AN INVESTIGATION ON THE USE OF FINANCIAL PERFORMANCE INDICATORS BY MICROFINANCE INSTITUTIONS (MFIs) [A case of Nairobi]

BY

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DECLARATION

This project is my original work and has not been presented in any other University for the same award.

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DEDICATION

To my loving husband Isaac Ndung'u who encouraged me to pursue further studies and our dear son Caleb Chege who patiently waited for me while I was away despite his tender age. May almighty God bless them.
ACKNOWLEDGEMENT

I wish to register my thanks to all individuals who have contributed in one way or another to the success of this project. I am greatly indebted to my supervisor, Dr. T. Nyamache for his guidance, dedicated support, understanding, patience and generosity with his time despite his many schedules.

Special thanks to all my MBA lecturers for the knowledge they imparted to me during the course. My colleagues for the moral support and assistance. Special mention goes to Justina Jepchirchir for being helpful during the research and coursework.

I am immensely indebted to my loving husband Isaac Ndung'u who selflessly sacrificed for my education gave me moral support and encouragement.

Finally, to those I am unable to mention but assisted me either directly or indirectly I say thank you.

To God be all Glory and Honour.
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DEFINITION OF OPERATIONAL TERMS

Microfinance
According to Panos (1997) Microfinance is the provision of very small loans to the poor who are outside the conventional banking systems. The loans are used for income generation activities or urgent domestic needs. These loans are repaid at concessionary rates as opposed to exorbitant rates charged by moneylenders.

Microfinance Institutions
The Consultative Group to Assist the Poor (CGAP) defines Microfinance Institutions as specialized Institutions to finance the poor in the society.

Micro Enterprises
According to baseline survey (CBS1999) a microfinance is taken to be one employing 10 people and below.

Performance
Measured by the total number of clients served with credit facilities by MFIs.

Performance Indicators
Ratios that collect and restate financial data so as to provide useful information about the performance of an MFI.

Formal Financial Institutions
Are defined as those that are subject not only to general laws and regulations, but also to banking regulation and supervision.

Informal Financial Institutions
LedgerWood (1999) defines informal Institutions as those to which neither special banking law nor general commercial law applies and whose operations are such that disputes arising from contact with them, often cannot be settled by recourse to the legal system.
<table>
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<tr>
<td>MFI</td>
<td>Microfinance Institutions</td>
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<td>AMFI</td>
<td>Association of Microfinance Institutions</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>ROSCAS</td>
<td>Rotating Savings and Credit Associations</td>
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<td>SACCOS</td>
<td>Savings and Credit Cooperatives</td>
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<td>SMEs</td>
<td>Small and Medium Sized Enterprises</td>
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<td>K-REP</td>
<td>Kenya Rural Enterprises Programme</td>
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<tr>
<td>KWFT</td>
<td>Kenya Women Finance Trust</td>
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>ICEG</td>
<td>International Centre for Economic Growth</td>
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<tr>
<td>USAID</td>
<td>United States agency for International Development</td>
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<tr>
<td>NBIs</td>
<td>Non-Banking institutions</td>
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<tr>
<td>DFI's</td>
<td>Development Finance Institutions</td>
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<tr>
<td>PAR</td>
<td>Portfolio at Risk</td>
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<tr>
<td>SDI</td>
<td>Subsidy Dependence Index</td>
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<tr>
<td>ROA</td>
<td>Return on Assets</td>
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<td>ROB</td>
<td>Return on Business</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<tr>
<td>CGAP</td>
<td>Consulting Group to Assist the Poor</td>
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<tr>
<td>ILO</td>
<td>International Labour Office</td>
</tr>
<tr>
<td>KADET</td>
<td>Kenya Agency for Development of Enterprises and Technology</td>
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<tr>
<td>SMEP</td>
<td>Small and Micro Enterprises Programme</td>
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<tr>
<td>WEDCO</td>
<td>Women Economical Development Company</td>
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<td>ICDC</td>
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ABSTRACT

The Microfinance Institutions (MFIs) operating in Kenya have a huge role to play towards poverty alleviation through credit accessibility to Small and Micro Enterprises (SMEs.) However their success in their mission of financing the majority poor will depend largely on their financial performance. In order to be able to evaluate an organizations performance there is need for the organization to have specific performance indicators. By calculating performance indicators it becomes possible to determine institutional effectiveness and efficiency. Performance indicators collect and restate financial data so as to provide useful information about the financial performance of an MFI.

The objective of this study therefore, was to evaluate the use of financial performance indicators by microfinance institutions in Nairobi. The study also looked at the relationship between the sources of finance and the financial performance indicators used by these MFIs. Various categories of MFIs were covered, namely Non Governmental Organizations (NGOs), Development Finance Institutions (DFIs) and Commercial Banks. Data was collected using questionnaires and analyzed using Descriptive statistics and Statistical Package for Social Sciences (SPSS).

The study realized that all the MFIs interviewed used at least two financial performance indicators to assess their financial performance. However, some performance indicators were highly used compared to others especially the portfolio Quality Ratios which included, Portfolio at Risk (PAR), Delinquent Borrowers, Arrears rates and Average per
credit officer. The study found that the Chi-square test ($X^2$) results showed that there was a relationship between financial performance indicators and sources of finance that is, sources of finance determine the financial performance indicator MFI uses.

On the basis of these findings, a number of recommendations are advanced. First the research recommends all the Microfinance Institutions to use almost the same financial performance indicators because they have a lot in common in terms of their sources of finance and their business environment. Secondly, there is a need to have a set of standard performance indicators for use by MFIs. Third, the Government on the other hand needs to streamline the operations of MFIs by having clear cut policies on the Microfinance sector as well as be on the frontline in helping them with funds to run the organizations. A regulatory body should be put in place to oversee the smooth running of MFIs.

Lastly it recommended that similar studies be carried out on a larger scale, involving more respondents. It also recommended that a study be carried out to evaluate the extent to which Microfinance Institutions use financial performance indicators. These should include ratio analysis for the particular indicators.
CHAPTER ONE

1.0 INTRODUCTION

The term Microfinance refers to financial transactions in very small amounts typically with clients from the poorer parts of the population. Microfinance services are directed at individuals and households of the lower income strata. Amongst the clients of microfinance institutions are predominantly small traders as well as small and medium sized entrepreneurs. Often, these clients are part of the informal sector that is they do not have official licenses for their businesses, and are not officially registered, thus do not pay taxes. Some microfinance institutions concentrate on female clients, as they perceive women as being more reliable loan clients.(CBK,2004).

In Kenya the Government sessional paper number 2 of 1992 and recently the 2001/2002-budget speech recognized microfinance business as one of the most important tools for poverty alleviation. Poverty alleviation has now received a greater national and international attention. With the exception of a few special credit arrangements, often funded by donors or Government, most formal institutions in Kenya do not give loans to the small and Jua kali sector. The attitude of the banks the perceived risk of microfinance market is unfortunately ignorant of the economic potential of MSEs (Budget speech FY, 2001/2002).

According to Mullei and Bokea (1999), Microfinance institutions have cropped up in order to facilitate financial services to the majority poor. From the perspective of poverty reduction, access to reliable monetized savings facilities can help the poor greatly improve their economic security. Once some degree of economic security is
attained, access to credit can help them move out of poverty by improving the productivity of their enterprises or creating new sources of livelihood.

The success of MFIs in their mission of financing the majority poor will depend largely on their financial performance. There is therefore the need to look at the performance indicators that provide useful information about the financial performance of an MFI. This information is important especially for the donors and other providers of funds because they can determine the efficiency, viability and outreach of MFIs operations. Most microfinance institutions (MFIs) have trouble producing accurate and meaningful reports about their financial performance.

Without timely tracking of the right performance indicators, it is hard for MFIs and their donors to judge progress and manage risk. This study therefore, will focus on the use of financial performance indicators by microfinance institutions.

1.1 BACKGROUND INFORMATION

The phenomenon of Microfinance is relatively new in the developing world though in developed world it has been in existence for a longer period. (David and Gamaa, 2004).

The growth of MFIs in Kenya came mainly after independence. This was in late 1970s and early 1980s after it was determined that inaccessibility to credit from the formal banking sector was strangling the large, informal small and micro-enterprises (SMEs) sector (CBK, 2004).
This saw the birth of Savings and Credit Cooperatives (SACCOs) and non-banking institutions (NBIs) expanded rapidly to fill the leading gap prevailing, but were only useful for the salaried workers who needed them least. During this period K-REP and Kenya Women Finance Trust (KWFT) were established. They were heavily subsidized, relied mainly on donor funding and used the integrated (credit and training) approach to assist the SMEs. Their loans were not tied to tangible collateral. Currently there more than 100 institutions involved in microfinance operations in Kenya. By June 1st 2004, AMFI had registered 26 MFIs as its members with K-REP Bank being the first MFI to become a fully pledged commercial bank. (AMFI Brochure, 2004).

These Micro-finance institutions have proved that the economically active SMEs are credit worthy. Although the growth of microcredit to the poor is encouraging there is still a number of constraints to the expansion of microcredit. Bangladesh is still the only country where microcredit outreach is over 75% of the poor families. In most of the countries Kenya included, it has not even reached 10% of the poor families. Therefore, there is a lot of catching up to do. This is not happening because most of the Microfinance institutions, committed to serving the SME sector with credit have limited outreach and growth potential. This is due to their limited financial resources. Many depend on a single source of grants and few have the system and organization structure to support a larger organization.

Mullei and Bokea (1999) observed that the major impediment to the development of microfinance business in Kenya has been lack of initiative in creating financing
institutions, absence of legal framework for creating microcredit institutions, barriers in accepting deposits, absence of regulatory framework and lack of conceptual clarity. Many of the Microfinance institutions are still in the development stage and are currently facing pressure from donors to become self-sustaining. In order for the MFIs to reach self-sustenance they must observe financial transparency. One key to transparency is to concentrate on core indicators of MFI institutional performance such as loan portfolio quality, efficiency, financial sustainability and poverty outreach.

1.2 STATEMENT OF THE PROBLEM

In order to be able to evaluate an organization performance there is need for the organization to have specific performance indicators. By calculating performance indicators it becomes possible to determine institutional effectiveness and efficiency. Performance indicators collect and restate financial data so as to provide information about the financial performance of an MFI. (LedgerWood, 1999).

There are two major reasons as to why MFIs should have financial performance measurement. The first one is to produce financial statement at the right time. Information given late cannot give accurate picture of the organizations financial position. Secondly, financial statements should be analyzed to produce information about the performance of an MFI, which must be used to improve that performance. For example if one is trying to find out whether the portfolio of a loan and saving that the scheme is holding is being effectively managed, financial performance measurement are used.
Most of the research that has been done on Microfinance institutions has looked at how the MFI s reach out to small and micro enterprises (SMEs). However limited research has been done on the issue of the use of financial performance indicators by microfinance institutions in Kenya.

Pernderson and Kiiru (1995) for example studied the sources of finance and performance indicators that K-Rep uses. They found out that mainly donors finance K-Rep, and it widely uses Subsidy Dependency Index (SDI) in measuring its performance. Their research was limited since it concentrated only on one MFI in Kenya.

There is therefore a need to carry out a comprehensive study on the use of financial performance indicators by MFIs and whether they are related with the sources of funds for MFIs. The study would thus seek to bridge the gap in the existing literature by documenting information on the use of financial performance indicators by Microfinance Institutions, specifically in Nairobi.

1.3 OBJECTIVES OF THE STUDY

1.3.1 GENERAL OBJECTIVE

The overall objective of this study is to find out the financial performance indicators used by MFIs in Nairobi.

1.3.2 SPECIFIC OBJECTIVES

More specifically, the study will seek to achieve the following objectives:

(i) To determine the major financiers of MFIs.
(ii) To establish if portfolio quality ratios and productivity and efficiency ratios are indicators of performance used by MFIs in Nairobi

(iii) To determine the extent to which financial viability and profitability ratios are used as indicators of performance by MFIs in Nairobi.

(iv) To examine the relationship between the use of leverage and scale and outreach ratios and performance of MFIs in Nairobi.

(v) To establish the relationship between the sources of finance and performance indicators used by MFIs.

1.4 RESEARCH QUESTIONS.

The study will answer the following questions:

(i) Who are the major financiers of MFIs?

(ii) Are financial performance indicators used by MFIs in Nairobi?

(iii) Are portfolio quality ratios, productivity and efficiency ratios indicators of performance used by the MFIs in Nairobi?

(iv) To what extent are the financial viability and profitability ratios used as indicators of performance by MFIs in Nairobi?

(v) What is the relationship between the use of leverage and scale and outreach ratios and performance of MFIs in Nairobi?

(vi) Is there any relationship between the sources of finance and performance indicators used?

1.5 IMPORTANCE OF THE STUDY

This research is important for the following reasons:

It will assist;
i) The management of MFIs to identify the best indicators of performance they should use depending on their sources of finance.

ii) In laying a base to the upcoming scholars for further research in the area of financial performance on MFIs since there is little literature in this field especially in the developing countries.

iii) The government and other policy makers to identify whether proper financial performance measurements are put in place by MFIs and the necessary measures to be taken.

iv) The donors and other providers of funds to identify how their finances are managed. It will also make them more careful when making decisions on whether to release finances or not.

1.6 SCOPE OF THE STUDY

The study will consider MFIs operating in Nairobi by the end of December 2004. This is because most of the MFIs in Kenya are concentrated in the urban areas with the highest number being in Nairobi.

1.7 LIMITATION OF THE STUDY

The major limitation of this study is lack of enough resources to carry out a more detailed research. Confidential data will also be difficult to obtain, as many organizations do not like disclosing their confidential information.
2.0 INTRODUCTION

This chapter presents a review of literature. First, literature on the development of MFIs, sources of finances for MFIs, various indicators of performance used by MFIs and Conceptual framework, is reviewed respectively.

2.1 HISTORICAL DEVELOPMENT OF MFIs

The history of microfinance backdates to about three decades when in 1976, Mohammed Yunus, who is believed to be the founder of formal microfinance, founded Grameen Bank in Bangladesh and began accessing microfinance services to poor women in South Asia villages. Grameen is Bangali name, which means Village.

What has become well known as the Grameen model demonstrated that lending to the poor could be an economically viable activity. (Stephanie and Rahman, 2002).

Microfinance is a relatively new terminology that has only appeared in the development field in the last 20 or 50 years. Its evolution, however, dates about 30 or 50 years from late 1960's with efforts made towards reduction of poverty through the promotion of income earning activities among poor communities. It is thus an upgrowth of the small enterprise initiative.

After nearly 20 years, microfinance industry has enjoyed a great deal of success in terms of outreach and sustainability, particularly in certain part of Latin America and Asia. (David and Gamaa, 2004).
However, microfinance remains primarily a supply driven endeavours, with limited numbers of methodologies applied to provide mainly working capital loans to poor micro enterprises. Over the past few years industry practitioners and experts have increasingly recognized that the poor require a wide range of financial services to manage risk and improve their welfare. Saving services in particular have gathered much interest; especially in Africa where the traditional supply led credit models have not resulted in the hoped-for massive outreach and sustainability. (Panos, 1997)

The impact of microfinance on poverty alleviation has recently gained prominent position on microfinance agenda. Donors, practitioners and academicians are realizing that microfinance institutions (MFIs) must concern themselves with more than their ability to reach institutional self-sufficiently. (David and Gamaa, 2004).

2.2 DEVELOPMENT OF MFIs IN KENYA

In Kenya up to the 1960's the financial system was oriented towards agricultural exports and other primary production activities and some foreign trade catering principally for the expatriate communities. (Khandker, 1995)

According to K-Rep Report (1997), the formal institution consisted of a few institutions mostly foreign owned banks, which had branches in the major cities, Post Office Saving Banks and Co-operative Societies. Small number of moneylenders available provided funds to trading company's mines and plantations, which were often foreign owned.

The formal financial institutions mainly financed the foreign trade and were accessible only by expatriates. These led to local small businessmen being financially
sidelined. Due to the local small businessmen being unable to access the banks, indigenous informal sector cropped up. This informal financial sector was made up of moneylenders, traders, and pawnbrokers who thus provided the needed resources to borrowing needs of the local farmers and small businessmen. They served their customers while maintaining close personal contact with them and acquiring intimate knowledge of the operations. Their services were easily accessible and included rotating savings and credit association (ROSCAS) among others.

Dondo (2000) observed that the developments of the financial sector in the post-independence era have seen major changes. These changes include among others, the creation and support of Development Finance Institution (DFIs) geared to provide long term finance to particular sector including SMEs.

These DFIs failed mainly because they relied heavily on foreign aids as their major sources of financing. The financial sector has evolved over the years with notable development being in the early 1980s.

In 1985 Kenya Rural enterprise Programmes (K-REP) was established. Its main objective was to provide financial assistance to SMEs.

Until the 1980s none of the commercial banks had a credit programme specifically for SMEs activities of the 17 different types of financial institutions operating in the finance sector in Kenya today, only four are active in financing SMEs activities. Prominent there are the savings and credit cooperative organization (SACCOs), Non-Governmental Organizations (NGOs) and informal associations, such as Merry-go-rounds particularly in the rural areas. (Mullei and Bokea, 1999).
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The successful transformation of the financial activities of PRODEM, an NGO in Bolivia, into Bancosol has demonstrated the potential of the many NGOs in Kenya for becoming regulated financial institutions.

K-REP decided in 1994 to create a microfinance bank after realizing that as an NGO it lacked the capacity to serve as an effective financial intermedially. (Mullei and Bokea, 1999).

Even though the number of NGOs and other institutions involved in providing credit to the SMEs sector has increased in the recent past, their outreach remains severely limited because of their limited resources base and lack of legal capacity to provide a range of financial services. (AMFI 2004).

According to (Kanyandong, 2004) the major impediment to the development of microfinance business in Kenya has been lack of specific registration and set of laws to guide the operation of the MFI sector. The central bank of Kenya should therefore lead the movement towards commercialising microfinance by rewriting banking laws and regulation to effect the new innovations in finance for the poor, such as the use of peer pressure, character and profitability of SME activities, as acceptable alternative forms of collateral.

2.3 SOURCES OF FINANCE FOR MICROFINANCE INSTITUTIONS

Microfinance has received significant affection from the donor community, based upon it potential as a powerful tool for poverty alleviation. Many millions of dollars have been spent on promoting microfinance programs around the world. For most MFIs, the principal source of funding is soft loans. Soft loans are obtained from
multilateral banks (e.g. The World Bank), government aid agencies (e.g. United States Agency for International Development (USAID), foundations (e.g. Ford Foundation) and Apex organizations (e.g. women's World Banking) (David and Gamaa, 2004)

Usually such grant and soft loans include conditions and requirements as to how the funds should be spent and are in limited dollar amounts. However, in order to achieve the goals of reaching the poorest households, MFIs would need to access capital above and beyond grants and soft loans.

Dondo (2000) observed that in Kenya microfinance institutions were highly stimulated by donor funding. They were highly subsidized, relied mainly on donor funding and used the integrated approach to assist micro enterprises. Most organization have since died or collapsed due to lack of funding caused by donors’ withdrawal.

The government recognizes that greater access to and sustainable flow of credit to informal sector operations is critical to progress in poverty reduction (budget speech2000/2001) The government channels financial assistance to SMEs through MFI and other financial institutions in efforts to reduce poverty.

In Bangladesh, the scenario is not different. The government has been financing the Grameen Bank. Khandker (1995) observes that since its establishment as a financial institution by government finances in 1983, Grameen Bank has financed its activities with funds obtained at concessionary rates from external and domestic sources including commercial bank of Bangladesh.
In Kenya there are few Commercial sources of funds, for MFIs. Most MFIs are still heavily dependent on donor support. Commercial banks are reluctant to lend to most microfinance mainly because of the latter's lack of a clear ownership structure, the perception that loans to the poor are intently risky, and the lack of familiarity with NGOs, mode of operations. These factors result in banks' lack of confidence in assisting MFIs credit worthiness (CBK, 2004).

However, some of the established banks have come up with sections, which support MFIs in, a bit to enable them reach the SMEs. Examples are Barclays Bank - Small Business Loan, Kenya Commercial Bank - KCB Special Loan Scheme.

According to CBK report (2004), the self help groups (SHG) provide finance to MFIs through savings. They initiate and start an income-generating venture from which they save the surplus funds with an MFI of their choice.

These savings become sources of funds to that MFI. The MFI can then lend at an interest. Several other sources of financing do exist. They include among others; Kenya Post Office Savings Bank Ltd, Saving and Credit Co-operative Societies (SACCOs), and Rotation Saving and Credit associations (ROSCAs)

2.4 VARIOUS PERFORMANCE INDICATORS USED BY MFIs

The essence of calculating and coming up with analysis of performance indicators (ratios) is to provide information that can identify the potential or existing problems. This can lead to change in policies or operations, which in turn may improve the financial performance LedgerWood, (1999).
However, there is no standard set of ratios or standard range of performance indicators of the Microfinance industry. But there are efforts to establish a set of worldwide microfinance performance indicators (Global MicrorateAfrica, 2004).

LedgerWood, (1999) has highlighted six major indicators of financial performance. This include; portfolio quality, productivity and efficiency, financial viability, leverage and capital adequacy and scale, outreach and growth. This approach is adopted in this research for easy understanding of performance indicators.

1. Portfolio Quality

The largest part of risk for any financial institution resides in its loan portfolio. Various ratios are used to measure portfolio quality and provide other information about the portfolio. They are the repayments rates, portfolio quality ratios and loans ratios.

(a) Repayment rates

This rates measure the amount of payments received with respect to the amount due.

On time repayment rates = \[ \frac{\text{Collection on current amount due less prepayment}}{\text{Total current amount due}} \]

(b) Portfolio Quality Ratios

Three ratios used here are:

Arrears Rate

The arrears represent the amount of loans a principal that has become due and not been received.
Arrears Rate = Amount of Arrears

Portfolio outstanding (including amount past due)

**Portfolio At Risk (PAR)**

According to LedgerWood (1999) PAR refers to all loans that have an amount overdue. Par is different from arrears ratio because it considers the amount in arrears plus the remaining outstanding balance of the loan.

\[ \text{PAR} = \frac{\text{Outstanding balance of loans payment past due}}{\text{Portfolio outstanding (including amount past due)}} \]

**Delinquent Borrowers**

A ratio that aims to determine the number of borrowers who are delinquent relative to the volume of delinquent loans.

\[ \text{Delinquent Borrowers} = \frac{\text{Number of delinquent borrowers}}{\text{Total number of active borrowers}} \]

**(c) Loan Loss Ratios**

They are calculated to provide an indication of the expected loan losses and the actual losses for an MFI. The two loan loss ratios are:

**Loan Loss Reserve Ratio**

This ratio shows what percentage of the loan portfolio has been reserved for future losses. By comparing this over time, MFIs can determine how well they are managing delinquency, provided they are making adequate loan loss reserves. It is recommended to be 5% and below. It should decrease as the MFI improves its adequacy management.
Loan loss reserve ratio = \( \frac{\text{Loan loss reserve for the period}}{\text{Portfolio outstanding for the period}} \)

**Loan Loss Ratio**

This ratio reflects the only amount written off during the period (one year) hence it is calculated to determine the rate of loan losses for this period. It provides an indication of the volume of a loan a period relative to average portfolio outstanding.

- Loan loss ratio = \( \frac{\text{Amount written off in the period}}{\text{Average portfolio outstanding for the period}} \)

2. **Productivity and Efficiency Ratios**

They provide information about the rate at which MFIs generate revenues to cover their expenses.

These ratios are used to compare performance over time and measure improvements in MFIs operations. This means branch managers can compare their branches to other branches and determine where they might need to reduce cost to increase productivity.

**Productivity Ratios**

Their main focus is on productivity of the credit officers, because they are the primary generators of revenue. These ratios include the number of active borrowers per credit officer, portfolio outstanding per credit officer and total amount disbursed in the period per credit officer.
Number of active borrowers (loans) per credit officer

This number varies depending on the method of credit delivery and whether or not loans are made to individuals as group members or to groups. For each MFI there is an optimal number of clients that each credit officer can manage effectively.

Average number of active

Loans per credit officer = \frac{\text{Average number of active loans}}{\text{Average number of credit officers}}

Portfolio outstanding per officer

The size of the average portfolio outstanding per credit officer will vary depending on loan sizes, the maturity of the MFI's clients, and the optimal number of active loans per credit officer.

Average portfolio per credit officer = \frac{\text{Average number of loan outstanding}}{\text{Average number of credit officers}}

Total amount disbursed in the period per credit officer

The average portfolio outstanding ratio measures the stock (portfolio outstanding) i.e. the flow of loan disbursements. As clients take out additional loans, both the portfolio outstanding and the total amount disbursed per credit officer should increase, provided the clients require larger loan amounts or the MFI is operating in an inflation environment.

Total amount disbursed per

Period per credit officer = \frac{\text{Total amount disbursed}}{\text{Average number of credit officers}}
(b) Efficiency Ratios

They measure the cost of providing services (loans) to generate revenue. Also called operating costs. These operating costs can be broken down to measure the efficiency of specific costs elements such as salaries and benefits, occupational expenses such as rent and utilities or travel.

Operating cost ratio

It provides an indication of the efficiency of the lending operations, also called efficiency indicator.

\[
\text{Operating cost ratio} = \frac{\text{Operating cost}}{\text{Average portfolio outstanding}}
\]

It is advisable for MFIs to maintain operating cost ratios to between 15% and 21% of the average loan portfolio and between 5% and 16% of their average total assets.

Salaries and benefits or average portfolio outstanding

Many MFIs have salaries and benefits running between 4% and 6% of average portfolio outstanding. The variation is dependent on the model used the density of the population and the salary level in the country.

\[
\text{Salaries and benefits to average portfolio outstanding ratio} = \frac{\text{Salaries and benefits}}{\text{Average portfolio outstanding}}
\]

For a successful MFI, efficiency ratios should be decreasing over time. This means the disbursed amount and the average portfolio outstanding appear to grow at a greater rate than cost.
3. Financial Viability

Financial viability refers to the ability of an MFI to cover its cost with earned revenue. Financial viability can be determined through the following ways:

(a) Operational Self – Sufficiency Ratio

Some MFIs define operation self sufficiency as generating enough operating revenue to cover operating expenses, financing cost, and the provision for loan losses.

Operational self -sufficiency = \textit{Operating Income}

\text{Operating Expenses + Financing cost + provision for loan loss}

It is important to note that if an MFI does not reach operational self-sufficiency, eventually its equity (loan fund capital) will be reduced by losses (Unless additional Grants can be raised to cover operating shortfalls). This means there will be a smaller amount of funds to borrowers. To increase its self-sufficiency, the MFI must either increase its yield (return on assets) or decrease its expenses (financial cost, provisions for loan losses, or operating cost)

(b) Financial Self-Sufficiency

Financial self-sufficiency indicates whether or not enough revenue has been earned to cover both direct cost, including financing costs, provision for loan losses and operating expenses and indirect cost - including the adjusted cost of capital.

Financial Self-sufficiency = \textit{Operating income}

\text{Operating expenses + financing cost + provision for loan losses + cost of capital}

For a successful MFI this ratio shows an increasing trend.
(c) Subsidy Dependency Index (SDI)

SDI measures the degree to which MFI relies on subsidies for its continued operations. SDI developed by the Jacob Yaron at the World Bank (1992) is used to calculate the extent to which an MFI requires subsidy to earn a return equal to the opportunity cost of capital.

The objective of SDI is to provide a comprehensive method of assessing and measuring the overall financial costs involved in operating an MFI and quantifying its subsidy dependence. An SDI of zero means than an MFI has achieved financial self-sufficiency whereas a SDI of 100% means that a doubling of the average on lending interest rate is required if subsidies are to be eliminated.

SDI of negative value means full self-sustainability and profit achievement.

\[
SDI = \frac{\text{Total annual subsidies received}}{\text{Average annual interest income}}
\]

4. Profitability Ratios

Profitability ratio measures an MFI's net income in relation to the structure of its balance sheet. They help the investors and managers in determining whether they are earning an adequate return on the funds invested in MFI. Examples include - return on assets (ROA), return on business (ROB) and return on equity (ROE).

(a) Return on Assets Ratio (ROA)

This ratio measure the net income earned on the assets of an MFI. The return on total assets ratio shoes how the MFI is performing relative to all assets, including non-productive assets such as fixed assets or land and property.
Return on Assets = Net Income

Average Assets

The importance of analysing this ratio is that it will improve the ability of an MFI to determine the revenue impact of policy changes. Improve delinquency management or the addition of new products.

(b) Return on Business Ratio (ROB)

This ratio is important because MFI's mobilize deposits as a large part of their operations. ROB is directly affected by the capital structure of an MFI. If the majority of an MFI's assets are funded by equity, the return on the business level will be misleading and should not be calculated. On the other hand if an MFI is acting as a true financial intermediary, and funding its loan portfolio, with client savings, the return on business ratio may be a fairer ratio to compare with other institution than the return on asset ratio.

Return on Business = Net Income

Average Business Base

(c) Return on Equity Ratio (REO)

This ratio provides the management and investors with the rate of return earned on invested equity. It measures the return on funds that are owned by the MFI. This rate also allows donors and investors to determine how their investment in a particular MFI compares against alternative investments.

Return on Equity = Net Income

Average Equity
It should be noted that most MFI's target a high ROE though this is influenced by the inflation rate in the particular country.

5. Leverage and Capital Adequacy Ratios

Leverage

Leverage refers to the extent to which an MFI borrows money relative to its amount of equity.

\[
\text{Debt - Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}
\]

The degree of leverage greatly affects the return ratio of an MFI. An MFI that is more highly levered than another will have a high return on equity all other things remaining constant.

Capital Adequacy standards

Capital adequacy means that there is a sufficient level of capital required in absorbing the potential losses while providing financial sustainability. The main purpose of establishing and measuring capital adequacy for an MFI is to ensure there is solvency in the organization.

\[
\text{Capital to risk-weighted assets} = \frac{\text{Invested Capital} + \text{Retained Earning}}{\text{Risk weighted Assets}}
\]

This ratio needs to be calculating periodically to determine the level of an MFI. As an MFI grows and presumably increases its leverage, this ratio will decrease over time as the organization takes advantage of increased borrowing.
6. Scale Outreach and Growth

Scale refers to the number of clients served with different types of instrument while the depth of outreach refers to the type of client reached and their level of poverty.

Examples of outreach indicators:

**Client and staff**

(i) Number of clients or member (percentage women)

(ii) Percentage of total target clientele serviced

(iii) Number of women as a percentage to total borrowers

(iv) Number of staff etc.

**Loan Outreach**

(i) Number of current active borrowers.

(ii) Total balance of outstanding loans.

(iii) Average outstanding portfolio.

**Saving Outreach**

(i) Total balance of voluntary savings account.

(ii) Total annual average savings as a percentage of annual average outstanding loan portfolios.

(iii) Number of current voluntary saving clients.

(iv) Value of average saving account.

**2.5 CONCLUSION OF LITERATURE REVIEW**

The purpose of this literature review has been to review the various indicators of performance used by MFIs and the sources of finance for MFIs. This study has highlighted the most commonly used indicators when assessing the risk posed by MFIs. However, literature on performance indicators of MFIs in general is limited.
No standard performance indicators exist in the microfinance industry. Few researches that have been done in this area have not dealt with the issue of the use of performance indicators by MFIs inspite of its relevance as it applies to MFIs. Literature available has concentrated on how MFIs reach out to SMEs.

The knowledge of this information will be used in data collection so as to meet the objective of this study. The study seeks to find out the indicators of performance that are used by different MFIs in Nairobi. It also seeks to find out the relationship between the sources of finance and the performance indicators. Within its defined purpose, this study will make an important contribution to the field of Microfinance by documenting information on the use of financial performance indicators by Microfinance institutions.

2.6 CONCEPTUAL FRAMEWORK

In this study, performance indicators commonly used when assessing the risk posed by MFIs will be used as a proxy to measure performance of an MFI. Although various MFIs use different performance indicators the most common indicators includes: portfolio quality ratio, productivity and efficiency ratio, financial viability ratio, profitability ratio, leverage and capital adequacy ratio, scale outreach and growth.

These indicators helps in assessing institutional performance and hence the institution effectiveness and efficiency. For example under portfolio quality we have repayment rate. It is expected that when repayment rates are high then performance of the institutions improve. This is because it means that the institutions will have huge amounts that can be disbursed to other clients thus increasing the outreach of the MFI.
Efficiency and productivity are performance measures that show how well the institution is streamlining its operations. By calculating and comparing the productivity and efficiency ratio over time MFIs can determine whether they are maximizing their resources.

Financial viability assures that there is enough liquidity to meet MFIs obligations to disburse loans to its borrowers and to repay loans to its creditors. When the financial self-sufficiency ratio shows an increasing trend then the performance of MFI is successful.

Profitability ratio summarizes performance in all areas of the institution if the portfolio quality is poor or efficiency is low, this will be reflected in profitability. The debt /equity is the best-known measure of capital adequacy because it measures the overall leverage of the institution. If the debt ratio increases rapidly, the MFI may be approaching its borrowing limits, which in turn will force it to curtail growth.

Scale refers to the number of clients served with different types of instrument while the depth of outreach refers to the type of client reached and their level of poverty. The indicators of outreach provide a good measure of scale of outreach and good proxies for depth of outreach.
This research study is given direction by the figure below:

- **Portfolio quality**
- **Productivity and efficiency ratio**
- **Financial viability**
- **Profitability ratio**
- **Leverage and capital adequacy**
- **Scale outreach and growth**

**Independent (predictor) variables**

**Dependent variable**

**FINANCIAL PERFORMANCE OF MFIs**

*Source: Research (2005)*
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the methodology used to collect Data. In this study the methodology was divided into the following categories; Research design, Study area, population of study, Sample and sampling procedure, data collection and data analysis techniques.

3.1 Research design

The study used descriptive survey method, which involved the use of questionnaires to find out why things are the way they are. The MFIs selected were surveyed to establish the use of financial performance indicators. Relevant questions were administered to the sample population and answers recorded on the questionnaire sheet.

3.2 Population of study

The population of the study consisted of all the MFIs in Nairobi as at December 2004. A synthesis of available information on MFIs showed that there were 42 Institutions that is DFIS, Commercial Banks and NGOs. However during the actual conducting of the research (June-July 2005) it was found that not all these institutions were operating. Some of them had ceased lending e.g. Hope Africa, Catholic relief services and Archdioceses of Nairobi. Others had stopped Microfinance operations, specifically lending and concentrated on community based projects e.g. St Joseph community centre and Mukuru community Initiative. This reduced the population size of MFIs to 37.
3.3 Sample and sampling procedure

Since the MFIs operating within Nairobi were few census was used. All the 37 MFIs made up the sample size. The MFIs were categorized into NGOs, Commercial Banks and parastatals. The sample size consisted of 28 NGOs, 6 Commercial Banks and 3 DFIs. Response was obtained from 32 institutions which reduced the sample size.

3.4 Data collection

The study was facilitated by use of both primary and secondary data. Primary data was collected through questionnaires, which were administered to the financial managers of MFIs. Questionnaires consisted of both ‘close ended’ questions and ‘open ended’ question. The questionnaires were administered through drop and pick method. Follow-up was done through telephone calls as well as personal visits. From 37 MFIs, 32 responded hence a response rate of 86%.

Secondary data concerning particular MFI was obtained from financial reports, relevant literature and records available in libraries and respective offices of MFIs and brochures.

3.5 Data analysis techniques

Data collected was coded and tabulated. Both quantitative and qualitative data was extracted for appropriate analysis respectively. Data collected was analyzed using statistical tools, which included: Statistical package for social sciences software (SPSS), descriptive statistics, which made use of frequency distribution tables and percentage distributions, Chi-square test was used to establish whether any significance relationship existed between performance indicators used and the sources of finances.
CHAPTER FOUR

RESEARCH FINDINGS

4.0 INTRODUCTION

This chapter presents and discusses the research findings.

4.1 PROFILE OF RESPONDENTS

Questionnaires were distributed to a total of 37 MFIs. The response rate was 86% (32 out of the 37). All of these organizations are situated in Nairobi. Descriptive statistics and SPSS were used to analyze the collected data.

General characteristics of these organizations were established by considering the type of Institution, length of period they have been existing and the services they offer.

Table 1. Distribution of sampled Institutions

<table>
<thead>
<tr>
<th>Type of institution</th>
<th>Frequency</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGO</td>
<td>26</td>
<td>81</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Parastatal</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Table 1 shows, 81% were NGOs. These included community as well as church based Institutions. 13% were Commercial banks or financial institutions and 6% were Parastatals. The NGOs include, Kenya Gatsby Charitable trust, KWFT, Imani Jitegemee, Undugu, Cross bridge credit ltd, Pride Kenya Ltd, Faulu, Action aid, sunlink, KSTES, Dandora catholic church, Eclof, Wedco among others. Four
mainstream financial institutions were selected, Cooperative bank, Postbank, Family finance and Equity. Parastatal MFI covered were KIE and ICDC.

Table 2: Period of Existence

<table>
<thead>
<tr>
<th>Duration in years</th>
<th>Frequency</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;=5</td>
<td>9</td>
<td>28.1</td>
</tr>
<tr>
<td>6-10</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>11-20</td>
<td>15</td>
<td>46.9</td>
</tr>
<tr>
<td>&gt;20</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Table 2 shows the period of existence. Out of the 32 MFIs interviewed 46.9% indicated that they have been in existence for more than 10 years while none had been in existence for more than 20 years. 28.1% of the MFIs interviewed are relatively new, they have been operational for less than five years. 25% of the interviewed MFIs have been in existence for a period of between six and ten years.

Table 3: Services offered by MFIs

<table>
<thead>
<tr>
<th>Services</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit provision only</td>
<td>19</td>
<td>59.4</td>
</tr>
<tr>
<td>Credit provision and savings</td>
<td>11</td>
<td>34.4</td>
</tr>
<tr>
<td>Credit provision and training</td>
<td>2</td>
<td>6.3</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Table 3 shows that MFI offers several services. 59.4% of those interviewed offer credit facilities only 34.4% provide credit and savings while about 6.3% coupled credit provision with training.
Table 4: Priority in credit provision

<table>
<thead>
<tr>
<th>Priority</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core business</td>
<td>32</td>
<td>100</td>
</tr>
<tr>
<td>Not core business</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

It was revealed that although some MFIs provide other different services apart from credit provision, they all regard credit provision as their core business.

Table 5: Beneficiaries of credit facilities

<table>
<thead>
<tr>
<th>Beneficiaries</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>12</td>
<td>37.5</td>
</tr>
<tr>
<td>Groups</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>Groups and Individuals</td>
<td>12</td>
<td>37.5</td>
</tr>
<tr>
<td>Companies</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Table 5 shows various beneficiaries of these services. It was established that 37.5% of the MFIs provide their services to groups and individuals, 37.5% to individuals only while 25% give to particular groups only. It was noted that none of them offered its services to companies. Thus generally, the MFIs interviewed either offer their services to individuals and/or to groups.
4.2 Sources of Finance for Microfinance Institutions.

Table 6 (i): Major sources of Finance for MFIs

<table>
<thead>
<tr>
<th>Source</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donors alone (NGOs)</td>
<td>17</td>
<td>53.1</td>
</tr>
<tr>
<td>Government</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>3</td>
<td>9.4</td>
</tr>
<tr>
<td>Self-help Groups</td>
<td>10</td>
<td>31.3</td>
</tr>
<tr>
<td>Savings &amp; credit societies</td>
<td>2</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

The research established that some MFIs obtained finances from a single source, others obtained from various sources (Table 6 (i)). According to the research, donors, mainly NGOs emerged as the major single source of finances to MFIs contributing to about 53.1%. Following closely was Self-Help Groups (SHG) with 31.3%. Others though minimal were commercial banks with 9.4% and Savings and credit societies providing only 6.3%. the MFIs interviewed however did not regard government as a source of finance.

Table 6(ii): Distribution of Sources of Finance for MFI

<table>
<thead>
<tr>
<th>Sources</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Source</td>
<td>22</td>
<td>68.8</td>
</tr>
<tr>
<td>More than one Source</td>
<td>10</td>
<td>31.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data
Table 6(ii) shows that the majority of the MFIs obtain finances from one source. Thus 68.8% obtain finances from one source while only 31.2% obtain from more than one source.

The amount of finances obtained from one source differed from one MFI to another (Table 7 (i) to 7(iv).

Table 7 (i): Amount from donors per annum.

<table>
<thead>
<tr>
<th>Amount in M Ksh</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10</td>
<td>3</td>
<td>17.6</td>
</tr>
<tr>
<td>10-100</td>
<td>10</td>
<td>58.8</td>
</tr>
<tr>
<td>100-500</td>
<td>4</td>
<td>23.5</td>
</tr>
<tr>
<td>&gt;500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

For those who considered donors as major source, it was revealed that 58.8% of them benefited with an amount ranging from Ksh 10 million to Ksh 100 million (Tables 7(i). Those who got between Ksh 100 million and 500 million were about 23.5% of those interviewed. Only 17.6% benefited with an amount less than Ksh. 10 million.

Table 7(ii): Amount from Self-help groups per annum

<table>
<thead>
<tr>
<th>Amount in M Ksh</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10-100</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>100-500</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>&gt;500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data
Majority of the beneficiaries from Self-Help groups got an amount between Ksh 10 million and 100 million, representing 70% of those interviewed (Table 7(ii)). Those who got between Ksh 100 million and 500 million were about 30% of those interviewed. None of the MFI's interviewed benefited with an amount less than Ksh 10 million or more than 500 million.

Table 7(iii): Amount from Commercial Banks per annum.

<table>
<thead>
<tr>
<th>Amount in M Ksh</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>10-100</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>100-500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>&gt;500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>2</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

For those who considered Commercial Banks as their source of funds, 50% got less than Ksh 1 million while 50% received an amount between Ksh 10 million and Ksh 100 million. None of them got between Ksh 100 million and Ksh 500 million.

Table 7 (iv): Amount from Savings & Credit Societies per Annum

<table>
<thead>
<tr>
<th>Amount in M Ksh</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10-100</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>100-500</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>&gt;500</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>2</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data
Savings & credit societies provided 50% of those interviewed MFls with finances amounting between Ksh 10 million and 100 million. Those who got between Ksh 100 million and 500 million were also 50%.

Table 8(i): Repayment of finances

<table>
<thead>
<tr>
<th>Organizations</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repay</td>
<td>26</td>
<td>82.5</td>
</tr>
<tr>
<td>Do not repay</td>
<td>6</td>
<td>17.5</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

It was found that about 82.5% of the MFIS interviewed repaid their finances while 17.5% did not (Table 8(i)).

Table 8 (ii): Repayment rates.

<table>
<thead>
<tr>
<th>Rates (%)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5</td>
<td>8</td>
<td>30.3</td>
</tr>
<tr>
<td>5-10</td>
<td>10</td>
<td>39.4</td>
</tr>
<tr>
<td>11-20</td>
<td>3</td>
<td>15.1</td>
</tr>
<tr>
<td>&gt;20</td>
<td>5</td>
<td>15.2</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Repayment rates also differed from one MFI to another (Table 8(ii). It was found that 39.4% paid a rate of between 5% and 10% while 30.3% of them paid less than 5% repayment rate. About 15.2% of those MFls paid a higher rate of more than 20% while equally the same, 15.1% paid repayment rates of between 11% and 20%.
4.3 Use of Financial performance indicators.

Table 9(i): Frequency of use of Performance indicators

<table>
<thead>
<tr>
<th>Number</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Indicator</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Two indicators</td>
<td>5</td>
<td>13.9</td>
</tr>
<tr>
<td>More than two indicators</td>
<td>27</td>
<td>86.1</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

The research found that all the MFIs interviewed used at least two financial performance indicators (Table 9(i). While only 13.9% of them used two types of financial performance indicators, 86.1% used more than two types.

Table 9(ii) Particular performance indicator according to extent of use

<table>
<thead>
<tr>
<th>Indicator of performance</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Quality Ratio</td>
<td>6</td>
<td>24.9</td>
</tr>
<tr>
<td>Productivity &amp; efficiency</td>
<td>3</td>
<td>13.4</td>
</tr>
<tr>
<td>Financial Viability</td>
<td>2</td>
<td>12.1</td>
</tr>
<tr>
<td>Profitability Ratio</td>
<td>5</td>
<td>20.9</td>
</tr>
<tr>
<td>Capital Adequacy Ratio</td>
<td>1</td>
<td>9.6</td>
</tr>
<tr>
<td>Outreach and Growth</td>
<td>4</td>
<td>19.1</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

The financial performance indicator that was commonly used by most MFIs was Portfolio Quality Ratio 24.9%. Major ratios here included Portfolio at Risk (PAR),
Delinquent borrowers Rate and Arrears Rate. Other Ratios in order of preference were Profitability ratio 20.9%, Outreach and growth 19.1% Productivity and Efficiency 13.4% Financial Viability 12.1% and Leverage and capital Adequacy ratio 9.6%

Table 10: Effect of Use of Performance Indicators.

<table>
<thead>
<tr>
<th>Effect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement</td>
<td>30</td>
<td>92.8</td>
</tr>
<tr>
<td>No Improvement</td>
<td>2</td>
<td>6.2</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

The Use of financial performance indicators contributed to improvement in the functioning of the MFIs (Table 10). Of the MFI interviewed, 92.8% recorded improvement after using these performance indicators while only 5% did not.

Table 11: Areas showing improvement.

<table>
<thead>
<tr>
<th>Area</th>
<th>Yes Frequency</th>
<th>Yes Percentage</th>
<th>No Frequency</th>
<th>No Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased transparency to sources of finances</td>
<td>14</td>
<td>46.6</td>
<td>16</td>
<td>54.4</td>
</tr>
<tr>
<td>Increased profitability</td>
<td>18</td>
<td>60</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td>Increase in client level</td>
<td>12</td>
<td>40</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>25</td>
<td>83.3</td>
<td>5</td>
<td>16.7</td>
</tr>
<tr>
<td>Decrease in PAR</td>
<td>10</td>
<td>33.4</td>
<td>20</td>
<td>66.6</td>
</tr>
</tbody>
</table>

Source: Research Data
Some areas were found to have recorded higher improvements than others. Cost reduction gained 83.3% support, increased profitability (60%), and increased transparency to sources of finance (46.6%). Other improvements were noticed at increase in client’s level (40%) and decrease in Portfolio At Risk (PAR) (33.4%).

Table 12: Length of Period in which Performance Indicators have been in use.

<table>
<thead>
<tr>
<th>Period in Years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1-5</td>
<td>10</td>
<td>31.2</td>
</tr>
<tr>
<td>&gt;5</td>
<td>22</td>
<td>68.8</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

The period in which these indicators have been in use also varied among the MFIs (Table 12) 68.8% of them have used the indicators for more than five years while 31.2% have used them for a period of between one and five years. None of the MFIs had used indicators for a period of less than one year (Table 12).

4.4 Comparing the Sources of Finance and the Performance Indicators Used

Table 13: Sources of Finance in relation to Performance Indicators.

<table>
<thead>
<tr>
<th>Effect by Sources</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determining Indicators</td>
<td>20</td>
<td>62.5</td>
</tr>
<tr>
<td>Do not determine Indicators</td>
<td>12</td>
<td>37.5</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data
The research study found that 62.5% of the MFIs have their performance indicators determined by their financiers. The rest 37.5% revealed that their financiers did not determine the performance indicators they use (Table 13).

Table 14: How Sources of finance influence the Performance Indicators.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Different sources of finance require different Indicators</td>
<td>14</td>
<td>70</td>
</tr>
<tr>
<td>Different sources of finance charge different interest rates</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Some reasons as to why MFIs use certain financial performance indicators were put forward. The major reason was the fact that different financiers require different financial performance indicators. This was supported by 70% of the interviewed MFIs. 30% of the MFIs indicated that different financiers charged different interest rates on the amount provided to them.

4.5 The chi-square test

The chi-Square test ($X^2$) of independence was used to test the relationship between performance indicators and sources of finance. According to Frankfort and Nachmas (1996), Chi-square is a general test to evaluate whether the differences between the observed frequencies and expected frequencies under a set of theoretical assumption are statistically significant. The expected frequencies for either categories of MFIs using the same or different types of financial performance indicators (Table 15).
Table 15: Expected Frequencies in Usage of Financial Performance Indicators

<table>
<thead>
<tr>
<th>Indicators of Performance</th>
<th>Sources of finance</th>
<th>Same type</th>
<th>Different types</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donors</td>
<td>13</td>
<td>4</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Commercial banks</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Self-Help Groups</td>
<td>5</td>
<td>3</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Savings &amp; Credit Societies</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>11</td>
<td>32</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data

The above data was put in SPSS and gave the results shown in Appendix II. The $X^2$ value calculated was found to be 0.5. This value was compared to the critical value of $X^2$ obtained from the Chi-Square tables. To determine the critical value, the test was performed at 95% level of confidence which meant $\alpha$ was 0.05. The degrees of freedom (df) were determined by the formula: $df = (r-1)(c-1)$

\[
= (4-1)(2-1)
\]

Therefore the critical value at $\alpha=0.05$ and $df=3$ was found to be 0.352. The comparison made between these two values showed that the $X^2$ calculated was bigger than that of the critical point and hence falls in the rejection region.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter presents a summary of the study findings, conclusions and recommendations. It also points out the limitations of the study and gives suggestions for further research.

5.1 SUMMARY OF FINDINGS

The study revealed that MFls have existed in Kenya for quite some time. Those that have existed for more than eleven years were 46.9% of the MFls though none has been in existent for more than twenty years. 25% of the MFls have existed for a period of less than 10 years. Although 28.1% have indeed been in existence for a period of less than five years. This means that the phenomenon of MFls is gaining root in the country though at a slow rate.

The study revealed that MFls regarded credit provision as their core business. However this does not mean that they do not offer other form of services. It was found that although 59.4% offered credit provision facilities only, 34.4% and 6.3% offered credit and savings and credit and training respectively. This means that the highest percentage of MFIs in Nairobi offer credit provision in one way or another.

The research findings indicated that the target beneficiaries of the services are mainly groups and individuals. Among the MFIs surveyed 12% offered services to both
groups and individuals and also to individuals only while 8% provided their services to groups only. None of the MFIs offered services to companies.

The study revealed that donors were the major single source of finances for MFIs in Nairobi as indicated by 53.1% of the MFIs interviewed. The donors are mainly NGOs. The second major source of finance was self help Groups which support 33.4% of the MFIs. Commercial Banks though widely viewed as a major supporter to Microfinance sector, provided finances to about 9.4% of them. None of the MFIs obtained finances from the Government. It was concluded that donors and self Help groups are the major sources of finances providing funds to about 80% of the MFIs. Commercial banks and Saccos play a dismal role in this while the Government plays barely no role.

However such grants and soft loans from donors include conditions and requirement as to how the funds should be spent. In order to achieve the goals of reaching the poorest households, MFIs would need to access capital above and beyond grants and soft loans.

The study revealed that all the MFIs interviewed used financial performance indicators to assess their performance. About 86.1% of the MFIs used more than one indicator while only 13.9% used two indicators. None of the MFIs used one indicator of performance. The study also revealed that some performance indicators are highly used than others and these were the Portfolio Quality ratios which included Arrears rate, Portfolio at risk (PAR) and Delinquent borrowers.

The study revealed that the use of performance indicators lead to 92.8% improvement in the operations of MFIs. Only 6.2% of the MFIs interviewed showed no
improvements. Cost reduction recorded the greatest improvement of about 83.3%. Increased profitability followed with 60% improvement while increased transparency to sources of finances had 46.6% improvement. Increase in client level and decrease in PAR had 40% and 33.4% improvement respectively.

The study also revealed that most of the MFIs had been in existence for a period of more than five years and none had existed for period of less than a year.

The study revealed that financiers of MFIs determine the type of financial performance indicators MFIs use. It was found that 62.5% of MFIs used certain financial performance indicators to meet the interests of their providers of finances. Firstly, it was found that different financiers required varying information from different MFIs in order to continue providing finances. This means MFIs should use certain performance indicators to meet the provider's interests. Secondly, different financiers, charge varying interests rates on the loans given. This way, MFIs are forced to use those finances per indicator, which clearly reflect the interests charged to meet the interests of their sources of finances. The study revealed that 70% of the MFIs held the first view while 30% held the second as the major reasons for the financiers to determine the financial performance indicators to be used.

Chi-square test carried out at a confidence level of 95% (α) of 0.05 and 3 degrees of freedom was 0.352 this formed the critical value. This was compared with $X^2$ value of 0.5 calculated by use of SPSS (Appendix II.Table 4). This lead to the conclusion that there was a relationship between financial performance indicators and sources of finance. 95% confided that sources of finances determine the financial performance indicators MFIs uses.
MFIs in Nairobi need to re-examine the financial indicators of performance they use and ensure that they use them if possible at the interest of their financiers. The main challenge is how best an MFI can strike a balance where more than one financier exists.

5.2 CONCLUSIONS

The main focus of the research was to assess the use of financial performance indicators by Microfinance Institutions in Nairobi, and if the financial performance indicators used are influenced by the financiers of the MFIs.

It was concluded that all the MFIs interviewed use performance indicators to assess their performance though some performance indicators are more widely used than others. Portfolio Quality ratios and specifically, Portfolio at risk (PaR), Arrears rates, and Delinquent borrowers ratio are the most popular ratios among the MFIs interviewed though productivity and efficiency ratios, financial viability and profitability ratios, leverage scale and outreach ratios are also used by the MFIs to assess their performance.

The study also revealed that the financiers dictated the type of performance indicators MFIs use in assessing their performance. Therefore there is a relationship between the financial performance indicators and the sources of finance.

5.3 RECOMMENDATIONS

The study revealed that Financial Performance Indicators are widely used among the MFIs in Nairobi. However, there are financial performance indicators that are highly
used than others. Research recommends all the MFIs to use almost the same financial performance indicators because they have a lot in common in terms of their sources of finance and their business environment.

There is also a need to have a set of standard performance indicators for use by MFIs. The standard should be developed through a process of consultation to ensure that they meet the needs of MFIs and are acceptable throughout the sector. This will enable comparison between institutions to be made.

The study revealed that the Government offered no support to the MFIs in terms of finances, though it recognizes Microfinance business as one of the most important tools for poverty alleviation. Research recommends the Government to recognize the work that the MFIs are doing by assisting them financially. It should also set up specific registration and set of laws to guide the operation of the MFI sector so as to ensure good governance and success of these MFIs.

The study revealed that the NGOs, Church based MFIs and DFIs source funds from donors. The recommends that these MFIs should look into possibilities of sourcing funds from the conventional banking institutions so as to reduce donor dependency and enable MFIs to support their own operations without recourse to grants and subsidies.

5.4 LIMITATIONS OF THE STUDY

The major limitations of this study included:

(i) Lack of enough resources to carry out a more detailed research as well as cover a wider area beyond Nairobi.
(ii) Non-response from some of the respondents which affected the sample size and hence degree of representation. Some respondents felt that some information was too confidential to give despite the assurance from the researcher that the information obtained will be used strictly for academic purposes. This led to non-response for some of the questions thus affecting the degree of representation of the study.

(iii) Some respondents felt that questionnaires could be administered only if they were paid for their time. Given the nature of the study that required huge finances the available funds were limited. This led to some respondents being left out thus affecting the targeted number of respondents.

5.5 SUGGESTIONS FOR FURTHER RESEARCH

The study concentrated on assessing the use of financial performance indicators by MFIs in Nairobi. It forms a foundation for further research in this area. There is need to carry out a similar study but on a larger scale, say covering Kenya and covering more respondents. This would enable a comparison between rural and urban based MFIs and give more representative results.

Research recommends that a study be carried out to evaluate the extent to which Microfinance Institutions in Kenya use financial performance indicators. These should include ratio analysis for the particular indicators.

Research also recommends that a study be carried out to evaluate the performance indicators used by the informal lending institutions such as ROSCAs bearing in mind that these sources continue to grow in number and complexity.
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APPENDICES

APPENDIX 1

SPECIMEN LETTER OF INTRODUCTION

Kenyatta University,
School of Business Administration,
P.O.Box 43844,
NAIROBI.

RE: REQUEST TO CONDUCT A RESEARCH STUDY

I am a postgraduate student at Kenyatta University, School of business, Department of Accounting and Finance. I am carrying out a research on “The use of financial performance indicators by Microfinance Institutions (MFI)s”. A case of Nairobi. This questionnaire is aimed at eliciting information that will be useful in the above-mentioned research as part of the Master of Business Administration degree requirements. Your institution has been selected as one of the respondents in this study. The information supplied will be used strictly for academic purposes and will be treated with utmost confidentiality.

Your co-operation will be highly appreciated.

Thank You.

Mahinda Purity Wamuyu.
QUESTIONNAIRE

INSTRUCTIONS:
Where necessary tick (✓) appropriately in the space [ ] provided or state where possible.

PART A

BACKGROUND INFORMATION

1.Name of MFI----------------------------------------------------------------

2.Postal Address------------------------, Tel------------------------

3.Location----------------------------------------------------------------

PART B

INSTITUTIONAL DATA

4. What type of Institution do you operate?
   NGO [ ] Commercial Bank [ ]
   Parastatal [ ] Others specify [ ]

5. For how long has your MFI been operating?
   5 years and below [ ] 6-10 years [ ] 11-20 years [ ] 20 years and above [ ]

6. What services do you offer? (tick all applicable)
   Credit provision [ ] saving [ ]
   Credit and training [ ] Others specify [ ]

7 (a) Do you consider credit provision as your core business?
   Yes [ ] No [ ]
(b) (i) If yes, who do you give credit to? (Tick all applicable)

<table>
<thead>
<tr>
<th>Individual borrowers</th>
<th>Groups of people</th>
</tr>
</thead>
<tbody>
<tr>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

A company [ ] Others specify [ ]

(i) If no what is your core business? 

8. Where do you source your finances?

- a) The donors (NGOs) [ ]
- b) The Government [ ]
- c) Self-Help Groups [ ]
- d) The commercial banks [ ]
- e) Savings and Credit Cooperative societies [ ]
- f) Rotating Savings and Credit Associations [ ]
- g) Kenya Post Offices Savings Bank Ltd. [ ]

Others specify---------------------------------------------------

(Please rank according to the amount if you have more than one source: 1 = highest proportion, 2 = second highest proportion etc)--------------------------------------------

9. On average, how much do you get from each of your sources in Ksh?

<table>
<thead>
<tr>
<th>[Below 10m]</th>
<th>[10m-100m]</th>
<th>[100m-500m]</th>
<th>[500m&amp;above]</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) The Donors (NGOs)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) The Government</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) The commercial banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Self-Help Groups</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Savings&amp;CreditCooperative</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Others specify---------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
10(a) Do you repay your finances?

Yes [ ] No [ ]

(b) If yes at about what rate do you repay your funds?

<table>
<thead>
<tr>
<th>Below 5%</th>
<th>5%-10%</th>
<th>10%-20%</th>
<th>20% and above</th>
</tr>
</thead>
<tbody>
<tr>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

11. (a) Do you use financial indicators to assess your performance?

Yes [ ] No [ ]

(b) If yes which of the financial indicators of performance listed below do you use?

(Tick as appropriate)

**Portfolio Quality Ratios**

- Repayments rates [ ]
- Arrears rates [ ]
- Portfolio at risk (PAR) [ ]
- Delinquent borrowers [ ]
- Loan loss Reserve [ ]
- Loan loss ratio [ ]

**Productivity Ratios**

- Average number of active loan [ ]
- Average portfolio per credit officer [ ]
- Total amount dispersed per period [ ]
- Per credit officer [ ]
- Active clients per branch [ ]
Efficiency Ratios

Operating costs
Salary and benefit to average
Portfolio outstanding

Financial Viability

Operational self-sufficiency
Financial self-sufficiency
Subsidy Dependence Index (SDI)

Profitability Ratios

Return on Assets (ROA)
Return on Business Ratio (ROB)
Return on Equity Ratio (REO)

Leverage and Capital Adequacy Ratios

Debt to Equity Ratio

Scale Outreach and Growth

Percentage of female clients
Value of savings accounts
Savings per branch
Annual growth in savings
Annual growth in depositors

(c) Any other financial performance indicators; Please specify: ---------------------------------------

----------------------------------------------------------------------------------------------------------------------------------

54
12. (a) To what extent do you use the performance indicators above?

Key

<table>
<thead>
<tr>
<th>A=Very great</th>
<th>C=Moderate</th>
<th>E=Very low</th>
</tr>
</thead>
<tbody>
<tr>
<td>B=Great</td>
<td>D=Low</td>
<td></td>
</tr>
</tbody>
</table>

(a) Portfolio quality ratio

(B) Productivity and efficiency ratio

(c) Financial viability

(d) Profitability ratio

(e) Leverage and capital adequacy ratio

(f) Scale outreach and growth

13. (a) Has the usage of financial performance indicators lead to an improvement in the performance of your MFI?

Yes [ ] No [ ]

(i) If yes, in what arrears? ---------------------------------------------

(ii) If no, why? -------------------------------------------------------

4. If your MFI uses performance indicators, for how long has it been using them?

Less than a year [ ]

1-5 years [ ]

Above 5 years [ ]

15. (a) Do the sources of finance determine the performance indicators to use?

Yes [ ] No [ ]

(b) If yes, how?

-------------------------------------------------------------------

Thank you for your cooperation. God Bless You.
APPENDIX II

NPar Tests

Descriptive statistics Table 1

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same type of indicators</td>
<td>4</td>
<td>6.75</td>
</tr>
<tr>
<td>Different types of indicators</td>
<td>4</td>
<td>2.25</td>
</tr>
</tbody>
</table>

Chi-Square Test

Frequencies Table 2

(a) Same type of Performance Indicators

<table>
<thead>
<tr>
<th>Observed No</th>
<th>Expected No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
</tr>
</tbody>
</table>
### Table 3

(b) Different types of Performance indicators

<table>
<thead>
<tr>
<th>Observed No</th>
<th>Expected No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
</tr>
</tbody>
</table>

### Table 4

Test Statistics

<table>
<thead>
<tr>
<th></th>
<th>Same types</th>
<th>Different types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-square a, b</td>
<td>0</td>
<td>0.5</td>
</tr>
<tr>
<td>df</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Asymp.sig</td>
<td>1</td>
<td>0.778800783</td>
</tr>
</tbody>
</table>

Source: Research Data

a=4 cells (100.0%) have expected frequencies less than 5. The minimum cell frequency is 1.0

b=3 cells (100.0%) have expected frequencies less than 5. The minimum cell frequency is 1.3
LIST OF MFIs IN NAIROBI

1. K-Rep Bank Ltd
2. Kenya Women Finance Trust
4. Kenya Post Office Savings Bank
5. Pride Limited
6. Faulu Kenya
7. wedco
8. Plan Kenya
10. Window Development Fund
11. Sunlink
12. ICDC
13. Micro Kenya Ltd
14. DFCK
15. Equity building Society
16. Co-operative Bank
17. Ecumenical Church Loan (ECLOF)
18. Jitegemee Trust
19. SMEP
20. Crossbridge Credit Ltd
21. Young Women Christian Association
22. Sisdo
23. Kadet
24. Kenya Gatsby Charitable Trust
25. Undugu
26. Mukuru Community Initiative
27. Action Aid
28. Catholic Relief Services
29. KSTES
30. Dandora Catholic Church
31. Redeemed Gospel Church
32. Kenya Commercial Bank
33. Barclays Bank
34. Family Finance
35. World Vision
36. Vintage management Consultants
37. Skills Across Kenya
38. Hope Africa
39. Archdioceses of Nairobi
40. St Johns Community Centre
41. Imani

APPENDIX IV

STUDY WORK PLAN YEAR 2005

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>APRIL</th>
<th>MAY</th>
<th>JUNE</th>
<th>JULY</th>
<th>AUGUST</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>****</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
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<td>*****</td>
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<tr>
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<td>*****</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>*****</td>
</tr>
</tbody>
</table>

Source: Researcher 2005

KEY

1. Development and pilot study
2. Adjustments of the proposal
3. Data collection
4. Data Coding and Analysis
5. Report Writing and Compilation
APPENDIX V

BUDGET

(a) COST OF THE PROPOSAL

(I) Literature search
Travel to libraries within Nairobi 15 days @ ksh 100 per day = ksh 3000
Subsistence 10 days @ ksh 100 = ksh 1000
(ii) Foolscaps 3 reams @ ksh 500 = ksh 1500
(iii) Photocopying services = ksh 4000
(iv) Internet use = ksh 4000
(v) Secretarial services 50 pages @ ksh 30 = ksh 1500
(vi) Binding 6 copies @ ksh 150 = ksh 900
= Ksh 16,700

(b) COST OF THE PROJECT

(i) Field Research
Travel, fare & refreshments = ksh 5000
(ii) Cost of printing & distributing Questionnaires = ksh 8000
(iii) Cost of processing data = ksh 5000
(IV) Cost of processing final document
a) Printing 60 pages @ ksh 40 = ksh 2400
b) Photocopying 300 pages @ ksh 2.50 = ksh 750
c) Concreting 300 pages @ ksh 20 = ksh 6000
d) Binding 6 copies @ ksh 200 = ksh 1200
= Ksh 39,950

TOTAL COST = Ksh 56,650