

**CAPITAL STRUCTURE DECISIONS AND PERFORMANCE OF DEPOSIT
TAKING MICROFINANCE BANKS IN NAIROBI CITY COUNTY, KENYA.**

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**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS,
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ABSTRACT

Microfinance institutions have emerged to boost economies by increasing financial flow. The growth of these institutions can be associated with the initiatives adopted by private financial institutions and government institutions to enhance their performance. Deposit-taking microfinance institutions have been considered as an alternative solution to financial issues and a long-term solution to poverty alleviation schemes for community financial empowerment. It has emerged as the most preferred financial solution given its soft collateral requirements that deliver short-term and long-term loan solutions to borrowers. Despite the milestones made by microfinance, they have faced several challenges resulting from government policies, economic fluctuations, and loan defaults. Moreover, with the outbreak of the coronavirus, microfinance institutions have faced a reduction in their liquid assets resulting from the economic slowdown caused by the outbreak and measures taken to combat it. Thus, the study aimed to examine the influence of capital structure on the performance of deposit-taking microfinance Banks in Nairobi County, Kenya. Other objectives are to investigate the effect of equity capital, reserves, and debts on the performance of deposit-taking microfinance Banks in Nairobi County, Kenya. Three theories anchored the study: The Portfolio Theory, the Pecking Order Theory, and the Prospect Theory. The study employed a descriptive research design. All 13 licensed microfinance Banks operating within Nairobi County, Kenya, formed the target population. The study utilized secondary data mined from the Central Bank of Kenya's annual reports, reports from the Association of Deposit-Taking Microfinance Banks in Kenya, and annual financial reports. A descriptive statistic was conducted to explain the population characteristics for easy understanding and interpretation. Data was analyzed using SPSS, which was used to calculate the mean and the variance. Besides, the study conducted a Pearson's correlation analysis to quantify the strength and direction of the linear relationship between these continuous variables. Findings was presented using tables for easy analysis and interpretation. The study ensured ethical considerations are followed. First, an approval letter was obtained from Kenyatta University, as well as the research permit from NACOSTI, to explain the purpose of the present research. Based on the results, equity Capital depicted a significant change in the performance of deposit-taking microfinance Banks in Nairobi County. On the other hand, Total Reserves do not have a statistically significant influence on the performance of deposit-taking microfinance Banks in Nairobi County. Lastly, Debt Management may have a statistically significant impact on the performance of deposit-taking microfinance Banks in Nairobi County. The study concluded that for efficient operation of microfinance, the importance of robust capital structures and prudent equity management of microfinance institutions. The study recommended that these institutions prioritize capital adequacy planning, institutions should focus on redirecting their efforts toward areas that exhibit more substantial impact on performance. Lastly, the DTMIs institutions should focus on optimizing their debt management strategies to increase their performance.

Key Words: Equity Capital, Reserves, Debts, Capital Structure.

DECLARATION

I declare that this research project is my original work and has not been presented for a degree in any other university for any other award. The contents of this research project should not by any means be replicated be it partial or it entirely without prior approval by the other or Kenyatta University.

Signature *Muffat*

Date *28/11/2023*

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SUPERVISOR

This research project was carried out by the candidate under my supervision as the appointed university supervisor.

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