

**DETERMINANTS OF OPERATIONAL SUSTAINABILITY
OF MICRO FINANCE INSTITUTIONS IN NAIROBI
COUNTY, KENYA**

BY

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REG NO: D53/CTY/PT/23231/2011

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
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KENYATTA UNIVERSITY**

MAY, 2013

DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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Declaration by Supervisor

I hereby declare that this research project was carried out under my supervision

Signature: *Ambrose Jagongo* Date: *13/5/13*

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Approved by Chairman of the Department

This research project has been submitted for consideration with my approval as the chairman of the department

Signature: *F.W.S.J Ndede* Date: *15/5/2013*

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ABSTRACT

Many people in developing countries have been given access to formal financial services through microfinance programs. Nevertheless, millions of potential clients still remain un-served and the demand for financial services far exceeds the currently available supply. Given significant capital constraints, expansion of microfinance programs remains a formidable challenge facing the microfinance industry. Moreover, it is observed that microfinance organizations have had various degrees of sustainability. One such sustainability is the financial sustainability. Financial sustainability has been defined by various researchers differently. As such there is no clear cut definition of the word financial sustainability. The main objective of the study is to establish the operational sustainability of micro finance institutions in Kenya. The study also investigated into factors which affect the operations self- sufficiency and financial sustainability. The descriptive survey study design was used to describe the relationships that exist between the independent and dependent variables, (Kothari, 2003). The study utilized the primary and secondary data. For the primary data, the respondents for the structured questionnaire was the MFIs finance managers, marketing managers, human resource managers and chief legal advisers of the institutions concerned. The secondary data for the study was drawn from a data base of audited financial statements of MFIs in Kenya. The target population was 47 microfinance institutions (MFIs) listed from Nairobi Securities Exchange (NSE) in Kenya and those obtained from the MFIs which are not listed in the NSE which provide financial services to low income people in Kenya. Data analysis was done using the SPSS program. Linear Regression analysis was carried out to investigate into factors which affect the operations self- sufficiency and financial sustainability as indicate below.

A multiple regression equation can be expressed as:

$$Y = \alpha_i + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_7 X_{7it} + \beta_8 X_{8it} + \epsilon_i \text{-----}$$