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Financing Practices on Sustainability of Microfinance Institutions in Nakuru County, Kenya

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Abstract:
The study aimed at financing practices on the sustainability of microfinance institutions in Nakuru County. A Census of microfinance institutions in Nakuru County was carried out. The objectives of this research were:

- *To establish the effect of group financing on the sustainability of microfinance institutions in Nakuru County; to evaluate the effect of debt financing on the sustainability of Microfinance in Nakuru County,*
- *To evaluate the effect of financial securities on the sustainability of microfinance institutions in Nakuru County, and*
- *To determine the effect of loan performance on the financial sustainability of Microfinance institutions in Nakuru County*

It analyzed how financing practices lead to the sustainability of microfinance institutions in the county. A sampling design was used because it is the most efficient for this kind of study. The target population was the microfinance institutions that practice financing services and lead to the sustainability of Microfinance institutions in Kenya. The research study used judgmental sampling because the population under study was large, and the sample size was Finance respondents in 5 registered Microfinance institutions in Nakuru County in Kenya. The data collection instruments were questionnaires for the respondents to fill in primary data and micro-financial reports, including published financial statements in collecting secondary data. The coded data were entered into the Statistical Package for Social Sciences (SPSS) Version 24 analytical tool for analysis. Descriptive statistics were done using mean, percentages, and standard deviation. Inferential statistics involved correlation and regression. Correlation results showed a weak to moderate relationship between the independent and dependent variables. The study thus recommends that the MFIs consider and improve group financing, debt financing, financial securities, and loan performance to increase their sustainability. The findings of the study are essential for policymakers and institutions, especially those in the microfinance industry, to develop a policy framework that will take care of issues like improving service delivery to end users by microfinance institutions in Kenya.

Keywords: *Group financing and sustainability of microfinance institutions*

1. Introduction

1.1. Background of the Study

Financing is making small loans available to people, especially those traditionally excluded from financial services, through programs designed specifically to meet their particular needs and circumstances. It is a microfinance activity that offers loans to entrepreneurs and small businesses lacking access to banking products and related services. The main mechanisms for delivering financial services to such clients are: relationship-based banking and group-based models. World over, microfinance organizations have been rated one of the greatest contributors to women's economic financing. They have gone a long way in earning people's confidence when it comes to making crucial financial decisions ranging from purchasing major properties such as land and making possible their children's education (Lakwo, 2015).

Microfinance industry has evolved and rapidly expanded globally, and in Kenya, questions regarding sustainability and outreach have come beforehand. Microfinance institutions predominantly originated with a mission of social objective, which is financial support. However, in the past two decades or more, there has been a major shift in emphasis from the social objective towards the financial and economic objective of sustainability and market-based financial services provided. More specifically, Microfinance Institutions are expected not only to reach the people but also to become financially viable. Indeed, Microfinance Institutions have been increasingly pressured to adapt business practices and to become more self-sufficient (Ledgerwood, 1999).

Financing practices have, therefore, served as a trusted source of financial sustainability to Microfinance Institutions. No wonder financing institutions experience tremendous growth rates because they are embraced as the only source of hope as far as people's financial sustainability is concerned. Their ability to understand people's financial and social standing in society and their willingness to stoop low to reach out to people gives them an advantage over other financial institutions. The two main mechanisms for the delivery of financial practice to such clients are relationship-based banking and group-based models (Diaz, 2017)

The push for financial equality and sustainability should, therefore, also involve a continuous rigorous and critical review of the existing frameworks to come up with alternative ways of enhancing strategic and potentially transformative choices for Citizens of any given country. The country's Constitution, passed in 2010, provides a powerful framework for addressing financial challenges. It marked a new beginning for Kenyan rights, which are seeking to remedy the traditional exclusion of all gender and promote their full involvement in every aspect of growth and development. The Constitution of Kenya is the single most important step in entrenching people's equality in Kenya's political, financial, and economic agenda. The Constitution recognizes Financial, economic and social rights, including the right to property, housing, a clean environment, health, and education, among others (Lichuma, 2017).

This research study will aim to make an in-depth analysis of the role of financing practices on the sustainability of Microfinance Institutions in Nakuru County in Kenya. The other ideas and suggestions on financial sustainability in Nakuru County will enhance microfinance development and growth as a result of the presence of worthwhile financing objectives, which will be:

- To establish the effect of group financing on the sustainability of Microfinance Institutions in Nakuru County,
- To determine the effect of debt financing on the sustainability of Microfinance Institutions in Nakuru County,
- To evaluate the effect of financial securities on the sustainability of Microfinance Institutions in Nakuru County, and
- To determine the effect of loan performance on the sustainability of Microfinance Institutions in Nakuru County (USAID report, 2021)

2. Literature Review

2.1. Group Financing

Ndege, in 2017, conducted a research on Determinants of repayment of group loans amongst microfinance institutions in Nakuru county, Nakuru town, Kenya. This study examines the determinants of repayment performance of group loans amongst MFIs in Nakuru town. In this context, the study examined the role of business skills of group members, the joint liability of group members, loan repayment terms, and demographic factors of group members on loan repayment. The study concluded that business skills, joint liability, and loan repayment terms did not have a statistically significant influence on their own compared to demographic factors that had a significant influence on the loan repayment on their own.

According to Koech (2014), who also conducted research on Contribution of Women Groups in the Economic financing of Rural Women in Bureti Constituency, Kericho County in Kenya found out that the groups had averagely played a part in advancing the economic growth of women through improving their accessibility to economic resources at the family and community level. The study also showed that the groups had played a role in enabling women to make decisions at the family and community level as well as in helping them access credit facilities.

2.2. Sustainability of Microfinance

Kimando (2012) carried out a study on the factors influencing the sustainability of microfinance institutions in Murang'a Municipality. The study found that financial regulations, the number of clients served, financial coverage, and the volume of credit transacted were the factors that highly affected the sustainability of microfinance institutions. The study looked at financial regulations as regulatory bodies such as the banking act, building act, and Association of microfinance institutions act. The study concluded that the geographical coverage and regulatory bodies influenced the sustainability of Microfinance institutions.

According to Sida (2015), on the importance of financial sustainability in developing countries, the study found out that financially sustainable people play a role in community development by participating in various development projects. However, this study showed the importance of financial sustainability in several developing countries. It has addressed communities within these countries that are disadvantaged, like the marginalized ones. The current study will address this by directing its efforts to Nakuru County.

3. Research Methodology

3.1. Research Design

The study utilized the descriptive research design.

3.2. Target Population

The study targeted 5 registered Microfinance institutions in Nakuru County which are registered by Central Bank of Kenya.

3.3. Census Technique

The study used the census technique due to the size of the population being covered.

3.4. Validity and Reliability

To ascertain the content validity of the questionnaires, they were presented to Jomo Kenyatta University of Agriculture and Technology assigned supervisors who had the authorities in the area for scrutiny and advice. The contents of the instruments were improved based on the advice and comments of the supervisors. The Cronbach Alpha Test was conducted on all the independent and dependent variables, giving a threshold greater than 0.7. The Cronbach alpha coefficients of group financing and Sustainability of microfinance institutions were 0.721 and 0.735, respectively.

4. Results and Discussion

4.1. Descriptive Analysis of Study Objectives

Item	Strongly Agreed	Agreed	Neutral	Disagreed	Strongly Disagreed	Mean	SD
The purpose of the loan borrowed was for working capital	18(22%)	30(36.6%)	24(29.3%)	9(11.0%)	1(1.2%)	3.67	.982
We do not give loans for business start-ups	10(12.2%)	31(37.8%)	24(29.3%)	9(11.0%)	1(1.2%)	3.41	.955
The purpose of the loan borrowed was for business expansion	3(3.7%)	48(58.5%)	21(25.6%)	10(12.2%)	0(0%)	3.54	.757
The core service offered by your MFI is credit provision	16(19.5%)	28(34.1%)	19(23.2%)	19(23.2%)	0(0%)	3.50	1.057
The core service offered by your MFI is deposit taking	6(7.3%)	35(42.7%)	24(29.3%)	15(18.3%)	2(2.4%)	3.34	.946
Easy loan repayment made clients seek financial assistance from the MFI	9(11%)	31(37.8%)	25(30.5%)	14(17.1%)	3(3.7%)	3.35	1.011
Amount offered made clients seek financial assistance from the MFI	12(14.6%)	22(26.8%)	21(25.6%)	27(32.9%)	0(0%)	3.23	1.069
Loan repayment period, as per the conditions of MFI, is 6 months to 1 year	8(9.8%)	40(48.8%)	30(36.6%)	4(4.9%)	0(0%)	3.35	.729
Loan repayment period, as per the conditions of MFI, is less than 5 years	6(7.3%)	36(43.9%)	22(26.8%)	17(20.7%)	1(1.2%)	3.35	.935
Loan repayment period as per the conditions of MFI is above 5 years	12(14.6%)	34(41.5%)	31(37.8%)	4(4.9%)	1(1.2%)	3.63	.839
Overall mean						3.44	0.928

Table 1: Group Financing and Sustainability of MFIs

The results on group financing indicate that 18(22%) respondents strongly agreed, 30(36.6%) respondents agreed, 24(29.3%) respondents were neutral, 9(11.0%) respondents disagreed, and 1(1.2%) respondent strongly disagreed, with a mean of 3.67 and SD = .982 that the purpose of the loan borrowed was for working capital. 10(12.2%) respondents strongly agreed, 31(37.8%) respondents agreed, 24(29.3%) respondents were neutral, 9(11.0%) respondents disagreed, and 1(1.2%) respondent strongly disagreed, with a mean of 3.41 and SD = .955 that we do not give loans for business start-ups. 3(3.7%) respondents strongly agreed, 48(58.5%) respondents agreed, 21(25.6%) respondents were neutral, and 10(12.2%) respondents disagreed, with a mean of 3.54 and SD =.757 that The purpose of the loan borrowed was for business expansion. 16 (19.5%) respondents strongly agreed that the core service offered by their MFI is credit provision, while 28(34.1%) respondents agreed, 19(23.2%) respondents were neutral, and 19(23.2%) respondents disagreed with a mean of 3.50 and SD = 1.057.

Further results were: The core service offered by your MFI is deposit-taking had 6(7.3%) strongly agreed, 35(42.7%) agreed, 24(29.3%) neutral, 15(18.3%) disagreed, and 2(2.4%) strongly disagreed respondents, with a mean of 3.34 and SD = .946. Easy loan repayment made clients seek financial assistance from the MFI had 9(11%) strongly agreed, 31(37.8%) agreed, 25(30.5%) neutral, 14(17.1%) disagreed, and 3(3.7%) strongly disagreed respondents, with a mean of 3.35 and SD = 1.011. Amount offered made clients seek financial assistance from the MFI had 12(14.6%) strongly agreed, 22(26.8%) agreed, 21(25.6%) neutral, and 27(32.9%) disagreed respondents, with a mean of 3.23 and SD = 1.069. Loan repayment period as per the conditions of MFI is 6 months to 1 year had 8(9.8%) strongly agreed, 40(48.8%) agreed, 30(36.6%) neutral, and 4(4.9%) disagreed respondents, with a mean of 3.35 and SD = .729.

Additional results showed that the loan repayment period as per the conditions of MFI is less than 5 years had 6(7.3%) strongly agreed, 36(43.9%) agreed, 22(26.8%) neutral, 17(20.7%) disagreed, and 1(1.2%) strongly disagreed respondents, with a mean of 3.35 and SD = .935. For loan repayment period as per the conditions of MFI is above 5 years had 12(14.6%) strongly agreed, 34(41.5%) agreed, 31(37.8%) neutral, 4(4.9%) disagreed, and 1(1.2%) strongly disagreed respondents, with a mean of 3.63 and SD = .839. The overall mean for group financing was 3.44, with SD = .928.

The results agree with those of Diaz (2017), who found that MFIs perform well due to their relationship-based banking and group-based models that enable them to understand people's financial and social standing in society and the willingness to stoop low to reach out to people wherever they are. The findings from the study are similar to those of Abdi and Jagongo, 2021 who conducted a research on group lending and loan performance in micro-finance institutions. The study findings indicated that strong correlation coefficient between loan performance at Kenya Women Fund Trust and group self- Internal regulations, policy, and credit risk control measures, and they are all statistically significant. The results, however, do not agree with those of Ndege (2017), who conducted a research on determinants of repayment of group loans amongst microfinance institutions in Nakuru County, Kenya. The study concluded that loan repayment terms did not have a statistically significant influence compared to demographic factors that significantly influenced loan repayment.

4.2. Sustainability of MFIs

Item	Strongly Agreed	Agreed	Neutral	Disagreed	Strongly Disagreed	Mean	SD
High operating income sustains MFIs	6(7.3%)	43(52.4%)	14(17.1%)	19(23.2%)	0(0%)	3.44	.931
Funds from donors and government do not guarantee the institution's performance	13(15.9%)	30(36.6%)	19(23.2%)	20(24.2%)	0(0%)	3.44	1.032
Sustainable MFIs are able to finance their clients	5(6.1%)	9(11%)	35(42.7%)	22(26.8%)	11(13.4%)	2.70	1.039
Non-repayment of loans hinders the financial sustainability of MFIs	10(12.2%)	37(45.1%)	18(22%)	17(20.7%)	0(0%)	3.49	.959
Good and sound administration helps MFIs on financial sustainability	22(26.8%)	26(31.7%)	19(23.2%)	13(15.9%)	2(2.4%)	3.65	1.115
Own income generation helps MFIs on financial sustainability	8(9.8%)	31(37.8%)	27(32.9%)	15(18.3%)	1(1.2%)	3.37	.937
Income diversification by MFIs improves their sustainability	26(31.7%)	19(23.2%)	34(41.5%)	2(2.4%)	1(1.2%)	3.82	.957
Financial and strategic planning by Microfinance Institutions increase their sustainability	12(14.6%)	46(56.1%)	19(23.2%)	5(6.1%)	0(0%)	3.79	.766
Indirect cost recovery rate by MFIs increases their sustainability	26(31.7%)	29(35.4%)	23(28%)	4(4.9%)	0(0%)	3.94	.894
Finance availability in MFIs increases sustainability	14(17.1%)	45(54.9%)	19(23.2%)	4(4.9%)	0(0%)	3.84	.761
Overall mean						3.55	0.939

Table 2: Sustainability of MFIs

The results on sustainability show that (7.3%) of the respondents strongly agreed with the stamen, 43(52.4%) respondents agreed, 14(17.1%) respondents were moderate, 19(23.2%) respondents disagreed, with a mean of 3.44 and standard deviation (SD) of .931 that high operating income sustains MFIs. 13(15.9%) respondents strongly agreed, 30(36.6%) respondents agreed, 19(23.2%) were neutral, and 20(24.2%) respondents disagreed that Funds from donors and the government do not guarantee the institutions' performance. The mean was 3.44, and SD = 1.032. 5(6.1%) respondents strongly agreed, 9(11%) respondents agreed, 35(42.7%) respondents were neutral, 22(26.8%) respondents

disagreed, and 11(13.4%) respondents strongly disagreed, with a mean of 2.70 and SD = 1.039, that sustainable MFIs are able to finance their clients. 10(12.2%) respondents strongly agreed, 37(45.1%) respondents agreed, 18(22%) respondents were neutral, and 17(20.7%) respondents disagreed, with a mean of 3.49, and SD = .959
, that non-repayment of loans hinders the financial sustainability of MFIs.

22(26.8%) respondents strongly agreed, 26(31.7%) respondents agreed, 19(23.2%) respondents were neutral, 13(15.9%) respondents disagreed, and 2(2.4%) respondents strongly disagreed, with a mean of 3.65 and SD = 1.115, that good and sound administration helps MFIs on financial sustainability. 8(9.8%) respondents strongly agreed, 31(37.8%) respondents agreed, 27(32.9%) respondents were neutral, 15(18.3%) respondents disagreed, and 1(1.2%) respondent strongly disagreed, with a mean of 3.37 and SD = .937, that own income generation helps MFIs on financial sustainability. 26(31.7%) respondents strongly agreed, 19(23.2%) respondents agreed, 34(41.5%) respondents were neutral, 2(2.4%) respondents disagreed, and 1 (1.2%) respondent strongly disagreed, with a mean of 3.82 and SD = .957, that Income diversification by MFIs improves their sustainability. Financial and strategic planning by Microfinance Institutions increases their sustainability had 12(14.6%) strongly agreed, 46(56.1%) agreed, 19(23.2%) neutral, and 5(6.1%) strongly disagreed respondents (Mean 3.79; SD =.766). Indirect cost recovery rate by MFIs increase their sustainability had 26(31.7%) strongly agreed, 29(35.4%) agreed, 3(28%) neutral, and 4(4.9%) disagreeing respondents, with a mean of 3.94 and SD = .894. Also, finance availability in MFIs increases sustainability had 14(17.1%) strongly agreed, 45(54.9%) agreed, 19(23.2%) neutral, and 4(4.9%) strongly disagreed respondents with a mean of 3.84 and SD = .761. The overall mean for the sustainability of the MFIs was 3.55, with SD = 0.939. The results agree with those of Ouida (2017), who found that financial sustainability delivers a huge boost to the development potential of the MFI and other institutions.

4.3. Results of Inferential Statistics

4.3.1. Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.719[a]	.517	.491	.29690

Table 3: Regression Model Summary

The study finding shows that 49.1% of the data fit the regression model, further supporting the goodness of the model. The finding means that the independent variables, group financing, explain approximately forty-nine point one (49.1%) of the variations in the sustainability of MFIs in Nakuru County.

4.4. ANOVA Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.253	4	1.813	20.571	.000[b]
	Residual	6.787	77	.088		
	Total	14.040	81			
a. Dependent Variable: Sustainability of MFIs						
b. Predictors: (Constant), Group financing						

Table 4: ANOVA Results

Sen and Srivastava (2011) state that the appropriateness of the multiple regression model as a whole can be tested using F-test. The $F_{calculated}$ is 20.571, which is greater than F_{-table} of 2.45 (df. 4, 77, p=.000<.05). This finding is significant and indicates that there is a significant difference between means of independent variables and the actual Sustainability of MFIs in the Nakuru County.

4.5. Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.565	0.392		3.990	0.000
Group financing	0.332	0.086	0.400	3.859	0.000

Table 5: Model Coefficients

The most important factor predicting the sustainability of MFIs in Nakuru County was group financing (β =.332, p =.000<.05). The results indicate that the dependent variable, that is, the sustainability of MFIs in Nakuru County, would change by a corresponding number of standard deviations when the respective independent variables change by one standard deviation. Therefore, the model developed from the study is as follows:

Sustainability of MFIs in Nakuru County = 1.036 + 0.332 Group Financing + 0.392

5. Conclusion and Recommendation

5.1. Group Financing and Sustainability of MFIs

The study concludes that group financing contributes to an increase in the sustainability of MFIs in Nakuru County. Thus, group financing parameters, involving providing loans for working capital, business expansion, credit provision, and deposit-taking, enable MFIs to maintain their clients and have a robust business. Their ability to ease loan repayment terms also made clients seek financial assistance from them. Thus, the MFIs should continue to maintain these suitable terms and improve on them to have a more profitable and sustainable operation.

5.2. Recommendation

The study recommends that Group financing should be seriously embraced as it greatly contributes to an increase in the sustainability of MFIs in Nakuru County. Thus, group financing factors such as providing loans for working capital, business expansion, credit provision, and room for deposit-taking increase the MFIs' chances of attracting clientele. Another important factor is giving easy loan repayment terms, which are crucial in attracting customers.

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