AN ASSESSMENT OF SUBSIDY DEPENDENCE INDEX FOR SELF SUSTAINABILITY OF MICRO-FINANCE INSTITUTIONS IN KENYA:

A CASE STUDY OF KABETE CONSTITUENCY

BY

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An assessment of subsidy dependence

2012
DECLARATION

I do declare this project report to be my original academic work that has not been presented for a degree award in any university.

Signature .......................................... Date 17-2-2012

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This project report has been submitted for examination with my permission as the Chairman of Accounting and Finance Department.

Sign ................................................. Date 15/04/2012

MR. F. W. S. NDEDE
DEDICATION

This research project is dedicated to my dear wife Gladys together with my two loving children Kelvin and Faith, for standing with me and being more understanding the reason of my absence when they needed me most. Their support in the course of my studies towards this degree is undoubtful.

I cannot forget my parents for the firm academic foundation and moral guidance they best owned on me.
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DEFINATION OF TERMS

Subsidy dependent: the cost of the organization are funded through grants and subsidies from donor.

Sustainability: Continuing ability to find and retain donors; ability to cover all cost (financial, the reduction in fund value caused by inflation and even a return on the investors equity)

Microfinance Revolution: The large scale provision of loans and deposit services to low-income people by secure, conveniently located, competing commercial financial institutions.

Operational efficiency: The non-financial costs of operation.

Full-self sufficient or profitable: The institution generating positive (inflation adjusted) returns on assets.

Large scale: Profitable provision of microfinance services-small saving and loans-to economically active poor people by sustainable financial institution.

Profitability: Covering all costs and risks without subsidy and returning a profit to the institution.

Performance: The ability to achieve set goals and objectives within the constraints of available input such as time, human resource, physical equipment and finance. Performance generally refers to expected outcomes or out puts in relation to the injected inputs. It is the way different inputs are manipulated to achieve desired target.

Stability: Ability of an organization to continue in its existence under healthy operations. It is ability continue in its existence under healthy operations. It is ability of the organization to achieve its set objectives and remain credit worthy.

Efficiency: Optimal utilization of constrained resources to achieve highest possible return in a competitive environment.
Effective: The ability to produce a positive impact to planned processes operations and program of an institution.

Legal Framework: The rules and regulations including acts of parliament that governs the operations of a specified organization with the aim of protecting the right of all shareholders ensuring the sustainability of the organizations.

Financial institution: An institution that acts as an agent that provides financial services for its clients.

Micro Credit: Provision of financial services including deposits of sums of money, loan, payment and services. It is transfers of income to households and micro enterprises.

Supervisory authority: Institutions mandated to monitor financial viability and effectiveness of risk management. It is putting check and balances with a view to compliance with lead down regulations.
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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CBO's</td>
<td>Community Based Organizations</td>
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<td>Fl's</td>
<td>Financial Institutions</td>
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<td>K-Rep</td>
<td>Kenya Rural Enterprise Program me</td>
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<td>K.E.W.T.</td>
<td>Kenya Women Finance Trust</td>
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<td>MFI's</td>
<td>Micro Finance Institutions</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<td>NGO's</td>
<td>Non Governmental Organizations</td>
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<td>PRIDE</td>
<td>Promotion of Rural Initiative and Development</td>
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<td>RFI</td>
<td>Rural Financial Institutions</td>
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<td>ROSCAS</td>
<td>Rotating Savings and Credit Associations Scale</td>
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<td>SSE’s</td>
<td>Small Enterprises</td>
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<td>SME’s</td>
<td>Small and Medium Enterprises</td>
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<td>SDI</td>
<td>Subsidy Dependence Index</td>
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<tr>
<td>IRR</td>
<td>Internal Rate of Return</td>
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<td>ERR</td>
<td>Economic Rate of Return</td>
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<td>FRR</td>
<td>Financial Rate of Return</td>
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<td>IREQ</td>
<td>Internal Rate of Return on Equity</td>
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ABSTRACT

This study was carried out to identify the sustainability of Microfinance (MFIs) institutions in Kenya in funding micro and small scale enterprises (MSE’s) in Kabete Constituency. The primary data was collected by use of questionnaires, which consist mostly of closed and open ended questions. An interview was conducted on specific areas, through pre-determined questionnaires.

The population target for the study comprises of all managers in MFI’s in Kabete constituency and its environs. The sample for study was drawn by the use of stratified and purposive sampling technique. The findings indicate that most of the Microfinance institutions are retail Microfinance institutions catering mostly to the lower income groups in society. Only a few were wholesale MFI’s and insurance companies indicating the low penetration rate of the services they offer among the Kabete population. The findings also indicate that majority of the MFIs rank their rate of interest as relatively fair while only a few consider the interest rates they charge on loans to be either low or high. Most microfinance institutions regard their spread as relatively moderate. Half of the microfinance institutions sampled had a good loan collection rate with very few having a high rate of loan defaulters. Sustainability of MFIs in Kenya showed that all the respondents had experienced positive growth in their savings and loans growth rate. The increased savings and loans mean that there is still room for growth in the micro lending sector. Majority of the microfinance institutions reported a very high membership of rural clientele indicating that people from rural areas are the target market for most microfinance institutions. Majority of the microfinance institutions had a very high borrowing rate from women. Majority of the MFIs sampled reported that, the average amount of money lent to each of their client is relatively low. Most MFI’s target numbers rather than amounts with the rationale that huge numbers of people each depositing small amounts of money will eventually result in huge amounts of reserves which can then be lent out to other people for business expansion purposes at an interest. This enables the MFI’s achieve self sustainability since as more people seek loans, more interest is paid to the institution enabling it to take care of its operational costs and reduce dependence on subsidies. All the managers interviewed were of the opinion that Microfinance institutions can achieve sustainability by employing a variety of measures.
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

This study was carried out to identify the sustainability of Microfinance institutions in Kenya in funding micro and small scale enterprises (MSSE’s) in Kabete Constituency. The research was carried out in Kabete constituency specifically because it is a home for mushrooming microfinance institutions. It include most successful institutions like Equity Bank, FAULU Kenya, Kenya Rural Enterprise Programme (K-RREP) Bank, Kenya Women Finance Trust (K.E.W.T.) among others.

Kabete Constituency is located in Kiambu County with a population of 265,829; 130,370 male and 135,459 female [with gender parity] (Kenya National Bureau of Statistics, 2010) Kiambu county is the least poor county according to both 1997 WMS Data (with estimated 25 percent of the rural population living below the poverty line) and this analysis (with a new rural head count District - level estimate of 21 percent) The new higher population poverty estimate show poverty levels ranging from 17 percent to 32 percent at Divisional level and 10 percent to 44 percent among locations. The poverty gap index shows the difference between actual levels of consumption and what people require to raise above the poverty line (expressed as a percentage of the poverty line).

Kabete happen to be the least poor Division in relative wealth Kiambu, on average needs less than 5 percent of poverty line (i.e. Kshs. 62 per adult equivalent per month) to reach the poverty line. Should we be right to say it is as a result of MFI contribution? Kabete’s proximity to Nairobi City, a vibrantly area with a lot of commercial activities was assumed to be a good representation of both a rural and urban region.

Kabete was ranked number one term of economic development in Kenya by steadman international research and therefore necessitate a research to identify component which facilitate in its growth and development. Robinson, (2003) defines as microfinance all types of financial intermediation services (savings, credit funds transfers, insurance, pension, etc.) Provided to low-income households and enterprises in both urban and rural areas, including employees in the public and private sectors and also self- employed and achieving financial
sustainability is crucial for MFIs, as it not only assures their own existence but also guarantees financial services to the poor on an everlasting basis. MFI requires covering its costs of funds and other forms of subsidies when received at market prices to achieve financial sustainability. For a long time, microfinance has existed in the realm of informal sector and achieving financial sustainability has been an uphill task. But as microfinance edges towards the formal sector, financial sustainability can no longer be disregarded.

In developing countries the aim of MFI is to assist people help themselves: for example in Kenya, the provision of small loans, on an organized scale a rose in the 1980s as a result of research recommendations about government delivery of subsidized credit to poor people. (Dondo, 2000). The main objective of MFIs is to provide financial assistance through establishing saving schemes and offering loan products to micro and small enterprises (MSE’s). The major function of MFI’s is to provide a means to transfer economic resources through time, across border and among individuals. MFI’s can take the form of government institution and non-governmental organization (NGO’s). Otieno,(1997). Microfinance institution engage in the provision of credit to small enterprises (SE’s) and the poor to enable them support their productive activities and thus raise their standards of living. In Kenya there are several institution offering microfinance services ranging from informal like merry go round traditional rotation saving and credit associations (ROSCAS) to formal like commercial Banks. (CBK, 2010)

There is wide discussion on the role played by MFI in poverty reduction and development impact with convincing research evidence; commercial banking sector does not consider the poor bankable owing mainly to their inability to meet the eligibility criteria, including collateral. Thus, the poor people in most countries virtually have had no access to formal financial services [Littlefield, Murdurch and Hashemi (2003)] The informal financial alternatives such as family loans, moneylenders, and traders are usually limited in amount often rigidly administered, and in the most of the cases involve very high implicit and explicit costs forcing the destitute stuck in poverty cycle for generations. The more rational way to help the poor could be the provision of sustainable economic opportunities at gross
root level especially provision of required financial services at competitive rates to support their investments including viable business activities.

Some leading MFIs, e.g. Grameen Bank, have created financial model that serve increased number of poor. These approaches have helped many MFIs in achieving a reasonable level of sustainability, and have even increased profits without government subsidies and support from donor (Hulme1999). Nonetheless, some of the MFIs especially the NGOs are facing serious sustainability problems indicating lapse in their financial procedures, organizational design and governance.

The MFIs exclusively dependent on external sources of funding usually are not sustainable and efficient (Rhyne, 1998). The primary of this study is to identify sustainability of MFIs that would in turn help improve lives of Kenyans which comprise 46% of poor population.

1.2 Statement of the problem

Bhuyan, (2006) said that significant aspect of micro financial institutions MFI and nongovernment organization (NGOs) micro credit program is dependent on external grants, and to a certain extent from government. It is also held that most of MFIs are not able to operate at break-even level; (covering MFIs operating costs earning a zero profit). Without subsidies from outside and hence are not able to provide cost effective credits. It is also argued that micro-lending initiatives of interest-based MFIs have a self-perpetuating character and the borrowers are seldom rid of his/her indebtedness.

As with any given programs intervention, performance monitoring of microfinance schemes is essential. In managing money there is a need for timely and accurate information about what is happening on the program me to make correct managerial decisions. In recent years, microfinance has received increased attention in many discussions about the never ending problems of poverty and economic growth promotion.

The role of microfinance institutions MFIs assumed increased importance after financial crisis in the USA. Microfinance has demonstrated that poor people are viable customers as long as their financing is approached in a right, such that moral hazard, adverse selection and other agency problems are mitigated. Microfinance development led to a number of
strong institutions focusing on poor people’s finance and it begun to attract the interest of private investors. Despite of these achievements, there is still a long way to go to access to all who need financial services. Much of the applied economics literature addresses the MFI lending mechanism (e.g. see Morduch, 1999) the social worth of organizations (e.g. see Navajas, 2003; Nevajas, 2000) or performance of MFI (Lapenn and Zeller, 2000)

There has been limited scholarly research detailing the funding process on grants to determine sustainability in MFIs. Previous research placed the evolution of MFI funding sources within the context of institution life cycle theory of MFI development (De Sousa-Shields, 2004). According to this framework of analysis, most MFIs start out as NGOs with a social vision, funding operations with grants and concessional loans from donors and from international financial institutions that effectively serve as the primary sources of risk capital for the microfinance sector. Thus, the literature on microfinance devotes considerable attention to this process of “NGO transformation” as a life cycle model outlining the evolution of a microfinance institution (Helms, 2006)

The life cycle theory posits that the sources of financing are linked to the stage of MFI development. Donor grants and “soft” loans (loans with subsided interest rates obtained from multilateral banks (e.g. the World Bank, the Inter-American Development Bank), government aid agencies, (e.g. United States Agency for International Development, Foundations (e.g., the Ford Foundation), and the apex organizations (e.g., Woman’s word Banking ACCION) Comprise the majority of funding in the formative stages of the organization. As the MFI mature, private debt capital becomes available but the debt structure have restrictive covenants. In the last stage of MFI evolution, traditional equity financing becomes available (Fehr and Hishiguren, 2004).

A number of MFI have formalized after regulation through microfinance Act, 2006 but quite a number are still faced with challenge to raise minimum capital requirement to register them and sought funding for growth through public deposits. A more comprehensive study dated June 2010 estimated at 3,460 the number of legally constituted microfinance service providers in Kenya, including 3,397 SACCOs and co-operative-like community-based
intermediaries, 56 microfinance institutions (MFIs), four commercial banks, two building societies, and the Kenya Post Office Savings Bank. Another finding of this study, was the lists of 17,305 rotating savings and credit associations (ROSCAs), 115,884 registered women groups', and 1,342 primary agricultural producer and marketing cooperative societies, also involved in providing credit countrywide and which are not registered to the CBK. During (AMFI) annual meeting on 20th August 2010 there is recommendations number two where they agreed for lack of social performance management tool where Kenya Bureau of standard (KEBS) is requested to develop the tool. They further noted lack of sustainable problem which the recommended three pillars; social responsibility; financial sustainability and Environmental management. Report analysis according to consistent mix market indicate that profitability of MFI in Kenya has been dampened by ever rising expenses (operating, financial and loan loss provisions) The most affected bulk operating cost account is among the small NGO MFIs, (mix market, 2008). Nevertheless no study has been done to assess the extent at which these MFIs depended on subsidies. It is this in mind researcher intends to bridge the gap, by assessing subsidy index of MFI in Kenya for their sustainability. To what extent are these microfinance dependants on subsidies to survive?

1.3 Purpose of the study

The purpose of this study was to assess self-sustainability of microfinance institutions in Kenya.

1.4 Objectives of the study

The main objective of this study was to compare subsidy dependency index of microfinance institutions.

1.5 The specific objectives of the study include:

i. To estimate total annual subsidies received by MFI’s.

ii. To estimate average annual interest income recorded by each MFIs.

iii. To determine sustainability through deposit taking.

iv. To determine type of grants and subsidies received.
1.6 Research Questions

i. What are the total annual subsidies received by each MFIs?

ii. What is the average annual interest income recorded by each microfinance institution?

iii. Does you microfinance receive deposits?

iv. What are the types of grants and subsidies received?

1.7 Justification for the study

The level of poverty in Kenya and high unemployment has become warranting which necessitate for inclusive financial services to jump start the economy and take the country to the next level of development as entailed in the blueprint of vision 2030.

1.8 Significance of the study

This research study will be significant to the following.

The MFI’s managers- This study will give MFs managers a chance to participate and thus document their views on the issues under investigation and therefore help on presenting their needs in the microfinance industry.

The government of Kenya- The state will be interested on the findings as she is an active play and a stick holder in reduction of poverty among people.

The central Bank of Kenya- The finding will assist (CBK) as regulatory authority on deposit taking MFIs.

The donors- this study will be a point of reference to donors in understanding since they are pushing for sustainability on MFIs

Future researcher and scholars – The study will be reference material in future scholars who wish to do further research in this critical and dynamic industry.

The scope of the study

This study was conducted with Kabete constituency and its environs. The location is appropriate because its represent both rural and urban participants. It’s located near Nairobi
City which is a dynamic business community. The finds may be generalized to represent whole country of Kenya. Kabete is an environment under which both informal and big formal MFIs in Kenya serves and therefore a good study area for case study on the issue under investigation.

1.9 Assumptions of the study
There are numerous assumptions that researcher made during the study. First, that the respondents gave honest and true information.
Second; that the time bound to collect the data was adequate.
Third, that all the respondents were co-operative and lastly that secondary information was readily available and accessible.

1.10 Study limitation
There were three limitations. First; there is constraint of time due to the fact that the researcher was involved in full time job. The researcher had to set aside time to collect the data. Secondly; there was issue of distance between working station and MFIs location and therefore arrangement was made to hire a private means of transport. Finally, finance was required to carry out the research. Money was needed to move around to collect the data, type, print and bind the final document.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
This section covers the revolution of microfinance, development of microfinance in Kenya, microfinance legal and regulatory framework, assessing the performance of microfinance, sustainability, subsidy dependency index, factors contributing to reduced subsidy dependence, conceptual framework. Previous studies on self-sustainability, previous studies on subsidy dependency index and summary of the review.

2.1 Microfinance Revolution
Otero and Rhyne, (1993) defines Microfinance institution (MFIs) revolution as large provision of small loans and deposit services to low-income people by secure, conveniently located, competing commercial financial institutions aiming to generate the processes needed to democratize capital. Appropriately designed financial products and services enable many poor people to expand and diversify their economic activities, it increase their income and improve their self-confidence. Financial institutions managers’ knowledge that microfinance can become profitable and self-sustaining while achieving wide client out reach. Government and donors no longer need to provide ongoing credit subsidies; they also need not cover the losses of state banks through providing credit subsidies.

Over the past 20 years these characteristics of the microfinance revolution have been demonstrated in widely deferring country environments. In the beginning, most of the banks- the economists, policy analysts, policy makers and international donors-got it wrong (some studies) The approach local banks took when visiting villages in the 1960s and 1970’s generally did not work. The problem was that banks were using government or donor funds to provide subsidized credit, an approach that continues in many countries today. Because subsidized programs are constrained by their budgets, relatively few borrowers can be served. The interest rates of informal commercial money lenders, and the total cost of such loans are often so high that preclude or severely limit the growth of the borrower’s enterprise- or in some cases threaten its existence. In addition most low-income households in most developing countries do not have access to secure, convenient saving services.
Donor funded nongovernmental organization (NGOs) were among the first to identify the vast unmet demand for microcredit loans in developing countries, to develop methodologies for delivering and recovering small loans and begin credit program for the poor, while some failed others reached the poor and recover their loans. The unregulated are unable to access substantial amount of commercial finance. They could normally meet only a tiny fraction of microcredit demand in the regions, served no voluntary saving services.

The best known early microcredit model is poverty lending approach pioneered at Bangladesh Grameen bank. This made aware that poor people can be good credit risks but poverty lending approach has required large amounts of continuing subsidies and has not proven a globally affordable model. And as the name implies, poverty lending does not meet poor people’s demand for saving services. A different solution is meeting the massive global demand for small loans and saving services. Paradigm shift took place – from the delivery of government or donor -subsided credit to the development of sustainable financial intermediaries that capture local savings access commercial finance, and lend these funds to low-income borrowers at interest rates that enable full cost recovery and institutional self-sufficiency.

The microfinance revolution developed in the 1980’s (before it had a name) and came of age in 1990’s. It occurred when the many advances of previous decades in market knowledge, lending methods and savings mobilization were combined with a commercial approach to financial intermediation for low-income people, making financially sustainable formal sector microfinance possible. This breakthrough- which also required the development of organizational structures and management resources capable of delivering microfinance profitably throughout an entire country- first occurred in Indonesia in 19980’s and in Bolivia in the mid 1990’s. Commercial microfinance is now at different stages of development. In the most advanced form, in banks and other formal institutions, all microloans are full financed by savings, commercial debt, from profit investment and retained earnings (in a variety of forms and combinations) As a result all savers and all credit worthy borrowers can be accommodated as they expand their enter prices and qualify for larger loans and can and many economically active poor people can be helped out of poverty. Industry standards for
commercial microfinance began to develop in the 1990’s. And in some countries intense competition has erupted among commercial financial institutions aiming to attract the business of the poor client. Nevertheless, in most developed countries the formal financial sector still does not serve microfinance clients. The traditional view— that is neither important nor profitable for institutions to provide commercial services to the low-income people—is still widely held.

Finance for the poor is a topic on which many opinions are held, usually passionately. As in any emerging industry, debates are endemic. But, in microfinance debate are among people who work every day to increase the employment opportunities, income and self-confidence of the poor.

2.3 Development of microfinance in Kenya

The microfinance industry in Kenya can be traced to the colonial era. The colonial administration did not put in place credit scheme to benefit the Africans. The informal organizations such as merry go rounds were local initiatives formed to mobilize savings among the community members. It was until after the year 1963 that the first saving and credit co-operatives societies (SACCO) were registered (ALILA, 1990; Henry, 1991). Microfinance industry expanded enormously in 1990s. The global world embraces the microfinance as a power tool for poverty reduction and economic development.

Moreover, the current growing interest in microfinance reflect a new kind of micro financial sector development (Obure, 2003). In the most rural and sub urban areas there is clear absence of grass root financial intermediations to facilitate resource mobilization and lending, The few community based organization (CBOs) co-operative societies and credit unions that operate are ineffective and inefficient and more so heavily indebted to both commercial banks and private suppliers of goods and services.
Rotating saving and credit Association (ROSCAS)

Dondo (1994) observed that the group lending methods draw heavily on traditional Rotating Saving and credit Association (ROSCAS). In these groups, people with a common bond as being from one village or clan, can come together at regular intervals (say once a week). At these sessions, each member contributes a small amount to the pool of savings where one member of a group is given the contribution, the process continue until all member is covered. Each ROSCA had its own rules and regulations.

Some of these group transform themselves to become MFIs. As of 2007, the Central Bank of Kenya (CBK) reported the existence of 5122 registered savings and credit co-operatives (SACCOs), 45 banking institutions, 42 of which were commercial banks, 2 mortgage finance companies and 1 non-banking financial institution. A more comprehensive study dated June 2003 estimated at 3,460 the number of legally constituted microfinance service providers in Kenya, including 3,397 SACCOs and co-operative-like community-based intermediaries, 56 microfinance institutions (MFIs), four commercial banks, two building societies, and the Kenya Post Office Savings Bank. Another finding of this study, was the lists of 17,305 rotating savings and credit associations (ROSCAs), 115,884 registered women groups', and 1,342 primary agricultural producer and marketing cooperative societies, also involved in providing credit countrywide and which are not registered to the CBK.

2.4 Microfinance legal and Regulations framework

Regulations are fundamental rules of behaviors. In the context of financial institutions it refers to the body of principles that apply to financial institutions to ensure they comply with laid down procedures. Financial supervision involves the examination and monitoring of organizations for adherence with financial regulations. The prudent regulations and supervision are designed to avoid crises and maintain the integrity of the system, protect depositors and encourage financial sector competition and efficiency (Chavex, 1995). Microfinance should be regulated, if and when they mobilize deposits from public (Kenya microfinance Act 2006). MFIs should be regulated when standards of good practice are clearly needed; either because there are non in the practicing organization or because existing
practioners are not operating properly. Lidgerwood, (1998). states that the later commonly occurs when donors push program me and target credit rather than focus on meeting existing demands for financial services,

Brownbridge, (1997) argued that MFIs should be assessed to increase their efficiency and effectiveness especially when they reach a certain size in monetary terms. He further noted that when assessment is warranted, it require coherent prudential guidelines that will further growth of MFIs sector as a whole. Fleising (1996) highly advocated reforming the legal regulatory and institutional systems that governs credit by noting this will lead to lower interest rates. He said that such reforms will be achieved by reducing the risk and cost involved in lending without resorting to subsidies.

Unsecured lending can be an important means of providing credits to small enterprises. However, several features limit the expansion of the unsecured lending system. The problem of legal framework for unsecure transaction limits the access to credit. The information about borrower is crucial in reducing risk exposure in unsecured lending and because rural borrowers are more dispersed than their counter part urban borrowers. Such information can only be in the position of local lenders. The credit sellers are limited by such information to refinance their portfolios and take advantage of profitable credit sales opportunities.

2.5 Direct interventions

The World Bank (1992) suggests a more limited market role for government interventions. It specifies criteria regarding the conditions under which direct public intervention are warranted. If the overriding goal is rural income expansion direct public interventions are justified only if it addresses identifiable market failures. This could be only possible if the expected benefits of the interventions outweigh the associated costs of interventions. If the overriding goal is poverty reduction, the benefits of economic growth may fail to reach many of the poor rural people.

The interventions based on prevailing social norms may still be justified even in the absence of market failure or an economically feasible intervention to address such intervention a failure. Because public funds can be put to a variety of uses, the opportunity cost of each
intervention should be strictly analyzed. Subsidies to MFIs should be measured, and the social cost of given intervention should be compared with the costs of alternative interventions (World Bank, 1994).

2.6 Assessment of performance

The performance of targeted credit programs should be evaluated regularly against their stated objectives and against other potential interventions. To facilitate measurement, subsidies should be transparent and be reflected in the financial statements of the institutions. In evaluating the performance of MFIs initiatives, it is essential to determine first whether they have met their goals of expanding income and reducing poverty and then to evaluate their opportunity costs. Ray (1995) observed that a concerted effort by government or other agencies to promote rural finance usually include direct credit, which to a certain extent changes the allocation of resources. It involves subsidies and entails an economic opportunity cost. Given these characteristic, it is reasonable to require an estimate of the total cost to society to facilitate the optimal allocation of scarce public resources both within and between rural financial markets and other sectors of the economy.

Measuring the impact of rural credit, project programs or rural income up lift and poverty level reduction is fraught with methodological problem. However, a logical framework has been developed to assess the performance of financial institutions (World Bank, 1992). Financial institutions that provide a wide range of financial services to a broad range of clients in an efficient manner are likely to contribute to income expansion and poverty reduction. Efficient MFIs should therefore achieve the desired development impact. Measuring MFIs performance has added benefit of having fewer methodological problems than measuring the impact of rural credit schemes.

World Bank, (1994) further said that performance can be measured by the extent of their outreach and self-sustainability. This enable policy maker to better evaluate the cost of society on supporting MFIs, second, it establishes key performance benchmarks for rural financial intermediations. This benchmark can assist formulation of policies and model of operation for future initiative.
The most common ways for donors, governments, and MFIs to gauge performance is through a two-pronged framework of social cost as subsidy and of social worth as outreach (Gonzalez-Vega, 1997; Christen, 1995; Benjamin, 1994; Zaron, 1994 and 1992b). Outreach is the social worth of output of MFI in terms of six aspects- depth, worth to users, cost to user, breadth, length, and scope- in a standard framework for project analysis (Schereiner, 1998).

2.7 Demands for Microfinance

World Bank’s development report (1999/2000) states that entering the 21st century in 1999, about 1.2 billion people- 24% of the population in developing and transition economies lived on less than $1 a day. In 1999, 4.5 billion people, or 75 percent of the world population, lived in low- and lower middle-income economies, of these 2.4 billion we found to live in low-income economies with an average annual GNP per capita of $410, while 2.1 billion lived in middle income economies with $1200 (World Bank, Development report 2000/2001).

Basing on this conservative assumption some 80 percent of world 4.5 billion people living in low-income and lower middle economies do not have access to formal financial services.

Rhyne, and Gulli, (1998) reports that Microfinance in the 1990’s was marked by two major debates between lending views; the financial systems approach and the poverty lending approach. The financial system approach emphasizes large-scale outreach to the economically active poor- both to borrowers who can repay microloans from household enterprise income streams and to savers. The financial system focuses on institutional sufficiency because given the scale of the demand for microfinance, worldwide, this is the only possible means to meet widespread client demand for convenient appropriate financial services. The poverty through credit, often provided together with complementary services such as skills training and the teaching of literacy and numeracy, health, nutrition, family planning and the like. Under this approach donor- and government-funded credit is provided to poor borrowers, typically at below-market interest rates.
In a discussion about the debate between the two views, Rhyne, (1998) points out, “Everyone involved in microfinance share a basic goal: to provide credit and saving services to thousands or millions of poor people in a sustainable way. Everyone wants to reach the poor, and everyone believes sustainability is important”

Rhyne is right that the debate is about the means, not the goal. But the means can limit the goals that can be achieved. Thousands of clients can be served through either method. But serving millions, competing institutions requires a financial system approach. Rhyne goes on to say that “…it become clear that the poverty/sustainability debate is ultimately about whether to subsidize interests” She comments further that “there is facts only one objective- outreach. [Institutional] sustainability is but the means to achieve it”

Contributions to the substantial development of institutional microfinance have been done through both approaches. Some institutions use the poverty lending approach to microcredit. They have successfully reached poor people with donor- and government subsidized credit services. But the literature on both microfinance and rural finance is filled with examples showing that most institutions that provide subsidized credit fail. These institutions can meet only a small portion of the demand for microfinance.

Susan, (2002). In contrast, said that formal sector commercial microfinance has proven itself able to make financial services- both credit and savings- available to low-income clients on a large scale, and do so profitably. I disagree with advocates of poverty lending but I agree with many of their views on poverty, both as causes and its solutions. I share their goals of providing financial services to the poor people through sustainable institutions. I admire their commitment to eradicating poverty also recognize their important contributions to the development of methodologies for microcredit. But the approach is poorly suited for building microfinance on a global scale. Resources for developing microfinance are limited and donors and government must choose among options if microfinance services are to make available to all who can use them. The microfinance today debate continues between those in the “poverty” camps and those in the “sustainability” camp
It is true to not that everyone involved in microfinance share a basic goal; to provide credit and savings services to thousands or millions of the poor in sustainable way. Everyone wants to reach the poor, and everyone believes sustainability is important; the question is whether services can be delivered at a cost that is affordable to the clients. Susan, (2002) states that answering such questions requires looking at the cost structures and delivery methodologies of microfinance institutions, especially those claiming that outreach to the very poor is the reason they are not becoming fully- sustainable. Such institutions bear the cost of proving they are as efficient and low-cost on their operations, as it is technically possible to be overall; the poverty lending approach poses a deep dilemma for governments, microfinance institutions, donors and others. This is because microfinance has reached a fork in the road.

The microfinance revolution based largely on the financial system approach, and poverty lending agenda, based largely on eradicating poverty through credit, have begun to move in different direction. The poverty approach uses subsidies primary to fund loan portfolio. While financial systems approach uses subsidies to disseminate lessons from the best practices of fully sustainable microfinance systems and to finance the development of financially self-sufficient microfinance institutions.

These institutions finance their microloan portfolios commercially; enable them to multiply outreach by leveraging additional capital. One road leads towards donor-dependent microcredit institutions that cannot meet demand for credit and do not demand for savings services. The other leads to self-sufficiency financial intermediaries and large-scale microfinance outreach.
2.8 Criteria of assessing the performance of MFIs

Source: Yaron (1992)

2.9 Self-sustainability

The financial performance of profit maximizing organizations can be measured using conventional financial profitability ratios. This includes measures such as return on equity and return on assets. However, these measures were not designed to measure the financial performance of state owned institutions which is not profit maximizes and which almost benefit from subsidies that carry opportunity cost to society nor does conventional financial ratios take to consideration the effect of subsidies on the profitability of rural financial institutions. Word Bank (1992) adds that financial profitability ratios of MFIs can increase because of an infusion of subsidized funds even as time performance is deteriorating. The reverse is also true that MFIs profitability can appear to decline, but because subsidized grants have been reduced. The concessional borrowing rate that benefit typical state owned RFls is usually determined by considering political economic through a process involving a central bank and related ministries and agencies not by market forces.
2.10 Outreach

Outreach is a hybrid measure that assesses the extent to which MFI has succeeded in reaching its target clientele and the degree to which the MIs has met the demand of financial services. The assessment of MFIs can only be good as the information available; requires adherence to generally accepted accounting principles and be subject to regular external auditing. Some theories argue there may be trade-off between outreach and self-sustainability, but many institutional policies that improve outreach also improve self-sustainability; improvement in performance at least in one criterion, while performance can be monitored on the other.

2.11 Optimizing performance

Source: Mahajan and Romola (1996)

2.12 Financially Self-Sufficient Microfinance Institutions

Sustainable microfinance is carried out by commercial institutions that deliver financial services to the economically active poor at interest rates that enable the institutions to cover all costs (including the commercial cost of funds) and risk to generate profit. Such institutions include bank, saving credit cooperatives, credit unions and other non bank
financial institutions it refers to organizations that finance their loans portfolio from locally mobilized savings those that access commercial debt and for-profit investment and those that uses retained earnings to finance their lending.

Susan and Rogal, (2002) however stresses that microfinance revolution is a commercial revolution based on new financial technology and greatly accelerated by the information revolution that developed concurrently. Commercial microfinance institutions must charge interest rates that are significantly higher than the normal lending rates of the countries standard commercial banks. They further said that operation cost is typically several times those of banking industry standard in some countries. Microfinance is labor intensive. They must maintain and staff many small widely dispersed outlets that are conveniently located for clients, infrastructure and communications in the areas served is often rudimentary. It is also more costly to process many small loans and savings accounts than a smaller number of large loans.

Christen (1997) states that market rate that arise from the interplay of supply and demand in some defined range of transaction. They are the rate at which commercial bank and their conventional customer conduct deposit and loan transaction. Loan interest rate is called subsidized or unsubsidized depending on whether they cover the full cost of providing the loan. Cost of providing microloans is higher, as a percentage of loans amount, than costs of conventional bank loans. Thus a market rate (as defined here) is likely to be a “subsidized rate” if it is applied to microloans

2.13 Financial Performance and Sustainability

As with any program me intervention, performance monitoring of microfinance schemes is essential. In context of managing money the need for timely and accurate information about what is happening most stressed highly. Financial statement must be timely and accurately analyzed to produce information about the performance of the scheme to make correct decisions. The crucial question is whether the portfolio of loans and savings the scheme is holding is being effectively managed. The repayment rate is the indicator most often used as
a measure of performance of credit. But despite its universality, the way it is calculated and monitored is not entirely standardized as it relate to particular design.

2.14 Financial Sustainability

Christene, Rhyne and Vogel, (1994) said that high repayment rates have been reported in schemes where interest rates are high enough to partly cover the costs of providing the services. In recent studies on microfinance institution identified three levels of financial sustainability.

**Level 1 Subsidy dependent:** The costs of organization are funded through grants and subsidies from donors.

**Level 2 Operational efficiency:** The non-financial costs of operational (salaries and other administrative costs) are covered out of program me revenues (interest on loans and fees).

**Level 3 Fully-sustainability or profitable:** the institution is generating positive (inflation adjusted) returns on assets. The financial costs of operations are raised through commercial loans and incomes is enough to cover the costs of these loans.

Microfinance institutions sustainability can be between 2 to 10 years after starting operations. Branches of Grameen Bank became operationally self-sustaining in the span of 5 years (Khandker, Khalily and Khan, 1995). Branches of KASA Network in Bangladesh appear to be able to reach this level within 8 months of commencing their operation (Rutherford, 1995)

"There is need for a certain degree of scale and dispersion of loans and savings for financial intermediation to function effectively, and this is likely to be found within one village.

The theory and the practice have therefore diverged quite significantly and adjustments and adaptations have been made in implementing the system. While the methodology has demonstrated an ability to reach poor people and especially women, on whom the
programmers’ have often focused, the vision of financial sustainability is yet to become reality” (Holt, 1994)

The extension of coverage could include wide geographical regions and diverse social groups which could spread their demand for loans more evenly throughout the year. It is interesting to consider the sustainability of informal financial systems (ROSCAS) since their managerial inputs are voluntary. However, in the course of making procedures more formal, additional costs may arise, such as a salary for a paid manager. It is good to not further that one of emerging point of consensus is that, even in case where the scheme is not able to operate in a way that will make it financially sustainable, any subsidy provided by an NGO should be to the operational costs of the scheme rather than in form of low interest-rates and lax repayment policies. Susan and Rogal (2002) states that providing public with donor money to maintain institution can be viewed as building financial infrastructure. But a danger exist in that donor money can lead to a lack of financial discipline on the part of the institution, which may determine the objective of building up such institution to survive in the long term

While debate continues, NGOs are increasing being challenged by donor to examine the financial sustainability of their programs; this stimulate critical thinking about programs’ direction calculating sustainability can be a complex matter but two relatively simple measures can be used where programmers’ stands financially; The sustainability index and the break-even interest rate. Havers, (1996) suggested sustainability index: a straight forward way to look at financial sustainability of the saving and credit operation, it look at its income compared to its costs

2.15 Subsidy dependence index (SDI)

To determine the real cost to society of maintaining MFI and measuring its performance should take into account the subsidies received by the institutions. The subsidy dependency index (SDI) offer such a tool; shifting the focus from traditional profitability return on asset and equity. The (SDI) is expressed as a ratio that indicates the percentage increase required
in the on lending rate to completely eliminate all subsidies received in a given year. (Yoran, 1992a and 1992b)

It allows for the calculation of:-
The volume of subsidies required to keep MFI a float.
The ratio of subsidies received to interest earned by MFI on its loan portfolios in the market place.

2.16 Interpretation
Benjamin (1994) says that (SDI) has a lower bound of- 100 percent but no upper bound
An SDI of Zero means that MFI has achieved full self-sustainability. An SDI of 100 percent indicated that a double of the prevailing average on lending interest rate would be required to eliminate its subsidies.
The SDI should be some cases are seen as a lower bound for the required increase on the lending rate, full financing of MFI activities is likely to be difficulty at the prevailing market, reference at the prevailing deposit interest, if the MFIs performance is dismal.

2.17 Application
By applying the computed cost of subsidized resources extended to, MFI the SDI enables the assessment of the real financial cost of intervention in the markets and focus on the liability and longevity of institution.
The SDI enables government, donors and MFI to better allocate and apply resources in three ways. By making explicit subsidies received by MFI, the SDI provides an estimate of the total cost involved in supporting MFI. This will provide a starting point for comparing the costs of alternative public interventions (squire, 1995)

The SDI enables comparison of the financial performance and degree of subsidy dependence of rural financial institutions that provide comparable services to a similar clientele. The SDI serves as a long term planning and monitoring too for governments, donors and managers to track a specified MFIs progress toward self-sustainability over time. An
analysis of the sources and application of MFI subsidies could further assist in determining the merits of subsidizing MFI Yaron (1992)

To calculate the subsidy dependence index (SDI); total subsidies are compared with the MFI average on lending interest rate multiplied by its annual loans portfolio. The interest earned as presented in the MFIs income.

\[
SDI = \frac{\text{Total annual subsidies received (S)}}{\text{Average annual interest income (LP*I)}}
\]

\[
= \frac{(A (M-C) + (E*M)-P)+K}{N (LP*I)}
\]

Where

- A = annual average outstanding occasionally borrowed funds
- M = interest rate the MFI would probably pay for borrowed funds if access to concessional borrowed funds were to be eliminated. This is generally the market reference deposit interest rate, adjusted for reserve requirements, and the administrative cost associated with mobilizing and serving additional deposits.
- C = weighted average annual concessional rate of interest actually paid by the MFI
- N = its average annual outstanding concessional borrowed funds.
- E = Average annual equity
- P = reported annual profit before tax (adjusted for appropriate loans loss provision)
- K = the sum of all other annual subsidies received by MFI (such as partial or complete coverage of the MFIs operational cost by donor/state)
- I = average annual outstanding loans interest of the MFIs loans portfolio
- L = Annual interest earned
  
  Average annual loan portfolios

Source: Yaron (1992)
2.18 Theoretical framework

2.19 Factors contributing to reduce subsidy dependence

There are four factors to eliminate subsidy dependence. These factors are: adequate on lending high rates of loans, high rate of loan collection, saving mobilization and control of administrative costs.

Adequate on lending rates; spread.
The spread refers to the difference between lending rate and deposit rate. To completely eliminate subsidy dependence on MFIs on lending rate should be positive in real terms and set at a level sufficient to cover all operating costs and financial expenses. This is the main contributing factor to financial self-sustainability.

High rate of loan collection
Loan losses have been the largest single cost born by MFIs and the principal manifestation of financial distress. Appropriate monitoring of loans performance should be an integral part of sound financial management.

The main indicators of loan performance are:-
The ratio of arrears to amount due, measured for loans payable tracked by their original maturity. Loan collection against total collectables: (the sum of old arrears and the amount due in the reporting period.) For this ratio be meaningful MFIs must clearly define arrears and adhere to general accepted accounting principles with regard to writing off bad debts. To calculate loan collection ratios and make adequate provisions for bad debt MFIs should track loan performance continuously as shown in the past due aging analysis. Since this analyses take account of historical trends in collecting both current dues and overdue, it allow for:- sound assessment of the adequacy of the provision of loan losses, appropriate pricing of the cost of loan losses when setting lending interest rates, proper income recognition and improved cash flow management.
Savings mobilization
Active savings mobilization help to ensure that a continuous source of funds for MFIs. An increase overtime in the ratio of total value of voluntary savings to the loans portfolio will indicate the extent to which MFIs has been successful in replacing concessional funds with the state/donors with savings from clients.

Containment of Administrative costs
To ensure subsidy independence, administrative costs must be reflected and covered in the final on lending rate of MFIs. High transaction costs can reduce outreach and lead MFIs uncompetitive or they can increase dependence on subsidies. When analyzing administrative costs the nature of the services provided by MFI must be considered, those services may include (mobile) banking services saving mobilization, social intermediation services, technical assistance and other non financial services. Administrative cost should be monitored against total operation costs, annual average assets and the annual average loan portfolio.

Theoretical Framework

Source: Yoran (1992)
2.20 Relationship between independent variable and dependent variable

Total annual subsidies

Average annual interest income

Subsidy dependence index

Improved performance

Independent variable

Dependent variable

Source: researcher (2011)

The above independent variables formed the basis of the study and will be manipulated to positively or negatively affect the dependent variable of the study. These independent variables have been broadly covered in the literature review above.
CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.0 Overview
This chapter outlined the research design and methodology that were adopted for the purpose of the study. The chapter was divided into sections as follows: study area, research design, target population, sample size and sampling procedure, data collection, data analysis and interpretation.

3.1 Study area
The study was undertaken in Kabete constituency, the response was sought from the managers of the microfinance and accountants of the same organization and sampling technique applied to select the respondents.

3.2 Research Design
A research design was a plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control variables (Kerlinger, 1978)
A research design helps to control the experimental, extraneous and error variables of a particular research problem being investigated. According to Kerlinger (1978) research designs are invented to enable answering the research questions as validly, objectively, accurately and economically as possible. The study employ a case study research design focusing on MFI, and provide in-depth study. The design seeks to collect data without manipulating the research variables or the respondents in an attempt to assess the subsidy index. (Paton, 2000).

3.3 Target population
Population was the entire group of individuals, events or objects having common characteristics. (Mugenda and Mugenda, 1999) They go on to say it is the sum total of all that conforms to a given situation, that is to which the researcher wants to generalize the findings of the study. The target population for this study is all managers of MFI in Kabete constituency.
The target population of the study was all 56 managers or accountants of all microfinance institutions in Kabete constituency.

### 3.4 Sample Design
Kothari, (2004) defined a sample design as a definite plan for obtaining a sample from sampling frame. It refers to the technique or the procedure the researcher would adopt in selecting some sampling unit from which references about the population is drawn. Sampling design is determined before any data is collected.

Warwick and Lininger, (1975) argue that, the main factor considered in determining the sample size is the need to keep it manageable enough. This enables researcher to derive from it detailed data at an affordable cost in terms of time, finances and human resources. (Mugenda and Mugenda, 1999) The researcher ensures a high degree of correspondence between a sampling frame and the sample population as the accuracy of the sample depends on the sample frame. Further, Patton (2000) argues that the sample size depend on what to know, the purpose of the inquiry, what is at stake, what will be useful, what will have credibility and can be done with available time and resource. The study is a case study of MFI in Kabete constitution. Samples was drawn from the target population all 56 managers. The sampling technique was by stratified and purposive to select managers and accountants respondents in the institution.

### 3.5 Sample size and sampling procedure.
Although researcher want to gather information about the characteristics of population, they usually study a small group (a sample) carefully drawn from the population and the use the finding from the sample to make inferences about the population (Ary, 2006) According to Cooper (1998) quoted in Munyaka (2008), how large a sample should be is a function of the variation in the population parameter under study and the estimated precision needed by the researcher Mugenda and Mugenda (1999) noted that ten percent of accessible population is adequate for a sample in a descriptive research.
3.6 Sampling procedures

A sampling frame is a list, directory or index of cases from which a sample can be selected. It is important to note that the degree of generalization of a study depends on the accuracy of the sampling frame from which the sampling will be selected (Mugenda and Mugenda, 1999) Stratified sampling technique was used to identify the respondents who will participate in the study. The study considered 56 managers and accountants to furniture researcher with research data.

<table>
<thead>
<tr>
<th>Type of MFIs</th>
<th>Total population (MFI)</th>
<th>Percentage</th>
<th>Sample managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail MFIs</td>
<td>24</td>
<td>73</td>
<td>2</td>
</tr>
<tr>
<td>Wholesale MFIs</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>4</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>Development institutions</td>
<td>2</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

3.7 Data collection

This section presents the data collection methods and instruments, development of the research instruments, validity and reliability of research instruments and finally administration of research instruments.

3.8 Research instruments for data collection

This study will use document analysis, interview schedule and questionnaires to collect data. The questionnaire will be used to collect information on incomes and cost of operation.

3.9 Data Collection instruments

Data will be collected both primary and secondary sources. The primary data will be obtained by administering research questionnaires to managers and accountants. The secondary data will be obtained from previous years documented audited statements of accounts these include profit and loss/ income statements and balance sheet accounts.

3.10 Reliability of the research instruments

Reliability is the measure of the degree to which a research instrument yields consistent results or data after repeated trials. (Mugenda and Mugenda 1999)
The questionnaires will be pretested using the split half method. Each of the sets will be treated separately and scored accordingly. The two sets will then be corrected and the correlation coefficient obtained will be adjusted by the spearman-Brown prophecy formula.

3.11 Validity of the instrument.
Validity of an instrument refers to its ability to measure what it is supposed to measure. Borg and Gall (1989): (Wiersman, 1986). The researcher will seek help of experts particularly lectures in the department to conduct a thorough examination of the instruments.

3.12 Piloting of research instruments.
The data collection instruments will be piloted among some of the respondents who will however not be used in the study itself. Inconsistencies and errors noted will be corrected before the instruments are used in the actual study. The purpose of the piloting is to assess clarity of instrument and reliability of each item (mulusa, 1990)

3.13 Data collection procedure
The researcher will seek authorization to conduct the research from the ministry of education. He will then distribute the questionnaires personally to the respondents and agree on the dates for collection of the filled in questionnaires. He will also schedule an interview with the Managers. Finally, He will seek permission from those concerned to examine records of financial statements.

3.14 Data analysis techniques
Data obtained from the field in raw form is difficult to interpret (Mugenda and Mugenda 1999). They said further that such data must be cleaned, coded, key-punched into a computer and analyzed. It is from the results of such analysis that researcher was able to make sense of the data. The study generated both qualitative and quantitative data. It was analyzed using both descriptive and inferential techniques of data analysis. The statistical package for social sciences (SPSS) was used. Frequencies, percentages, averages and means obtained was used to answer research questions and arrived at objective conclusions.
CHAPTER FOUR

PRESENTATION OF FINDING, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents data analysis, findings, interpretation and presentation. Data was analyzed using descriptive tools where frequencies, percentages and means were used to interpret the data collected. The purpose of this study is to assess self-sustainability of microfinance institutions in Kenya. The target population for this study is all managers of MFI in Kabete constituency.

4.2 Response rate

The return rate was found to be 75 percent as illustrated by Table 4.1.

Table 4.1: Return rate

<table>
<thead>
<tr>
<th>Return rate</th>
<th>FREQUENCIES</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of questionnaires returned</td>
<td>26</td>
<td>75</td>
</tr>
<tr>
<td>Number of questionnaires not returned</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The chapter is organized into five sections based on demographic information, the average annual interest income received by Microfinance institutions, type and amount of subsidies received by MFI’s annually and their sustainability in the Kenyan Market.

4.2 Demographic Information

This section presents the demographic information of the MFI’s. The section was based on the type of Microfinance institution, their branch networks, the services they offer and the number of employees they each have.
Table 4.2 Type of MFI

<table>
<thead>
<tr>
<th>Type of MFIs</th>
<th>Total population (MFI)</th>
<th>Percentage</th>
<th>Sample managers</th>
</tr>
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<tbody>
<tr>
<td>Retail MFIs</td>
<td>24</td>
<td>73</td>
<td>2</td>
</tr>
<tr>
<td>Wholesale MFIs</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
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<td>Commercial banks</td>
<td>4</td>
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</tr>
<tr>
<td>Development institutions</td>
<td>2</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>56</strong></td>
<td><strong>100</strong></td>
<td><strong>6</strong></td>
</tr>
</tbody>
</table>

Table 4.2 presents the type of Microfinance institutions. 73% of the Microfinance institutions sampled were retail Mfi’s while 3% were wholesale MFI’s. Of the sampled MFI’s, 6% were development institutions, 12% were commercial banks and the remaining 3% were insurance companies. These findings indicate that most of the Microfinance institutions are retail Microfinance institutions catering mostly to the lower income groups in society. Only 3% were wholesale Mfi’s and insurance companies indicating the low penetration rate of the services they offer among the Kabete population.

Table 4.3 Duration MFI has been in operation

<table>
<thead>
<tr>
<th>DURATION</th>
<th>FREQUENCIES</th>
<th>PERCENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>1 – 5 Years</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td>5 – 10 Years</td>
<td>12</td>
<td>33.3</td>
</tr>
<tr>
<td>10 – 20 Years</td>
<td>17</td>
<td>50.0</td>
</tr>
<tr>
<td>More than 20 Years</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>35</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 4.3 shows that most of the Microfinance institutions in Kabete have been in operation in for more than 5 years with at least 50% being more than 20 years old. Only 16.7% had been in operation for less than 5 years. This is an indication that most of the microfinance
institutions in the area have been in operation for quite a long period of time and hence have
developed a clientele base in the area.

Table 4.4 Services offered by MFI's

<table>
<thead>
<tr>
<th>SERVICES OFFERED</th>
<th>FREQUENCIES</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking and Microfinance</td>
<td>29</td>
<td>83.3</td>
</tr>
<tr>
<td>Microfinance only</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>35</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

83.3% of the Microfinance institutions studied offered both Microfinance and Banking services indicating that the high demand for Banking services among the lower income groups of society had driven most of the institutions offering Microfinance services to diversify into more banking related services.

Table 4.5 Average Number of employees in the MFI’s

<table>
<thead>
<tr>
<th>AVERAGE NUMBER OF EMPLOYEES</th>
<th>FREQUENCIES</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>5 – 10</td>
<td>12</td>
<td>33.3</td>
</tr>
<tr>
<td>10 – 20</td>
<td>17</td>
<td>50.0</td>
</tr>
<tr>
<td>21 – 30</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td>More than 30</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>35</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Most of the Microfinance institutions sampled in the study had an average of 10 – 20 employees.
4.3 INTEREST INCOME RECEIVED BY MICROFINANCE INSTITUTIONS IN KABETE

This section presents findings on the annual average interest income earned by MFI's in Kabete. The section was based on whether the interest income earned by microfinance institutions enables them to cover all their operational costs and still run at a profit.

Table 4.6 How MFI's rank their interest rates on loans

<table>
<thead>
<tr>
<th>LENDING RATE</th>
<th>FREQUENCIES</th>
<th>PERCENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>High</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td>Moderate</td>
<td>23</td>
<td>66.6</td>
</tr>
<tr>
<td>Low</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Majority (66.7%) of the Microfinance institutions rank their rate of interest as relatively fair while only 16.7% consider the interest rates they charge on loans to be either low or high. Moderate interest rates encourage borrowing and increased borrowing results in higher revenues for the MFI's from interest income charged. Lower interest rates also encourage more people to save their money using the institutions.

Table 4.7 How MFI's rank their interest spread

<table>
<thead>
<tr>
<th>INTEREST SPREAD</th>
<th>FREQUENCIES</th>
<th>PERCENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>High</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td>Moderate</td>
<td>17</td>
<td>50.0</td>
</tr>
<tr>
<td>Low</td>
<td>12</td>
<td>33.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

As regards the difference between the amount of interest charged on loans and that granted to depositors, most microfinance institutions regard their spread as relatively moderate indicating that they try to match any changes on the borrowing interest rate with equal measure on deposits.
Table 4.8 MFI's Loan Collection rate

<table>
<thead>
<tr>
<th>LOAN COLLECTION RATE</th>
<th>FREQUENCIES</th>
<th>PERCENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Good</td>
<td>17</td>
<td>50.0</td>
</tr>
<tr>
<td>Fair</td>
<td>12</td>
<td>33.3</td>
</tr>
<tr>
<td>Low</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>35</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

50% of the microfinance institutions sampled had a good loan collection rate with only 16.7% having had a high rate of loan defaulters. The low loan default rate is an indication that the criteria used by most microfinance institutions to select those people to give loans to are effective.

4.4 TYPE AND AMOUNT OF SUBSIDY RECEIVED

Table 4.9 whether MFI has a reserve exemption Rate

| PRESENCE RESERVE EXEMPTION FREQUENCIES PERCENT |
|-----------------------------------------------|---------------------------------------------|
| Yes                                           | 23                                          | 83.3 |
| No                                            | 6                                           | 16.7 |
| **Total**                                     | **35**                                      | **100.0** |

83.3% of the Microfinance institutions have a reserve exemption rate

4.5 SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN KENYA

Table 4.10 Savings and loans growth rate

<table>
<thead>
<tr>
<th>SAVINGS AND LOAN RATE GROWTH</th>
<th>FREQUENCIES</th>
<th>PERCENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>17</td>
<td>50.0</td>
</tr>
<tr>
<td>High</td>
<td>18</td>
<td>50.0</td>
</tr>
<tr>
<td>Low</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Very Low</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>35</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
All the respondents had experienced positive growth in their savings and loans growth rate. Increased savings and loans means that there is still room for growth in the micro lending sector.

A growth in the MFI’s savings and loans portfolio means that they are achieving the most important goal for which they were established which is to provide financial assistance through establishing saving schemes and offering loan products to micro and small enterprises. A rise in the level of savings means that the institutions have more money to lend out to willing borrowers who pay a predetermined interest hence enabling the institutions to become self reliant and reduce their dependence on subsidies.

### Table 4.11 Percentage of rural clientele

<table>
<thead>
<tr>
<th>Rural Clientele membership</th>
<th>FREQUENCIES</th>
<th>PERCENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>23</td>
<td>66.7</td>
</tr>
<tr>
<td>High</td>
<td>12</td>
<td>33.3</td>
</tr>
<tr>
<td>Low</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Very Low</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>35</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Majority (66.7%) of the microfinance institutions reported a very high membership of rural clientele indicating that people from rural areas are the target market for most microfinance institutions.

Rural folk form the ideal market for microfinance institutions since most of the mainstream commercial banks had until recently ignored their plight due to their meager earnings. Most of the people in rural areas engage in subsistence farming and only earn income from selling some of their surplus produce. Such funds when considered individually may seem very minimal but when aggregated become a considerable amount of money. By providing products suitable for this particular client base, microfinance institutions have developed a banking and savings culture among these low income group. This has become a cash cow for most of these institutions as these small farmers and businessmen have found a growth partner in these institutions.
Table 4.12 Women Participation in MFI borrowing

<table>
<thead>
<tr>
<th>Women Participation in MFI borrowing</th>
<th>FREQUENCIES</th>
<th>PERCENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>23</td>
<td>66.6</td>
</tr>
<tr>
<td>High</td>
<td>12</td>
<td>33.4</td>
</tr>
<tr>
<td>Low</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Very Low</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>35</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Majority of the microfinance institutions had a very high borrowing rate from women. This is an indication that most women prefer borrowing from smaller institutions as opposed to the mainstream banks. This is probably due to their limited financial capability as the financial muscle of women in many Kenyan communities has been suppressed by regressive cultural practices for many years. Many women therefore end up doing menial jobs that limit their income and hence provide the opportune market for Micro finance institutions.

Most Kenyan women have formed groups among themselves to help each other grow their businesses and these has been largely successful in helping them achieve a level of financial independence and hence greatly improving their living standards.

Table 4.13 Relative Income Level Value of Loan and Range Of Amount

<table>
<thead>
<tr>
<th>Average Amount Loaned</th>
<th>FREQUENCIES</th>
<th>PERCENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>High</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td>Low</td>
<td>23</td>
<td>66.6</td>
</tr>
<tr>
<td>Very Low</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>35</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Majority (66.7%) of the microfinance institutions sampled reported that the average amount of money lent to each of their client is relatively low. Only 16.7% said that their average loan amount is high which clearly indicates that their primary clients are the lower income groups in society.
Most MFI’s target numbers rather than amounts with the rationale that huge numbers of people each depositing small amounts of money will eventually result in huge amounts of reserves which can then be lent out to other people for business expansion purposes at an interest. This enables the MFI’s achieve self sustainability since as more people seek loans, more interest is paid to the institution enabling it to take care of its operational costs and reduce dependence on subsidies.

Table 4.14 Self- Sustainability of MFI’s

<table>
<thead>
<tr>
<th>ARE THE MFI’S SELF SUSTAINABLE</th>
<th>FREQUENCIES</th>
<th>PERCENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>35</td>
<td>100.0</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

All the managers interviewed were of the opinion that Microfinance institutions can achieve sustainability by employing a variety of measures. It is agreed that over dependence of any financial institutions on eternal support usually implies inefficiency and unsustainability. Microfinance institutions’ therefore try to achieve some level of independence by employing a variety of measures. Some of these measures include increasing their lending rate, reducing the number of bad debts by loan defaulters, maintaining an interest spread that ensures high profits and reducing their operational costs.

Table 4.15 Reasons for Sustainability of MFI

<table>
<thead>
<tr>
<th>REASONS FOR SUCCESS OF MFI’s</th>
<th>FREQUENCIES</th>
<th>PERCENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High positive on lending rate</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>High quality loan portfolio with minimal loan losses</td>
<td>12</td>
<td>33.3</td>
</tr>
<tr>
<td>High spread rate</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Relative Low administrative cost</td>
<td>5</td>
<td>16.7</td>
</tr>
<tr>
<td>All the above</td>
<td>18</td>
<td>50.0</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100.0</td>
</tr>
</tbody>
</table>
On ways through which microfinance institutions can achieve sustainability 16.7% of respondents believe lowering administrative costs is the best way to achieve the said objective while 33.3% believe that sustainability can only be achieve by having a good loan portfolio and reducing the number of loan defaulters. Half of the respondents said that only by achieving a balance between several measure including the above mentioned two as well as having a high lending and spread rate can microfinance institutions achieve self reliance and reduce subsidy dependence. By employing the above strategies a microfinance institution can go through the three levels of independence i.e. subsidy dependence, operational efficiency and full sustainability in less than 10 years.

4.6 Inferential Findings

Given that,

\[ SDI = \text{Total annual subsidies received (S) - Average annual interest income (LP*I)} \]

\[ = (A (M-C) + (E*M)-P) + K \]

\[ N (LP*I) \]

**Where**

A = annual average outstanding occasionally borrowed funds

M = interest rate the MFI would probably pay for borrowed funds if access to concessional borrowed funds were to be eliminated. This is generally the market reference deposit interest rate, adjusted for reserve requirements, and the administrative cost associated with mobilizing and serving additional deposits.

C = weighted average annual concessional rate of interest actually paid by the MFI

N = its average annual outstanding concessional borrowed funds.

E = Average annual equity

P = reported annual profit before tax (adjusted for appropriate loans loss provision)

39
\[ K = \text{the sum of all other annual subsidies received by MFI (such as partial or complete coverage of the MFIs operational cost by donor/state)} \]
\[ I = \text{average annual outstanding loans interest of the MFIs loans portfolio} \]
\[ L = \text{Annual interest earned} \]
\[ \text{Average annual loan portfolios} \]

From the findings, subsidy dependence index was found to be 0.844.

This is calculated from Table 4.16 as
\[
\text{SDI} = \frac{\text{Total annual subsidies received (S)}}{\text{Average annual interest income (LP*I)}}
\]

Indices from Table 4.16 gives coefficient of Annual subsidy as 0.65 while that of average annual interest income as 0.77.

Thus,
\[
\text{SDI} = \frac{0.65}{0.77} = 0.844
\]

**Table 4.16: Analytical Coefficients**

<table>
<thead>
<tr>
<th></th>
<th>Standardized coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>Total annual subsidies received (S)</td>
<td>0.07</td>
</tr>
<tr>
<td>Average annual interest income (LP*I)</td>
<td>0.09</td>
</tr>
</tbody>
</table>

*Source: Researcher (2011)*

To determine the degree of relationship between the explanatory variables, the researcher performed a Pearson's correlation as illustrated by Table 4.17 Pearson's correlation coefficient (r) is a measure of the strength of the association between the two variables. This enabled the researcher to establish the level to which one variable moved together with the other in explaining SDI.
Significance level

To determine the level of significance of the different explanatory variables, the researcher considered the t value, standard error of the estimate, the F significant change as well as the $R^2$. These values are presents in both Table 4.2 and Table 4.17.

Table 4.1: Coefficients for significant level

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

Predictors: Total annual subsidies received; Average annual interest income (LP*I)

Source: Researcher (2011)

$R^2$ is called the coefficient of determination and tells us the proportion of the change in subsidy dependence index that is caused by the change in explanatory variables. From Table 4.8, the value of $R$ square was found to be 0.82 indicating that total annual subsidies and average annual interest explained 82% of any change in subsidy dependence index. The study also reveals that the remaining 18% could be explained by other factors affecting SDI. When F is greater than 1, the set of explanatory variables is considered to be significantly determining any changes in SDI.
<table>
<thead>
<tr>
<th></th>
<th>Total annual subsidies received (S)</th>
<th>Average annual interest income (LP*I)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total annual subsidies received (S)</td>
<td>1.00</td>
<td>0.52</td>
</tr>
<tr>
<td>Average annual interest income (LP*I)</td>
<td>0.52</td>
<td>1.00</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total annual subsidies received (S)</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Average annual interest income (LP*I)</td>
<td>0.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, discussion of findings, conclusions and recommendations. The chapter also consists of suggestions for further studies.

5.2 Summary of findings

This study used descriptive survey to investigate the factors influencing the sustainability of Microfinance institutions in Kabete constituency. Target respondents were the managers in the various MFI's within the constituency. 73% of the Microfinance institutions in the area were retail Mfi's while 3% were wholesale MFI's. Of the sampled MFI's, 6% were development institutions, 12% were commercial banks and the remaining 3% were insurance companies. These findings indicate that most of the Microfinance institutions are retail Microfinance institutions catering mostly to the lower income groups in society. Only 3% were wholesale Mfi's and insurance companies indicating the low penetration rate of the services they offer among the Kabete population.

Interest Income Received By Microfinance Institutions in Kabete

Majority of the Microfinance institutions rank their rate of interest as relatively fair while only 16.7% consider the interest rates they charge on loans to be either low or high. Most microfinance institutions regard their spread as relatively moderate. Half of the microfinance institutions sampled had a good loan collection rate with very few having a high rate of loan defaulters.

Sustainability of Microfinance Institutions in Kenya

All the respondents had experienced positive growth in their savings and loans growth rate. Increased savings and loans means that there is still room for growth in the micro lending sector. Majority of the microfinance institutions reported a very high membership of rural clientele indicating that people from rural areas are the target market for most microfinance institutions. Majority of the microfinance institutions had a very high borrowing rate from women.
Majority of the microfinance institutions sampled reported that the average amount of money lent to each of their client is relatively low. Most MFI's target numbers rather than amounts with the rationale that huge numbers of people each depositing small amounts of money will eventually results in huge amounts of reserves which can then be lent out to other people for business expansion purposes at an interest. This enables the MFI's achieve self sustainability since as more people seek loans, more interest is paid to the institution enabling it to take care of its operational costs and reduce dependence on subsidies. All the managers interviewed were of the opinion that Microfinance institutions can achieve sustainability by employing a variety of measures. Some of these measures include increasing their lending rate, reducing the number of bad debts by loan defaulters, maintaining an interest spread that ensures high profits and reducing their operational costs.

5.3 Conclusions
Based on the findings, it was concluded that high operational cost remains a big challenge to MFI's managers which can be overcame by use of multivariate approaches. This enables the MFI's achieve self sustainability since as more people seek loans, more interest is paid to the institution enabling it to take care of its operational costs and reduce dependence on subsidies.

The study also concluded that Microfinance institutions catering mostly to the lower income groups in society Increased savings and loans means that there is still room for growth in the micro lending sector. Majority of the microfinance institutions reported a very high membership of rural clientele indicating that people from rural areas are the target market for most microfinance institutions. Majority of the microfinance institutions had a very high borrowing rate from women.

5.4 Recommendations
Based on the findings the following recommendations were made;

1. The sustainability can be achieved by raising rate of interest but at the same time try to lower loan defaulters
2. High dependence on subsidies is not good for the MFI's since it discourage reengineering and innovation resulting to inefficiency.
3. Women participation in MFI's is integral on poverty alleviation strategy.
Suggestion for further research

Taking the limitations and delimitations of the study the following were the suggestions for further study.

i. A study on the impact on microfinance Act 2006 on development of MFIs in Kenya.

ii. The risk exposure on MFIs because of high inflation rate and devaluation of Kenyan currency.

iii. The loan repayment trend by women how happen to be the majority of clientele on MFIs funding.
REFERENCES


Edb. C.E & Cawless. J (1994). The process of institutional Development Assessing small Enterprises institutions to become more effective:


Mtai, L. M (2001) Qualitative and Quantitative research Approaches; The modern perspective. Nairobi:


### APPENDIX I

#### WORK PLAN

<table>
<thead>
<tr>
<th>PHASE</th>
<th>ACTIVITY</th>
<th>DURATION(WEEKS)</th>
<th>MONTHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>submission of corrected proposal</td>
<td>1</td>
<td>AUGUST 2011</td>
</tr>
<tr>
<td>2</td>
<td>Pre-testing the questionnaire and presentation</td>
<td>2</td>
<td>AUGUST 2011</td>
</tr>
<tr>
<td>3</td>
<td>Primary data collection</td>
<td>2</td>
<td>September 2011</td>
</tr>
<tr>
<td>4</td>
<td>Data coding and analysis</td>
<td>1</td>
<td>September 2011</td>
</tr>
<tr>
<td>5</td>
<td>Report writing</td>
<td>1</td>
<td>September 2011</td>
</tr>
<tr>
<td>6</td>
<td>Compiling and presentations</td>
<td>1</td>
<td>October 2011</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>8</strong></td>
<td><strong>2</strong></td>
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</table>
## APPENDIX II
### BUDGET PLAN

### RESEARCH PROPOSAL

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typesetting</td>
<td>30 pages @ Kshs 30.00</td>
<td>Kshs. 900.00</td>
</tr>
<tr>
<td>Internet use</td>
<td></td>
<td>Ksh. 2,000.00</td>
</tr>
<tr>
<td>Photocopies</td>
<td>30 @ Kshs 3.00 * 4 copies</td>
<td>Kshs. 360.00</td>
</tr>
<tr>
<td>Binding</td>
<td>5 copies @ Kshs 100</td>
<td>Kshs. 500.00</td>
</tr>
<tr>
<td>Research and report</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travelling and accommodation for 6 days</td>
<td></td>
<td>Ksh. 6,000.00</td>
</tr>
<tr>
<td>Research assistant</td>
<td></td>
<td>Ksh. 6,000.00</td>
</tr>
<tr>
<td>Printing and typesetting 50 pages @ Kshs 30.00</td>
<td></td>
<td>Ksh. 1,500.00</td>
</tr>
<tr>
<td>Photocopies 50 pages @ Kshs 3.00 * 4 copies</td>
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<td>Ksh. 600.00</td>
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<tr>
<td>Binding 6 copies @ 1500.00</td>
<td></td>
<td>Ksh. 8,000.00</td>
</tr>
<tr>
<td>Contingency 10%</td>
<td></td>
<td>Ksh. 2,586.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>Ksh. 25,860.00</strong></td>
</tr>
</tbody>
</table>
LETTER TO RESPONDANTS

DAVID MAINA KAMAU
P.O.BOX 101-00902,
KIKUYU.

Dear respondent,

RE: REQUEST TO RESPOND TO QUESTIONS

I am a student at Kenyatta University pursuing a master's degree of Business administration (MBA) finance. As part of the course requirement, I am expected to carry out a research on the topic of my choice, which is "An assessment of subsidy dependence index for self-sustainability of microfinance institutions in Kenya", a case study for Kabete constituency.

I kindly request your assistance and cooperation in responding to the questions attached herein. The information given will be treated with utmost confidentiality and will be only used for academic purposes.

I look forward to your positive response and co-operation.

Yours faithfully,

DAVID MAINA KAMAU
D53/11220/04
QUESTIONNAIRE TO CHIEF ACCOUNTANT

Please answer all the questions as honest as possible. The information given will be confidential and only for the purpose of academic.

1. What is your institutional average outstanding concessional borrowed fund?

2. What was your institutional interest rate for borrowed funds if access to concessional borrowed funds were to be eliminated?

3. What is your market deposit interest

4. Does your institution have reserve requirement exemptions? (tick correctly)
   a) Yes
   b) No
   If yes where would you categorize your exemption?
      (a) Free equipment by government or donor
      (b) Assumption of loan losses
      (c) Free training for staff provided by government/donor.
      (d) Government assumption of foreign exchange rates.
      (e) All the above

5. What is your institution weighted average annual concessional rate of interest actually paid on the institutions average annual outstanding concessional borrowed funds?

6. What is your institution average annual equity?
7. What is your institution reported annual profit before tax after appropriate loan loss provision? 

8. What is your sum total of other annual subsidies received by MFIs i.e. partial or completely coverage of MFs operational cost? 

9. What are your average annual outstanding loans interest of MFIs loan portfolio i.e. annual interest earned divided by annual loan portfolio. 

10. What is your institutional spread i.e. (a-b?)
    (a) What is institutional annual interest earned? 
    (b) What is your average annual loan portfolio? 

11. What is your institution income from lending as percentage of average outstanding loan portfolio? 

12. What is your institutions income expense of the average outstanding loan portfolio?
APPENDIX V
QUESTIONNAIRE TO THE MANAGER

1. Name the type of charter on which micro financial institution falls?
(Optional) ..........................................................................................................................

2. How many branches do you have within Kabete constituency?

3. What type of services do you offer?

4. Banking and microfinance

5. Microfinance only

6. How many employees does this organization have?
   Less than 5
   5-10
   11-20
   21-30
   More than 30

7. How would your rank the rate your rate of lending?
   Very high
   High
   Moderate
   Low

8. How would you rate the spread?
   Very high
   High
   Moderate
   Low
9. How would you rate loans collection?
   - Excellent
   - Good
   - Fair
   - Low

10. How would you rate your institutions in terms of market penetration?
    - Excellent
    - Good
    - Fair
    - Low

11. How would you rate your annual growth rate of savings and loan accounts? If any.
    - Very high
    - High
    - Low
    - Very Low

12. How would you classify percentage of rural clientele?
    - Very high
    - High
    - Low
    - Very Low

13. How would you rate women participation in MFIs borrowing?
    - Very high
    - High
    - Low
    - Very Low

14. How would you rate relative income level value of loan and range of amount?
16. If yes on the above, what do you attribute the cause of self-sustainability?
   (a) High positive on lending rate
   (b) High quality loan portfolio with minimal loan losses
   (c) High spread rate
   (d) Relative Low administrative cost
   (e) All the above

15. Are your MFIs self-sustainable?
   Yes
   No

17. How do you rate your information system?
   Very high
   High
   Low
   Very Low

18. Do you motivate staff to meet organization objective?
   Yes
   No
   don’t know

19. Is staff remuneration based with performance?
   Yes
   No
20. What is the highest level of education for your MFI's managers?
- O' level
- A' Level
- First degree
- Master's degree
- Doctorate

21. How long do loan processes take after application?
- 1 Week - 2 Weeks
- 3 Week - 4 Weeks
- 5 weeks - 8 weeks
- 9 weeks - 12 weeks

22. How long do complaining clients take to wait for issue to be resolved?
- Less than 1 day
- One day
- One week
- Two weeks
- More than two weeks

23. How would you rate your MFI in terms of performance and productivity?
- Very high
- High
- Low
- Very Low

THANK YOU FOR TAKING TIME TO ANSWER THE QUESTION
APPENDIX IV
INTERVIEW SCHEDULE FOR MANAGERS

This interview schedule is designed to collect information history of the institution.
The information you give will be used for the purpose of the study only and will be treated with utmost confidentiality
Please respond to all the items honestly and correctly.

1. How long have this institution been at the microfinance business?

2. Please give a small profile?

3. Briefly tell me about the core business functions of your institution?

4. What specific credit program do your institutions offer?

5. Do you offer any training courses in business skills to your clients?

6. What challenges do you face in the process of disbursing your services and loan collection?

7. How big is the market share of your institution in Kabete?

8. How do you intend to overcome the above challenges?

THANK YOU FOR TAKING TIME TO ANSWER THE QUESTIONS.