasons, namely: one to comply with the government regulations and two to benefit from the new confidence that public showed after Sacco legislation. For a SACCO to apply, it had to meet two conditions namely, presence of front office savings activity (FOSA) and registration certificate from the concerned ministry. The eligible Saccos were called deposit taking Saccos, mainly because the quasi bank activities involved exchanging money across the counter

Kahuthu (2016) in his study on the Impact of Prudential Regulation on Financial performance of Deposit Taking Savings and Credit Co-operative Societies in Kenya revealed that core capital positively influenced the financial performance of deposit taking SACCOs in Kenya. Results of the inferential statistics such as ANOVA showed that core capital has a major positive significance on the SACCO‟s financial performance. Barus et al (2017) concluded that capital adequacy influenced the financial performance of savings and credit societies in Kenya. Their findings were explained by the regression results that showed the influence was positive and also showed the magnitude by which capital adequacy influenced the financial performance of savings and credit societies.

4. RESEARCH METHODOLOGY

The study used a comparative research design where a census survey was carried using DT-Saccos empirical data from SASRA supervision reports and Saccos audited accounts. The target population comprised of 175 fully licensed DT-Saccos in Kenya as at 31st December 2016 as per the SASRA register. The research design utilized is descriptive since it compared two periods between 2007-2011 when SASRA requirements on capital adequacy had not been fully enforced as the law allowed for 4 years compliance period and 2012-2016 when the capital adequacy was fully in force. According to

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Sacco Societies Act 2008 article 10, all Sacco societies carrying out deposit taking business were given four years to build their capital to the regulatory standards. The four years given were to end officially in 2011 and thereafter full implementation of the Act would take place. The relevant secondary data was analyzed and inferences made about the relationships between capital adequacy and performance of DT-Saccos in Kenya. The data involved time series and cross sectional attributes which gave it a longitudinal element. To remove bias, a period of 10 years was subdivided into two, pre-full implementation of SASRA core capital requirements period 2007-2011 and post-full implementation of SASRA core capital requirements 2012-2016.

5. FINDINGS

As at 31st December 2016, there were 175 deposits taking Saccos fully licensed by SASRA to carry out co-operative business in Kenya which involved the running of Front Office Services Activity. This was a decline from the previous 184 licensed in 2014 and the previous years where DT-Saccos peaked to 218 in 2009. The 175 Deposit Taking Saccos commanded 82% of membership in the Sacco industry accounting for 78% of the total assets and deposits of the entire Sacco sub-sector. However, from 2013 to 2017, there has been a decline in the number of DT-Saccos which qualified to be licensed for business by SASRA. Due to capital inadequacy, 37 societies no longer qualify for a license to carry out deposit taking business raising questions on the extent of losses that could have been suffered by their members.

Table 1: shows the trend of Deposit Taking Sacco's in Kenya for the last ten (10) seven years.

year	**No of DT-Saccos**
2007	214
2008	214
2009	218
2010	215
2011	215
2012	124
2013	135
2014	184
2015	176
2016	175

Source: Sasra Supervision Reports 2011-2016

The Authority commenced the year 2015 with a total of 181 DT-Saccos under its regulatory framework. However, towards the end of the year, five (5) DT-Saccos could not maintain the prescribed minimum standards and had their licenses revoked. Only one (1) new application for deposit-taking license was successfully processed, and a license to conduct deposit-taking business granted in the year. This brought to a total of 176 DT-Saccos under the Authority's supervisory purview at the close of the year 2015. This further dropped to 175 in by close of 2016 due to one more Society failing to comply with the capital adequacy ratios

The Sacco Societies Act was enacted in 2008 and allowed a period of 4 years for DT-Saccos to build up capital and comply with the minimum capital adequacy ratios. The transition period therefore ran from 2008 to 2011 even though SASRA as the regulatory body was established and became fully operational in 2010. During this period, all the 2015 DT-Saccos that were in operation continued their business without much supervision as they were deemed to be re-organizing themselves for compliance.

Table 2: shows the performance trend of DT-Saccos before full implementation of the capital adequacy ratios

Performance Trend of DT Saccos pre-full implementation of Capital Adequacy Ratios by SASRA					
Year	**2007**	**2008**	**2009**	**2010**	**2011**
No of DT Saccos	**214**	**214**	**218**	**215**	**215**
Membership	955,162	1,061,348	1,538,993	1,646,966	2,092,946
	Kshs Millions				
Total Assets	115,900	134,018	146,167	171,345	196,342

Deposits/savings	61,753	71,110	105,929	123,137	140,650
Share Capital/Equity	2,473	2,720	4,242	19,621	27,067
Turnover	13,589	15,698	17,195	22,022	25,000

After the full operationalisation of SASRA in 2010, the body was able to license only 124 DT-Saccos in 2012. The rest that had not complied were put under provisional licenses and or denied operation completely. The number of licensed DT-Saccos continued to rise as more and more of them met the capital adequacy conditions to a pick of 184 in 2014. Thereafter, there has been a decline in the number of licensed DT-Saccos majorly due to capital inadequacy thus reducing the number to 175 in 2016.

Table 3: shows the performance trend of DT-Saccos after the full implementation/enforcement of the SASRA capital adequacy ratios.

Performance Trend of DT Saccos Post full implementation of Capital Adequacy Ratios by SASRA					
Year	**2012**	**2013**	**2014**	**2015**	**2016**
No of DT Saccos	**124**	**135**	**184**	**176**	**175**
Membership	2,341,107	2,612,250	3,008,497	3,145,565	3,632,597
	Kshs Millions				
Total Assets	201,906	251,621	301,357	342,848	393,499
Deposits/savings	146,085	172,526	205,974	237,440	272,578
Share Capital/Equity	23,886	26,850	33,252	41,712	54,943
Turnover	154,417	190,307	219,312	251,080	288,921

The key parameters of monitoring the trends in the growth performance of DT-Saccos remain the assets, deposits, loans, member share capital, reserves and membership. Whereas the total membership and active membership grew by 15.6% and 17.5% respectively, there was a decline in the number of operating DT-Saccos. The decline in the number of licensed DT-Saccos is explained by the revocation of the licenses of two DT-Saccos in June of 2016, and the licensing of one additional DT-Sacco in the same period.

Prior to the Sasra Act, DT-Saccos did not separate their capital to indicate core capital but rather lumped together share capital, retained earnings and reserves into one figure. However, as more Saccos complied with the new regulations, both institutional and core capital started being reported as separate items.

Table 4: shows the capital adequacy ratio trends from 2010-2016.

Financial Soundness Indicators								
Year		**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
No of DT Saccos		215	215	124	135	184	176	175
Capital adequacy	**Min Required**							
Core Capital(Millions)	10	5,373	6,102	23,886	26,850	33,252	41,712	54,943
Core Capital/Total Assets	10%	3.1%	3.4%	3.6%	7.7%	11.2%	12.1%	13.9%
Core Capital/Total Deposits	8%	4.2%	4.7%	5.1%	10.9%	16.4%	17.5%	20.1%
Institutional Capital/ Total Assets	8%	3.2%	3.3%	3.6%	2.8%	5.4%	8.7%	7.7%
Source; SASRA Supervision Reports 2016, 2015, 2014, 2013, 2012, 2011								

Whereas there was improvement in the aggregate core capital held by DT-Saccos which increased to Kshs 54.94 Billion in 2016 from Kshs 41.71 Billion in 2015, against the prescribed limit of Kshs 10 Million; there were mixed results in the level of individual compliance with the three prescribed capital adequacy ratios, as follows: a) 168 DT-Saccos were able to fully maintain the prescribed core capital of Kshs 10 Million, with the remaining seven (7) DT-Saccos failing to maintain the standard. b) 144 DT-Saccos were able to fully maintain the prescribed core capital to total assets ratio of 10%, with the rest having ratios of below the prescribed threshold.

c) 169 DT-Saccos were able to fully maintain the prescribed ratio of core capital to total deposits ratio of 8%, with the rest having ratios of below the prescribed threshold. d) Only 69 DT-Saccos were able to maintain and comply with the prescribed institutional capital to total assets ratio of 8%, with the majority of DT-Saccos failing to comply with this key regulatory minimum.

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Loans remain the key assets for DT-Saccos comprising 73.42% of the total asset base. This calls for consideration of the quality of the loan portfolio of DT-Saccos, with adequate safeguards to provide for any non-performing portfolios. The total loan portfolio at risk, measured as a ratio of the non-performing loans to gross loans increased to 5.23% from 5.12% registered in 2015. This was driven mainly by the increase on the non-performing loans from Kshs 13.21 Billion in 2015 to Kshs 15. 57 Billion in 2016. The ratio is above the WOCCU recommended a maximum of 5%, and far much higher than the Authority's recommended maximum of 3%; and thus calls for more concerted efforts in credit management strategies by DT-Saccos.

The minimum required core capital is Kshs 10Million. Prior to 2010, the DT-Saccos had not separated and defined core capital clearly as per the Sacco Societies Act 2008. Table 4 shows the trend of core capital growth from 2010 to 2016. Within a span of seven years, core capital maintained by DT-Saccos in Kenya has grown from Kshs 5.3M in 2010 to Kshs 54.9M in 2016. This is a growth of 935% attributed to increased compliance of the SASRA regulations by DT-Saccos. However, the number of licensed DT-Saccos declined from 215 in 2010 to 175 in 2016 due to inability to meet the capital adequacy requirements by SASRA.

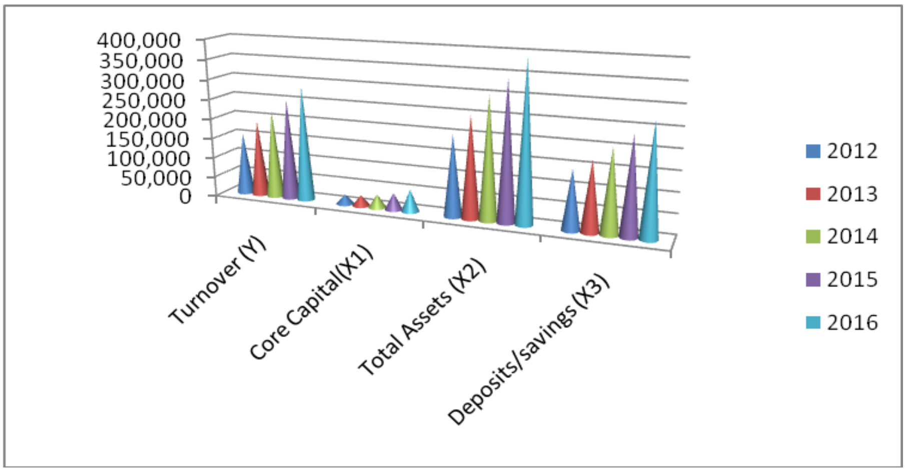
Evaluating core capital as a percentage of total assets, the DT-Saccos have also experienced tremendous growth from 3.1% in 2010 to 13.9% in 2016 surpassing the minimum required ratio of 10%. Core capital as a percentage of total deposits has grown from 4.2% in 2010 to 20.1% in 2016. This is way above the minimum required percentage of 8%. This implies that the DT-Saccos are now able to more proportionately satisfy their members' loan needs from the savings they have mobilized.

Institutional capital is build by the institution from retained earnings and other reserves that the individual members cannot lay claim on. It is in this area where the DT-Saccos have not done well since they have not surpassed the minimum of 8% though there is some significant growth from 3.2% in 2010 to 7.7% in 2016. This could imply that the DT-Saccos are not retaining enough profits but would rather distribute them as dividends to their members.

Table 5: shows performance of DT-Saccos in terms of total assets, Deposits and Turnover in relation to core capital.

Performance Trend of DT Saccos Post full implementation of Capital Adequacy Ratios by SASRA					
Year	**2012**	**2013**	**2014**	**2015**	**2016**
No of DT Saccos	**124**	**135**	**184**	**176**	**175**
Core Capital	23,886	26,850	33,252	41,712	54,943
Total Assets	201,906	251,621	301,357	342,848	393,499
Deposits/savings	146,085	172,526	205,974	237,440	272,578
Turnover	154,417	190,307	219,312	251,080	288,921

The core capital of DT-Saccos in 2012 was Kshs 23.8 Million and the same year, the turnover was Kshs 154M. The core capital increased to Kshs 54.9Million thus increasing turnover to Kshs 288M. This implies that as core capital increased, turnover also increased. The chart 1 below shows the trend of the performance variables; Turnover, total assets and total deposits as influenced by the core capital.



From analysis of the chart above we observe that as core capital increased, performance in all the three parameters of turnover, total assets and total deposits also increased indicating a positive relationship.

6. CONCLUSION AND RECOMMENDATIONS

From the theoretical review and analysis of the data presented above, we can conclude that core capital has a positive impact on the financial performance of DT-Saccos in Kenya. To ensure that deposit taking societies consistently meet the capital adequacy ratios thereby safeguarding members' investments and enhance growth of the Sacco, the following recommendations would suffice;- The board and management of the deposit taking Saccos can devise ways of issuing additional capital to both new and existing members, Deposit taking societies would benefit a lot through adjusting their dividend payout ratios. A one percentage reduction of dividend payout would significantly improve the institutional capital of the Sacco, SASRA should come up with vetting criteria in recruitment of competent managers who can positively influence the strategy and direction of the Society towards increased retained earnings, SASRA can also enhance supervision of the Deposit taking Sacco's and increase penalties for non compliance of the capital adequacy ratios.

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