

Factors Influencing the Sustainability of Micro-Finance Institutions in Murang'a Municipality

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Abstract

Providing the poor with access to savings and credit services as poverty alleviation strategy has gained prominence in the past ten years, this has resulted from the emergence of models showing increasing success in terms ability to reach the poor and in sustaining the delivery services. However, significant number of those engaged in microfinance services continues to struggle with sustainability (Tang 2002).

This study therefore sought to establish the factors affecting sustainability of microfinance institutions operating within the Murang'a Municipality. .

The study found that financial regulations, number of clients served, financial coverage and volume of credit transacted were the factors that highly affected the sustainability of microfinance institutions.

The study concludes that sustainability of MFIs is a function of related and interconnected m factors. The study recommends MFIs to open many branches to reach as many people as possible and ensure they conform to rules and regulations.

Keywords: sustainability, Microfinance institutions, customers and profitability

1. Introduction

1.1 Background

Microfinance has become an important tool for poverty reduction in many parts of the world. Microfinance institutions (MFIs) target the poor through innovative approaches which include group lending, progressive lending, regular repayment schedules, and collateral substitutes.

From banker's perspective, a microfinance institution is said to have reached sustainability when the operating income from the loan is sufficient to cover all the operating costs (Sharma and Nepal, 1997). This definition adopts the bankers' perspective and sticks to "accounting approach" of sustainability. However, Shah (1999) adopts for an 'integrated approach" in defining the term sustainability as the "accounting approach" to sustainability that takes into account the financial aspect of the institution is too narrow for him. For Shah, the concept of sustainability includes, amongst other criteria, - obtaining funds at market rate and mobilization of local resources. Therefore, his performance assessment criteria for the financial viability of any microfinance related financial institution are: repayment rates, operating cost ratio, market interest rates, portfolio quality, and 'demand driven' rural credit system in which farmers themselves demand the loans for their project. From banker's perspective, sustainability (Self sufficiency) of the lending institution (Sharma and Nepal, 1997)

In a stable political environment and enabling macro economy, evidence arising over several decades has supported the view that the provision of microfinance is an important component of any effort to improve the livelihoods of the poor in any society. In recent years her in Kenya, there has been renewed interest in microfinance by both policy makers and practitioners. This interest is based on its valued contribution to efforts aimed at improving the livelihoods of the rural population in the country through policies and programs geared towards addressing inequalities arising from the country's socio-political history. Microfinance refers to all types of financial intermediation services; savings, credit funds transfer, insurance, pension remittances, provided to low-income households and enterprises in both urban and rural areas, including employees in the public and private sectors and the self-employed (Robinson, 2002).

In micro-finance, sustainability can be considered at several levels of institutional, group, and individual and can relate to organizational, managerial, and financial aspects (RAO, 2001). However, the issued of financial sustainability of microfinance institutions has attracted more attention in mainstream analysis at the expense of the sustainability of the client/borrower. MFIs face an apparent tension between achieving financial suitability and contribution to poverty reduction.

Various researchers have argued that in democratic societies, small scale entrepreneurs have a right to a participatory role and full ownership of microfinance organizations including planning, management and

decision-making (Weits, 1982). The basis of the argument is that the entrepreneurs have access to local knowledge, which is unknown to official experts. The supporters of this school of thought have argued that microfinance institutions should not be run by public sector organizations; it should rather be handed over to small farmers in order to generate a sense of ownership among small farmers (Sharma and Nepal, 1997) and to attain institutional sustainability of microfinance institutions (MFIs).

1.2 Statement of the Problem

The performance of microfinance institutions in terms of institutional sustainability seems not encouraging despite the fact that international and national development programs have been giving high priority on sustainable microfinance to the poor for many years. In response to low repayment rate and the question of sustainability of microfinance schemes, many proposals have been forwarded for initiating small farmers' development program and encouraged their participation in sustainable microfinance institutions (Weits, 1982). The delivery of financial services to the poor and low-income people has changed significantly over the recent past. The long-standing assumptions that the poor cannot be good clients of the financial institutions have been challenged by well-documented experiences (Yunus, 1996). A number of micro finance programs have demonstrated that low-income clients can use small loans productively to pay higher rates of interest for their loans. It has also been proved that the poor need saving services as much or more than credit services (Webster and McGrath, 1996)

The growth of MFIs can be attributed to factors such as their contributions to social welfare, job creation and general economic and improvement of lives of the poor. However, despite the interest in the sector and the subsidies that have flowed into some of the mission-oriented MFIs, it appears challenging to make an MFI viable over the long term. One survey found that 30 percent of domestic microfinance programs operating in 2001 were either no longer in operation or were no longer lending capital two years later (Bhatt, Painter and Tang 2002). Furthermore most microfinance programs report difficulty in sustaining its operations without continued reliance on grants, external fundraising, or other subsidies.

Locally, a few studies have been done on the issue of sustainability which included; sustainability of pilot purpose community telecentres in Kenya and Uganda (Munyua, 2003), sustainability strategies adopted by KARI (Gicobi, 2006) and sustainability among non profit organizations in Kenya (Njoya, 2004). No study has been carried out on the factors of sustainability of microfinance institutions. This study therefore seeks to answer the question, what are factors influencing sustainability of microfinance institutions and specifically in Murang'a Municipality?

1.3 Purpose of the study

The purpose of the study was to establish the factors affecting sustainability of microfinance institutions in Murang'a Municipality.

1.4 Objective of the study

To identify whether financial regulations, geographical coverage and reach of the microfinance institutions in Murang'a municipality influence their sustainability?

1.5 Significance of the study

The study is important to the following groups:

1. Regulators and Practitioners

By focusing on achieving institution, financial sustainability; regulators and practitioners of microfinance in Kenya, the study will contribute towards domestic institution building for financial capacity widening and deepening in locally constituted organizations and funds.

2. Micro-enterprises

The owners of the enterprises will be able to know their contributions towards the success and sustainability of the microfinance institutions which are important to their operations. Eventually, they will take up their ultimate role in supporting the performance of the institutions.

3. Society

Majority of Kenya population are poor and hence depend on MFIs as source of capital and general finance. Since the study seeks to establish factors of sustainability of MFIs, the study would prove invaluable information to them indirectly, though, for it would eventually help further MFI sustainability which is a source for finance to them.

4. Researchers

The study will provide a source of reference for future studies on microfinance institutions. It will also act a source of literature for academics in the field of entrepreneurship.

1.6 Definitions of Terms

1. Microfinance – refers to all types of financial intermediation services; savings, credit funds transfer, insurance, pension remittances, provided to low-income households and enterprises in both urban and rural areas, including employees in the public and private sectors and the self-employed.,
2. Micro-finance institution – refers to an organization that offers financial services to the very poor. They are also specialized providers of financial services to the micro-enterprises.
3. Sustainability – Refers to the ability to continue any given activity into the future within the likely existing resources of an organization, as part of its ongoing budgetary and management processes.
4. Micro Enterprise – refers to a privately owned firm of small capital and a few number of employees usually not more than 50.

2. Literature Review

2.1 Introduction

This chapter presents review of literature on various factors that influence the sustainability of microfinance institutions. The literature explore discuss various factors that can influence the sustainability of these institutions. They include factors such as the financial regulations in the country, volume of credit, geographical coverage and number customers served.

2.2 Sustainability of Microfinance Institutions

Sustainability is a cornerstone of sound microfinance. This term refers to the ability of a microfinance institution (MFI) to cover all of its costs through interest and other income paid by its clients. Financially sustainable MFIs can become a permanent part of the financial system: they can continue to operate even after grants or soft loans are no longer available. Donors have nowhere near enough funds to meet the

global demand for microfinance. But when an MFI becomes sustainable, it is no longer limited to donor funding. It can draw on commercial funding sources to finance massive expansion of its outreach to poor people. Experience proves that microfinance can be done sustainably, even with very poor clients.

From bankers' perspective, a microfinance institution is said to have reached sustainability when the operating income from the loan is sufficient to cover all the operating costs (Sharma and Nepal, 1997). This definition adopts the bankers' perspective and sticks to "accounting approach" of sustainability as the "accounting approach" to sustainability that takes into account the financial aspect of the institution is too narrow. He states that the concept of sustainability includes, amongst other criteria obtaining funds at market rate and mobilization of local resources. Therefore, the performance assessment criteria for the financial viability of any microfinance related financial institution are: repayment rate, operating cost ratio, market interest rates, portfolio quality, and "demand driven" rural systems in which farmers themselves demand the loans for their project. From banker's perspective, sustainability of microfinance institution includes both financial viability and institutional sustainability (self sufficiency) of the lending institution (Sharma and Nepal, 1997). The terms of reference in banker's definitions are therefore, more financial, administrative and institution focused.

2.2.1 Financial Regulations.

Arysad (2005) carried and assessed the performance and sustainability of MFIs in Indonesia. Using a case study on village credit institutions, he found out that growing economy and supporting government policy at all levels through provision of a legal basis for the MFI and the Central Bank regulation (formal institutions) had contributed to the success of the MFIs. Thus, base on the necessary conditions of sustainable microfinance institution proposed by some scholars (Yaron 1994); Christen, 1998), he concluded that the Gianyar district village credit institutions (Lembaga Perkreditasi Desa or LPD) have been sustainable, and by that implication they had positive net social benefits for their clients.

It costs much more to make a thousand \$200 loans than to make \$ 200,000 loan. To be sustainable, MFIs must charge high interest rates. Clients willingly pay these rates because they value the service so highly. When governments enforce interest rate caps, MFIs can't charge enough to be sustainable. Regulation helps in long term sustainability, even though MFIs may fall under it in the initial years. Regulation and supervision ensure that MFIs are run prudently and cases of poor people losing their money due to fraud or incompetence are minimized. At present, most Indian MFIs are NGOS and thus not treated as part of the mainstream financial sector. Various actions and announcements by governments are indicative of the acceptance and recognition of the role of NGO-MFIs as part of the microfinance sector. There is also restriction on the usage, volume of credit and channel of lending.

The need for regulation is often motivated by the different objectives of those involved. Some MFIs need more funds to lend out through their micro credit operations. They would want to be regulated in order to be allowed to offer bank accounts to hold their savings. Some other NGOs believe that regulation will promote their business and improve their operations. Others want to be licensed in order to expand the range of services they can provide to the poor. In Kenya, the Microfinance Act which became operational in May, 2008 addresses licensing provisions, minimum capital requirements and minimum liquid asset, submission of accounts to the Central Bank, supervision by the Central Bank, and limits on loan and credit facilities. It also seeks to protect depositors by requiring that deposit-taking MFIs contribute to the deposit protection fund. The reasons for so few applications have not been publicly stated and there does not appear any element of the Act that is glaringly prohibitive, although there may be more obvious

operational challenges on the ground. Such as the minimum by deposit-taking MFIs at all times. There does not seem to have been an investigation into possible reasons that MFIs have not registered, although a study by the United Nations Capital Development Fund (UNCDF) in 2003 predicted that it would not be easy for MFIs to meet the supervision standards of the Act as it stood at that date. The Association of Microfinance Institutions of Kenya (AMFI) is a member Institution and trade association established in 1999 under the societies Act by leading Microfinance Institutions in Kenya. It was originally funded by USAID, but is unclear whether this funding continued after the initial three year period. Its purpose is to build capacity of the microfinance industry in Kenya. AMFI presently has 36 member institutions which provide financial services to more than 2,000,000 low middle income families throughout Kenya (Curtis, 2008).

2.2.2 Financial and Geographical Coverage and Reach

The ultimate goal of all poverty alleviations efforts is to improve livelihoods. There are many instruments used to achieve this. The microfinance instrument advocates two main ways i.e. the financial systems approach and the poverty lending approach. These two approaches complement each other to improve access to financial services based on self-help, community –based groups that also provide a forum that enables interaction for social purposes (Holt, 1994) These mutual support groups form a basis for building local capacity to manage microfinance institutions in a participatory manner with the hopes of inspiring similar target groups in other areas.

The financial systems approach aims to achieve maximum outreach of microfinance services through financially sustainable institutions that focus on a financial intermediations model (Robinson, 2002). The microfinance institutions under this approach provide finance to the public e.g. commercial banks; serve only their members such as village banks. They finance their loan portfolios from locally mobilized savings, commercial debt and for profit investment or retained earning such as micro lenders. Microfinance institutions under this approach are differentiated from informal money lenders, from unregulated institutions such as NGOs and from subsidized formal micro credit – where a regulated institution such as a state-owned bank channels government or donor funds to borrowers at subsidized interest rates (Robinson,2003). The proponents of the financial systems approach argue that donors and governments should shift the allocation of their scarce resources from direct financing of loan portfolios, to promoting the replication of this model by disseminating lessons from the best practices of fully sustainable microfinance institutions and financing the development of more microfinance institutions of this type. One challenge of the financial systems approach is that it relies on market approaches, which may be thin and weak in marginal areas (Pralahad, 2004). However, even in these areas, market solutions can be found to overcome any obstacles (Hitchins, Elliot & Gibson, 2005).

The model of microfinance provision that is most suitable provision is most suitable for the financial systems approach is the village bank. These institutions are involved solely in the provision of microfinance and do not provide non-financial services. They include community managed savings and credit cooperative societies. They typically consist of a general membership of 30-50 members based on self-selection, and an elected committee that is responsible for convening meetings, approving loans, supervising loan payments, receiving savings deposits, lending out or investing savings and keeping up-to-date records (Holt, 1994 and North, 1990)

It consists of a sponsoring agency envisioned to require very little administrative overhead that supports several SACCOs through promoters who train and organize them and then lend seed capital to these

newly established institutions as for on lending to members who have gone through a trial period. 20% of each disbursed loan is withheld as collateral and to build a fund that is used in the future financing of new loans or collective income generating. No interest is paid on share savings; instead, members receive a share of profits from the Sacco's re-lending activities or other investments. Where dividends are paid, these are usually low and members have little incentive to save for share savings as the primary sources of capital, this can result in a gradual improvement in incentive payments for equity.

When members repay their first loan on time they get a second loan. However, when those applying to SACCOs are from better off households, this model can have little impact on improving livelihoods Coleman (2002). To prevent wealthier members from gaining disproportionate access to the village bank's capital, the model is designed to encourage members to work towards building sufficient savings to reach the external account maximum loan limit and then graduate from the program. This model assumes that members will graduate to more formal financial institutions either as individual clients or the bank as a whole. If this does not occur, projects can be modified to establish village banks as independent, sustainable institutions at their existing capacities. Although the graduation paradigm argues that the services provided by SACCOs may not be attractive enough to attract higher-income households because loan amounts are not large enough and interest rates on savings are not favourable, it has been noted that in developed countries these institutions are a formidable competitor to commercial banks because their lower operating costs enable them to charge lower fees for customer transactions (Curry, 1999). Over the long-term sponsoring agencies aim to reduce promoter visits and minimize transaction costs by transferring many of the administrative aspects of providing microfinance to the SACCOs such that they operate independently. This allows the sponsoring agency to set up more SACCOs in other areas. The village banking model is a minimalist microfinance model, no ancillary devices are provided.

However, the microfinance target group may require both financial and non-financial inputs such as health, education, nutritional support in the case of low income households and business training to help develop micro-enterprises beyond subsistence levels that a minimalist service delivery methodology does not incorporate (Mead, 1994). The poverty lending approach focuses on reaching the poorest of the poor, who are typically engaged in pre-entrepreneurial activities that are more focused on consumption-smoothing than productivity enhancing activities (Honohan, 2004). This group requires assistance in the form of income transfers to meet their basic needs, because any credit extended to them will most probably be consumed rather than invested in something that generates a return sufficient to repay the debt (Rosengard, 2001).

The poverty lending approach differs from the minimalist financial services model characterized by the financial systems approach. In addition to microfinance services, it provides ancillary services such as training on nutrition, better farming techniques, family planning, health and basic financial management skills aimed at reducing the target groups vulnerability to avoidable risk. The funding for these ancillary services is typically provided by governments, donors' grants and other subsidized funds. Previously, loan portfolios used to be funded by donors and governments and loan provision was subsidized at below market interest rates. However, increasing evidence that the microfinance target group repayment rates are not affected by market related interest rates has changed the practice of subsidizing interest rates. In addition the use of "forced savings" has reduced the extent to which donors and governments are required to fund loan portfolios, even if the microfinance target group is not able to save, initially.

Practices have been adopted to ensure that the provision of ancillary services that target those in the pre-entrepreneurial group is done without compromising the financial sustainability of the microfinance function of the institution. This is done by making a clear distinction between the funds allocated to services. Member savings are used to fund the former, while government and donors support is used to fund the latter.

2.3 Critical Review of Major Issues

Most microfinance intuitions are started with the target group being the middle and low income level persons, their success therefore depends on the support received from those who operate and benefit form it. Sustainability is achieved when microfinance is able to cater for its routine expenses an meet any debts that arise in the course of its operations. The literature above has considered the model of a micro finance to be very important in ensuring success. Different models attract people with different needs and therefore a specific model should be used when it best fits the desired target group.

In Kenya various researchers have addressed different aspects of microfinance institutions. Wanjiru (2000), studies the factors that influence productivity of credit officers in microfinance institutions. The study established that productivity of the officers depends on the remuneration and other benefits obtained from their job responsibilities. In some institutions the officers were remunerated based on the successful loan management. James (2007) studied the credit rationing by micro finance and its influence on the operations of the small and micro enterprises. The study established that, credit rationing is a tool used by most micro finance institutions to hedge the effects of default by the borrowers. As a measure, the study established that the institutions require some form of collateral before giving loans. The effects of this rationing based on collateral, the study established , has denied most small and micro enterprise access to the financial services required for growth.

2.4 Conceptual Framework

A conceptual framework is a model that presents and explains the relationship between various variables. In a conceptual framework there are three types of variables: dependent, independent and intervening variable. In this study, as conceptualized by the author (2008), the independent variables are the financial regulations impose on the MFIs, Arsyad (2005) note that bad regulation can stifle an MFI to the point of rendering it out of business while good regulations and geographically coverage enhance its sustainability. These independent variables influence sustainability of the MFIs which in this study is the dependent variable.

The variable highlighted above can be grouped into internal and external aspects or factors. The internal factors affecting sustainability of the MFIs include management. Arsyad (2005) noted that financial regulation astrigent rules stifle an MFI growth while a liberal regulation promotes its growth.

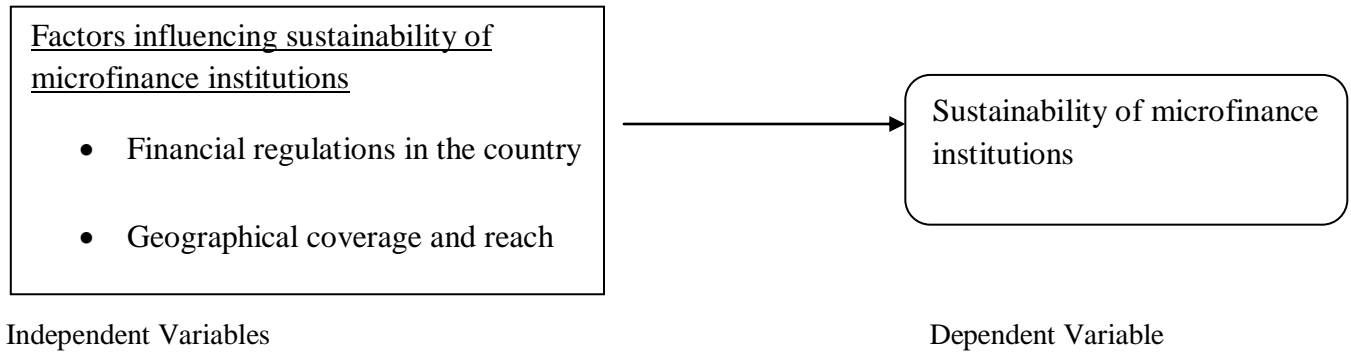


Figure 2.1: Conceptual Framework

Source: researcher (2008)

3. Research Methodology

3.1: Introduction

The chapter looks at the methods that were used in the survey of the factor influencing sustainability in microfinance institution in Murang’a District. This chapter is structured into research design, population of study, data collection and data analysis.

3.2 Research Design

This study was a descriptive survey. Descriptive survey was preferred for it is used to obtain information concerning the current status of a phenomena and purposes of these methods is to describe “what exists” with respect to situational variables i.e this helps to explain the relationship between and among variables. This method was successfully used by Wanjiru (2000), in a study of factors that influence productivity of credit officers in microfinance institutions with a lot of success and so the method is perceived to be the best in obtaining in-depth data.

3.3 Population of Study

The population of study comprised of all the managers of the microfinance institutions and all the field officers in Murang’a municipality.

3.4 Sample Population

The population of interest in this study consisted of 45 respondents who were managers of the 15 microfinance institutions in Murang’a municipality and 2 field officers from every institution. This study was limited to the institutions that operate within the municipality so as to obtain the relevant data on the subject matter. Simple random sampling was used in the selection of the field officers.

3.4 Data Collection

This study was facilitated by the use of primary data. Primary data was collected from the managers and the fields/operations staff of the institutions using structures questionnaires provided in appendix 1. The questionnaires addressed the objectives of the study.

Secondary data was got from various magazines, newspapers, libraries, prospectus, journals, brochures and any other document released to the researcher during the research.

3.5 Data Analysis

The data obtained from the questionnaires was grouped based on the research questions and analyzed by descriptive statistics such as percentages, mean scores and standard deviations. The statistical package for social sciences (SPSS) was instrumental in establishing the data associations, which eventually led to conclusions on the objectives of the study.

3.6 Data Analysis Techniques

On completion of data collection, the researcher checked for completeness of the questionnaires. The data was arranged and grouped according to particular research questions. Quantitative data was by use of statistical package for social sciences (SPSS). This included, the mean, mode, the media, the variance and the standard deviation. This package was known for its ability to handle large amounts of data and also it was quite efficient. Data entry and initial analysis was done with the help of data programmes. Coding categories was developed for organizing and analyzing qualitative data collected according to research questions. This involved-

Going through data and numbering it sequentially, a careful search through the data for regularities and patterns related to research questions the study intends to answer, writing down words and phrases to be used as a mean of sorting out descriptive data so that materials bearing on research questions will be physically separated from other data.

4. Results and Analysis

4.1 Introduction

This chapter presents analysis and findings of research. From the sample population targets of 45 respondents i.e. 15 institutions managers and 30 field managers, 36 respondents responded and returned the questionnaire, constituting 80% response rate.

4.2 Biographic Data

4.3

Table 4.1: Duration the firm has been in operation in Kenya

	Frequency	Percent
5-10 years	15	41.7
11-15 years	12	33.3
Over 15 years	9	25.0
Total	36	100.0

The study sought to find out the duration that the firms had operated in Kenya. From the study, the majority of the firms had been operating in Kenya for 5-10 years as shown by 41.7% of the respondents, 33.3% of the firms had been operating in Kenya for 11-15 years while 25% of the firms had been operating in Kenya for over 15 years. This information was also shown by the figure 4.2:

Figure 4.2 Duration the firm has been in operating in Kenya

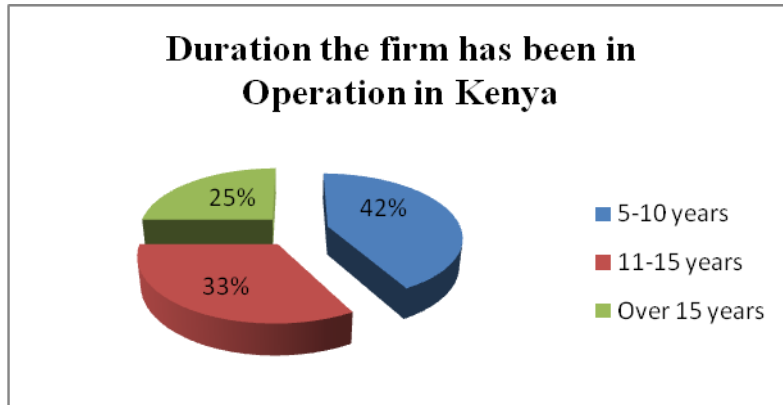
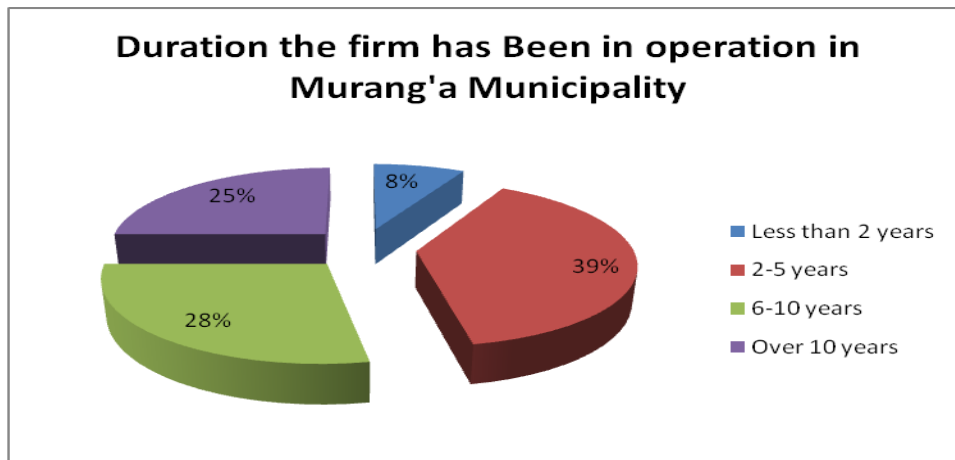


Table 4.2 Duration the Firm has been in Operation in Murang’a Municipality

	Frequency	Percent
Less than 2 years	3	8.3
2-5 years	14	38.9
6-10 years	10	27.8
Over 10 years	9	25.0
Total	36	100.0

The findings in the table 4.2 also shows the duration the microfinance institution had been operating in Murang’a municipality. from the study, the majority of these firms as shown by 38.9% of the respondents had been operating in Murang’a municipality for 2-5 years, 27% of the firm had been operating in Murang’a municipality for 6-10 years, 25% of the firms had been in operation in Murang’a municipality for over 10 years, while 8.3% of the firms had been operating in Murang’a municipality for less than 2 years. The information in the above table was also shown in the pie chart below.

Figure 4.3: Duration the firm has been in operation in Murang’a Municipality.



The Institutions Headquarter

From the study, the headquarters of the majority of these microfinance institutions was in Nairobi, while a few others reported that their headquarters was in Murang’a municipality.

Table 4.3: Number of employees the organizations has in Murang’a Municipality

	Frequency	Percent
5-10	6	16.7
11-15	9	25.0
16-25	18	50.0
More than 25	3	8.3
Total	36	100.0

The study also sought to find out the number of employees that the microfinance institution has in Murang’a municipality. From the findings, the majority of the firms had 16-25 employees as shown by 50% of the respondents, 25% of the firms had 11-15 employees, 16.7% of the firms has 5-10 employees, while 8.3% of the firms had more than 25 employees in Murang’a municipality. This information is also shown in the figure 4.4

Figure 4.4 Number of employees the organizations Have in Murang’a Municipality

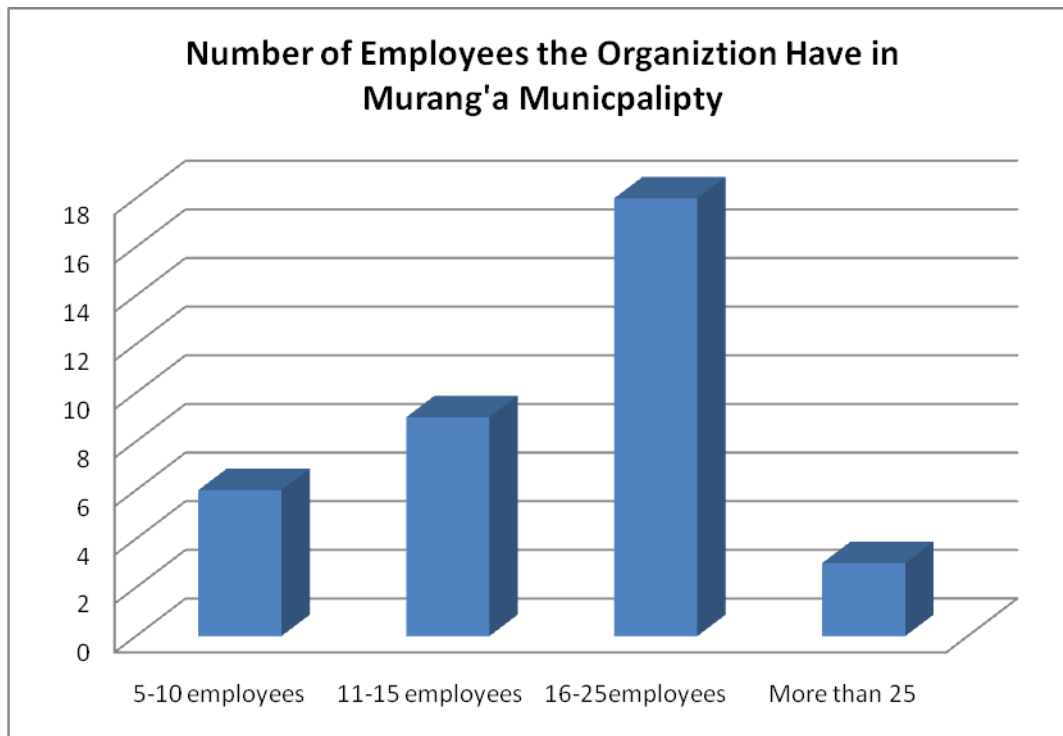


Table 4.4 Mode of maintaining the records

	Frequency	Percent
Manually	9	25.0
Use of computers	27	75.0
Total	36	100.0

The findings in the table 4.4 show how the records in the microfinance institutions were maintained. From the study, the majority of the firms as shown by 75% of the respondents maintained their records by use of computers, while 25% of the institutions maintained their records manually. The above information was also represented in figure 4.5

Figure 4.5 Mode of maintaining the records

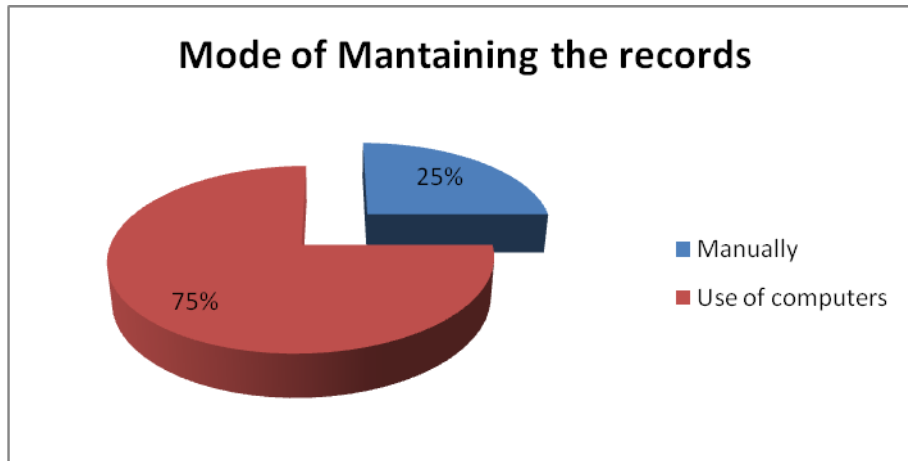


Table 4.5: Donors of the Institutions

	Frequency	Percent
Members of SACCOS	24	66.7
Churches and other institutions	9	25.0
Individual owners	3	8.3
Total	36	100.0

The study also sought to find out who the donors of the micro finance institutions in Murang'a municipality were. From the findings' the majority of the respondents reported that the institutions were financed by the members or SACCOs as indicated by 66.7% of the respondents said that they were financed by churches and other institutions, while 8.3% of the respondents said that the institutions were financed by the individual owners. This information was also shown in figure 4.6

Figure 4.6: Finance of the Institutions

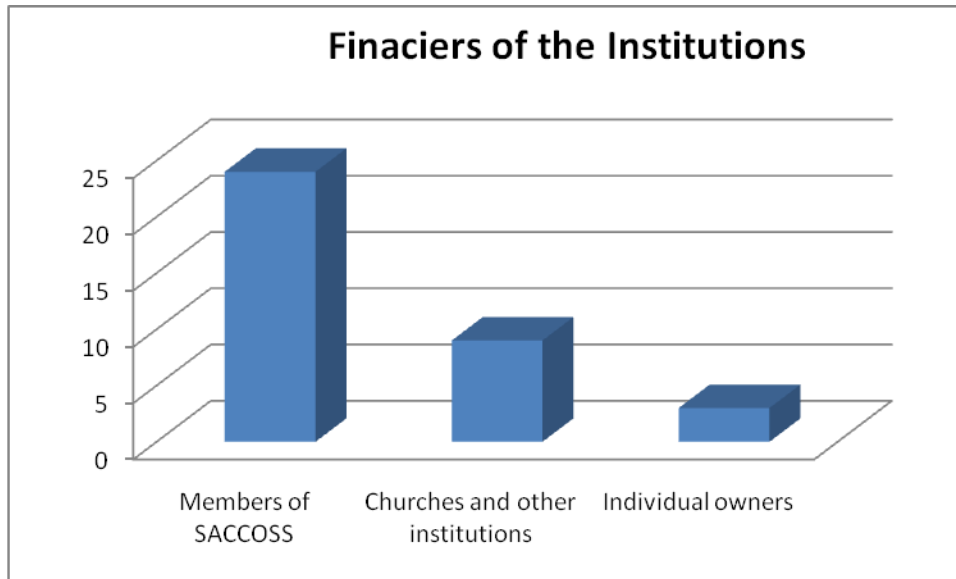


Table 4.6: Expenditures of the institutions

	Yes	No
Salaries	100	0
Allowances	83.3	16.7
Rent for business premise	94.4	15.6
Stationeries	100	0
Transport	88.9	11.1

The respondents were also requested to state the expenditures of the microfinance institutions. According to the respondents, these expenditures were salaries and stationeries as indicated by all the respondents, rent for business premise as shown by 94.4% of the respondent, transport as indicated 88.9% of the respondents and also allowance as shown by 83.3% of the respondents.

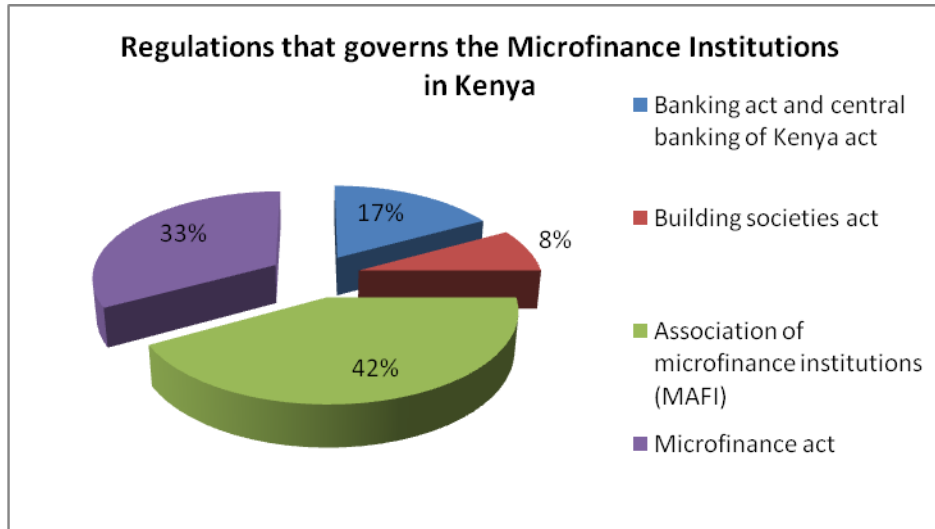
4.7: Financial Regulations

Table 4.7: The regulations that Governs the microfinance Institutions in Kenya

	Frequency	Percent
Banking act and central banking of Kenya act	6	16.7
Building societies act	3	8.3
Association of microfinance institutions (MAFI)	15	42.7
Microfinance act	12	33.3
Total	36	100.00

The respondents were also requested to state the regulation that covers the role of microfinance institutions in Kenya. According to the findings, the majority of the respondents as shown by 42.7% felt that the role of microfinance institutions in Kenya was covered was covered by the Association of microfinance institutions (AMFI), 33.3% of the respondents were of the view that they were covered by Microfinance Act, 16.7% said Banking act and central banking of Kenya act, while 8.3% of the respondents said that the microfinance institutions were covered by the building societies act. The pie chart figure 4.7 was also used to represent this information.

Figure 4.7: The regulation that governs the microfinance institutions in Kenya.



The respondents were also requested to indicate whether there was a body that supervises microfinance institutions. From the study, all the respondents reported that there was a body that supervised the microfinance institutions. These bodies include; the Central bank of Kenya. The regulations that govern the microfinance institutions have a great effect on their operations as they regulate and supervise their operations to protect customer’s deposits, and to ensure that reckless lending does not threaten the stability of the wider financial system. The regulatory authorities also react to political pressure to regulate and supervise microfinance institutions operations

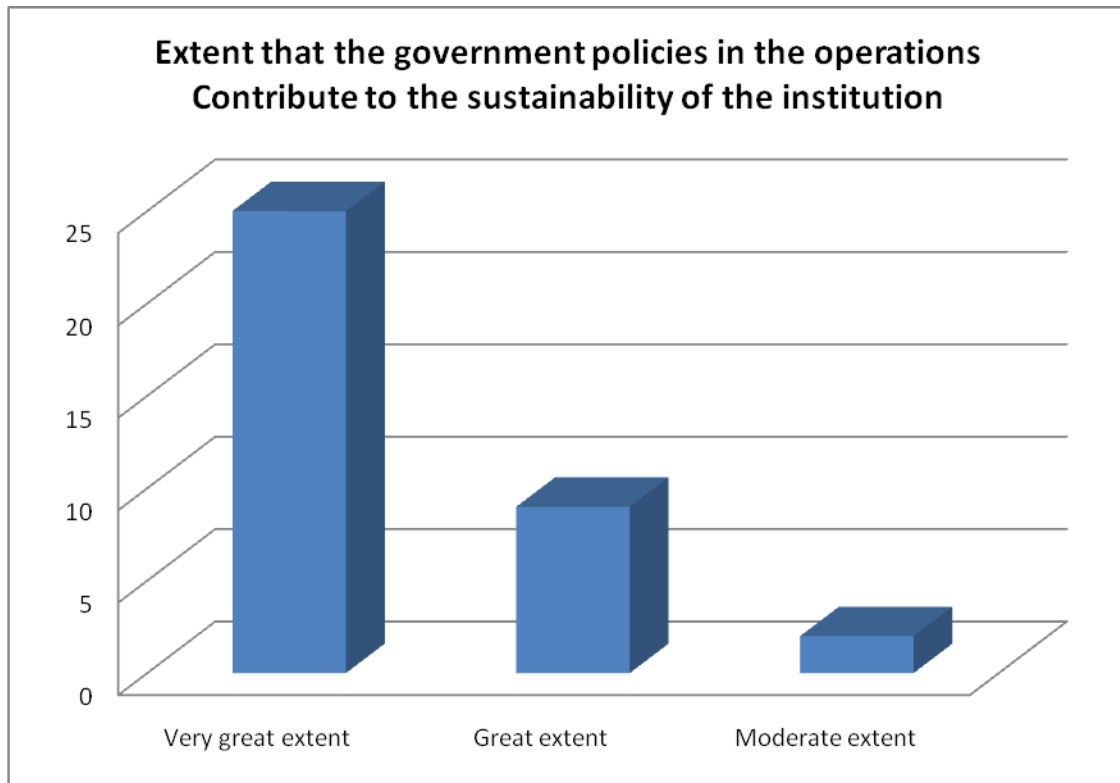
Table 4.8: Extent that the government policies in the operations contribute to the sustainability of the institution

	Frequency	Percent (%)
Very great extent	25	69.4
Great extent	9	25.0
Moderate extent	2	5.6
Total	36	100.0

The study also sought to find out the extent that the government policies in the operations contribute to the sustainability of the microfinance institutions. From the study, most respondents as indicated by 69.4% reported that the government policies contribute to the sustainability of the institutions to a very

extent, 25% of the respondents said to a great extent, while a small proportion of respondents as indicated by 5.6% said to a moderate extent. This information shows that government policies had a great influence on the sustainability of microfinance institutions. The information in table 4.8 was also shown in the bar chart figure 4.8

Figure 4.8 Extent the Government policies in the Operations Contribute to the Sustainability of the Institution.



4.8: Geographical coverage in Murang’a Municipality

Table 4.9: Number of clients that the Microfinance Institutions had by the end of the first Year of Operation in Murang’a Municipality.

	Frequency	Percent (%)
Less than 100	4	11.1
100-200	10	27.8
201-300	15	41.7
301-400	5	13.8
Over 400	2	5.6
Total	36	100.0

The respondents were also requested to indicate the number of clients that the microfinance institutions had by the end of the first year of operation in Murang’a municipality. From the study, the majority of the respondents as indicated by 41.7% said that their microfinance institution had 201-300 clients by the end of the first year of operation in Murang’a municipalities, 27.8% of the respondents said that they had 101-200 clients, 13.85 of the respondents said that they had 301-400 clients, 11.1% of the institutions had less than 100 clients, while 5.6% of the respondents reported that they had over 400 clients by the end of the first year of operation in Murang’a municipalities. This information was also shown in the figure 4.13.

Figure 4.10 Number of clients that the Microfinance Institutions had by the end of the first Year of Operation in Murang’a Municipality.

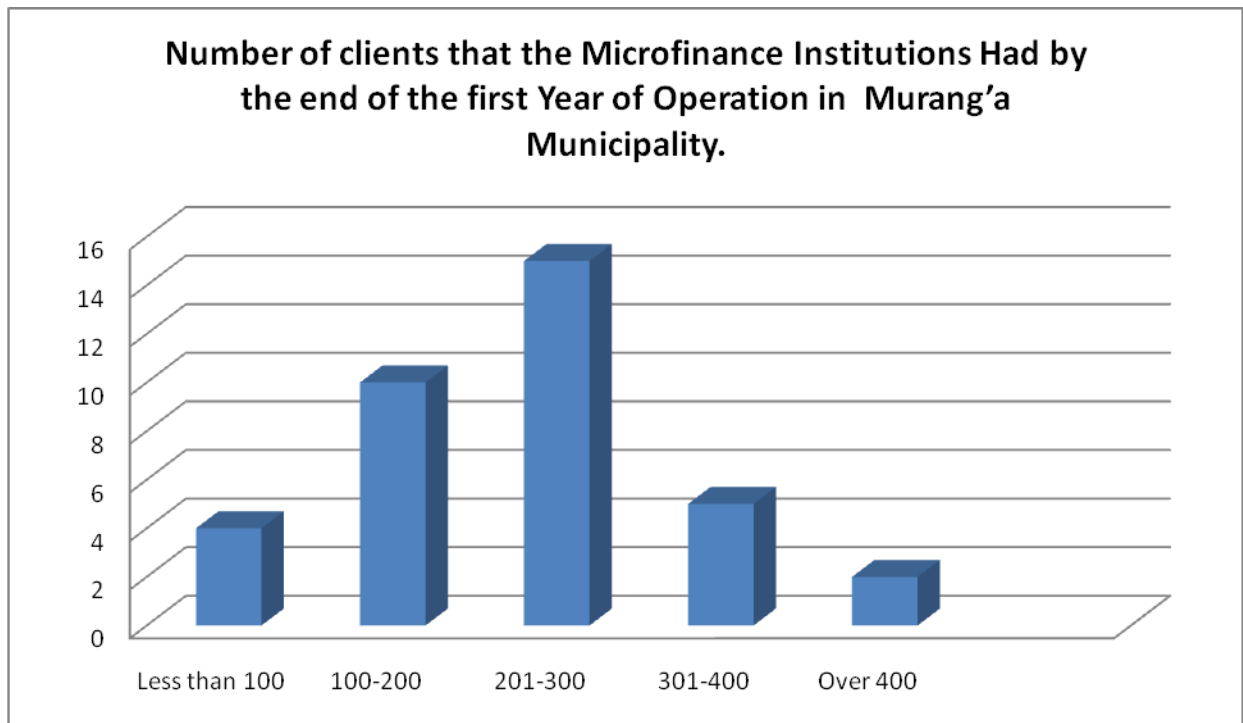


Table 4.11: Number of Clients currently

	Frequency	Percent (%)
Less than 200	3	8.3
201-500	2	5.6
501-800	4	11.1
801-1100	14	38.9
1101-1400	8	22.2
More than 1400	5	13.9
Total	36	100.0

The study also sought to find out the number of clients that the microfinance institutions in Murang’a municipality have currently. From the study, the majority of the respondents said that in their

microfinance institution, they had 801-1100 clients currently this was shown by 38.9% of the respondents, 22.2% said that they had 1101-1400 clients currently, 13.9% of the respondents reported that they had more than 1400 clients currently 11.15 said that they had 501-800 clients currently, 8.3% of the institutions had less than 200 clients, while a small proportion of respondents as indicated by 5.6% reported that they had 201-500 clients currently. This information was also shown in the figure 4.14.

Figure 4.12 Number of clients currently.

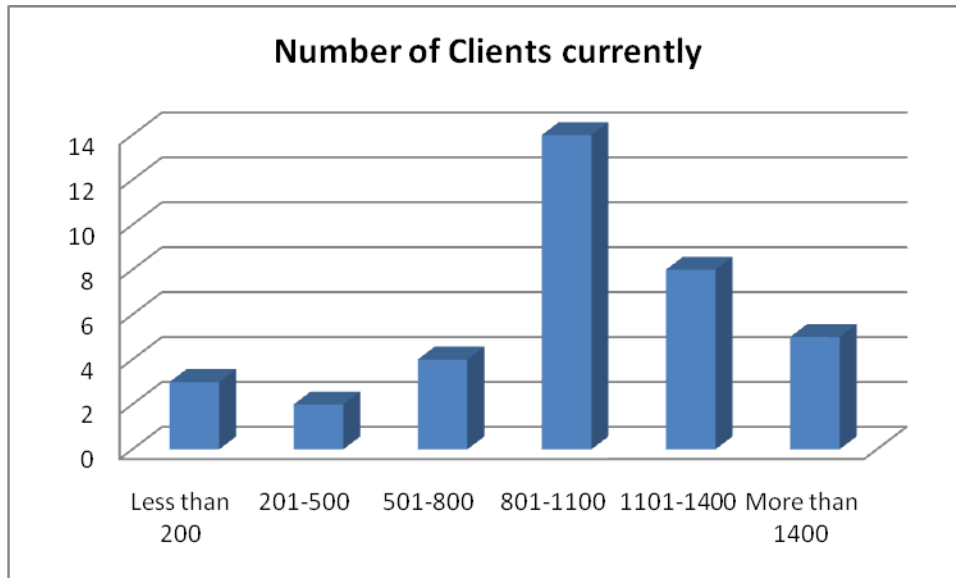
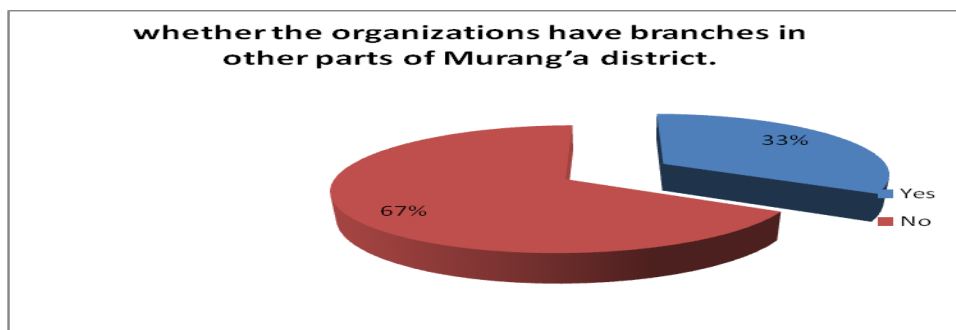


Table 4.13: Whether the organizations Have Branches in Other parts of Murang’a

	Frequency	Percent (%)
Yes	12	33.3
No	24	66.7
Total	36	100.0

The study also sought to find out whether the microfinance has branches in other parts of Murang’a district. From the study, the researcher found that most of the organizations did not have branches in other parts of Murang’a shown by 66.7% of the respondents, while 33.3% of the respondents reported that their organizations had other branches in Murang’a District. This information was also shown in the figure 15.

Figure 15: whether the organizations have branches in other parts of Murang’a district.



Whether the institutions give financial services to the micro enterprises

The study also established from all the respondents that the microfinance institutions do give financial services to the microenterprises.

How the institutions can sustain their operations in case they do not have donor funds

The study also sought to find out from the respondents how the microfinance institutions can sustain their operations incase they do not have donor funds. From the study, the respondents said that the institutions can use the customer's savings, they can use the interest from the loans given to their clients and also the institutions can invest in order business to help increase their capital in order to sustain them.

Challenges Experienced

The respondents were also requested to state the challenges that are experienced in running the micro-finance institutions. From the findings, the greatest challenge was found to be no-payment of loan by the customers as shown by 88.9% of the respondents. Other challenges were; Interest rate risk shown by 63.9% of the respondents, poor management of the institutions the shown by 58.3% of the respondents, so much borrowing from the customers shown by 50% of the respondents and also government policies, which sometimes pose a very great challenge to the institutions as shown by 14.7% of the respondents.

Respondent Recommendations on Sustainability

The researcher also requested the respondents to give recommendations on sustainability. from the study, most of the respondents recommended that the institutions should be run by qualified members of the management shown by 92% of the respondents; there should be effective regulation and supervision of the operations of the microfinance institutions shown by 88.9% of the respondents, the institutions should consider also attracting the most poor people in their regions by giving them loans at much lower interest as shown by 50% of the respondents and also the institutions should have a thorough survey on their customers before they advance loans to them to ensure that the clients is creditworthy shown by 41.7% of the respondents.

5. Summary, Conclusions and Recommendations

5.1 Summary of the Findings

From the analysis the following summary, conclusions and recommendations were made. The analysis was based on the objectives of the study. The study sought to assess the factors that influence the sustainability of microfinance institutions in Murang'a municipality.

From the research, the researcher found that 60% of the micro-finance institutions had been in operation in Kenya for over 10 years and also 25% of them had been in operation in Murang'a for more than 10 years. This clearly indicates that these organizations were well versed with the factors of the sustainability of these micro-finance institutions as they had been in operation for a considerably long time. The study also found that most of these institutions had 15-25 employees. It was also clear that 75% of the microfinance institutions maintained their records by the use of computers. According to the study, 66% of the institutions were financed by the members or SACCOs. All these institutions also incurred expenses, which included; salaries to the employees, stationeries, transport allowances and rent for the business premises.

On financial regulations, according to most respondents, 50% of the microfinance institutions were governed by AMFI regulations. All the micro finances had a body, which supervises them according to

the respondents. The laws that govern the institutions regulate and supervise the institutions operations to protect customer's deposits and, ensure that reckless lending does not threaten the stability of the wider financial system and they also react to political pressure to regulate and supervise microfinance institutions operations. The government policies also contribute to the institutions operations, which lead to the sustainability of institutions to a very great extent.

The study found that the challenges that were experienced in running the microfinance institutions were non-payment of loan by the customers, interest rate risk, poor management of the institutions, so much borrowing from the customers and also government policies, which sometimes pose a very great challenge to the institutions.

5.2 Conclusions

From the study, the researcher concluded that the government policies related to MFIs i.e. law that covers the microfinance in Kenya, and the supervision of the microfinance institutions influences the success and the sustainability of the microfinance institutions. It was also concluded that the repayment rate from the credit offered i.e. clients paying back loan on time, also ensures the sustainability of microfinance institutions. Lending to individual clients contribute to higher repayment which is necessary for the sustainability of the MFIs. Geographical coverage influences the sustainability of micro-finance institutions to a great extent.

5.3 Recommendations

The study recommends that microfinance institutions should open many branches so that they can be able to reach as many as possible which will enhance their sustainability. For microfinance institutions to survive well in the market, the study recommends conformity to rules and regulations regarding registration. They should be run by qualified members effective regulation and supervision of the operations and considering attracting the poor people in their regions by giving those loans at much lower interests.

5.4 Recommendations for Further Research

Research should be conducted in other types of bank e.g. commercial banks to find factors that influence their sustainability. The response rate should be broadened in further studies in order to get more responses so that the researcher can make better generalizations.

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Appendix11: Questionnaires

Section A: Biographic Data

Please fill in the spaces provided with information that is as accurate as is practicable, please tick where appropriate.

1. Name of the MFI

.....

2. How long has the firm been in operation?

(i) In Kenya

- Less than two years { }
- 2-5 years { }
- 6-10 years { }
- 11-15 years { }
- Over 15 years { }

(ii) In Murang'a town

- Less than two years { }
- 2-5 years { }
- 6-10 years { }
- 11-15 years { }
- Over 15 years { }

Where is the institution head quarters ?

.....

3. How many employees does the organization have in Murang'a municipality?

- Less than five { }
- 5-10 { }
- 11-15 { }
- 16-20 { }
- 21-25 { }
- 26-30 { }
- over 30 { }

4. How are the records maintained?

- Manually { }
- Use of Computers { }
- Others { }

5. Who are the financiers of the institution?

- Local authority { }
- Members or SACCOS { }
- Churches { }
- Individual owners { }

Other institutions, (Please mention)

.....
.....
.....

6. What are the expenditures? Please tick.

- I. salaries
- II. Allowances.....
- III. Rent for business premise.....
- IV. Stationeries.....
- V. Transport.....
- VI. Others

7. Does the institution have bad debts?

Section B: Financial Regulations

8. Which laws governs you as a microfinance institution in Kenya?

- Banking Act and Central Banking of Kenya Act { }
- Bills of exchange Act { }
- Companies Act { }
- Building Societies Act { }

9. Is there a body which supervises your institution?

- Yes { }
- No { }

Please specify?

.....
10. What are the effects of such laws to the institution's operations
.....
.....

.....
11. To what extent does the Government policies on your operations contributes to the sustainability of the institution?

Use the point scale below

- Very great extent 5 { }
- Great extent 4 { }
- Moderate extent 3 { }
- Less extent 2 { }
- No extent 1 { }

Section D: Geographical coverage in Murang'a

12. How many clients did you have by the end of the first year of operation in Murang'a municipality?

- Less than 100 { }
- 101 to 200 { }
- 201to 300 { }
- 301 to 400 { }
- More than 400 { }

13. How many clients did you have in Murang'a municipality currently?

- Less than 200 { }
- 201 to 500 { }
- 501to 800 { }
- 801 to 1100 { }
- 1101to 1400 { }
- More than 1400 { }

14. Does your organization have branches in other parts of Murang'a?

- Yes { }
- No { }

If yes how many.....

15. Does your institution give financial services for the micro enterprises?

- Yes { }
- No { }

16. Suppose you do not have donor funds how can you sustain your operation?

17. To what extent do the following factors influence the sustainability of your institution?

Use the point scale below

- Very great extent 5 { }
- Great extent 4 { }
- Moderate extent 3 { }
- Less extent 2 { }
- No extent 1 { }

Factor	1	2	3	4	5
The number of customers the MFIS serves					
The government policies related to MFIS and financial policies					
The geographical coverage of the institution					
The volume of credit offered to the customers of the MFI					
Management of microfinance's					
Technology					
Qualification /motivation of staff					

18. What challenges do you experience?

19. What recommendation would you have in sustainability?

Appendix V: MFIS in Murang'a Municipality

1. Faulu Kenya
2. Kenya Women Finance Trust (KWFT)
3. Small And Micro Enterprise Programme(SMEP)
4. Kenya Economical Church Loan Fund (Kenya ECLOF)
5. Equity Bank (MF Section)
6. Women Economic empowerment Consort (AFC)
7. K-Rep Development agency Bank
8. Catholic organization for relief and development aid (CRDAID)
9. Micro Africa limited (MAL)
10. Murata SACCO