Determinants Of Financial Performance Of Micro Finance Institutions In Kenya

Sungwacha Mulianga Stephen, Namusonge Gregory, Elizabeth Nambuswa Makokha

1. School of Business and Economoics, Department of Economics, Finance and Accounting Kibabii University.

2. Director School of Entrepreneurship, Procurement and Management, Jomo Kenyatta University of Science and Technology

3. School of Entrepreneurship, Procurement and Management, Jomo Kenyatta University of Science and Technology

sungwachasm@gmail.com

Abstract

The study evaluated whether capital adequacy influences financial performance of micro finance institutions in Kenya guided by the specific objective: to establish how capital adequacy influences financial performance of micro finance institutions in Kenya. Both qualitative and quantitative research designs were employed. The total population composed of 6028 employees in the registered Deposit Taking Micro Finance Institutions (DTMFI) in Kenya and 3914 workers in 7 sampled micro finance institutions. By way of proportional stratification random sampling, a sample of 7(DTMFI) was selected. Stratification was based on 2 distinct MFI strata: first registration with the Central bank Kenya secondly primarily deposit taking. Using purposive sampling a sample of respondents was picked from credit managers for validation of the self-reported responses from participants. We used a Likert-type questionnaire with 1-5 itemised schedule to gather primary data. In contrast secondary data was extracted from the 2016 and 2020 MFI financial statements published by the Central bank of Kenya. The study used Pearson product- moment correlation, linear regression, ANOVA and F-test to analyse and test quantitative data. The Linear regression model generated a beta of -0.085 therefore revealing a negative significant relationship between MFIs financial performance and capital adequacy. It was recommended that MFIs align their operations to the market principles in pricing their products to remain competitive. Additionally, risk mitigation measures should be diversified by lending securitized loans and varying repayment packages.

Key words: Micro finance institutions; capital adequacy; financial performance, total risk weighted asset ratio.