FINANCIAL RISK MANAGEMENT PRACTICES AND ASSET QUALITY OF DEPOSIT TAKING SACCOS IN NYERI COUNTY, KENYA

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ABSTRACT

The sustainability of deposit-taking SACCOs depends on asset quality since it directly affects their financial situation, stability, and capacity to properly control risks, therefore ensuring long-term survival. SACCOs nationally have battled changing asset quality with non-performing loans ranging from 1.98 percent to 2.4 percent between 2019 and 2023. Asset quality in Nyeri County has been even lower, ranging from -1.4 percentage to 3.5 percent, so stressing more difficult maintenance of financial stability than national norms. The research to determine the effect of; liquidity risk management practices on asset quality of deposit taking SACCOs in Nyeri County, Kenya. The time scope of the study was the period between 2019-2023. The study was informed by the Liquidity Preference Theory. The research used descriptive research design. The unit of analysis was 11 deposit-taking SACCOs in Nyeri County. The unit of observation was operations Managers, credit Managers and risk management Managers of each of the SACCOs. The study utilized census to select a sample of 33 selected managers. The study employed both primary and secondary data. Primary data was collected through a questionnaire while secondary data was obtained utilizing data collection sheet. Various diagnostic tests were carried out including. The tool of analysis was Statistical Package of Social Sciences Version 24. Both descriptive and inferential statistics were employed to analyze the data. Descriptive statistics utilized percentages, frequencies, measures of central tendencies (mean) and measures of dispersion (standard deviation) while inferential analysis involved use of correlational analysis and panel regression analysis. Data was displayed tables and graphs. The research found that effective management of liquidity ensures that SACCOs may meet their short-term financial obligations, manage withdrawal requests, and avoid liquidity shortages that can cause financial instability. Preserving asset quality and preventing defaults depend on this approach. The research concluded that the financial risk management policies in Nyeri County, Kenya, had poor quality more especially, SACCO asset quality is affected by effective strategies of financial risk management including liquidity risk management, strategic risk management, interest rate risk management. The research recommends that implementing best practices in liquidity risk management would allow SACCOs to ensure they can satisfy their financial obligations and avert liquidity difficulties. Regulatory bodies like SASRA should also set and apply risk management requirements more aggressively.

Keywords: Financial risk management, Liquidity Risk Management, Asset Quality

INTRODUCTION

Background of the study

In Kenya, SACCOs have implemented several financial risk management practices catered to their specific operational and legal setting. Some of these practices are adoption of credit score appraisals, business continuity planning, asset liability management, loan portfolio diversification, aligning asset-liability. SACCOs should first comprehend the performance of risk management strategies so as to enhance their financial resilience, safeguard member savings, and sustainably offer financial services to their clients (Kahuthu, D. G. et al 2016) studied the effects of Prudential Regulation on financial performance of DT-SACCOs in Kenya and found that SACCOs can gain understanding to improve Sacco's governance, enhance risk management systems and support a sustainable future by inheriting financial risk management techniques. In the context of financial risk management strategies and asset quality of DT-SACCOs in Nyeri County, Kenya, several fundamental elements are vital in maintaining stability and confidence. Liquidity risk management practices are core in ensuring that SACCOs can fulfill their short-term obligations and preserve operational continuity (Basel Committee on Banking Supervision, 2010).

Liquidity risk management strategies are better assessed through quantitative measures, legal rules, qualitative evaluations, market-based indicators to guarantee efficient liquidity risk management. The following approaches are adopted to ensure effectiveness; liquidity ratios, quick ratio or acid-test ratio, cash flow analysis where it encompasses estimation and monitoring cash inflows and outflows to assess liquidity positions under different situations (Allan M. Malz 2011), stress testing, regulatory compliance, qualitative assessments and market-based measures. Asset quality is a core measure of financial situation and risk profile of DT-SACCOs in Nyeri County, Kenya. Locally, the CBK (2021) defines asset quality as the percentage of non-performance loans (NPLs) to total loans, thus showing the level of credit risk and the SACCO's capacity to properly handle loan recovery. Furthermore, SASCOs in Kenya as regulated by SASRA, (2020) Act stress asset quality based on the percentage of high-quality loans and investments producing income without unnecessary risk. Internationally, the International Monetary Fund (IMF, 2019) defines asset quality as the level to which a financial institution's assets are devoid of challenges or errors, covering investments that have depreciated or loans failing performance criteria.

Deposit Taking-SACCOs in Nyeri has diversified benefits unlike those of other counties. Its low yet steady growth rates and strong SACCO network make it more beneficial than areas where SACCO operations could be either young or fully developed to produce thorough research. Although bigger counties like Nairobi or Nakuru have more SACCO networks, their complexity could confound the evaluation of operational and regulatory difficulties. The small yet vibrant SACCO sector of Nyeri County offers a clear comprehension on how laws, especially those enforced by SASRA, directly affect SACCO profitability, governance, and member satisfaction (SASRA, 2023).

Statement of the Problem

Deposit Taking SACCOs plays a vital role on global and local financial inclusion and economic development by providing accessible financial services to underserved communities and encouraging savings mobilization and credit accessibility (FSD Africa, 2021; World Council of Credit Unions, 2019). Kenyan SACCOs facilitate entrepreneurial endeavors, generate employment, and eliminate poverty, thus strengthen economic resilience (Mwangi & Mutiri, 2018). SACCOs must effectively manage asset quality if they are to keep financial stability and member confidence, which calls for strong risk assessment systems and regulatory standard adherence (Basel Committee on Banking Supervision, 2018; CBK, 2021). SACCOs' dedication to sound asset quality policies overseen by regulatory authorities such as SASRA, guarantees openness in financial operations and increases their potential to resist economic difficulties (Central Bank of Kenya, 2021). The year-to- year variations in Non-Performing Loans in Nyeri County when compared to national averages expose notable variations that support the necessity of study on asset quality of deposit-taking SACCOs in the area. Nyeri County's NPL rise in 2019 was 2 percent, much in line with the nation average of 1.98 percent (SASRA, 2023; KUSCCO, 2023.). Nyeri's 3.5 percent rise in 2020, compared to the national rise of 3.26%, suggests a declining trend in asset quality nevertheless. Principally 2021 saw a drop in NPLs in Nyeri by -1.4 percent, dissimilar to the national average drop of -1.8 percent, implying different regional effects on asset quality. These consistent changes highlight the need of targeted research on the financial risk management techniques in Nyeri County SACCOs to improve asset quality (SASRA, 2023; KUSCCO, 2023), even if Nyeri's NPLs rose to 2.8 percent, somewhat above the national average of 2.4 percent.

The context of the most recent studies has been mostly within banks, NSE-listed enterprises, and MFIs instead of SACCOs. For example, Maina (2019) researched strategic risk management among NSE-listed companies. These studies have mostly ignored the special operational and regulatory environment of SACCOs, which calls doubt on the relevance of their results to these cooperative financial organizations. Research especially targeted at risk management techniques within this framework is much needed given the unique qualities of SACCOs. This study closes this contextual gap by concentrating on SACCOs, and advances knowledge of how these organizations control risks. Furthermore, majority of researches were done in areas with varying legal systems, such Europe and Asia, where results would not be applicable to underdeveloped nations like Kenya (Soin & Collier, 2013; Sharma et al 2018). For instance, Soin and Collier (2013) studied risk management in the UK whereas Sharma et al (2018) studied it in India, settings very different from Kenya's SACCO environment.

This research addressed these conceptual, contextual, and geographical gaps by examining all four risk management practices within Kenyan SACCOs. To assess the effect of liquidity risk management practices on asset quality of DT-Saccos in Nyeri County, Kenya. **H_{01}** liquidity risk management practices have no significant effect on asset quality of DT-Saccos in Nyeri County, Kenya.

Theoretical Review

Liquidity Preference Theory

This theory was put forward by British economist John Maynard Keynes in 1936 as part of his classic work, *The General Theory of Employment, Interest, and Money*. He argued that people prefer to keep part of their wealth in liquid form so that they are able to respond quickly to urgent needs and to seize profitable opportunities as they arise. The theory maintains that the desire for liquidity shapes the demand for money and, in turn, has a direct effect on interest rates. Keynes emphasized that liquidity preference is the central factor in determining the equilibrium rate of interest since it captures the compromise between the convenience of holding liquid assets and the returns forgone when such resources are not invested. This theoretical view is important in guiding DT-SACCOs in Kenya, where careful liquidity management is vital for reducing exposure to risk while preserving the strength of their asset base.

The case for holding sufficient liquid assets is grounded in the need for SACCOs to meet short-term obligations without being forced into distress sales, which could weaken their overall financial integrity. Mwangi and Murigu (2022) observed that SACCOs with solid liquidity risk strategies are able to protect their asset portfolios from losses caused by sudden funding gaps. In the same spirit, Gitagia (2020) highlighted that structured financial management choices have significant implications for firm value among listed companies, a finding that illustrates how disciplined financial decision-making strengthens asset quality. Liquidity Preference Theory thus offers a useful foundation for evaluating liquidity exposures and judging the soundness of an institution's asset management practices. Keynes's view that liquidity preference pushes up interest rates suggests that higher demand for liquidity directly influences the lending behavior of SACCOs. With strong liquidity controls, SACCOs are better positioned to manage rate volatility, maintain competitive credit products, and at the same time protect the quality of their assets.

The interaction between liquidity and asset quality is particularly relevant since adequate liquidity underpins the ability of SACCOs to maintain stable returns on assets. Kariuki and Mutiri (2023) established that those institutions with healthier asset structures also displayed stronger liquidity risk practices, confirming the link between liquidity management and stability. Building on this, Oguna and Gitagia (2025) demonstrated that effective management of the capital lifecycle fosters financial resilience in women's table banking groups, showing that well-organized liquidity strategies support both short-run survival and long-term stability. In summary, Liquidity Preference Theory gives a strong theoretical anchor for examining the connection between liquidity risk and asset quality in SACCOs. By encouraging prudent liquidity planning, it draws attention to the balance between meeting immediate needs and sustaining profitability in the future. For SACCOs in Nyeri County, this balance is decisive in ensuring stability of operations and the protection of asset quality.

Empirical Review

Liquidity Risk Management Practices and Asset quality

Berger and DeYoung (2021) analyzed the impact of credit risk management strategies on loan performance and NPL levels, employing data from global banking institutions. Regression analysis among other quantitative techniques was used in the study to investigate the link between loan performance and credit risk management. Though the study mostly concentrated on banks in developed nations, the results showed that strict credit risk management systems were linked with reduced non-performing loan percentages and improved asset quality. The particular difficulties SACCOs in Kenya experience may not be fairly reflected in this regional and contextual restriction. Utilizing Credit Risk Theory, particularly with an eye toward SACCOs in Nyeri County, this study will fill in the gap by looking at how their credit risk management strategies affect asset quality in a varied financial environment.

Laeven and Levine (2023) examined the influence of credit risk management practices on the stability and quality of bank assets in emerging nations. Cross-sectional analysis and econometric models were applied to examine data from several growing economies. The results revealed that good approaches of credit risk management produced lower NPL levels. Still, the study did not properly look at the rules and challenges smaller financial companies like SACCOs face, despite its conceptual concentration on larger banks. This study will focus on SACCOs in Nyeri County, therefore providing comprehensive understanding of credit risk management and how it influences asset quality in smaller institutions

Chernobai, Jorion, and Yu (2021) examined the potential of credit risk management to mitigate operational risk and enhance the asset quality of banks worldwide. Based on statistical techniques and a dataset from foreign banks, the study found greater credit risk management linked with reduced NPLs and enhanced operational asset quality. The operational dynamism of SACCOs could not be sufficiently reflected in the methodological focus on global banks. The present study will modify the results to meet the context of SACCOs in Nyeri County, evaluating the effect of specific credit risk management measures on asset quality inside these organizations and resolving their distinctive operational challenges.

Mwangi and Wanjiku (2022) examined the impact of credit risk management strategies on the asset quality of SACCOs in Nyeri County, Kenya. Through statistical analysis of structured questionnaire data and a survey-based technique, the study revealed that strong credit risk management measures reduce NPL levels. Still, the research lacked thorough investigation of the methodological aspects of various credit risk-reducing strategies. This study will close the gap by way of a comprehensive analysis of numerous credit risk management techniques and their effects on asset quality in Nyeri County SACCOs.

Choi and Ghosh (2022) assessed the effectiveness of credit risk management strategies using quantitative data obtained from South Korean financial institutions. The research employed statistical techniques to ascertain the influence of several risk control measures on loan performance and asset quality. Though the study was constrained as it only included

quantitative data, it offers interesting analysis of the relationship between credit risk management and financial performance. The researchers noted that quantitative methods can ignore sophisticated knowledge on the contextual factors affecting credit risk management and the pragmatic challenges. They stressed how badly their methods of data collecting caught significant qualitative elements such institutional cultures and managerial points of view. The proposed study would use qualitative data gathered from case studies and interviews with SACCO managers in Nyeri County to go around this limitation. This method aims to provide a better knowledge of the application of credit risk management strategies and their consequences on asset quality outside what numerical data can convey

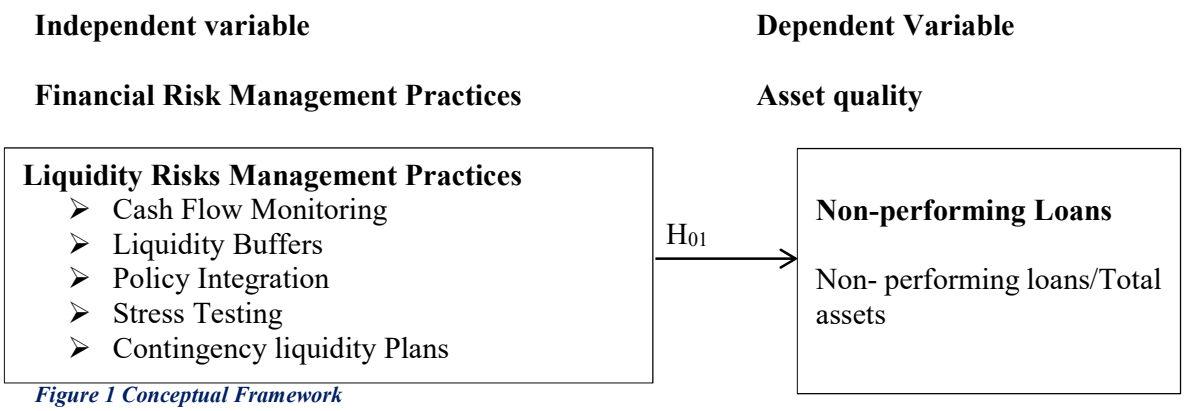

Figure 1 Conceptual Framework

RESEARCH METHODOLOGY

The research used descriptive research approach which allowed the researcher to characterize events as they occurred while looking at variable correlations. The research employed both source and secondary data. primary data was collected to evaluate the independent factors while a data review form was utilized to gather information about the dependent variable. The subsequent multiple regression model was utilized for the analytical study;

$Y_{it} = \beta_0 + \beta 1 LR_{it} + \varepsilon_{it}$

Whereby:

Y=Asset quality

B_0=Constant

LR=liquidity Risk management Practices

Ɛ=Error term

β_1,-β_4 =Regression Coefficients of Independent Variables

This research concentrated on eleven deposit-taking SACCOs in Nyeri County. The units of observation was SACCOs While the unit of analysis was Operations Managers, Credit Managers, and Risk Management Officers from every SACCO. Census approach was utilized to gather data. This study mostly used a census as the means of data collecting targeting all 33 staff across the 11 DT- SACCOs in Nyeri County. There were eleven operations managers, eleven credit managers, and eleven risk management officers in all. The research employed both source and secondary data. While a data review form was utilized to gather information about the dependent variable, primary data was gathered to evaluate the independent factors. The questionnaire for this study comprised in both open- and closed-ended questions divided

into sections depending on each research purpose and providing background information. A structured questionnaire was designed and pre-tested during the pilot study to guarantee its clarity and relevance, following usual techniques for tool validation The researcher received an introduction letter from Kenyatta university that helped to get to the study area. Source data was sourced from operations managers, credit managers, and risk management officials of the eleven DT-SACCOs located in Nyeri County. Data for this research was compiled and run with SPSS version 24. Data analysis followed both inferential and descriptive statistical models. Diagnostic statistics were employed to ensure the goodness of fit and evaluate the validity and dependability of the model in evaluating the link between the financial risk management strategies and asset quality.

RESEARCH FINDINGS AND DISCUSSION

Descriptive Analysis

Liquidity Risk Management Practices

The researcher sought to assess the influence of liquidity risk management practices on asset quality of deposit taking Saccos in Nyeri County. The findings were as indicated in table 1.

Table 1. Liquidity Risk Management Practices

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std
The SACCO regularly monitors cash flow projections to ensure sufficient liquidity for short-term obligations.	69	22	3	5	4	2.258	0.986
The SACCO employs liquidity buffers, such as maintaining reserve funds, to minimize the risk of loan defaults.	70	22	0	6	6	4.303	0.457
The SACCO has policies in place that link liquidity gap analysis with the monitoring of asset quality.	40	55	0	2	3	4.145	0.807
The SACCO conducts periodic stress tests to assess the impact of liquidity changes on loan portfolio performance.	49	33	12	3	3	4.452	0.592
The SACCO utilizes liquidity contingency plans, such as emergency credit lines or liquid asset sales, to manage potential liquidity shortages.	55	40	0	5	0	4.145	0.807

Source: Research Data (2024)

Table 1 demonstrates the role of liquidity risk management practices in maintaining the asset quality of SACCOs. The data show that 69 percent of responders strongly concurred and 22 percent concurred that regular liquidity monitoring is essential for maintaining asset quality. This is reflected in a mean score of 2.258 and a deviation of 0.986, indicating moderate variability in responses. These findings suggest that while the majority value regular monitoring, a small proportion of respondents hold differing views. Regular tracking of liquidity helps SACCOs anticipate and address cash flow challenges, thereby safeguarding the quality of their assets.

Additionally, Table 1 shows strong consensus on the importance of liquidity contingency plans, with 70 percent strongly agreeing and 22 percent agreeing that such plans improve asset quality. The practice achieved a high mean score of 4.303 and a variation of 0.457, reflecting low variability in opinions. Similarly, compliance with liquidity coverage ratios was supported by 55 percent of respondents concurred and 40 percent strongly concurred, resulting in a mean score of 4.145 and a variation of 0.807. This underscores the perception that regulatory adherence plays a vital role in reducing non-performing assets, thereby enhancing overall asset quality.

Additionally, 49 percent of participants strongly concurred and 33 percent concurred that proficient cash flow management improves asset quality, attaining the maximum mean score of 4.452 with a variation of 0.592. Diversification of financing sources received a high rating, with 55 percent strongly agreeing and 40 percent agreeing, culminating in a mean score of 4.145 and a variance of 0.807. The findings highlight the need of strategic liquidity policies for improving SACCO financial stability: cash flow management and funding diversification among other aspects. The findings in Table 4.4 highlight the significance of effective liquidity management strategies in preserving the resilience and sustainability of SACCO asset portfolios.

Asset Quality of DT-Saccos in Nyeri County, Kenya

The research also intended to ascertain the trends in asset quality of DT-Saccos in Nyeri County as exhibited below in table 2.

Table 2: Asset Quality of DT-Saccos in Nyeri County, Kenya

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
The SACCO ensures that its loan portfolio is diversified to maintain asset quality.	31	43	6	8	13	3.655	1.185
The SACCO monitors the performance of its loan portfolio to promptly identify and address non-performing loans.	50	41	4	6	5	4.503	0.878
The SACCO implements prudent credit policies to protect asset quality.	48	44	0	5	3	4.307	0.738
The SACCO regularly assesses the value of its collateral to ensure it supports asset quality.	50	44	3	0	0	4.145	0.807
The SACCO has procedures in place to recover loans in default and maintain asset quality	46	42	5	4	1	4.073	0.816

Source: Research Data (2024)

Table 2 shows that the SACCO ensures that its loan portfolio is diversified to maintain asset quality as 31% responders strongly concurred and 43% concurred with a mean score of 3.655 and a variation of 1.185. This suggests the rather low level of agreement among SACCOs on the necessity of diversifying their loan portfolios. Diversification protects asset quality and helps to transfer risk among several kinds of loans, consequently controlling feasible defaults. The SACCO tracks the performance of its loan portfolio to quickly detect and handle non-performing loans as advised by results whereby 50% of respondents strongly agreed and 41%

agreed with a mean score of 4.506 and a variance of 0.878. This suggests most SACCOs continuously check their loan portfolios to guarantee they find and fix NPLs quickly. Prevention of asset degradation and protection of asset quality depend on early identification and prompt reaction.

The SACCO follows sensible credit policies to preserve asset quality. This was demonstrated whereby 48% of responders strongly concurred and 44% concurred with a mean score of 4.307 and a variance of 0.738. This proves that the most SACCOs have developed credit policies meant to maintain asset quality. Effective credit policies including cautious borrower selection, proper lending terms, and strong risk assessment methods help to decrease credit risk and preserve SACCO financial stability.

The SACCO routinely evaluates the value of its collateral supports asset quality. This is demonstrated where 50% of responders strongly concurred and 44% concurred with a mean score of 4.145 and a variance of 0.807. This suggests that many SACCOs give regular appraisal of collateral worth great importance, therefore ensuring sufficient backing for asset quality. Frequent collateral reviews help to reduce the risk related to secured loans and non-performing assets.

The SACCO has policies in place to recover loans in default and preserve asset quality since 46% of responders strongly concurred and 42% concurred, with a mean score of 4.073 and a variance of 0.816. This implies most SACCOs have systems in place to let loans in default recur under control, hence preserving asset quality. SACCO stability will be preserved and financial losses would be minimized by these steps.).

Diagnostic Test Results

Normality Test

Since multiple regression was the primary data analysis method, it was essential to ensure that the assumption of data normality was met. Normality can be assessed through various tests and graphical methods, such as the Kolmogorov-Smirnov test, Shapiro-Wilk test, measures of Kurtosis and Skewness, Quantile-Quantile (Q-Q) plots, and histograms (Saunders et al., 2009).

Table 3 Normality test results

Variable	Jargue – Bera Test	P – Value
Liquidity risk management practices	3.70389	0.156931
	14.1576	0.00084
	3.56972	0.16782
Asset quality	1.55628,	0.459259

Source: Research Data, 2024

The findings in Table 3 reveal the Jarque-Bera statistics together with similar p-values for liquidity risk management practices ($p = 0.156931$), with the p-values >0.05 significance level. This suggests that the residuals for these factors do not greatly deviate from a normal distribution.

Stationarity Test

This research utilized panel data, hence it was imperative to make sure the mean and variance of the data were constant across time. Making sure this assumption is valid helps the regression analysis to be more accurate in terms of data true relationships and increases its validity. In panel data analysis, thus, obtaining reliable conclusions depends on first looking for time-invariant properties of the variables.

Table 4 Stationarity Test results

Variable	ADF Statistics	Prob.*	1%	5%	10%
Liquidity risk management practices	3.1608	0.0097	-2.5708	-1.9416	-1.6162
Asset quality	-11.0054	0.003	-2.5708	-1.9416	-1.6162

Source: Research Data, 2024

Table 4 shows the stationarity test findings for the variables of the study; these were evaluated with the ADF test. Liquidity risk management strategies exhibited non-Stationarity; ADF statistics above the crucial range indicated the existence of unit roots.

To address the non-stationarity of these variables, the research differenced Liquidity risk management methods practices which are commonly used in order to handle non-stationary data. Differencing makes the variables fit for more study and allows the mean of the time series to be stabilized. Steady data and preserves the integrity of the regression analysis by tackling non-stationarity, the research guarantees that the results are derived from dependable. A study by Baltagi, (2021) support this metamorphosis since it guarantees the preciseness and dependability of the regression findings by eliminating the fictitious effects resulting from non-stationary variables.

Autocorrelation Test

Testing for autocorrelation is essential to ensure that the error terms across various time periods are not linked since autocorrelation can produce biassed and useless estimates, therefore compromising the validity of the results.

Table 5 Autocorrelation Test Results

Wald Test:
Equation: Untitled

Test Statistic	Value	df	Probability
F-statistic	15197.41	(4, 316)	0.003
Chi-square	60789.65	4	0.003

Source: Research Data, 2024

Table 5 shows notable serial correlation in the residuals of the model by displaying the Wald Test for autocorrelation. With degrees of freedom (4, 316) the F-statistic is 15,197.41 and a p-value of 0.003. With 4 degrees of freedom and a p-value of 0.003 the Chi-square statistic is also 60,789.65. Both numbers indicate that the residuals reveal in fact serial correlation by

rejecting the null hypothesis of no autocorrelation. This conclusion underlines the need of modifying for autocorrelation to prevent biassed and ineffective estimations, as highlighted by Greene (2018) and Wooldridge (2010). The technique of the FGLS estimate was applied for minimizing autocorrelation-induced inefficiencies. This approach solves serial correlation in panel data regression models, therefore providing more accurate and efficient estimations confirmed in the literature (Greene, 2018; Wooldridge, 2010). Notwithstanding employing FGLS, autocorrelation results of the regression analysis remain robust and reliable.

Regression Analysis

Table 6 FGLS Regression Results (Dependent variable: Financial sustainability)

Variable	Coefficient	Std. Error	t = Statistic	P > [t]	Low	High
C	1.3254	0.548	3.6174	0.001	0.634	2.132
Liquidity risk management practices	0.0060	0.013	2.4820	0.076	-0.02	0.017

Source: Research Data, 2024

From the above regression results, the subsequent regression equation was generated

Asset quality=1.3254+0.006CFit+ ε.....3.2

Where:

CF=Liquidity risk management practices

ε= Error term

1.3254= Y- intercept or constant term

0.006= an estimate of the expected percentage increase in asset quality corresponding to a one percentage increase in Liquidity risk management practices

Effects of Liquidity risk management practices on Asset quality

The first hypothesis sought to examine the effect of liquidity risk management practices on the asset quality of DT-SACCOs in Nyeri County, Kenya. The findings revealed a significant positive relationship, as indicated by a p-value of 0.076, which lies below the 0.05 significance level. This outcome demonstrates that liquidity risk management practices have a measurable influence on the quality of assets within these SACCOs. Proper liquidity control ensures that institutions maintain sufficient cash resources to meet obligations such as loan disbursements and member withdrawals, thereby minimizing the risk of default and strengthening asset portfolios. In addition, sound liquidity practices promote confidence among members, which supports continued contributions while reducing the likelihood of large-scale withdrawals that could destabilize the financial position of the SACCO. Maintaining strong liquidity also provides room for debt restructuring or refinancing arrangements, which helps reduce non-performing loans and safeguard asset value. Related evidence by Mutua and Gitagia (2025) further established that effective revenue enhancement strategies strengthen financial resilience at the county level, underscoring the broader link between disciplined resource management and institutional growth. Collectively, these insights confirm that prudent liquidity oversight is critical for sustaining both asset quality and long-term stability in DT-SACCOs.

Conclusions and Recommendation

Conclusion

The financial risk management policies in Nyeri County, Kenya, exhibited substandard quality, particularly since the asset quality of SACCOs is influenced by the efficacy of financial risk management methods, including liquidity risk management, strategic risk management, and interest rate risk management. These approaches considerably increase SACCOs' possibilities for control of financial risks, asset protection, and maintenance of financial stability. High R-squared value of these risk management strategies emphasizes their great predictive capacity, which highlights their importance in preserving asset quality and guaranteeing SACCOs' long-term viability. Overall, the study underlines the important need of SACCOs in Nyeri County to apply effective financial risk management strategies to preserve their asset quality, therefore ensuring financial stability and enabling fair development.

Recommendations of the Study

Maintaining the financial risk management systems in SACCOs depends on their being reinforced by means of framework strengthening. Implementing best practices in liquidity risk management would allow SACCOs to ensure they can satisfy their financial obligations and avert liquidity difficulties. Regulatory bodies like SASRA should also set and apply risk management requirements more aggressively. Giving Sacco direction and support on methods of managing liquidity risk will enable them to address transient financial requirements correctly.

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