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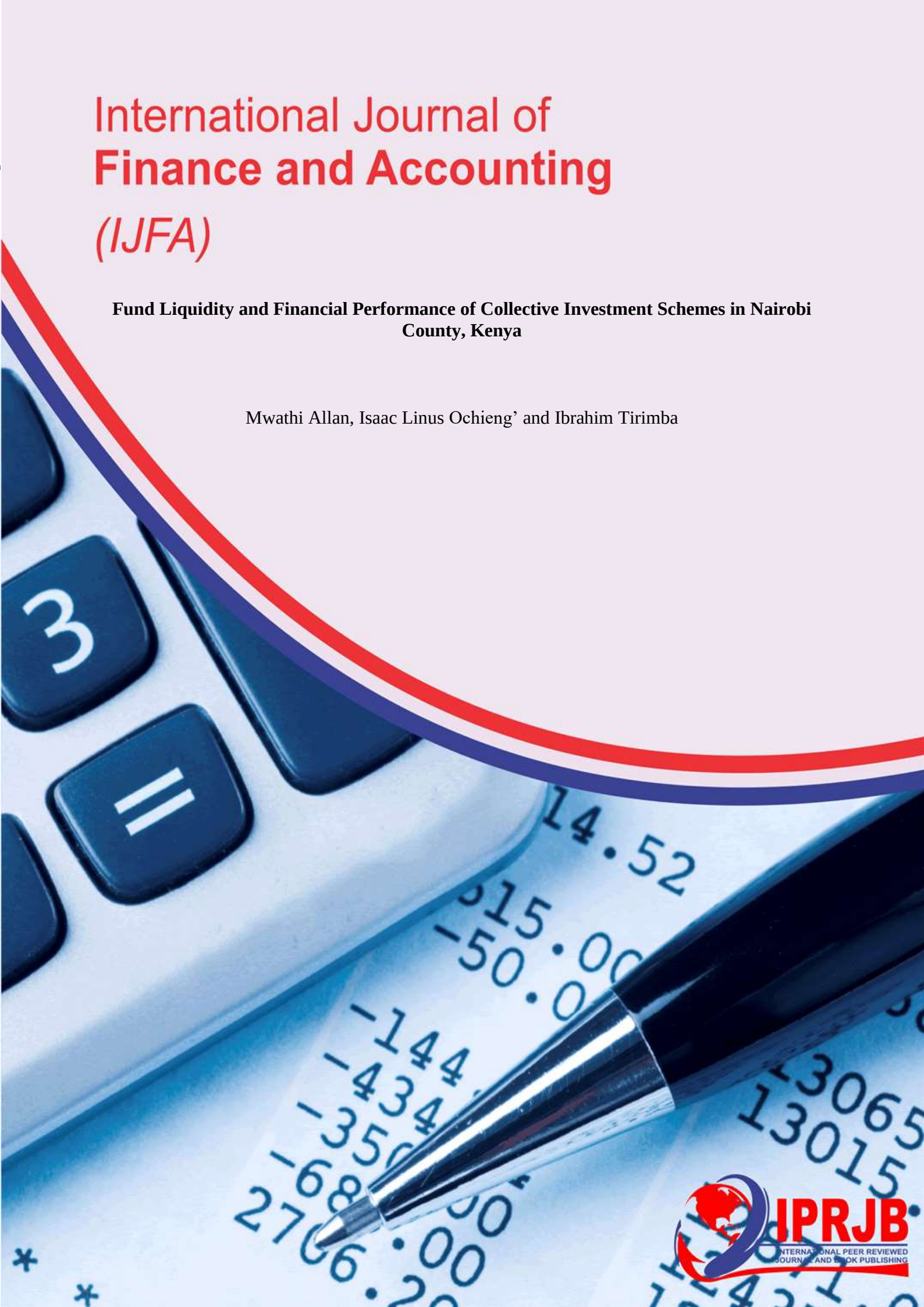

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Fund Liquidity and Financial Performance of Collective Investment Schemes in Nairobi County, Kenya

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Abstract

Purpose: Investment schemes in Kenya have a very low contribution to the country's GDP as compared to other countries. Further, the investment schemes in Kenya have underperformed below the set benchmarks and which raises concerns as to what attracts the under-performance of these firms. It is not clear whether the fund liquidity affect investment schemes performance, and which can enhance the ability of the investment schemes to reach their set benchmarks. The objective of the study was to examine the effect of fund liquidity on financial performance of investment schemes in Nairobi County in Kenya.

Methodology: The study adopted a descriptive research design. The study applied census study. The target population for this study was 25 investment schemes registered and licensed to operate in Nairobi County by the capital market authority of Kenya. The study used secondary data collection form to collect the data. The data was coded and imported into STATA software for analysis. Data presentation was done by use of tables and figures. Panel data regression and correlation analysis was used for inferential analysis. Test of hypothesis was done at 95% confidence interval.

Findings: The study findings of the panel regression model indicated a positive and significant effect between fund liquidity and financial performance of investment schemes in Nairobi County.

Unique Contribution to Theory, Practice and Policy: The study recommended strategies to improve inventory management and selling redundant assets to improve cash flow. Eliminating surplus equipment can provide a small amount of capital while also reducing the average cost of maintenance. Lastly, switching the short-term debt to long-term options to gain smaller monthly payments creates more time to pay off the overall debt.

Keywords: *Fund Liquidity, Financial Performance, Collective Investment Schemes*

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INTRODUCTION

A collective investment scheme (CIS) is a financial strategy in which multiple investors pool their funds with common financial goals. A qualified professional administrator oversees the funds. They are placed in an investment portfolio consisting of carefully selected bonds, shares, and securities. Unit holders get distributions from CIS's capital gains, dividends, and interest income (Mayie, 2018).Through collective investment schemes, investors can access a variety of local, national, and worldwide investment opportunities (Stacio 2020).A financial performance is a proportion of how well a firm can utilize its resources from its most primary business to generate returns affirmation. It is the extent to which a set objective is or has been attained, (Kimeu et al. 2015).

Cocis et al. (2021) defined financial performance as the degree to which the monetary targets of an association have been met, which is likewise a critical part to monetary evaluation to any speculation substance. Subsequently, it is an estimation of the capacity of Common Supports organizations to utilize restricted assets bringing about benefit age and fulfillment of upper hand as expressed Monetary ventures establishments with sound monetary execution advance speculation and speed up development financially,(Chepkorir et al., 2018).Liquidity is a measure of a company's capacity to meet ongoing financial obligations. For firms to successfully avoid going into default on their financial obligations and going through a financial crisis, their liquidity is crucial (Mohamed, 2016).

Investors have the chance to access a variety of regional and global investment opportunities through collective investment schemes. Investors can pool their assets to reduce the costs of purchasing and selling securities and negotiate for larger returns than they would if they made their own investments, claims Stacio (2019).Despite the good returns on CIS there are a number of reasons why CIS overall performance hasn't been as strong as it could be, some of which could be attributed to fund liquidity. It is in this context that the study sought to establish the effect of liquidity on financial performance of CIS in Nairobi County, Kenya

Statement of the Problem

Investment Schemes are designed to enhance investment management by combining assets from different accounts into a single fund with a particular investment strategy fund size by allowing investors to pool together their savings and to appoint an investment manager to act collectively on their behalf (Kigen et al., 2016). By using those investors enjoy the benefit of diversification which would otherwise be difficult to achieve. As per CMA report, (2022) the number of investment schemes in Nairobi county has grown from basically zero in 2001 to 11 in 2008 and to 16 as at 2011 and in 2022 to 25 registered institutions. Despite the growth in number, this investment schemes have witnessed slow performance (Kogi, 2015; Irungu, 2018).According to CMA report, (2015), most investment schemes have indicated fluctuations in their financial performance from 2016-2021 (IRA, 2021). For instance, in the year 2016 the average ROE was 3.6% which increased to 4.0% in 2017 and 4.6% in 2018, in 2019, ROE fell to 2.3% and stagnated to 2.3% in 2020 only to fall further to 1.75 in 2021 (CMA 2021; Kiptoo et al., 2023). These resulted to low growth of the investment firms with a marginal return of 2.5% compared to the global return of 4% (Chege et al., 2023). In 2022,the average ROE however increased to 3.45%, there was a slight improvement in terms of the investment returns as posted by the registered investment Schemes,(CMA 2023).The year 2023 saw a decline on the return with ROE recording an average of 2.4% way below the global marginal return of 4% (CMA report,2023). Despite Nairobi city county having 25 registered investment schemes

as at 2023 (CMA, 2023), only seven (7) enjoy 60% of the market share. This trend explains the high rate of investment schemes falling into receivership and liquidation problems. Comparing to other regional economies, the investment schemes to GDP in Kenya only accounts for 1.1%, low of Uganda which accounts for 2.4% and even diminutive compared to South Africa which accounts for 61.5% (Lion et al., 2021). From the CMA records it is in conclusion that here is a performance gap between the investment schemes and the overall industry. The gap could be the cause of complaints from members since some investment schemes are unable to pay their dues while others are on the verge of collapsing, or perhaps due to the type of investments, resulting to performance that they achieve, (Odira, 2018).It is not clear whether the fund liquidity has affected investment scheme performance or whether it enhances the ability of the investment industry funds to reach their set benchmarks (CMA, 2020). Besides, most studies on fund age and their effect on financial performance have concentrated on NSE-listed firms' or investment schemes listed at the NSE. From a financial point of view, the results from these studies cannot be applied in all the sectors since they are performing very differently based on the annual reports, they publish every financial year. Some of these studies are such as that of Nyamiobo, (2023), Muturi, Okibo, and Olweny (2018), Rosemary (2021), Akuno and Kariuki (2019), and that of Wangige (2016), Mwendwa, (2022) among others. Therefore, this study addressed the literature gaps that exist in this topical area. These gaps necessitate this study in order to determine the effect of fund liquidity on financial performance of investment scheme in Nairobi city county, Kenya.

Objective of the Study

The objective will be to examine the effect of fund liquidity and financial performance of investment schemes in Nairobi County

Hypothesis of the Study

H_0: Fund liquidity does not have a significant effect on financial performance of investment schemes in Nairobi County

LITERATURE REVIEW

Theoretical Review

Fund liquidity was supported by Liquidity Preference Theory by Keynes (1936). Keynes (1936) suggested three reasons why cash management procedures are critical for a firm, as stated by Njeru and Munene (2019). The theory of liquidity preference essentially describes the urge to carry cash on one's person. Any asset that can be quickly turned into cash is said to have liquidity; cash is thought to be the most liquid type of asset. Because liquidity primarily consists of operating assets, which are the institution's source of income and cash flow, Goddard, Tavakoli, and Wilson (2005) and Nunes, Sierrasqueiro, and Sequeira (2009) found in their studies that liquidity has a positive and significant effect on business performance.

Three reasons may be identified in Keynes' theory of money demand. The first is the transaction motive, which is the need for cash for necessities including transportation, wages, and the purchase of raw materials. The second reason for taking precautions is to save money for unforeseen costs, such medical bills from accidents or diseases. Thirdly, holding funds and waiting for future developments to exercise your rights to purchase stocks is the speculative motivation. Investors will purchase stocks and wait for prices to climb if it is anticipated that the stock price will rise and the interest rate will decline. The total amount of money in circulation in a nation is known as its money supply (Keynes 1936).Pandey (2010) expressed

support for this hypothesis and argued that it is impossible to overlook the necessity of cash for a company's everyday operations

The theory explains why various methods are used to manage cash and makes it possible to investigate how investment schemes in Nairobi County have made use of these methods and how well they have performed financially. While some investors may prefer illiquid assets, others, have diverse interests in liquidity. The financial performance increases with the liquidity of an asset.The Keynes' reasoning was challenged by several writers, including Rothbard (2016), who claimed that factors other than liquidity desire affect interest rates as Keynes recommended.

Conceptual Framework

The conceptual framework will therefore be based on the explanatory variable and the dependent variable as shown diagrammatically in Figure 2.3 below.

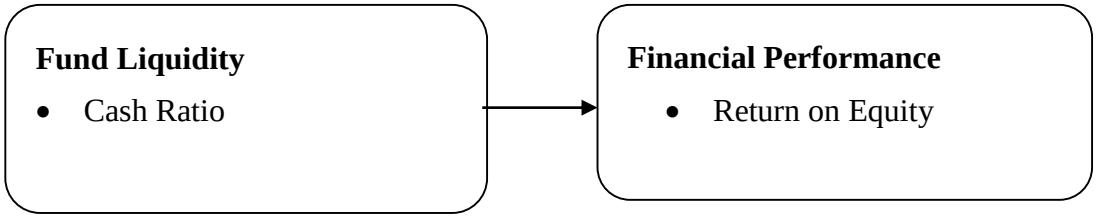

Figure 1: Conceptual Framework

Empirical Review

In 2020, Szajat et al. conducted a study examining the impact of firm liquidity on the financial performance of Slovakia's metallurgical industry. The study looked at 48 active enterprises. From 2007 to 2017, the data was available. The attempt to optimally capture firm-specific effects on performance was the driving force for the industry selection. The information was gathered from the Finstart Premium database's private version. The independent variables included asset turnover, age, cost effectiveness, liquidity, and company size as determined by the logarithm of assets. Return on assets and sales were the dependent variables. Fixed effect panel regression model was chosen for the final analysis, and multi regression analysis was the technique of choice for inferential analysis. The regression output based on ROA indicated that liquidity was positive and significant on the firm performance.

Irungu (2019) did a study on the effect of firm liquidity on financial performance of listed firms at the NSE. The study adopted a descriptive research design using the panel data technique for analysis. The target population was the 64 listed commercial firms, and they were all considered for observation using secondary data as sourced from the published financial statements that were shared publicly. The study finding revealed that liquidity had positive but significant effect on the ROA of the financial firms. Similar results were revealed on regressing independent variables against the ROE of the financial firms. A regression analysis of the same variable for non-financial firms revealed that liquidity had positive and significant effect on the ROE. From the results output of this study, it is evident liquidity impacted financial performance in an advantageous and significant way for all the listed firms at the NSE.

Sanghani (2014) looked into how liquidity affected non-financial enterprises listed on the Nairobi Securities Exchange's financial performance. The data analysis included multiple regression analysis and collected secondary data from NSE. According to the report, non-financial companies listed on the NSE have better financial performance when there is liquidity. According to the study, non-financial companies listed on the NSE have better financial success when their current ratio is high. The study also showed that non-financial companies listed at the NSE had better financial performance when their operating cash flow ratio increases. The study concluded that non-financial companies listed at the NSE had better financial performance when their debt to equity ratio rises. The study indicated that an increase in current ratio positively affects the financial performance, and therefore, it is recommended that non-financial companies listed at the NSE raise their current assets in order to increase their liquidity.

Research Gap

Studies on fund liquidity in developed and developing nations have mostly focused on factors affecting the financial performance of listed and actively traded firms throughout different time periods (Odhowa & Mutswenje, 2023). This body of work examines fund liquidity and how they affect its financial performance, taking into account different industries and regions. Thus, there exists some gaps in the conceptual, methodological, and contextual research, as demonstrated by the empirical analysis of the literature.

Contextually, most studies carried out on investment schemes and financial performance were done in other economies which may limit the generalizability of the findings. Beyond Kenya, studies have covered various sectors and countries. Al-Tally (2014) investigated on the effect of fund liquidity on firm financial performance in Saudi Arabia's public listed companies. Perinpanatha (2014) investigated the impact of fund liquidity on financial performance special reference to John Keels Holdings PLC Sri Lanka. Therefore, a knowledge gap exists on the effect of fund liquidity in the context of investment schemes and terms of geographical location.

Methodologically, some studies have been limited to historical data which may not capture current situations. Vithessonthi and Tongurai (2015) employed primary data on all registered firms to investigate if fund liquidity influences the financial performance of registered firms in Thailand. Liu et al. (2020) in determining the impact of fund liquidity on the financial performance of agricultural companies in China applying ROA as a measure of financial performance. The current study intends to apply ROE to measure financial performance, with panel regression as the model for analyzing inferential statistics for 7 years.

METHODOLOGY

This study adopted a cross-sectional research design to analyze the effect of fund liquidity and financial performance of investment schemes in Kenya. The target population for this study comprised all 25 investment schemes in Kenya registered and licensed by Capital market authority of Kenya as of 2023. The study was conducted over a 7-year period; between 2017 and 2023.A census study was conducted for 25 investment schemes as of December 2023 making up the population. The secondary data encompass panel data was extracted from the annual published, audited annual reports and financial statements of the investment schemes as published by CMA. Consistent with Mathuva (2015), a number of filters were used to guarantee the accuracy of collected data. Data was coded and then imported into STATA 18 software for analysis. The study employed panel regression model.

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The main model for statistical analysis was:

$$Y_{it}=\beta 0+\beta 1FL_{it}+\varepsilon_i \quad \text{……..…….....3.1}$$

Where;

Yit represent financial performance

β_0 represent constant

$\beta_1, \beta_2, \beta_3, \beta_4$ represent Coefficients of the explanatory variables

FLit represent is fund liquidity

ε_i= error term

FINDINGS AND DISCUSSIONS

The findings of the results of the statistical analysis are presented in this chapter. Chapter 3 provides an overview of the statistical approaches employed in this chapter.

Descriptive Statistics

The study sought the measures of central tendency and measures of dispersion to summarize, organize and describe the distribution of the data objectively by applying the mean values, the median values spread of data around the mean. Table 4.1 summarizes the results.

Table 1: Descriptive Statistics

	Obs.	Min	Max	Mean	Std Dev.	Skewness	Kurtosis	Sig(P-value)
Fund Liquidity	175	-0.784	18.28	59.67	1.1808	1.3706	5.1367	0.001
Financial Performance	175	-0.711	0.472	0.1682	0.2614	-0.7167	2.0045	0.000

The findings from Table 1 reveal that the average mean for fund liquidity was 59.67. This is an indication that liquidity is a significant component of financial performance of these investment schemes in Kenya. The standard deviation was 1.1808 with the range between the lowest figure of -0.7845 and the highest figure of 18.2869. The minimum value of below 1 revealed that a number of investment schemes had current liabilities that were more than their current assets and thus did not have enough financial resources to maintain short-term needs and the maximum value revealing that a significant number (18.2869%) of investment schemes were able to effectively fund their immediate short term needs. The skewness value of 1.3706 suggests that the distribution of the fund liquidity is normally skewed and symmetrical. The skewness value of 1.3706 suggests that the distribution normally distributed and acceptable. The skewness values of -2 and +2 generally considered acceptable, (Hair et al., 2022).The kurtosis value of 5.1367 is positive and indicates that the distribution of fund liquidity values is too peaked than normal, (Hair et al.2022)

The study sought to measure financial performance of Investment Schemes in Nairobi City County in line with the dependent variable. As presented in Table 4.1, the average figure of ROE was 0.1682 indicating that 16.82% of investment schemes effectively and efficiently utilized their assets recording financial performance for the period under review. ROE ranged from a minimum of -0.711 to a maximum of 0.4728. The negative minimum figure implied that some investment schemes were investing in assets that were not lucrative and had high maintenance costs, thus investing in these assets did not yield a desirable income and therefore losses were incurred which ultimately had a detrimental consequence on how the investment

schemes performed financially. The standard deviation of 0.2614 reflected high variability in ROE compared to the mean which is an indication that investment schemes were not profitable and not using their assets efficiently at the period hence a substantial volatility (26.14%) in terms of the ROE.

Inferential Statistics

This section presents the findings from inferential analysis. The result of the inferential analysis includes correlation, and regression results.

Correlation Analysis

To discover the nature of the data statistical relationship, Pearson's Correlation Analysis was conducted.

Table 2: Pearson's Correlation Analysis

	ROE	Fund Liquidity
ROE	1	
Sig.(1-tailed)	0	
N	25	
Fund Liquidity	0.78935**	
Sig.(1-tailed)	0.0000	1
N	25	

The coefficient results of fund liquidity depicted of a positive and significant relationship on financial performance of firms listed at the NSE with R = 0.78935.This result indicated a strong positive relationship between financial performance and fund liquidity of investment schemes in Nairobi city county.

Panel Regression Results

R-Squared was utilized as the coefficient of determination to elucidate the degree of these modifications and the general adequacy of the model fit. Table 3 elucidates the results of the summary.

Table 3: Model Summary

Model	Multiple R	R Squared	Adjusted R Square	S.E Regression	Probability (F- Statistic)	Obs
ROE	0.769	0.592	0.589	0.08074	0.0000	175

Table 3 presents the model summary results, revealing a Multiple R correlation coefficient of 0.769 between the observed and predicted value. The correlation coefficient indicated a robust positive linear link between fund age and the financial performance of investment schemes in Nairobi County, Kenya. The coefficient of determination (R^2) is an indicator that assesses the model's goodness of fit. In regression analysis, it is a statistical metric that evaluates the degree to which the regression line aligns with the real data. The model summary indicated an R2 value of 0.592 (59.2%).The differences in fund liquidity accounted for 59.2% of the fluctuations in return on equity, indicating that these variable possessed moderate predictive and explanatory power regarding the financial performance of investment schemes in Nairobi County, Kenya.

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Additional factors not used in this study model account for the remaining 40.8% of the variance in the financial performance of investment schemes in Nairobi County, Kenya. The adjusted R-squared, a refined variant of R-squared, considers the number of independent variables that can be incorporated or modified to enhance the regression model's dependability. The adjusted R-squared indicates whether the inclusion of extra factors enhances a regression model. The adjusted R2 of 0.589 indicates that incorporating new predictor factors could enhance the financial performance of investment schemes in Nairobi County, Kenya, accounting for 58.9% of the variability in fund liquidity.

Analysis of Variance (ANOVA)

It is a statistical method used to test differences between two or more means.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	53.7238	3	17.9079	8.8719	0.0023
	Residual	44.408	22	2.0185		
	Total	98.1318	24			

Critical value = 2.35

Table 4.4 as indicated by ANOVA reveals that the regression model had a significance level of 0.0023, which is equivalent to 0.23%.Significant differences between the columns means are indicated by the relatively low p-value of 0.0023. As the p-value was less than 5%, it implies that the data was the most suitable for deriving conclusions about the population parameters.

The significance of R square change is determined by an F-statistic, which is a test based on the F-test. The addition of a variable that substantially enhances the model prediction is indicated by a significant F change. The regression model's efficacy in explaining the variation in financial performance is demonstrated by the fact that the calculated F value exceeded the critical value (8.8719> 2.35). The model was therefore deemed significant, as evidenced by the significance value of less than 0.05.

Optimal Model

The panel regression analysis among dependent and independent was carried out to establish the effects of fund liquidity and financial performance of investment schemes in Nairobi County, Kenya. The coefficient results are shown in Table 5.

Table 5: Regression Coefficients

Financial Performance	Coef.	Std. Err.	t	P>t	[95% Conf. Interval] Lower Bound	Upper Bound
Fund Liquidity	0.08759	0.0165	5.31	0.000	0.04027	0.21546
_cons	7.5892	0.2172	34.94	0.007	0.04846	0.36683
sigma_u		0				
sigma_e		7.5949				
Rho		0.	(fraction of variance due to u_i)			

The regression equation thus becomes:

$$\mathbf{Y_{it} = 7.5892 + 0.08759FL_{it}}$$

Where:

Y_{it} represents financial performance of Investment schemes i at time

FA_{it} represents Fund Liquidity *i* at time *t*

Hypothesis Results

The study sought to establish the effects of fund liquidity and financial performance of of investment schemes in Nairobi city county, Kenya in line with the fourth objective. The results of fund liquidity as shown in Table 4.5 reveal that, when fund liquidity are controlled and other factors remaining constant, fund liquidity with beta values of 0.08759 and a P value of 0.0000 (P<0.05), indicates that, when fund liquidity as measured by the current ratio increases by one unit, the increase will increase the financial performance of investment schemes in Nairobi County by 0.08759 (8.759%).The increase will significantly impact the financial performance of the investment schemes positively at 0.05 level of significance. The null hypothesis was thus rejected, and conclusion made that fund liquidity has a statistically significant effect on financial performance of investment schemes in Nairobi city county, Kenya at 0.05 level of significance.

The study supports the research done by Onyekwelu (2018) who studied the effects of firm liquidity on deposit money banks in Nigeria and found a positive effect, Omesa (2015) in Kenya who studied the effects of firm liquidity on financial performance of firms listed at the NSE and Kariuki (2021) who concluded that firm liquidity have a positive effect on performance of insurance companies in Kenya.On the other hand, Li (2020) in Ghana found a negative effect between fund liquidity and performance of non-financial firms in Ghana, Amira (2023) who found a negative effect between firm liquidity on commercial banks in Kenya and Kyari (2023) who concluded that fund liquidity affects performance of unit trust funds in Nigeria negatively

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

The study sought to establish the effects of fund liquidity on financial performance of investment schemes in Nairobi County According to the results of the Pearson's correlation analysis, fund liquidity and the financial success of investment schemes in Nairobi County showed a statistically significant positive link. Additional analysis using random effect panel regression showed that fund liquidity had a substantial positive effect on financial performance of CIS in Nairobi County, Kenya

Conclusion

The study found that fund liquidity has a positive significant effect on the financial performance of investment schemes in Nairobi County. This research study provides evidence to support the idea that effective liquidity management is critical tool for assessing the financial soundness of potential future investments in addition to assisting investment schemes in having a steady stream of cash available. In particular, it impacts the increase or decrease of financial expenses, adjustments to the sales dynamic, and the degree of risk that the organization takes. The conclusion that liquidity influences a company's financial performance level may arise from the importance of liquidity to the investment schemes performance.

Recommendations

The study reached a definitive conclusion that fund liquidity significantly affects financial performance of investment schemes in Nairobi County. As an ingredient that keeps investment schemes running smoothly, liquidity is essential. The study recommends that in order to increase liquidity's impact on financial performance, investment schemes should develop novel approaches to controlling it. Another way of improving liquidity is by selling redundant assets to improve cash flow. Eliminating surplus equipment can provide a small amount of capital while also reducing the average cost of maintenance. Lastly, switching the short-term debt to long-term options to gain smaller monthly payments creates more time to pay off the overall debt. The government policy makers will find the findings beneficial in interpreting the financial performance of the investment schemes based on fund liquidity. It will help in playing a crucial role in creating a stable environment for investment hence economic development of the economy.

Contribution to the Body of Knowledge

The study contributed to the body of knowledge in the following ways; the findings of the study will assist the fund managers to evaluate the fund liquidity as the study discovered it contributes to financial performance. The study offered a logical ground on which empirical indicators and hypotheses could be identified and tested to verify the theories. It contributed to the body of knowledge and to other researchers, as they will be able to appreciate the effects fund liquidity, inspire similar and further research in other areas, and contribute to the existing literature on financial performance. The results are consistent with the liquidity preference theory, which emphasizes the need for certainty and the demand for liquid assets as a function of uncertainty. It makes the argument that because future demands are unpredictable and because turning assets into cash is expensive, people and investors would rather hold cash and liquid assets (money) than illiquid ones. The demand for money is influenced by this choice, which in turn affects interest rates and, eventually, financial performance.

Suggested Areas for Further Research

Future studies should be undertaken focusing on examining the effect of fund liquidity on other institutions outside the capital markets, for instance the manufacturing sector, construction sector and energy sectors in Kenya. This study also focused on financial performance which is not the only measure of performance in the investment schemes. The study did not incorporate other non-financial measures of performance which include customer satisfaction, learning and growth, market factors and other non-financial performance indicators. Additionally, the study's timeframe was limited to seven years, which may not capture the full spectrum of effects that fund age can have on financial performance. Future investigations should consider extending the research period to elucidate both short-term fluctuations and long-term trends in the relationship between fund liquidity and financial performance.

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