Abstract

Mode of financing is an important factor for consideration when it comes to firm financial performance. Several studies show that highly leveraged organizations usually do well in terms of financial growth by increasing the value of a firm, contrary to the MM theorem that argues that capital structure is irrelevant factor to consider since it does not affect the value of an organization. This study focused on establishing the relationship between share capital, retained earnings, members' deposits, debt financing and financial performance of SACCOs in the Lake Region Counties of Kenya. The study was prompted by the increase in the number of SACCOs in the Lake Region Counties facing financial difficulties resulting to low returns to investors and in some instances, SACCOs being de-registered by SASRA for not meeting the SASRA regulations, thus threatening the well being of the lake region's economy. The study adopted explanatory research design and the target population was all the 34-deposit taking SACCOs in the Lake Region Counties of Kenya. Secondary data was obtained from the annual reports and financial statements of the 34 DT-SACCOs were used for analysis. The annual reports and financial statements were sourced from the official website of SASRA and the respective official websites of the DT-SACCOs. The period of study was stretch from year 2015 to year 2019. The collected data was converted into panels and fed into STATA version 14 for analysis. The data was analyzed using descriptive statistics, correlation analysis and panel data regression analysis. The study revealed that share capital has an insignificant positive relationship with performance of SACCOs in the lake region while retained earnings has a significant effect on financial performance of SACCOs in the lake region. The study also showed that debt financing has a significant negative effect on financial performance of SACCOs in the lake region. The study recommends DT SACCO management to exploit internal source of financing such as retained earnings and share capital. It also recommends that DT SACCOs should avoid expensive debts but instead sought loans with favorable terms.