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Financial Literacy And The Growth Of Deposit-Taking Saccos In Eastern Region of Kenya.

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Abstract
Deposit-taking Savings and Credit Cooperative Societies have increasingly adopted financial inclusion practices. However, many continue to exhibit poor growth, as evidenced by declining membership, assets, loan repayment rates, and operational efficiency. Recent data indicates significant drops in withdrawable deposits, net income, and overall financial performance, compounded by high default rates and non-remitted funds. These trends highlight persistent challenges in leveraging financial inclusion to drive growth. The primary goal of this study was to evaluate the impact of financial literacy on the growth of deposit-taking SACCOs in the Eastern Region of Kenya. The study was anchored on the financial inclusion theory and the theory of planned behavior. The study used an explanatory research design. The target population comprised 134 management respondents from all 26 deposit-taking SACCOs in the eastern region of Kenya comprising finance managers, operations managers, marketing managers, information technology and heads of other departments including audit, procurement, and research. Data was collected from a sample of 104 management respondents using a structured questionnaire. Data analysis was done using descriptive and inferential statistics using the Statistical Package for Social Sciences. The study concluded that financial literacy had a statistically significant effect on the growth of deposit-taking SACCOs (β=.266, P=0.009<0.05). The R square value obtained indicated that financial literacy contributes to a 7% variation in the growth of SACCOs. The study recommends that the Deposit Taking SACCOs in the Eastern region of Kenya improve the rollout of financial literacy programs to increase access to and appreciation of the services. Also, deposit-taking SACCOs are recommended to regularly update and customize their financial literacy programs to address evolving financial trends and challenges. The deposit-taking SACCOs are recommended to develop more practical and interactive financial education strategies to ensure members can apply financial literacy concepts effectively, leading to better budgeting, improved loan repayment behaviors, and overall financial stability.
Keywords: *Deposit Taking Saccos, Financial Inclusion, Financial Literacy, Growth*

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I. Introduction

Deposit-taking SACCOs are pivotal in offering essential financial services to members of their communities, particularly in areas where formal banking infrastructure may be limited or unavailable. These SACCOs are based on a cooperative model, where members pool their savings to access loans and other financial products (Kariuki, 2017). Unlike commercial banks, which often focus on profit maximization, SACCOs are designed to serve their members, offering competitive interest rates, affordable loans, and accessible savings options (Muriithi, 2024). By providing these services, SACCOs promote financial inclusion and empower individuals who might otherwise be excluded from the formal financial system. Through their operations, SACCOs help to improve economic resilience and stimulate local development, as they foster a culture of saving and responsible borrowing.

One of the factors contributing to the growth of deposit-taking SACCOs is financial inclusion. This refers to the process of making financial services accessible and affordable to all individuals, especially those who are traditionally excluded from the formal banking system (Ndegwa & Koori, 2019). This includes providing people in underserved or rural areas access to savings accounts, loans, insurance, and other financial products. Deposit-taking SACCOs play a critical role in promoting financial inclusion by offering services to individuals who may not meet the requirements set by commercial banks, either due to lack of collateral, income instability, or geographic isolation (Kibanga, 2019). By offering affordable financial products and building trust within communities, SACCOs can support the financial empowerment of individuals, fostering economic growth at the local level. The more inclusive a SACCO is in its service offerings, the more likely it is to experience growth, attract new members, and build long-term financial stability.

One of the financial inclusion practices pursued by deposit-taking SACCOs is financial literacy. Financial literacy refers to an individual's ability to understand basic financial concepts, manage personal finances, and make informed decisions about saving, investing, and borrowing (Pasara, Makochekanwa & Dunga, 2021). Financial literacy is not just about understanding how money works; it also includes the ability to navigate the various financial products available, assess their risks and benefits, and make sound decisions based on one's financial situation. For SACCOs, having a financially literate membership base is crucial. It allows members to fully engage with the services offered, such as savings accounts, loans, and investment opportunities (Pasara, Makochekanwa & Dunga, 2021). Educated members are more likely to understand the importance of saving regularly, borrowing responsibly, and planning for the future, which directly impacts the growth and success of deposit-taking SACCOs.

In the context of deposit-taking SACCOs, financial literacy directly influences key growth measures, such as savings deposits and loan repayment rates. Financially literate individuals are more likely to understand the value of saving consistently and the benefits of accumulating interest on their deposits (Owino, Kariuki & Wamitu, 2024). As they become more knowledgeable about how SACCOs operate, they are more inclined to open and maintain savings accounts, which helps increase SACCO's available capital. The growth in savings deposits is essential for SACCOs because it provides the funds needed to extend loans to other members and invest in further development. Furthermore, financially literate members are better able to manage their finances, including repaying loans on time. Higher loan repayment rates mean that SACCOs can continue lending and supporting their members without suffering from the risks of default, which might otherwise threaten their financial stability (Moshi, 2023). Thus, financial literacy ensures that members' borrowing behavior aligns with their repayment capabilities, fostering a stable and healthy financial environment within the SACCO.

In addition to improving savings and repayment behaviors, financial literacy also empowers deposit-taking SACCO members to make informed decisions when it comes to accessing credit (Owino, Kariuki & Wamitu, 2024). In many underserved communities, SACCOs are often the primary source of credit, particularly for individuals who may not meet the requirements set by commercial banks. Financially literate individuals understand the loan products available to them, including interest rates, repayment schedules, and associated costs. This awareness enables them to make better borrowing decisions, ensuring that they only take loans that they can comfortably repay. Educating members about the terms and conditions of loans reduces the risk of over-borrowing and defaults, which is critical for the long-term success of the SACCO (Katula & Kiriinya, 2018). Moreover, when SACCOs provide education on financial management, they help members build a responsible borrowing culture, which, in turn, enhances SACCO's ability to expand its loan portfolio while minimizing risk. This balance between risk management and growth is essential for SACCOs to remain financially healthy and continue supporting their members.

Furthermore, financial literacy programs offered by SACCOs help attract new members and retain existing ones. Deposit-taking SACCOs often organize workshops, seminars, and training sessions designed to teach members about budgeting, saving, investing, and responsible borrowing (Pasara, Makochekanwa & Dunga, 2021). These programs create a value-added service for members, making them more likely to continue their membership and participate more actively in the services offered by the deposit-taking SACCOs. In addition, these financial literacy initiatives help position SACCOs as community-centric organizations that are not just about providing loans but also about empowering individuals to improve their financial well-being. As members become more knowledgeable about managing their finances, they become more engaged in SACCO's offerings, increasing their likelihood of saving, borrowing, and participating in other financial products (Kibuti, 2022). This engagement, in turn, leads to increased membership and deposits, driving SACCO's growth.

In Kenya, deposit-taking SACCOs are key players in the financial sector. They aim to mobilize savings and provide credit to their members, many of whom come from low-income backgrounds. These SACCOs contribute significantly to the country's economic activities, supporting around 45% of the economy and promoting sustained growth (Ndung'u & Mutinda, 2022). With 176 SACCOs operating nationwide, they play a critical role in expanding financial access, particularly in rural areas where they often serve as the only formal financial institution. However, despite their growing presence, SACCOs face challenges such as undercapitalization, with many unable to meet the minimum capital requirements set by the SACCO Societies Regulatory Authority (SASRA) (Mbithi, 2023). They also face difficulties with regulatory compliance, internal controls, digital adoption, and liquidity management, all of which hinder their growth. Governance and risk management issues further contribute to low member confidence and stagnant membership growth. In the Eastern region of Kenya, SACCOs also face these challenges, but they continue to be vital in promoting financial inclusion and providing services to underserved communities.

Statement of the Problem

Many deposit-taking SACCOs in Kenya have increasingly embraced financial inclusion practices. However, despite these efforts, a significant number continue to underperform, as evidenced by poor growth in membership, total assets, loan portfolios, savings deposits, and loan repayment rates. According to the SACCO Supervision Annual Report (2022), withdrawable deposits decreased by 26.9% from Ksh 114.59 billion in 2021 to Ksh 83.73 billion in 2022. This decline reflected a broader trend in the financial performance of SACCOs, with a decrease in net income in relation to equity from 67.3% in 2018 to 47.2% in 2022 and a drop in operational efficiency from 68.8% in 2018 to 54.6% in 2022. Additionally, loan defaults have increased during the same period, which affected the ability of the deposit-taking SACCOs to meet financial obligations, while many continue to face challenges with non-remitted funds from employers.

The deposit-taking SACCOs in Kenya continue performing poorly, irrespective of adopting financial inclusion practices. One of the financial practices adopted is financial literacy, which focuses on equipping the members with the necessary skills to manage their savings and loans effectively. A higher level of financial literacy encourages members to participate more actively in SACCO services, boosting membership and enhancing loan repayment rates (Solomon, 2022). It was still unclear how financial literacy contributed to the organizational growth of the SACCOs in the Eastern region of Kenya. This created the rationale of this study to determine how financial literacy contributes to the growth of deposit-taking SACCOs.

II. Objective

The main objective of the study was to assess the influence of financial literacy on the growth of deposit-taking SACCOs in the Eastern Region of Kenya.

III. Theoretical Review

Theory of Financial Inclusion

The study was anchored on the financial inclusion theory and the theory of planned behavior. Financial inclusion theory was developed by Mises (1912). The theory argues that financial inclusion should target financially excluded people, particularly the youth, low-income households, women, and the older generations. This theory argues that there is a need to enable these groups and remove barriers restricting them from enjoying financial services (Ozili, 2020). The theory underscored the significance of understanding financial inclusion and its critical role in enhancing financial performance and promoting organizational growth. It highlights the necessity of providing and facilitating access to financial products and services for people who are underserved by the mainstream financial systems.

Financial inclusion theory was considered applicable since it is linked to financial literacy variables as it helps understand the importance of both access to and understanding of financial services. According to the theory, financial literacy is not only about offering access to financial products but also ensuring that individuals have the knowledge and skills to use these products effectively. Financial literacy equips SACCO members with the ability to make informed decisions about savings, loans, and investments, thus enhancing their engagement with financial services. When members are financially literate, they are more likely to utilize deposit-taking SACCO products effectively, leading to increased deposit levels, better loan repayment rates, and overall growth of the SACCO.

The Theory of Planned Behavior

The theory of planned behavior was developed by Ajzen (1991). This theory explains how individual intentions and behaviors are influenced by their attitudes, subjective norms, and perceived behavioral control. This theory identifies three types of beliefs that influence an individual’s intention to engage in a particular behavior Ajzen (1991). These include behavioral beliefs, which shape attitudes toward the behavior; normative beliefs, which reflect the perceived attitudes of peers and influential figures regarding the behavior; and control beliefs, which relate to the individual’s perceived ability to perform the behavior.

The theory of planned behaviors is applicable in the context of deposit-taking SACCOs, whereby it is applied to understand how financial literacy affects members' intentions to engage with the deposit-taking SACCOs (Abbasi et al., 2021). Individuals who possess higher financial literacy are more likely to have positive attitudes toward savings, responsible borrowing, and other SACCO activities, as they perceive these behaviors as beneficial and within their control. Additionally, financial literacy can shape members' perceptions of their ability to participate in the programs of the deposit-taking SACCOs, leading to greater involvement and contributing to the growth of SACCOs.

IV. Empirical Review

The study by Priyantoro, Ratnawati, and Aisjah (2023), titled *"The Effect of Financial Literacy on Business Performance Through Mediation of Financial Access and Financial Risk Attitude,"* investigates the impact of financial literacy on the performance of micro, small, and medium enterprises (MSMEs) in Kediri City, Indonesia. The research specifically focuses on the tofu processing industry, a significant sector in the region.Kediri City is renowned for its tofu processing industry, which has historical roots dating back to 1912. This industry is concentrated in areas such as Pocanan, Jagalan, Bawang, Pekalan, and Tinalan, collectively known as "tofu villages." The tofu processing sector plays a vital role in the local economy, providing employment and contributing to economic development.The study employs an explanatory research approach with a quantitative methodology to objectively test theoretical relationships among variables. Structural Equation Modeling (SEM) using Partial Least Squares (PLS) was utilized for data analysis, implemented through the SmartPLS version 3 software. Data was collected using structured questionnaires featuring Likert-scale items. These instruments measured constructs such as financial literacy, financial access, financial risk attitudes, and business performance. The indicators for these constructs were adapted from established sources. The target population comprised MSME owners in the tofu processing industry of Kediri City. A purposive sampling technique was employed, selecting participants based on specific criteria.The sample size was determined using the Slovin formula, resulting in 400 respondents. The study's conceptual model posits that financial literacy directly influences business performance and also exerts indirect effects through two mediating variables, financial access and financial risk attitudes. The analysis revealed that all proposed hypotheses were supported. Financial literacy had a significant positive effect on financial access, financial risk attitudes, and business performance. Financial access and financial risk attitudes both had significant positive effects on business performance. Both financial access and financial risk attitudes serve as significant mediators in the relationship between financial literacy and business performance.These findings underscore the importance of financial literacy in enhancing business outcomes among MSMEs, both directly and through improved financial access and risk management attitudes. Based on the study's findings, the authors recommend the MSME owners to engage in financial literacy programs to enhance understanding of financial management, access to finance, and risk assessment, which can lead to improved business performance.For Policymakers and Stakeholders to Implement training, workshops, and seminars focused on financial literacy, access to finance, and risk management to support MSME development.

Buchdadi, Sholeha, and Mukson (2020),did a study on *the influence of financial literacy on smes performance through access to finance and financial risk attitude as mediation variables,"* that examines how financial literacy affects the performance of Small and Medium-sized Enterprises (SMEs) in Indonesia, with a focus on the mediating roles of access to finance and financial risk attitude. SMEs are pivotal to Indonesia's economic growth, especially in emerging regions. The study centers on the Brebes district in Central Java, renowned for its high-performing SMEs. This area was selected due to its significant contribution to the national economy and the prevalence of successful SME operations. A quantitative research approach was employed, utilizing Structural Equation Modeling (SEM) for data analysis. This method allows for the examination of complex relationships between observed and latent variables, providing a comprehensive understanding of the factors influencing SME performance.Data were gathered through structured questionnaires distributed to SME managers. The questionnaires assessed variables such as financial literacy, access to finance, financial risk attitude, and business performance, using Likert-scale items to quantify responses.The study targeted SME managers operating in the Brebes district. A purposive sampling technique was applied, selecting 70 participants based on their managerial roles within SMEs. This approach ensured that respondents possessed relevant experience and insights pertinent to the study's objectives.The research model posits that financial literacy directly influences SME performance and indirectly affects it through two mediating variables: access to finance and financial risk attitude. The study's findings support all proposed hypotheses: Financial literacy has a significant positive effect on access to finance, financial risk attitude, and SME performance. Both access to finance and financial risk attitude positively influence SME performance. Access to finance and financial risk attitude serve as significant mediators in the relationship between financial literacy and SME performance. Additionally, descriptive statistics revealed that SME managers exhibited weaknesses in understanding banking and capital market products, indicating areas for improvement in financial knowledge.Based on the study's outcomes, the authors recommend the SME Managers to engage in financial literacy programs to enhance understanding of banking products, risk management, and capital markets, thereby improving business performance.For Policymakers: Develop and implement training programs focused on financial literacy, access to finance, and risk management to support SME development.

Ntshalintshali (2018), did a study on Enhancing financial inclusion through financial literacy for women in South Africa,that explored the relationship between financial literacy and financial inclusion among South African women. Conducted as part of a Master of Business Administration program at the University of the Witwatersrand, the research aims to understand how financial literacy can serve as a tool to improve women's access to financial services and products.In South Africa, financial inclusion is a critical component of the country's development agenda, particularly concerning inclusive growth and societal transformation. Women, especially those in low-income and rural areas, often face barriers to accessing financial services. This study focuses on the intersection of financial literacy and financial inclusion, positing that enhancing financial knowledge among women can lead to greater participation in the financial system. The study employs a qualitative research design, utilizing both primary and secondary data sources. An extensive literature review provides a theoretical foundation, while primary data is collected through unstructured questionnaires. Structured questionnaires are used to gather primary data from participants. These questionnaires assess various aspects of financial literacy and inclusion, including knowledge of financial products, budgeting skills, and access to banking services.The target population comprises women in South Africa, with a focus on understanding their levels of financial literacy and inclusion. However, specific details regarding the sampling techniques and sample size are not provided in the available summary.The study posits that financial literacy and financial inclusion are interrelated, with financial literacy serving as a catalyst for greater inclusion. By equipping women with the necessary financial knowledge and skills, they are more likely to engage with financial institutions, utilize financial products, and make informed financial decisions.The research finds a positive relationship between financial literacy and financial inclusion among women in South Africa. Women with higher levels of financial literacy are more likely to have sound financial plans and are better positioned to access and utilize financial services. The study underscores the importance of financial education in empowering women economically and enhancing their participation in the financial system.Based on the findings, the study recommends the Implementation of practical financial literacy programs, develop and deliver financial education programs tailored to women's needs, focusing on budgeting, saving, and understanding financial products.on policy interventions, the study encourages policymakers to integrate financial literacy initiatives into broader economic development strategies aimed at women's empowerment. Collaboration with financial institutions is equally key,partner with banks and other financial service providers to create accessible financial products and services that cater to women's unique circumstances.

The study by Taurayi Stephen Nyagope and Owen Simon Nyagope (2024), titled *"The Role of Financial Literacy in Enhancing SME Access to Financial Services, Growth and Sustainable Development in Zimbabwe,"* investigates how financial literacy influences the accessibility of financial services, growth, and sustainability of Small and Medium Enterprises (SMEs) in Zimbabwe. In Zimbabwe, SMEs are pivotal to economic development, contributing significantly to employment and GDP. However, they face challenges such as high interest rates, stringent collateral requirements, and a lack of specialized financial products, which hinder their growth and sustainability. The study focuses on the role of financial literacy in enabling SME owners and managers to effectively utilize financial services, including borrowing, budgeting, investment, and risk management, to overcome these challenges. The researchers adopted a positivist research philosophy with an explanatory research design, employing a case study approach. This design facilitated an in-depth analysis of the relationship between financial literacy and SME performance. Data were collected through structured questionnaires administered to SME owners and managers. Additionally, secondary data sources, such as reports from the Reserve Bank of Zimbabwe and the World Bank, were utilized to supplement the primary data. The study targeted SMEs operating in Harare, Zimbabwe's capital city. While specific sampling techniques are not detailed in the available summary, the focus on Harare suggests a purposive sampling approach to capture data from SMEs in a major economic hub.The study suggests that financial literacy is a critical determinant of SME success and sustainability. By enhancing financial knowledge and skills, SME owners can make informed decisions regarding financial services, leading to improved access to finance, business growth, and sustainable development.The analysis revealed a strong positive relationship between financial literacy and SME performance. SMEs with higher levels of financial literacy demonstrated better financial planning, effective utilization of financial services, and improved business outcomes. The study underscores the importance of financial literacy in enabling SMEs to navigate financial challenges and capitalize on growth opportunities. Based on the findings, the study recommends the implementation of financial literacy training programs, develop and deliver targeted financial education programs for SME owners and managers to enhance their financial management capabilities.On policy interventions, let’s encourage policymakers to integrate financial literacy initiatives into national economic development strategies to support SME growth and sustainability. Collaboration with Financial Institutions is important too. Foster partnerships between SMEs and financial service providers to design and offer financial products tailored to the unique needs of SMEs.

Kasozi and Makina (2021), did a study on the *"Analysis of Financial Literacy and Its Effects on Financial Inclusion in Uganda,"* which investigates the relationship between financial literacy and financial inclusion among Ugandan adults. Utilizing data from the FinScope Uganda 2018 survey, the research aims to provide empirical evidence on how financial literacy influences individuals' participation in the formal financial sector. In Uganda, a significant portion of the adult population remains financially excluded, despite efforts to enhance access to financial services. The study focuses on the demand-side factors, particularly financial literacy, that may affect individuals' ability to engage with formal financial institutions. By analyzing the financial behaviors and knowledge of Ugandan adults, the research seeks to understand the barriers to financial inclusion and propose strategies to overcome them. The study adopts a quantitative research design, employing

Principal Component Analysis (PCA) to construct a composite financial literacy index. Subsequently, logistic regression models are used to assess the impact of financial literacy on financial inclusion, controlling for variables such as age, gender, income, and education. Data were sourced from the FinScope Uganda 2018 survey, a nationally representative survey that collects information on individuals' financial behaviors, access to financial services, and demographic characteristics. The survey employs structured questionnaires to gather data on various aspects of financial literacy and inclusion. The target population comprises Ugandan adults aged 16 years and above. The FinScope survey utilized a three-stage stratified sampling approach to ensure national representativeness. A total of 3,002 respondents were selected using probability proportional to size sampling, covering 316 enumeration areas across the country. The study conceptualizes financial literacy as a multifaceted construct encompassing four domains: money management, planning ahead, choosing financial products, and staying informed. These domains are operationalized through specific survey items, and PCA is applied to develop a composite financial literacy index. The research hypothesizes that higher financial literacy levels positively influence individuals' likelihood of being financially included. The analysis reveals that financial literacy significantly and positively affects financial inclusion in Uganda. Individuals who effectively manage their finances, plan for future financial needs, seek financial advice, and are receptive to financial technology are more likely to participate in the formal financial sector. Additionally, the study finds that factors such as age, income, and education level also influence financial inclusion, while a gender gap persists, with men being more financially included than women. Based on the findings, the study recommends Implementing comprehensive financial literacy programs, develop targeted financial education initiatives that address the specific needs of different demographic groups, with a focus on enhancing practical financial skills.Promoting Financial Technology Adoption will come in handy to encourage the use of mobile money and other digital financial services to increase accessibility, especially in rural areas.Addressing Gender Disparities will be done through interventions design aimed at increasing women's financial inclusion, such as tailored financial products and services that consider women's unique challenges.Integrating financial literacy into national policies through incorporating financial education into the national curriculum and adult education programs to build a financially literate population will go into addressing the financial inclusion challenges.

The study by Ndegwa and Koori (2019), titled *"Financial Inclusion and Performance of Deposit Taking Savings and Credit Cooperative Societies in Meru County, Kenya,"* investigates how financial inclusion influences the performance of Deposit Taking Savings and Credit Cooperative Societies (DT-SACCOs) in Meru County. The research aims to understand the impact of various financial inclusion strategies on the operational and financial outcomes of these institutions. In Kenya, DT-SACCOs play a crucial role in providing financial services to populations that are often underserved by traditional banking institutions. Despite their importance, many DT-SACCOs have concentrated their branch networks in urban centers, limiting access for rural populations. This study focuses on Meru County, where financial exclusion remains a challenge, and examines how financial inclusion initiatives can enhance the performance of DT-SACCOs. The study employed a descriptive research design to assess the relationship between financial inclusion and the performance of DT-SACCOs. This approach allowed for a comprehensive analysis of the variables in question. Data were collected using semi-structured, self-administered questionnaires. These questionnaires were distributed through a drop-and-pick-later method to ensure convenience and higher response rates. The target population comprised 186 staff members from the top management levels of the 10 DT-SACCOs operating in Meru County. These individuals were drawn from various departments, including finance, marketing, operations, and human resources. Given the manageable size of the population, a census approach was adopted, involving all members of the target group. The study was grounded in three theoretical frameworks: Technology Acceptance Model (TAM) to understand how DT-SACCOs adopt and utilize technological innovations like mobile banking, Financial Intermediation Theory,to examine the role of DT-SACCOs in channeling funds from savers to borrowers, thereby facilitating financial inclusion and the Agency Theory to explore the relationships and potential conflicts between stakeholders within DT-SACCOs, particularly in the context of financial decision-making. The study found that all four dimensions of financial inclusion had a positive effect on the performance of DT-SACCOs in Meru County. Based on the findings, the study recommends enhancing financial literacy programs, DT-SACCOs should collaborate with stakeholders to roll out comprehensive financial education initiatives to empower members.Diversifying Credit Products through developing a variety of credit facilities tailored to different member needs can improve accessibility and performance. Expanding Mobile Money Services by Investing in mobile financial technologies can increase efficiency and member satisfaction.Implementing Agency Banking Models through establishing agent networks can extend the reach of DT-SACCOs, particularly in underserved rural areas.

V. Conceptual Framework

A conceptual framework defines the research variables, their constructs, and the relationships between the independent and dependent variables (Varpio, Paradis, Uijtdehaage, & Young, 2020). The independent variable is financial literacy, and the dependent variable is the growth of deposit-taking SACCOs is the dependent variable. Financial literacy was measured in terms of financial planning and budgeting skills, knowledge of financial products and services, and knowledge of savings and loan management. When individuals are knowledgeable about budgeting, they are more likely to save regularly, increasing SACCO deposits. Understanding financial products helps members make informed decisions, leading to better utilization of SACCO services like savings accounts and loans. Additionally, knowing how to manage loans responsibly and save effectively reduces defaults and ensures the financial health of SACCOs.

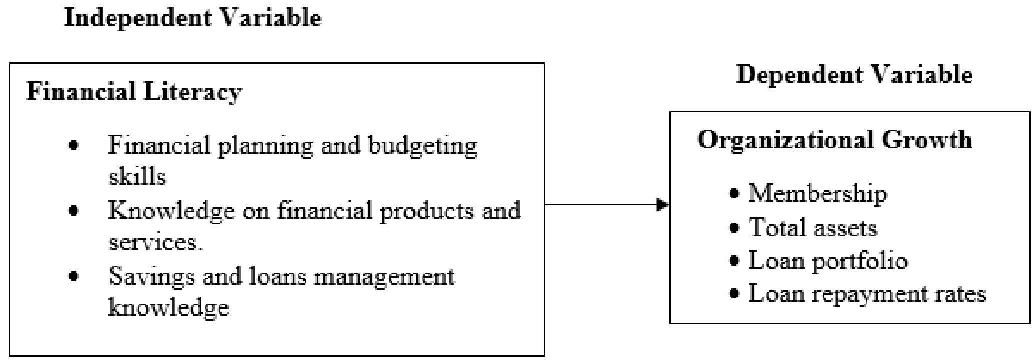

Figure 1:Conceptual framework

VI. Research Methodology

Research Design

An explanatory research design was employed in this study. This design is suitable for studies aimed at understanding the cause-and-effect relationships between variables (Rahi, 2017). It seeks to explain why and how certain phenomena occur by identifying the factors that contribute to them. In this study, an explanatory research design helped to gain in-depth insights into the influence of financial literacy on the financial performance of Deposit-taking SACCOs.

Target Population

The target population comprised 134 managers from all 26 deposit-taking SACCOs in the Eastern region of Kenya. These included finance managers, operations managers, marketing managers, information technology and heads of other departments including audit, procurement, and research.

Table 1:SACCO Managers

Category	**Total No. of Managers**
Finance department	26
Operations department	26
Marketing department	26
Information Technology department	26
Others(Audit, Procurement & Research)	30
Total	**134**

Source: (SACCOs Operations Department, 2024)

The head of the finance department provided insights on the growth of deposit-taking SACCOs, including data on profits, assets, liabilities, loan portfolios, and other financial indicators. The head of the operations department offered data and insights on the day-to-day functioning of SACCOs, including their membership base, transaction volumes, and operational efficiency. The head of marketing department provided data on the SACCOs' efforts to enroll and retain members and the strategies for promoting financial inclusion. The head of the IT department gave data pertaining technological infrastructure of SACCOs, including the use of digital financial services and online platforms to enhance financial inclusion.

Sample Size and the Sampling Techniques

The sample comprised the heads of various departments, including the finance department, operations department, marketing department, and Information technology department. The heads of these departments were chosen based on the rationale that they are knowledgeable about various aspects of financial inclusion that contribute to the growth of deposit-taking SACCOs. Therefore, four respondents were selected from each Sacco, making it 104 respondents. The sample of the management respondents is presented in table 2.

Table 2: Sampled SACCO Managers

Category	Sample size
Finance department	26
Operations department	26
Marketing department	26
Information Technology Department	26
Total	**104**

Source: (SACCOs Operations department, 2024)

Purposive sampling was used to select the heads of departments from the finance department, operations department, marketing department, and information technology department. Purposive sampling is a method where respondents are intentionally chosen based on specific criteria (Campbell et al., 2020). This approach gathers information from key informants who have expertise on the topic (Campbell et al., 2020). As a result, it involves a small group of individuals who serve as representatives for the larger population.

Data collection instruments

The study utilized primary data collected using structured questionnaires. The questionnaire was selected because it allows the researcher to gather data from a large number of respondents in a short amount of time. This makes the data collection tool both cost-effective and time-efficient (Cheung, 2021). The questionnaires included both closed-ended and open-ended questions. Closed-ended questions enabled respondents to choose specific answers from predefined options. In contrast, open-ended questions gave respondents the opportunity to express their opinions and insights in more detail. The questionnaires were sectioned according to the research objectives.

Data Collection Procedure

The data collection process was done by the researcher, assisted by three research assistants. The research assistants were well-trained before the exercise. Data collection was done after all the necessary approvals and licenses had been obtained. The researcher and the research assistants administered the questionnaires face-to-face. The rationale for choosing this method was that this method enabled the data collector to ensure data accuracy and reliability and to clarify any ambiguities in the questions. Also, this method enabled the researcher to offer additional context if needed and maintain consistency in the administration process.

Data Analysis Procedures.

After data collection, the data was scrutinized and cleaned to identify any errors or inconsistencies. Quantitative analysis methods were then used to analyze the data, employing the SPSS. Both descriptive and inferential statistics were applied in the analysis. Descriptive statistics included percentages and mean. Inferential analysis was done using correlation and regression analysis. These methods were used to examine non-causal and causal relationships between variables. In selecting the analytical model, multiple regression analysis was an effective tool for quantifying the relationship between the dependent and independent variables. This was crucial for examining causality, as it allowed precise estimation of how changes in independent variables affect the dependent variable, providing a clear view of potential causal links. The regression model that was used is stated as follows;

$Y = \alpha + \beta_1X_1 + \varepsilon$

Where;

Y= Growth of deposit-taking SACCOs

α = Regression constant or Y intercept

β_1 = Coefficients of independent variable

X_1= Independent variable (Financial literacy)

ε **=** Stochastic error term assumed to be normally distributed

VII. Research Results

Out of 104 questionnaires administered, 83 were dully filled and returned. This represented a response rate of 79.8%, which was sufficient to give reliable results. The demographic analysis revealed a gender imbalance, with 61.4% of the respondents being male and 38.6% female. However, this imbalance did not affect the reliability of the findings. In terms of age, the majority (40.96%) were between 25 and 45 years old, reflecting a dominant presence of individuals in the productive working age.

Regarding education, a significant proportion of the respondents (51.8%) had undergraduate degrees, with the remainder having college diplomas, certificates, or postgraduate degrees. Regarding work experience, the majority of the respondents (45.8%) had worked in their organizations for 5-10 years. This indicated that they had worked long enough to give reliable insights into the influence of financial literacy on the growth of deposit-taking SACCOs in the eastern region of Kenya.

Table 3: Demographic Findings

Variable	Categories	Frequencies	Percentages
Gender	Male	51	61.4
	Female	32	38.6
Age	18-25 years	17	20.48
	26-45 years	34	40.96
	46-50 years	19	22.89
	Above 50 years	13	15.66
Education Level	College Diploma/Certificate	23	27.7
	Undergraduate Degree	43	51.8
	Post Graduate Degree	17	20.5
Duration Worked	Less than 1 year	9	10.8
	1-5 years	21	25.3
	5-10 years	38	45.8
	Above 10 years	15	18.1

Source: Author, 2025

VIII. Descriptive Analysis

The study established that financial literacy services as part of financial inclusion positively and significantly influenced the growth of deposit-taking SACCOs in the Eastern region of Kenya. The respondents strongly agreed that the financial literacy programs provided by their SACCO have significantly improved members' ability to manage their finances, that their SACCO members are well-informed about the various financial products offered, and that financial literacy programs equip SACCO members with a good understanding of the different financial products and services. They also agreed that the programs give members confidence in managing both savings and loan repayments effectively and that SACCOs provide adequate financial literacy resources tailored to the diverse needs of the members. There was neutrality in the opinion that financial literacy programs enable members to regularly create and follow budgets to manage income and expenses effectively, that financial literacy efforts have reduced the number of loan defaults in the SACCO, and whether management regularly reviews and updates the financial literacy content to ensure its relevance to members.

The findings suggest that the respondents perceive financial literacy programs as highly effective in informing SACCO members about available financial products and equipping them with the knowledge and confidence to manage their savings and loan repayments effectively. Additionally, the availability of tailored financial literacy resources is acknowledged as a valuable support for members. The respondents, however, had mixed perceptions about the practical impact of these programs, such as enabling members to consistently create and follow budgets, reducing loan defaults, and ensuring that financial literacy content remains updated and relevant.

Table 4: Descriptive Results for Financial Literacy

Statements	N	Mean	Std
The financial literacy programs provided by our SACCO have significantly improved members' ability to manage their finances.	83	4.5783	.73452
Our members are well-informed about the various financial products offered by our SACCO.	83	4.8434	.42718
Financial literacy programs equip the members with a good understanding of the different financial products and services offered by the SACCOs	83	4.8193	.41744
Financial literacy programs give members confidence in their ability to manage both savings and loan repayments effectively.	83	4.5181	.78649
Financial literacy programs enable members to regularly create and follow budgets to manage income and expenses effectively.	83	3.1325	.63957
Financial literacy efforts have reduced the number of loan defaults in our SACCO.	83	3.0602	.88826
Our SACCO provides adequate financial literacy resources tailored to different member needs.	83	4.5904	.66325
Management regularly reviews and updates the financial literacy content to ensure its relevance to members.	83	3.4458	1.02711

Source: Author, 2025

Growth of Deposit-Taking SACCOs

Respondents were asked to indicate the extent to which they agreed or disagreed with various statements concerning the growth of the deposit-taking SACCOs.

Table 5:Descriptive Results for Growth of Deposit Taking SACCOs

Statements	N	Mean	Std
The number of members in our SACCO has increased in recent times.	83	4.0723	.77747
The total assets of our SACCO have grown significantly.	83	3.1325	.80806
The size of our SACCO's loan portfolio has expanded.	83	4.0843	.81457
There has been an increase in member savings and deposits at our SACCO.	83	4.4458	.78481
The loan repayment rates within our SACCO have improved.	83	4.0361	.86173
Our SACCO has successfully expanded its membership base.	83	3.2651	.58611
The value of assets held by our SACCO has increased over time.	83	3.1446	.76720
The volume of loan disbursements by our SACCO has grown.	83	4.1205	.80240

Source: Author, 2025

The respondents strongly agreed that the number of members in the SACCO has increased recently, that the size of the loan portfolio has expanded, and that member savings and deposits have increased.

Furthermore, they agreed that loan repayment rates have improved and that the volume of loan disbursements has grown. They neither agreed nor disagreed that the total assets of the SACCOs have grown significantly. They showed neutrality on whether the SACCOs have successfully expanded their membership bases and whether the value of assets held by the SACCOs has increased over time.

The average standard deviation was 0.7753, which indicated moderate variability in the responses. This means that while there is general agreement in the findings, there is some diversity in opinions shared by the respondents.

The findings imply that SACCOs in the Eastern region of Kenya have experienced positive financial growth, with notable increases in membership, loan portfolio size, member savings, and loan disbursements. Improved loan repayment rates indicate stronger financial discipline among members, which contributes to SACCOs' stability. However, the uncertainty regarding significant asset growth and membership expansion suggests that while financial indicators are improving, broader institutional growth may be slower. This highlights the need for strategies to strengthen asset accumulation and expand the member base to sustain long-term financial performance and stability.

IX. Inferential Analysis

Inferential analysis was conducted to determine the relationship between financial literacy and the growth of deposit-taking SACCOs, as well as the effect of financial inclusion on the growth of deposit-taking SACCOs in the East region of Kenya. This was done using correlation and simple linear regression methods.

Correlation Analysis

The correlation analysis results indicated a statistically significant relationship between financial literacy and the growth of deposit-taking SACCOs in the Eastern region of Kenya ($r = 0.264$, $p = 0.016 < 0.05$). This suggests that improved financial literacy among members contributes to the growth of deposit-taking SACCOs.

Table 6: Correlation Analysis

		Growth of Deposit-Taking SACCOs
Financial Literacy	Pearson Correlation	.264*
	Sig. (2-tailed)	.016
	N	83

Source: Author, 2025

Regression Analysis

Regression analysis was used to determine the influence of financial literacy on the growth of deposit-taking SACCOs in the Eastern Region of Kenya. The model summary results show a positive correlation between the growth of deposit-taking SACCOs and financial literacy ($R=0.264$). The R square value indicates that financial literacy contributes to a 7% variation in the growth of SACCOs.

Table 7: Model Summary for Financial Literacy and Growth

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.264[a]	.070	.058	2.21745

Source: Author, 2025

The ANOVA table results indicate that the F statistic ($F = 6.087_{1\ 81}$) of the regression model was statistically significant and sufficient to predict how the growth of deposit-taking SACCOs is influenced by financial literacy ($p=0.016<0.05$). The test of the statistical significance of financial literacy was done using ttests. The analysis results indicated that financial literacy has a positive coefficient when used as a predictor of the growth of deposit-taking SACCOs (β =.2762) and has a t-statistic of 5.516, which was significant at a 5% level of significance (since 0.016<0.05).

Table 8: ANOVA Results for Financial Literacy and Growth

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.932	1	29.932	6.087	.016[b]
	Residual	398.285	81	4.917		
	Total	428.217	82			

Source: Author, 2025

This suggests that the growth of deposit-taking SACCOs was significantly influenced by financial literacy and that the growth of deposit-taking SACCOs would improve if deposit-taking SACCOs improved their financial literacy programs. The beta coefficient of 0.276 implies that when financial literacy increases by an additional unit, the growth of deposit-taking SACCOs increases by 0.2762.

Table 4.15: Coefficients for Financial Literacy and Growth

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	20.517	3.720		5.516	.000
	Financial Literacy	.2762	.112	.264	2.467	.016

Source: Author, 2025

The following model was fitted:
$Y = 20.517+.276X_1$
Where;
Y= growth of deposit-taking SACCOs
X_1= financial literacy

From the fitted model, when the financial literacy variable is held as zero, the expected value of growth of deposit-taking SACCOs is 20.517, which was statistically significant.

X. Discussion

The findings of the study underscore the significant role that financial literacy plays in the growth of deposit-taking SACCOs in the Eastern region of Kenya. The financial literacy programs offered by these SACCOs have effectively empowered members by enhancing their financial management skills. Improved financial knowledge has led to better management of personal finances, such as saving consistently, repaying loans on time, and adhering to budgets. Moreover, these programs have provided members with valuable insights into the various financial products and services offered by the SACCOs, enabling them to make informed and effective use of the resources available. This, in turn, increases members' confidence and engagement with SACCO services, fostering a positive cycle of financial behavior that is crucial for the long-term sustainability and growth of the institution.

The results suggest that SACCOs that prioritize financial education are more likely to experience stronger growth and greater financial inclusion. As members become more financially literate, they are more likely to participate actively in SACCO activities, which leads to an increase in both membership and financial contributions, such as savings and loan repayments. This increased engagement directly impacts the growth of SACCOs, as it enhances their financial stability and encourages the development of more tailored financial products. Furthermore, widespread financial literacy stimulates broader financial inclusion, as individuals who were previously excluded from the formal financial system due to a lack of knowledge are now empowered to make use of available services. Consequently, SACCOs that invest in financial literacy programs not only improve the financial well-being of their members but also set the stage for sustained institutional growth and contribute to the broader financial inclusion agenda.

The findings are in tandem with the findings of Ntshalintshali (2019), who, in a study on how financial literacy contributes to financial inclusion among women in South Africa, the findings indicated that financial literacy positively changed the attitudes of women towards the poor and unsuccessful financial management practices such as savings, spending, and investment. Similarly, a study by Ndegwa and Koori (2019) examined the impact of financial inclusion on the performance of deposit-taking SACCOs in Meru County and found that financial literacy provided members with the necessary knowledge and skills for effective personal asset management. Additionally, the management of the deposit-taking SACCOs was well-informed about setting dividend rates on members' savings and effectively leveraged customers' financial knowledge to develop tailored products. Other similar results were obtained by Priyantoro, Ratnawati, and Aisjah (2023) and Kasozi and Makina (2021). Priyantoro, Ratnawati, and Aisjah (2023) found that financial literacy improved the performance of businesses in Indonesia by improving financial management and risk attitudes, while Kasozi and Makina (2021) established that financial literacy promotes financial inclusion in Uganda and contributes to business growth.

XI. Conclusion

The study concluded that financial literacy plays a key role in the growth of deposit-taking SACCOs in the Eastern region of Kenya. Despite the challenges faced by the SACCOs, the findings suggest that well-structured financial literacy programs can significantly enhance members' financial capabilities, which, in turn, positively impacts the growth of deposit-taking SACCOs. As deposit-taking SACCOs continue to evolve in a dynamic financial landscape, it is evident that strengthening financial literacy efforts will be a key strategy in boosting membership engagement, improving financial management practices, and ultimately promoting organizational growth. The study concluded that for SACCOs to remain competitive and resilient, continuous investment in financial literacy initiatives is crucial, ensuring that members are empowered with the knowledge and skills required to navigate the complexities of savings, loans, and financial planning.

XII. Recommendations

The study concluded that financial literacy is crucial for the growth of deposit-taking SACCOs in the Eastern region of Kenya. The study recommends that the SACCOs in the Eastern region of Kenya are recommended to improve the rollout of financial literacy programs to increase access and appreciation of the services. Also, deposit-taking SACCOs are recommended to regularly update and customize their financial literacy programs to address evolving financial trends and challenges. SACCOs should also develop more practical and interactive financial education strategies to ensure members can apply financial literacy concepts effectively, leading to better budgeting, improved loan repayment behaviors, and overall financial stability.

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