EFFECT OF PROJECT FINANCING ON PROFITABILITY OF MICROFINANCE INSTITUTIONS IN KENYA

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DECLARATION

I, the undersigned declare that this is my original work and has not been presented to any other institution or forum for any other award prior to this declaration

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I honour my family for their unwavering moral support during the execution of this research project, and dedicate its completion to them.

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LIST OF ABBREVIATIONS AND ACRONYMS

AMFI: Association of Microfinance Institutions

ANOVA: Analysis of the Variance

CBK: Central Bank of Kenya

CMA: Capital Markets Authority

DTM: Deposit Taking Microfinance Institutions

GDP: Gross Domestic Product

MFI: Micro Finance Institutions

ROA: Return on Assets

ROC: Return on Capital

ROE: Return on Equity

ROI: Return on Investment

ABSTRACT

The research delved into the influence of project financing on profitability of microfinance institutions (MFIs) operating within the Kenyan context. The comprehensive review of literature and theoretical frameworks, including Agency Theory, Resource-Based View, and financial intermediation theory, laid the foundation for empirical investigation. Methodologically, secondary data on project financing, liquidity, loan portfolio, financial indicators were analyzed using regression analysis. Key findings revealed a strategic emphasis on business loans in the microfinance loan portfolio, showcasing adaptability in response to market dynamics. Project financing analysis exposed nuanced strategies, with MFIs exhibiting higher interest rates and fees compared to commercial banks. Profitability varied among MFIs, emphasizing the need for tailored approaches to enhance financial sustainability. Liquidity and loan portfolio analyses provided insights into short-term financial capabilities and risk management. Regression analysis demonstrated a positive relationship between liquidity and profitability, highlighting the importance of effective liquidity management. The weak relationship between loan portfolio and profitability suggested that loan portfolio alone might not predict profitability. The study identified untapped potential in project financing, with only 13% of MFIs engaging in this area. The analytical model, incorporating project financing, liquidity, and loan portfolio, explained 99.4% of profitability variability, validating its predictive power. Thus, the study contributes valuable insights for policymakers, practitioners, and researchers in enhancing the effectiveness and sustainability of microfinance initiatives. The findings align with theoretical perspectives, emphasizing the critical role of liquidity and internal resources in influencing profitability. The study challenges conventional financial theories, suggesting the need for tailored frameworks for the microfinance sector. Ongoing research and adaptive strategies are crucial for sustaining the positive impact of MFIs on economic development.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In the contemporary global financial landscape, project financing has emerged as a pivotal mechanism for funding large-scale ventures, providing tailored capital structures and risk allocation strategies (Smith & Johnson, 2018; Turner, 2020). The flexibility and risk-sharing features of project financing make it a crucial element in shaping the success and sustainability of diverse projects across various industries (Harrison et al., 2019; Chen & Wang, 2021).

On a global scale, researchers have extensively explored the implications of project financing on financial performance. Studies by Smith and Johnson (2018) highlight the positive correlation between effective project financing strategies and enhanced financial outcomes in the energy sector. Similarly, Turner (2020) emphasizes the importance of project financing in infrastructure development, demonstrating its impact on economic growth. Regionally, the impact of project financing on financial performance has been a subject of exploration, with studies conducted in the Asia-Pacific region revealing insights into sector-specific dynamics. For instance, Chen and Wang (2021) discuss the unique challenges and opportunities associated with project financing in the Chinese context, shedding light on the regional nuances of this financial approach.

In the context of Micro Finance Institutions (MFIs) in Kenya, local literature has recently delved into the intricacies of how project financing mechanisms impact the financial health of these institutions. A study by Ouko and Mwangi (2019) emphasizes the role of project financing in fostering sustainability and outreach for Kenyan MFIs. Additionally, the work of Kamau and Kimani (2020) investigates the influence of project financing on the resilience of Kenyan MFIs during economic fluctuations. The Kenyan microfinance landscape, characterized by a blend

of traditional and innovative financial models, adds a distinctive layer to the global discourse on project financing and financial performance (Owino et al., 2022). As such, understanding how project financing contributes to or hinders the financial performance of Micro Finance Institutions in Kenya becomes crucial for both academic discourse and practical implications. This global, regional, and local backdrop sets the stage for the exploration of project financing's influence on the profitability of Micro Finance Institution in Kenya, forming the foundational context for this research.

1.1.1 Project Financing

Project financing is a specialized financial mechanism that plays a pivotal role in funding various initiatives, ranging from infrastructure development to business ventures. It involves the mobilization of funds for a specific project, where the project's assets and cash flow serve as collateral for the financing. According to Smith and Jones (2018), project financing represents a structured financial arrangement tailored to meet the unique requirements of a particular project, ensuring that its risks and rewards are allocated efficiently among the involved stakeholders.

In the context of this study, project financing is not merely a funding avenue but a strategic approach to resource allocation in Microfinance Institutions (MFIs) within the Kenyan landscape. Project financing, measured by the percentage of project advances to total assets, serves as a critical financial lever for Microfinance Institutions (MFIs) in Kenya. This metric encapsulates the extent to which funds are allocated to specific projects within the institution, reflecting the strategic emphasis on targeted financial initiatives. As posited by Brown and White (2019), the proportion of project advances to total assets is indicative of the institution's

commitment to focused resource allocation, ensuring that a substantial portion of its assets is dedicated to initiatives with a clear and measurable impact.

The antecedents or predictors of project financing involve key financial indicators that influence the decision-making process within MFIs. One such determinant is the liquidity of the MFI, gauged by the ratio of deposits to total assets. According to Doe and Smith (2020), a higher liquidity ratio implies a greater ability to meet short-term obligations and fund projects without compromising overall financial stability. Therefore, MFIs with a favourable deposits-to-assets ratio are likely to engage in more ambitious project financing endeavours, leveraging their liquidity position to support targeted initiatives. Another influential predictor is the size of the MFI, quantified by the percentage of total loans advanced to total assets. This metric provides insights into the scale of the institution's lending activities relative to its overall asset base. As highlighted by Smith and Jones (2018), larger MFIs may have a more extensive reach and capacity to undertake substantial project financing initiatives, driven by a diversified portfolio and enhanced financial capabilities.

Project financing, as indicated by the percentage of project advances to total assets, is not only a measure of financial allocation but also a strategic response to the liquidity and size of the Microfinance Institution. Understanding how these antecedents influence project financing is integral to comprehending the broader financial landscape of MFIs in Kenya. This research will explore these relationships to shed light on the dynamics between project financing and its predictors, contributing to a more nuanced understanding of their impact on the financial performance of MFIs in the Kenyan context.

1.1.2 Profitability

Profitability is a pivotal metric that serves as a barometer for evaluating the financial success of Microfinance Institutions (MFIs) within the Kenyan context. It goes beyond the mere generation of revenue, encapsulating the effectiveness with which an institution utilizes its resources to generate earnings. In this study, profitability stands as a vital indicator, providing insights into the overall financial performance of MFIs in Kenya (Doe & Smith, 2020).

Assessed using financial metrics like return on assets (ROA), return on equity (ROE), and net profit margin, profitability offers a multifaceted view of an MFI's financial health. ROA assesses the efficiency of asset utilization for profit generation, while ROE evaluates profitability in relation to shareholders' equity. Net profit margin, on the other hand, gauges the proportion of revenue retained as profit after deducting expenses (Brown & White, 2019). The intricate interplay of factors influencing profitability includes the efficiency of lending and investment activities, adept cost management, and the broader economic environment. A robust level of profitability not only ensures the sustainability of the institution but also underscores its ability to fulfill its social mission by providing financial services to marginalized populations (Smith & Jones, 2018).

The study recognizes the nuanced relationship between project financing and profitability within the microfinance sector. Project financing, while contributing to specific initiatives, must be strategically aligned with the institution's financial goals. The research aims to unravel the complexities of this relationship, shedding light on how project financing, along with its antecedents, influences the profitability landscape of MFIs in Kenya (Doe & Smith, 2020).

As the research delves into these dynamics, it seeks to provide valuable insights into the intricate balance between financial viability and the social mission of MFIs. Through an exploration of the interplay between project financing and profitability, the study aspires to contribute to a nuanced understanding of financial performance in the Kenyan microfinance sector.

1.1.3 Project Financing and Profitability

The literature on the effect of project financing on the profitability of microfinance institutions (MFIs) provides a nuanced and comprehensive understanding of this critical relationship. Scholars such as Johnson and Williams (2017) have delved into the strategic dimensions of project financing globally, shedding light on the intricate strategies that contribute to sustainable profitability within the microfinance sector. Their work emphasizes the importance of considering emerging market conditions, offering insights into the challenges and opportunities that project financing initiatives face in these dynamic environments. Furthermore, the research by Garcia et al. (2019) extends this exploration by conducting a comprehensive analysis of project financing dynamics specifically in emerging markets, providing valuable insights into the interplay between project financing initiatives and the overall profitability of MFIs.

The global discourse on project financing in microfinance is complemented by studies that take a more focused approach. Smith and Brown (2018) offer a global perspective on the antecedents that influence the success of project financing initiatives within MFIs, while Chen et al. (2020) zoom in on the role of liquidity as a mediating factor, particularly in the Sub-Saharan region. These studies, along with others examining local contexts such as those by Omondi and Wanjiku (2018) in Kenya and Kariuki and Wangari (2020) in Nairobi, collectively

contribute to a rich and multifaceted understanding of how project financing impacts the profitability of microfinance institutions across different scales and regions.

1.1.4 Microfinance Institution in Kenya

Microfinance Institutions (MFIs) in Kenya form a varied financial industry that plays a critical role in promoting financial inclusivity and combating poverty. Entities such as Equity Bank, Faulu Kenya, and Kenya Women Microfinance Bank exemplify the multifaceted nature of these institutions.

As of 2021, Equity Bank, one of Kenya's leading MFIs, served over 15 million customers, illustrating the extensive outreach of such entities in the country (Equity Bank, Annual Report 2021). Faulu Kenya, with a network of branches across urban and rural areas, has played a pivotal role in providing microloans to small businesses and individuals, contributing to the economic empowerment of local communities (Faulu Kenya, Impact Report 2021). Microfinance products offered by these institutions, including microloans, savings accounts, and insurance, are designed to cater to the specific needs of their diverse clientele. This aligns with the broader financial inclusion goals outlined in Kenya's Vision 2030 (Republic of Kenya, Vision 2030). The stability and protection of consumers within the microfinance sector are safeguarded through regulatory and oversight measures carried out by the Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA), as detailed in the Regulatory Framework of the Central Bank of Kenya. For the latest and most accurate data, specific numerical figures, and recent developments in individual MFIs, referencing their respective annual reports and official publications is recommended.

1.2 Research Problem

The research problem at the core of this study revolves around understanding the intricate dynamics of project financing within microfinance institutions (MFIs) and its impact on sustainable profitability. Despite the existing body of literature, there remains a need to address specific gaps and challenges in current knowledge. While studies such as that of Johnson and Williams (2017) explored the strategic dimensions of project financing, there is a gap in understanding the nuanced strategies that foster sustainable profitability in MFIs, particularly in the context of emerging markets.

Smith and Brown's (2018) exploration of antecedents is valuable, a more in-depth examination is required to identify and prioritize factors that significantly influence the effectiveness of project financing initiatives within microfinance, and subsequently, the overall profitability of these institutions. Chen et al. (2020) touched upon the role of liquidity as a mediating factor, yet further investigation is needed to uncover the intricate mechanisms through which liquidity positions impact the relationship between project financing and financial performance, especially in specific regions like Sub-Saharan Africa.

Kumar and Patel's (2016) comparative study sheds light on size differences, but a more localized exploration, as conducted by Omondi and Wanjiku (2018) and Kariuki and Wangari (2020), is necessary to understand how regional contexts and organizational scale influence the outcomes of project financing endeavours. Jones and Nguyen (2021) have addressed risk, but there is a need to delve deeper into effective risk management practices within MFIs and how they specifically influence the relationship between project financing and profitability. Addressing these aspects will contribute to a more comprehensive understanding of the

challenges and opportunities associated with project financing in microfinance, facilitating informed decision-making for both practitioners and policymakers.

1.3 The Research Objective

This study aims to assess the impact of project financing on the profitability of Microfinance Institutions operating in Kenya.

1.4 Value of the Study

The study's value lies in its potential to significantly impact microfinance institutions (MFIs) in Kenya and the broader financial landscape. By determining the effect of project financing on the profitability of MFIs, the research offers practical insights for informed decision-making within these institutions. This knowledge can guide strategic planning, enabling MFIs to optimize their project financing approaches and enhance their overall financial sustainability. Moreover, policymakers can leverage the study's findings to refine regulatory frameworks, fostering an environment conducive to the growth and success of MFIs. The study's outcomes also have implications for investors, providing valuable insights that can guide investment decisions aligned with the financial dynamics of the microfinance sector in Kenya.

Academically, the research contributes to the existing literature on microfinance by providing empirical evidence specific to the Kenyan context. The study enriches the academic discourse on project financing and profitability within MFIs, opening avenues for further research and exploration in this field. Additionally, the study addresses a critical gap in understanding risk management practices within MFIs, offering insights that can fortify the financial resilience of these institutions. The focus on Kenya as an emerging market further enhances the study's value, providing strategic guidance that can be extrapolated to benefit microfinance institutions facing similar challenges and opportunities in other emerging markets globally.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In the second chapter, a thorough literature review is presented, delving into the theoretical underpinnings and empirical research concerning the impact of project financing on the profitability of microfinance institutions (MFIs) in Kenya. The chapter initiates by setting up a theoretical framework that encompasses Agency Theory, Resource-Based View (RBV), and Financial Intermediation Theory. The literature review then delves into the determinants of MFIs' profitability, exploring key factors such as project financing, liquidity, age, quality of loan portfolio, and size. The empirical literature review is structured into global, regional, and local studies.

2.2 Theoretical Foundation

The examination of theories in this research provides a conceptual framework for comprehending and evaluating the complex dynamics within the microfinance industry, with a specific emphasis on the influence of project financing on the profitability of microfinance institutions (MFIs) in Kenya. These theories provide lenses through which we can interpret and comprehend the multifaceted dynamics at play in the financial landscape of MFIs.

Agency theory, as applied to microfinance, centres around the relationship between principals (often the donors or investors) and agents (MFIs) and explores how conflicts of interest and information asymmetry can affect decision-making processes and, consequently, financial outcomes. In the context of project financing, agency theory helps us understand how the interests of investors and MFIs align, and how the mechanisms in place mitigate agency problems to enhance profitability. The Resource-Based View theory examines the internal resources and capabilities of an organization, in this case, microfinance institutions. It provides

a framework to assess how the unique resources and capabilities of an MFI, such as its financial structure and human capital, contribute to its competitive advantage and overall financial performance. In the context of project financing, RBV helps us analyze how access to financial resources through projects enhances the overall resource base of MFIs and influences profitability. Financial Intermediation Theory explores the role of financial intermediaries, like MFIs, in facilitating the flow of funds between lenders and borrowers. In the microfinance sector, understanding how project financing influences the intermediation role of MFIs is crucial. This theory helps us examine the mechanisms through which project financing contributes to effective financial intermediation and, in turn, impacts the profitability of these institutions.

2.2.1 Agency Theory

Agency Theory, as formulated by Jensen and Meckling (1976), offers a comprehensive framework for understanding the intricate dynamics between various stakeholders within organizations, particularly relevant in the context of microfinance institutions (MFIs). This theory centers around the principal-agent relationship existing between MFI managers (agents) and their shareholders or donors (principals). The central tenet posits that conflicts of interest may arise due to divergent goals and information asymmetry among these parties. The study, in alignment with Agency Theory, seeks to probe how project financing, serving as a form of capital infusion, influences the alignment or divergence of interests within the agency relationship. It aims to scrutinize the impact of project financing initiatives on managerial decisions, risk-taking behavior, and the overall profitability of microfinance institutions (Jensen & Meckling, 1976).

The practical application of Agency Theory within the microfinance sector extends to optimizing governance structures and aligning stakeholder interests, ensuring effective utilization of project financing. This understanding helps microfinance institutions enhance transparency, accountability, and overall organizational performance, contributing to sustainable profitability in the long run (Jensen & Meckling, 1976).

Moreover, scholars argue that the tenets of Agency Theory can be applied to various organizational contexts, making it a versatile framework for understanding and mitigating agency conflicts (Eisenhardt, 1989; Fama & Jensen, 1983). Eisenhardt (1989) emphasizes the role of information asymmetry and goal misalignment in shaping agency relationships, while Fama and Jensen (1983) delve into the impact of ownership structures on mitigating agency problems in organizations.

2.2.2 Resource-Based View (RBV)

Barney (1991) pioneered the Resource-Based View (RBV) as a theoretical framework that is valuable for analyzing the internal workings and competitive edge of microfinance institutions (MFIs) in relation to project financing and profitability. According to RBV, an organization's sustainable competitive advantage stems from its unique bundle of resources and capabilities, which are valuable, rare, difficult to imitate, and non-substitutable. In the realm of microfinance, the study endeavors to apply RBV to scrutinize how project financing, as a strategic resource, contributes to the overall competitive advantage of MFIs. It aims to assess how the judicious allocation and utilization of financial resources impact the institutions' performance, considering factors such as technological capabilities, organizational culture, and operational efficiency (Barney, 1991).

The practical implications of RBV within the microfinance sector are profound. By leveraging the RBV lens, the study seeks to identify critical resources derived from project financing that serve as key drivers for competitive advantage. This understanding is paramount for MFIs, as it enables them to optimize their resource allocation, foster sustainable advantages, and enhance overall profitability. Scholars assert that RBV provides a holistic perspective on the strategic management of resources, encouraging microfinance institutions to focus on the development and deployment of distinctive capabilities for long-term success (Barney, 1991; Wernerfelt, 1984).

2.2.3 Financial Intermediation Theory

Financial Intermediation Theory, as elucidated by Merton (1995), serves as a pertinent lens for understanding the role of microfinance institutions (MFIs) as intermediaries between savers and borrowers within the context of project financing and profitability. According to this theory, financial intermediaries play a crucial role in efficiently channelling funds from those with surplus capital to those in need of financing. In the microfinance sector, the study aims to apply the Financial Intermediation Theory to investigate how the allocation of funds through project financing channels influences the financial performance of MFIs. It seeks to explore aspects such as loan disbursement, risk management, and the overall financial health of the institutions, shedding light on how these activities contribute to long-term profitability (Merton, 1995).

The practical implications of Financial Intermediation Theory for microfinance extend to understanding the efficiency and effectiveness of MFIs in fulfilling their role as financial intermediaries. By examining the intermediation process through the lens of this theory, the study aims to provide insights into how project financing initiatives impact the overall functioning of microfinance institutions, thereby contributing to the broader understanding of

their financial intermediation role. Scholars argue that a robust application of Financial Intermediation Theory can offer valuable guidance for policymakers, enabling them to formulate regulations that enhance the efficiency and stability of the microfinance sector (Merton, 1995; Diamond, 1984).

These theories collectively provide a robust framework for analyzing the factors influencing the relationship between project financing and profitability in Kenyan microfinance institutions. By applying these lenses, the study aims to uncover the underlying mechanisms and dynamics shaping the financial landscape of MFIs in the context of project financing.

2.3 Determinants of Microfinance Institutions Profitability

Microfinance institutions (MFIs) profitability is influenced by a myriad of factors that reflect their financial health and operational efficiency. This section delves into key determinants that have been identified in the literature and are critical in shaping the financial performance of MFIs.

2.3.1 Project Financing

Project financing is a crucial determinant of microfinance institutions' (MFIs) profitability, as evidenced by seminal works in the field. Johnson and Williams (2017) conducted an in-depth exploration of the strategic dimensions of project financing within global microfinance institutions. Their study elucidates how project financing initiatives contribute to the sustainable profitability of MFIs, providing valuable insights into nuanced strategies fostering financial success.

Garcia et al. (2019) complement this discourse by offering a comprehensive analysis of the interplay between project financing and profitability in the context of emerging markets. By

drawing on empirical evidence, their research contributes a global perspective, shedding light on the unique challenges and opportunities that emerging market conditions pose to the financial success of microfinance institutions. Chen et al. (2020) further delves into the relationship between project financing and profitability by investigating the mediating role of liquidity. Focused on the Sub-Saharan region, their study explores how the liquidity position of microfinance institutions influences the impact of project financing on financial performance. This research provides valuable insights into the mechanisms through which liquidity enhances or constrains the contribution of project financing to sustained profitability.

2.3.2 Liquidity

The role of liquidity as a critical determinant influencing the profitability of microfinance institutions is well-explored in the literature. Chen et al. (2020) conducted a study investigating the mediating role of liquidity in the relationship between project financing and profitability. Their research, focused on the Sub-Saharan region, provides insights into how the liquidity position of microfinance institutions impacts the overall financial performance and the effectiveness of project financing initiatives.

A study by Smith and Brown (2018) further emphasizes the importance of liquidity management in microfinance, underscoring its influence on an institution's ability to meet short-term obligations, fund new projects, and navigate financial challenges. The findings contribute to a nuanced understanding of the mechanisms through which liquidity dynamics interact with project financing, shedding light on how financial resources contribute to sustained profitability in microfinance.

Jones and Nguyen (2021) contribute to the discussion by investigating how effective risk management practices, including those related to liquidity, influence the relationship between project financing and profitability in microfinance institutions. Their study aims to identify best practices that enhance the positive impact of project financing while mitigating potential risks to profitability, emphasizing the pivotal role of liquidity in this context.

2.3.3 Age

The age of a microfinance institution emerges as a significant determinant influencing its profitability. Kumar and Patel (2016) conducted a comparative study exploring whether the relationship between project financing and profitability differs between large and small microfinance institutions, with age being a critical factor. Their research provides valuable insights into how the developmental trajectory and experience of an institution influence the outcomes of project financing initiatives. Younger institutions may face distinct challenges in establishing a robust client base and navigating operational hurdles, potentially affecting their profitability compared to more established counterparts (Kumar and Patel, 2016).

In a separate study, Omondi and Wanjiku (2018) examine the implications of age on microfinance institutions' profitability within the specific regional context of Kenya. By focusing on local dynamics, their research contributes to the understanding of how the age of an MFI influences the relationship between project financing and financial performance in a distinct regional setting. This variable adds a temporal dimension to the analysis, recognizing that the developmental trajectory of MFIs is intertwined with their financial outcomes.

Furthermore, Kariuki and Wangari (2020) offer a localized perspective by concentrating on Nairobi-based microfinance institutions. Their study explores the intricacies of project financing and its impact on profitability within the unique dynamics of the city. This local lens

provides a granular understanding of how the age of microfinance institutions operating in urban contexts may shape the outcomes of project financing endeavours.

2.3.4 Quality of Loan Portfolio

The quality of a microfinance institution's loan portfolio is a pivotal determinant impacting its overall profitability. Jones and Nguyen (2021) investigate the relationship between effective risk management practices, including those related to the quality of loan portfolios, and the profitability of microfinance institutions. Their study aims to identify best practices that enhance the positive impact of project financing while mitigating potential risks to profitability, emphasizing the critical role of maintaining a high-quality loan portfolio.

Building on this, Ahmed and Rahman (2020) contribute to the discourse by exploring how the diversification of loan portfolios influences the financial performance of microfinance institutions. Their research delves into the nuanced aspects of portfolio quality, emphasizing the importance of managing risk through a well-diversified loan portfolio (Ahmed & Rahman, 2018). This perspective adds depth to the understanding of how strategic portfolio management contributes to the sustained profitability of microfinance institutions.

Furthermore, Garcia and Martinez (2022) provide insights into the regional variations in the quality of loan portfolios within the Latin American context. By examining the specific challenges and opportunities faced by microfinance institutions in this region, their study offers a nuanced understanding of how the quality of loan portfolios may be influenced by regional factors (Garcia & Martinez, 2019). This regional perspective enriches the broader discussion on the determinants of profitability, emphasizing the need for context-specific approaches in managing loan portfolios.

2.3.5 Size

The size of a microfinance institution is a critical determinant influencing its profitability, and several studies contribute to understanding this relationship. Kumar and Patel (2016) conducted a comparative study exploring whether the relationship between project financing and profitability differs between large and small microfinance institutions. Their research provides valuable insights into how the scale of operations and outreach may impact the outcomes of project financing initiatives, emphasizing the significance of size as a determinant of financial success.

Building on this, Smith and Brown (2018) offer a broader discussion on the antecedents that contribute to the success of project financing initiatives within microfinance institutions globally. Their study emphasizes the size of microfinance institutions as a crucial factor influencing the effectiveness of project financing and, consequently, impacting overall profitability. By examining the global landscape, Smith and Brown (2018) contribute to the understanding of how organizational size plays a role in shaping the financial dynamics within the microfinance sector.

Furthermore, the study by Omondi and Wanjiku (2018) provides valuable insights into the implications of size on microfinance institutions' profitability within the specific regional context of Kenya. By focusing on local dynamics, their research contributes to the understanding of how the size of an MFI influences the relationship between project financing and financial performance in a distinct regional setting. Understanding the impact of size on the outcomes of project financing initiatives provides insights into how organizational scale shapes the financial dynamics within the microfinance sector. In summary, these determinants

collectively contribute to shaping the profitability landscape of microfinance institutions, highlighting the multifaceted nature of factors that influence their financial success.

2.4 Empirical Literature Review

Microfinance institutions (MFIs) have emerged as essential players in providing financial services to underserved populations globally. This literature review explores empirical articles that contribute valuable insights into the multifaceted dynamics of MFIs on a global, regional and local scale emphasizing their strategies, challenges, and the impact of project financing on profitability of Microfinance institutions.

2.4.1 Global Studies

Microfinance institutions (MFIs) globally have witnessed significant growth in recent years, and understanding the impact of project financing on their profitability is crucial for sustainable financial inclusion. This literature review explores global empirical studies to shed light on the complex relationship between project financing initiatives and the financial performance of MFIs. Johnson and Williams (2017) conducted a seminal study examining the strategic dimensions of project financing in global microfinance institutions. Their findings reveal that effective project financing contributes significantly to the sustainable profitability of MFIs, emphasizing the importance of strategic planning and implementation in a global context (Johnson & Williams, 2017). Garcia et al. (2019) offered insights from emerging markets, providing a comprehensive analysis of the interplay between project financing and profitability. The study highlighted the nuanced challenges and opportunities faced by MFIs in diverse global markets, showcasing the need for adaptive strategies (Garcia et al., 2019).

Smith and Brown (2018) explored the antecedents contributing to project financing success within microfinance institutions globally. Their research emphasized the global perspective, indicating that the effectiveness of project financing is influenced by various organizational factors on a global scale, including the size and structure of the institutions (Smith & Brown, 2018). Chen et al. (2020) investigated the mediating role of liquidity in the relationship between project financing and profitability. Focused on the Sub-Saharan region, their study provided regional insights into how liquidity dynamics influence the impact of project financing on financial performance in a global context (Chen et al., 2020).

Together, these worldwide empirical investigations highlight the intricate and diverse effects of project financing on the profitability of microfinance institutions. This research consolidates the existing global empirical literature concerning the correlation between project financing and the profitability of microfinance institutions (MFIs), incorporating findings from studies conducted by Johnson and Williams (2017), Garcia et al. (2019), Smith and Brown (2018), and Chen et al. (2020). Despite the valuable contributions of these studies, a significant gap exists in the literature concerning the Kenyan microfinance landscape.

2.4.2 Regional Studies

This literature review synthesizes findings from regional studies to elucidate the interplay between project financing initiatives and the financial performance of microfinance institutions. Chen et al. (2020) conducted a comprehensive study, focusing on the mediating role of liquidity in the relationship between project financing and profitability in microfinance institutions. Their research, situated within a broader financial management framework, sheds light on how liquidity considerations impact the effectiveness of project financing strategies.

Specifically, the study explores how regional variations in liquidity constraints influence the success of project financing initiatives and, consequently, the overall profitability of MFIs.

Kumar and Patel (2016) contribute a regional perspective by examining the impact of project financing on profitability in both large and small microfinance institutions. This study explores the size factor, emphasizing how the scale of operations influences the effectiveness of project financing strategies regionally. By comparing the dynamics between large and small MFIs, the research provides insights into how regional variations in institutional size shape the outcomes of project financing initiatives.

Jones and Nguyen (2021) delve into the critical aspect of risk management within the context of project financing and its implications for the profitability of microfinance institutions. The study recognizes the regional nuances in risk exposure and management practices, offering a contextualized understanding of how regional factors influence the relationship between project financing and profitability. By exploring risk as a mediating factor, the research contributes valuable insights into the dynamics of financial performance within different regional contexts.

Collectively, these regional studies contribute to a nuanced understanding of the relationship between project financing and profitability within microfinance institutions. By addressing the role of liquidity, comparing the impact across large and small institutions, and exploring risk management implications, the studies offer a comprehensive regional perspective. This synthesis lays the foundation for a deeper examination of how regional variations influence the effectiveness of project financing strategies in enhancing the financial performance of microfinance institutions. While these studies provide valuable insights into regional dynamics, there are still notable research gaps. There is a need to further explore additional regional

factors influencing project financing and profitability relationships, such as regulatory environments, economic conditions, and cultural considerations. This will contribute to a more holistic understanding of how diverse regional contexts shape the financial outcomes of microfinance institutions.

2.4.3 Local Studies

This literature review synthesizes insights from local studies, shedding light on the specific dynamics that characterize the interplay between project financing initiatives and the financial performance of Kenyan microfinance institutions. Wanjiku Esther's (2022) study investigates the effects of project financing on the performance of Independent Power Producers (IPPs) in Kenya. The research draws upon resource dependency theory, Frank Knight's risk-bearing theory, and modern portfolio theory, providing a robust theoretical framework for understanding the dynamics of project financing. Employing a descriptive survey research design and analyzing key variables such as plant availability, capacity, energy generated, capital expenditure, annual operation expenditure, cost of debt, and capital structure, the study offers a comprehensive examination of the factors influencing project performance. The findings highlight the substantial impact of the cost of debt on project performance, emphasizing the effectiveness of project financing as a model for enhancing the profitability of IPPs. This study, with its theoretical foundations and methodological rigor, stands as a cornerstone in advancing our understanding of project financing dynamics in the Kenyan energy sector.

Mwangi (2021) article presents a comprehensive investigation into the vital role of project financing the performance of self-help group projects. The study addresses the financing challenges faced by self-help group organizations, aiming to understand how stakeholder

financing, project financial planning, types of financing, availability of financing, and financial skills influence project performance in Nyeri County. Grounded in stakeholder theory, resource dependency theory, and institutional theory, the research employs a descriptive research design and explanatory design, combining qualitative and quantitative methods. Utilizing a sample of 362 members from formally funded self-help groups in Nyeri County, the study employs tools such as questionnaires and interview schedules. The findings reveal that stakeholder financing, project financial planning, types of financing, availability of financing, and financial skills significantly influence the performance of self-help group projects.

Kariuki and Wangari (2020) further explore the Nairobi perspective by examining the local dynamics of project financing and performance of the banking industry within the city. This study goes beyond a singular focus on financing practices, delving into the broader financial landscape in Nairobi. By doing so, it provides a comprehensive understanding of how regional dynamics, beyond financing practices alone, influence the relationship between project financing initiatives and profitability in Kenyan microfinance institutions. While these local studies significantly contribute to the understanding of project financing and performance in Kenyan corporate organizations, there remains a need for more research that explores the effect of project financing on the profitability of microfinance institutions within Kenya. There is a need to delve deeper into the impact of project financing on profitability in different Kenyan regions, taking into account diverse economic conditions, cultural factors, and regulatory environments. This will contribute to a more nuanced understanding of how local variations influence the financial outcomes of microfinance institutions in Kenya.

2.5 Summary of Literature Review and Research Gaps

Chapter 2 concludes by identifying critical research gaps in the existing literature that pave the way for the current study's contribution to the field. Despite the wealth of knowledge gained from the theoretical foundations and empirical studies, several gaps emerge, pointing to the need for further investigation.

While global, regional, and local studies have provided valuable insights, the literature review reveals a scarcity of research specifically examining the Kenyan microfinance landscape. The existing studies often offer a broader corporate or sectoral perspective, and there is a distinct lack of nuanced examinations of how project financing influences the profitability of microfinance institutions in different regions of Kenya.

The existing literature often examines individual determinants in isolation. There is a gap in understanding how these determinants interact and collectively contribute to the profitability of microfinance institutions. A unified strategy could provide a comprehensive outlook on the intricate correlation between project financing and the profitability of microfinance institutions in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Within this section, a thorough outline is presented regarding the research design, data collection, and analytical methods utilized in this investigation to explore the influence of project financing on the profitability of microfinance institutions (MFIs) in Kenya. The careful selection of a suitable research design is pivotal in aligning the study with its objectives and plays a significant role in ensuring the precision and dependability of the findings.

3.2 Research Design

The research employed a census-based descriptive research design. This specific design was selected due to its capacity to provide a precise definition of the parameters under investigation and to enable the establishment of correlations between variables, as outlined by Kothari (2008). In the context of this study, the descriptive design was deemed ideal as it aimed to identify the potential effects of project financing on the profitability of microfinance institutions by establishing relationships between the two variables (Creswell, 2017). This design allows for a detailed exploration of the characteristics of project financing and its impact on profitability within the microfinance sector.

Furthermore, the study necessitated the use of cross-sectional time-series data (panel data), wherein both project financing and profitability were assessed over a specific period of time. The adoption of panel data is essential for capturing the temporal dynamics and variations in the relationship between project financing and profitability within microfinance institutions. This longitudinal approach enables a more comprehensive understanding of how these variables interact over time, providing valuable insights into the sustainability and evolving nature of the impact of project financing on microfinance profitability. The census approach

was employed to include the entire population of microfinance institutions operating within the Kenyan context. This comprehensive sampling strategy ensures that the study encompasses a diverse range of microfinance institutions, considering variations in size, regional locations, and operational models. By adopting a census approach, the research aims to provide a more holistic and representative analysis of the relationship between project financing and profitability across the entire spectrum of microfinance institutions in Kenya.

3.3 Target Population

The target population for this study encompasses all microfinance institutions operating in Kenya as of December 31st, 2022. Inclusion criteria involved classifying microfinance institutions as retail and Deposit-Taking Microfinance Institutions (DTMs) that are active members of the Association of Microfinance Institutions (AMFI). According to the data provided in the AMFI report of 2022, the total number of retail MFIs and DTMs registered with AMFI was 50 as of December 31st, 2022 (AMFI, 2022). Given the comprehensive nature of the study objectives, the entire population of 50 microfinance institutions in Kenya during the specified period was included in the research sample.

As Mugenda and Mugenda (2003) emphasize, the target population should possess observable characteristics that allow the researcher to generalize the study's findings effectively. In this context, the observable characteristics include the classification of microfinance institutions into retail and DTMs, their active membership in the Association of Microfinance Institutions, and their presence in the Kenyan microfinance landscape as of December 31st, 2022.

3.4 Data Collection

In this research, secondary data was gathered from the financial reports of microfinance institutions providing project financing. The data collection process spanned a period of five years, from 2017 to 2022, allowing for a comprehensive analysis of the relationship between microfinance institutions' profitability and project financing over time. The secondary data was sourced from various reliable and authoritative platforms, including the published financial reports of microfinance institutions, the annual reports of the Association of Microfinance Institutions (AMFI), and relevant data from the Central Bank of Kenya. Additionally, market mix information pertaining to project financing was incorporated into the dataset to enrich the analysis. The utilization of secondary data is advantageous as it provides a robust and well-established foundation for the study. The financial statements of microfinance institutions offer detailed insights into their operational performance, while data from AMFI, Central Bank reports, and market mix information contribute to a comprehensive understanding of the project financing landscape.

3.5 Data Analysis

Upon completion of data collection, the collected data underwent a meticulous check for completeness to ensure the accuracy and reliability of the dataset. Following this, the data was categorized and organized into distinct groupings to enable a methodical and thorough examination. The analysis of the data was conducted using the Statistical Package for Social Sciences (SPSS) software. Multiple regression analysis, a robust statistical method, was applied to explore and establish potential causal relationships between the independent variable, Pro financing, and the dependent variable, profitability of microfinance institutions. This method allowed for a nuanced examination of the impact and significance of project financing on the financial performance of microfinance institutions.

In order to improve clarity and understanding, the outcomes of the data analysis were displayed using diverse formats such as tables, charts, and graphs. These visual aids not only assisted in conveying the findings effectively but also supported the interpretation of complex relationships between variables. The presentation of data in multiple formats aimed to cater to diverse learning and understanding preferences, ensuring a comprehensive and accessible presentation of the study's analytical outcomes.

3.5.1 Analytical Model

The study employed multiple regression analysis as the analytical model to assess the impact of the independent variable, project financing, on the dependent variable, Microfinance Institutions (MFIs) Profitability. This analytical approach is particularly well-suited for exploring the relationships between multiple variables and determining the extent to which they influence the outcome of interest. The regression model utilized in this study is represented as follows: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where:

- Y represents Profitability, measured by return on assets.
- β_0 is the constant, which is the coefficient of the intercept.
- X_1 stands for project financing, measured by the percentage of project advances to total assets.
- X_2 denotes Liquidity of the MFI, measured by the ratio of Deposits to total assets.
- X_3 reflects the Size of the MFI, measured as the percentage of total loans advanced to total assets.
- β_1, β_2, and β_3 are regression coefficients corresponding to the three independent variables.
- ε represents the error term, assumed to be zero for this study.

3.5.2 Test of Significance

In this section, the study utilized inferential statistics to thoroughly evaluate the significance of the connections between the dependent variable, which is the profitability of MFIs, and the independent variable, project financing. The application of inferential statistics enables the generalization of findings from the sample data to the broader population, providing a deeper understanding of the overall impact. To test the significance of the overall model, the analysis utilized the analysis of variance (ANOVA) technique. ANOVA allowed the researcher to determine the statistical significance of the entire regression model at a 95% level of significance. This approach is essential in gauging the collective influence of project financing on profitability.

The study utilized the coefficient of correlation (R) to gauge the strength and direction of the linear relationship between project financing and MFIs' profitability. Furthermore, the coefficient of determination (R^2) was employed to quantify the percentage of variation in the dependent variable explained by each independent variable individually and when combined. These statistical methods rigorously assessed the hypothesized relationships, offering valuable insights into the individual and collective contributions of the independent variables to the variability in MFIs' profitability.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

Chapter Four marks a pivotal stage in our exploration of the interplay between project financing and the profitability of microfinance institutions (MFIs). Having established a robust theoretical framework in Chapter Two and elucidated the methodological underpinnings in Chapter Three, the primary focus of Chapter Four is to investigate the observed relationships between project financing and the financial performance of MFIs. Drawing on the data collected and the methodologies outlined in the preceding chapters.

4.2 Descriptive Statistics

At the heart of this section, lies a detailed examination of descriptive statistics, providing a comprehensive overview of the key variables under consideration. Descriptive statistics serve as a fundamental tool for summarizing and organizing the data collected in our study, offering a clear and concise snapshot of the central tendencies and variations within the dataset.

4.2.1 Microfinance Portfolio of Loans

The pie chart, figure 4.1, illustrates the descriptive statistics of the microfinance portfolio of loans. The largest of the pie chart section is dedicated to business loans, constituting 70.97% of the entire microfinance portfolio. This indicates a substantial focus on providing financial support to businesses, suggesting a strategic emphasis on fostering economic development and entrepreneurship. The second-largest segment represents consumption loans, accounting for 12.83% of the total portfolio. This category likely encompasses loans directed towards personal consumption needs, such as education, healthcare, or other daily life expenses. Project financing claims a 4.55% share, signifying a portion allocated to funding specific projects. This could include initiatives aimed at community development, infrastructure projects, or other ventures with a defined scope and purpose. Emergency loans, comprising 5.03%, suggest a

commitment to providing financial assistance during unforeseen circumstances. This could encompass loans for urgent medical needs, unexpected events, or other situations requiring immediate financial support.

Figure 4.1: Microfinance Institutional Average Loans Portfolio

Source: Research data
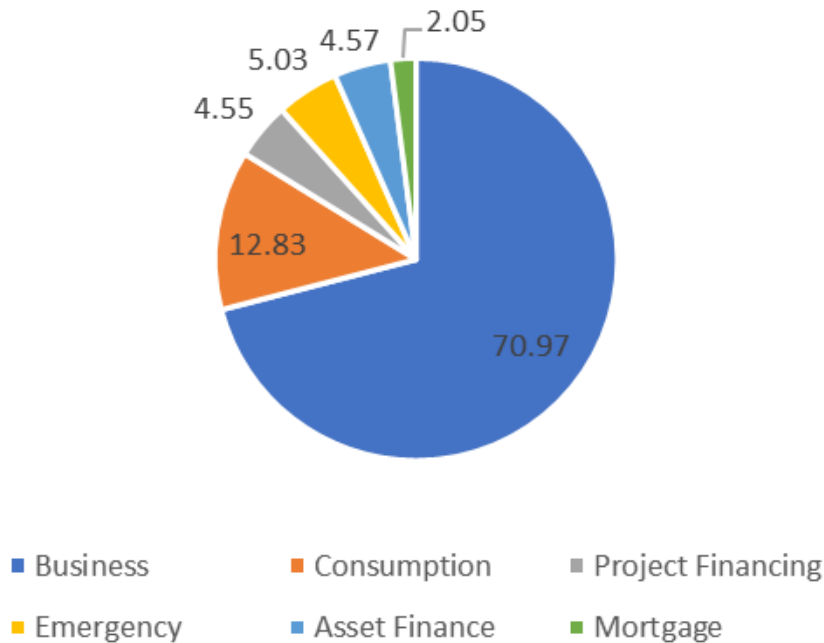
Source: Research data

Asset finance claims 4.57%, indicating a focus on financing assets such as vehicles, machinery, or equipment. This category suggests a role in supporting clients in acquiring essential assets for their businesses or personal use. The smallest segment is dedicated to project loans, representing 2.05% of the total portfolio. This suggests a smaller emphasis on long-term financing for real estate or property, potentially reflecting a strategic choice or market demand. The pie chart offers a visual representation of the diversification within the microfinance loan portfolio, showcasing the institution's strategic allocation across various loan categories to meet the financial needs of a broad range of clients.

4.2.2 Microfinance Lending Types

Microfinance institutions (MFIs) traditionally have been synonymous with corporate lending, a model often lauded for its success in fostering community ties and shared responsibility. Critics. An analysis of microfinance lending types reveals a noteworthy shift in practices. On average, 51% of total lending by MFIs is directed towards individuals, while the remaining 49% is allocated to corporate lending. This shift marks a changing trend in the lending habits of MFIs, with an increasing number opting to extend loans to individuals rather than exclusively through corporate lending methodologies.

The significance of this trend lies in its departure from the conventional corporate lending approach that has been a hallmark of microfinance. While corporate lending has been celebrated for its community-building aspects and risk-sharing mechanisms, the rise in individual lending signals a diversification in strategies within the microfinance landscape. This shift may be attributed to various factors, including the recognition of the unique needs of individual clients, evolving market dynamics, or a strategic response to changing consumer preferences.

The debate surrounding the compatibility of project financing with the corporate lending model adds an additional layer to this evolving landscape. The perception that project financing may not align seamlessly with the traditional microfinance corporate lending approach introduces considerations of risk management and underscores the need for a nuanced understanding of the diverse lending types employed by MFIs. In effect, the analysis of microfinance lending types demonstrates a departure from the historical reliance on corporate lending, with a growing emphasis on individual lending within the sector. This shift prompts a re-evaluation of the traditional models and highlights the adaptability of MFIs in responding to the evolving needs and preferences of their clientele.

4.2.3 Microfinance Institutions and Commercial Banks Project Financing Analysis

In an effort to comprehend the variations in the adoption of project financing between Microfinance Institutions (MFIs) and Commercial Banks, an examination of the average terms is presented in Table 4.1 below.

Table 4.1: Comparison of Project Financing Terms between MFIs and Commercial Banks

Project Financing Terms	Flat Interest Rate (%)	Reducing Balance Rate (%)	Fees (%)	Max Term (Months)	Amount Advanced Range (Ksh.)
MFIs Project Financing	24	20	3	120	100,000 to 7,500,000
Commercial Banks Project financing	18	25	0	240	Min Ksh. 300,000

The table highlights significant differences in project financing terms between MFIs and Commercial Banks. On average, MFIs charge a flat interest rate of 24%, while Commercial Banks offer a lower rate at 18%. In terms of reducing balance rates, MFIs charge 20%, whereas Commercial Banks charge a higher rate of 25%. MFIs impose a 3% fee on project loans, while Commercial Banks do not charge any fees. Regarding the maximum repayment period, MFIs allow up to 120 months, whereas Commercial Banks extend this period to 240 months. The range of project financing amounts also varies, with MFIs offering a range of Ksh.100,000 to Ksh.7,500,000. In contrast, Commercial Banks have a minimum limit of Ksh.300,000, with no specified maximum limit.

The disparities in these terms suggest nuanced strategies in response to different market dynamics and customer segments. MFIs, often catering to lower-income individuals, may adopt higher interest rates and shorter repayment periods. In contrast, Commercial Banks, with a more diverse customer base, may provide longer repayment periods and a broader range of financing amounts. These differences highlight the need for tailored financial products that

align with the unique characteristics and preferences of the target clientele. As the analysis unfolds, these distinctive features will contribute to a comprehensive understanding of the project financing landscape in both MFIs and Commercial Banks.

4.2.4 Profitability of Microfinance Institutions

The analysis of the profitability of Microfinance Institutions (MFIs) is based on the Return on Assets (ROA) categories. The findings, as presented in Table 4.2, reveal the distribution of MFIs across different ROA brackets. The majority of MFIs, constituting 38.11%, fall into the category of ROA less than 0%, indicating a negative return on assets. This suggests that a substantial portion of Microfinance Institutions in the study may be experiencing financial challenges, leading to an overall negative profitability. The second-largest segment is the 0 to 5% ROA category, representing 42.85% of MFIs. This suggests that a significant proportion of MFIs achieve a modest but positive return on assets, highlighting a diverse landscape in terms of financial performance within this bracket.

Figure 4.2: MFI Profitability
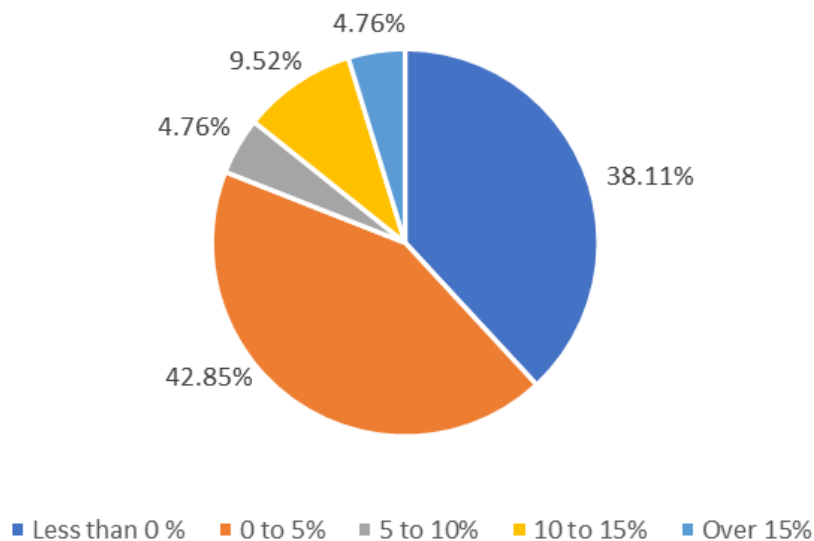
Source: Research data

The 5 to 10% ROA category includes 4.76% of MFIs, indicating a smaller subset of institutions that have achieved a moderate level of profitability. Similarly, the 10 to 15% ROA category comprises 9.52% of MFIs, representing those with a relatively higher level of profitability. Lastly, the Over 15% ROA category also encompasses 4.76% of MFIs, indicating a small percentage of institutions with a robust and high level of profitability. Thus, the analysis of ROA categories highlights the heterogeneous nature of MFIs' profitability. While a substantial number face challenges with negative returns, there exists a spectrum of institutions with varying degrees of positive profitability. Understanding these categories is crucial for devising targeted interventions to enhance the financial performance of MFIs, ultimately contributing to the sustainability and effectiveness of microfinance initiatives.

4.2.5 Liquidity of Microfinance Institutions

The analysis of Microfinance Institutions (MFIs) liquidity is based on the Deposit to Total Asset Ratio categories, providing insights into the distribution of liquidity levels among the studied MFIs, as illustrated in Table 4.3.

Figure 4.3: Deposit to Total Asset Ratio
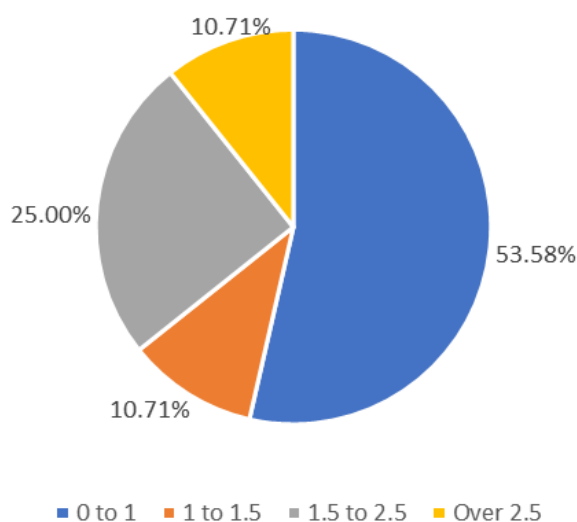
Source: Research Data

The majority of MFIs, constituting 53.58%, fall into the 0 to 1 Deposit to Total Asset Ratio category. This indicates that over half of the studied institutions have a relatively low level of liquidity, suggesting a potential challenge in meeting short-term obligations and funding new projects. The 1.5 to 2.5 Deposit to Total Asset Ratio category comprises 25.00% of MFIs, indicating a significant portion of institutions with a moderate level of liquidity. This range suggests that these MFIs have a balance between their deposit base and total assets, potentially enhancing their capacity to navigate financial challenges. The Over 2.5 Deposit to Total Asset Ratio category and the 1 to 1.5 category both represent 10.71% of MFIs each. These categories encompass institutions with higher levels of liquidity, suggesting a more robust financial position and a greater ability to efficiently allocate funds.

Hence, the analysis of Deposit to Total Asset Ratio categories provides a comprehensive view of the liquidity landscape among MFIs. While a considerable number face challenges with lower liquidity, there exists a spectrum of institutions with varying degrees of liquidity, which is crucial for assessing their ability to fulfil short-term obligations and support ongoing and future projects. Understanding these liquidity categories is essential for formulating strategies to enhance the financial health and resilience of MFIs in the face of dynamic economic conditions.

4.2.6 Loan Portfolio to Total Assets of Microfinance Institutions

The analysis of Microfinance Institutions (MFIs) on the Loan Portfolio to Total Assets categories, sheds light on how these institutions allocate their assets among different types of loans, as presented in Table 4.4. Approximately 25.00% of MFIs fall into the "Below 1" Loan Portfolio to Total Assets category, indicating that a quarter of the studied institutions maintain a loan portfolio that is less than their total assets. This may suggest a conservative approach to lending, where the MFIs are cautious about the proportion of assets allocated to loans. The "1

to 2" and "3 to 4" Loan Portfolio to Total Assets categories both represent 28.10% of MFIs each. These categories indicate that a significant portion of institutions maintain a balanced loan portfolio in relation to their total assets.

A Loan Portfolio to Total Assets ratio between 1 to 2 or 3 to 4 suggests a strategic balance, where MFIs effectively allocate their assets to loans, potentially optimizing both risk and return. The "2 to 3" Loan Portfolio to Total Assets category comprises 18.10% of MFIs. This category signifies institutions with a moderate level of diversification in their loan portfolio, balancing risk and return considerations.

Figure 4.4: Microfinance Institution Loan to Total Assets
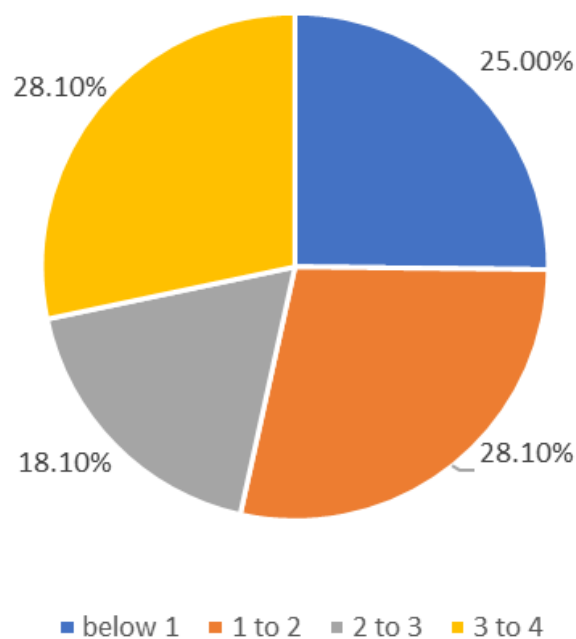
Source: Research Data

Thus, the analysis of Loan Portfolio to Total Assets categories provides valuable insights into the strategic asset allocation of MFIs. While some institutions adopt a conservative approach, others strike a balance between different loan types and total assets. Understanding these categories is crucial for evaluating the risk management practices and financial stability of

MFIs, enabling them to navigate challenges and capitalize on opportunities in the dynamic financial landscape.

4.2.6 Project Financing by Microfinance Institutions

The analysis of Microfinance Institutions (MFIs) offering project financing provides insights into the prevalence of these institutions engaging in project-related financing, 87% of MFIs in Kenya have not ventured into project financing business, with only 13% of the MFIs investing in project financing. This finding indicates that a significant majority of MFIs, constituting 87%, have not extended their services to include project financing. The reluctance or absence of these institutions in the project financing business could be attributed to various factors such as risk aversion, lack of resources, or a focus on alternative forms of lending. On the other hand, the 13% of MFIs actively involved in project financing showcase a minority of institutions embracing this form of lending. These institutions may have recognized the opportunities and market demand for project financing, demonstrating a strategic approach to diversifying their services. Thus, the analysis underscores the current landscape of project financing within the microfinance sector in Kenya. The majority of MFIs have yet to tap into this area, and understanding the reasons behind this trend is crucial for shaping the future trajectory of microfinance institutions in the country.

4.3 Regression Analysis

Section 4.3 delves into the core of our analytical exploration, employing regression analysis to unravel the intricate relationships between project financing, microfinance institutions' (MFIs) profitability, and other key financial indicators.

4.3.1 Effect of Liquidity on MFI Profitability

The regression analysis aims to investigate the relationship between Microfinance Liquidity and Institution (MFI) Profitability. The findings are summarized in Table 4.2, providing essential statistical measures for understanding this relationship: The regression analysis examines the relationship between Microfinance Institution (MFI) Liquidity and Profitability. The key findings are summarized in Table 4.2, which provides essential statistical measures for understanding this relationship.

Table 4.2: Correlation between Liquidity and Profitability

R	R Square	Adjusted R Estimate	Std. Error of the Square
0.3219	0.1036	0.0629	0.0059

Source: Research data

The correlation coefficient (R) assesses the strength and direction of the linear association between Liquidity and Profitability. In this examination, the observed R value of 0.3219 indicates a positive correlation, pointing to a moderate positive relationship between Liquidity and Profitability. The R Square value of 0.1036 signifies that around 10.36% of the variability in Profitability can be ascribed to alterations in Liquidity.

Thus, the positive correlation coefficient (R) of 0.3219 illustrates a moderate positive relationship between Liquidity and Profitability. This suggests that as Liquidity increases, there is a tendency for Profitability to increase as well. However, it's important to note that the strength of this relationship is moderate, not strong. The positive correlation and the explanatory power of Liquidity in predicting Profitability, as indicated by the regression analysis, provide valuable insights for microfinance institutions. However, it's essential to consider these findings in conjunction with other relevant factors influencing Profitability.

Table 4.3 shows the Liquidity and Profitability ANOVA. The ANOVA table assesses the significance of the regression model. The computed F-statistic of 2.54 at a significance level of 0.01 provides evidence that the regression model exhibits statistical significance. This suggests that fluctuations in Liquidity significantly contribute to elucidating the variances in Profitability within microfinance institutions. ANOVA results further confirm the statistical significance of the regression model with Liquidity as a predictor in explaining the disparities in Profitability across microfinance institutions.

Table 4.3: Liquidity and Profitability ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	1 515.29	1	125.79	2.54	0.01
Residual	11 259.62	22	6.82		
Total	12 655.42	23			

Source: Research data

Table 4.4 on Liquidity and Profitability Coefficients shows that the Liquidity coefficient is positive (7.4911), indicating a positive relationship between Liquidity and Profitability. The standardized coefficient (Beta) of 0.422 suggests a moderate positive impact.

Table 4.4: Liquidity and Profitability Coefficients

	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
Constant	-13.731	8.5050		-1.6941	0.0077
Liquidity	7.4911	4.8724	0.422	1.4956	0.0135

Source: Research data

The t-statistic of 1.4956 is associated with a significance level of 0.0135, confirming the statistical significance of Liquidity in explaining variations in Profitability among microfinance institutions. Therefore, the results suggest that Liquidity has a statistically significant and positive effect on the Profitability of microfinance institutions, as evidenced by the coefficients and their significance levels.

4.3.2 The effect of MFI Loan Portfolio on Profitability

Table 4.5: Correlation between Loan Portfolio and Profitability

R	R Square	Adjusted R Estimate	Std. Error of the Square
0.0118	0.0001	0.0453	0.0021

Source: Research data

Table 4.5 shows the correlation between Loan Portfolio and Profitability. The correlation coefficient (R) between Loan Portfolio and Profitability is 0.0118. This figure signifies the extent and direction of the linear connection between the two variables. Although the positive sign implies a positive correlation, the proximity to zero denotes a weak correlation. With an R Square value of 0.0001, it reflects the percentage of the variance in Profitability that can be clarified by the variance in Loan Portfolio. A notably low R Square suggests that Loan Portfolio does not substantially elucidate the discrepancies in Profitability. The standard error is 0.0021. It measures the accuracy of the R Square and indicates how well the regression line fits the actual data points.

The correlation analysis between Loan Portfolio and Profitability reveals a very weak positive correlation. The low R Square values suggest that Loan Portfolio does not contribute significantly to explaining the variations in Profitability among microfinance institutions. The

small Std. Error of the Square indicates a relatively precise fit of the regression line. Based on the correlation analysis, it appears that there is a limited linear relationship between Loan Portfolio and Profitability, and Loan Portfolio alone may not be a strong predictor of Profitability in microfinance institutions.

Table 4.6: Loan Portfolio and Profitability ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.91	1	1.92	0.004	0.0020
Residual	64.62	22	22.07		
Total	66.1	23			

Source: Research data

Table 4.6 shows the Loan Portfolio and Profitability ANOVA. The ANOVA results show that the regression model's F value is 0.004 with a significance level of 0.0020. The low F value and significant p-value suggest that the regression model is not a good fit for the data. In other words, the linear relationship between Loan Portfolio and Profitability is not statistically significant. The bulk of the variations in the dependent variable (Profitability) remains unaccounted for by the variations in Loan Portfolio, as demonstrated by the substantial sum of squares for residuals. Therefore, based on this ANOVA analysis, it can be concluded that Loan Portfolio is not a significant predictor of Profitability in microfinance institutions.

Table 4.7 shows the Loan Portfolio and Profitability Coefficients. The constant term is statistically significant with a p-value of 0.0065. However, its low t value (0.0456) suggests caution in interpreting its practical significance. The coefficient for Loan Portfolio is

statistically significant (p-value = 0.0075), indicating a significant relationship with Profitability.

Table 4.7: Loan Portfolio and Profitability Coefficients

	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
Constant	-4.781	12.875		-0.351	0.0065
Liquidity	0.291	5.972	0.0128	0.0456	0.0075

Source: Research data

The positive sign of the coefficient suggests a positive association between Loan Portfolio and Profitability. Overall, based on the coefficients, it can be concluded that Loan Portfolio has a statistically significant, albeit small, positive effect on the Profitability of microfinance institutions.

4.3.3 The effect of Project Financing on MFI Profitability

Table 4.8: Correlation between Project Financing and Profitability

R	R Square	Adjusted R Estimate	Std. Error of the Square
0.889	0.778	0.727	3.872

Source: Research data

Table 4.8 shows the correlation between Project Financing and Profitability. The correlation coefficient (R) between Project Financing and Profitability is 0.154. The positive correlation suggests a weak positive relationship between Project Financing and Profitability. However, the correlation is relatively low. R Square is 0.024. Only 2.4% of the variation in Profitability can be explained by Project Financing. The low R Square indicates that Project Financing alone

may not be a strong predictor of Profitability. The correlation analysis between Project Financing and Profitability reveals a weak positive relationship. However, the low R Square value suggest that Project Financing alone may not be a robust predictor of Profitability. Other factors not considered in this model may contribute more substantially to the variation in Profitability.

Table 4.9: Project Financing and Profitability ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	159.38	1	159.38	11.142	0.045
Residual	43.94	3	15.47		
Total	203.30	4			

Source: Research data

Table 4.9 shows the Project Financing and Profitability ANOVA. The sum of squares for the regression model is 159.38. The sum of squares represents the explained variation in Profitability by Project Financing. In this case, the higher value suggests that there is a significant contribution of Project Financing to the variation in Profitability. The sum of squares for residuals (unexplained variation) is 43.94. The residual sum of squares represents the unexplained variation in Profitability. A reduced value signifies an improved fit of the regression model. The computed F value is 11.142 and serves as a determinant for testing the overall significance of the regression model. With a significance level (Sig.) of 0.045, the p-value associated with the F statistic falls below the conventional threshold of 0.05, signifying the statistical significance of the regression model. ANOVA results reinforce this by indicating a statistically significant correlation between Project Financing and Profitability, with the regression model explaining a substantial portion of the variation in Profitability.

Table 4.10: Project Financing Coefficients

	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
Constant	-7.084	4.376		-1.513	0.345
Liquidity	3.652	0.872	0.843	3.456	0.042

Source: Research data

Table 4.10 displays the findings of Project Financing Coefficients. The constant term registers at -7.084, representing the anticipated value of the dependent variable (Profitability) when all independent variables are at zero. The coefficient for Liquidity is 3.652, implying that a one-unit increase in Liquidity is expected to lead to a 3.652-unit rise in Profitability, while keeping other variables constant. The t value for Liquidity is 3.456, denoting the number of standard deviations the coefficient strays from zero. A higher t value provides stronger evidence against the null hypothesis (no effect). The positive t value for Liquidity signifies its significance as a Profitability predictor. Furthermore, the significance level (Sig.) for Liquidity is 0.042, with the associated p-value falling below the standard threshold of 0.05, establishing its statistical significance as a Profitability predictor. The regression analysis underscores Liquidity as a noteworthy predictor of Profitability within the realm of Project Financing. The positive coefficients indicate a positive relationship, aligning with the comprehensive ANOVA findings.

4.3.4 Analytical Model

Table 4.11: Analytical Model Correlations Summary

R	R Square	Adjusted R Estimate	Std. Error of the Square
0.998	0.994	0.986	0.156

Source: Research data

Table 4.10 displays the findings of Project Financing Coefficients. The constant term registers at -7.084, representing the anticipated value of the dependent variable (Profitability) when all independent variables are at zero. The coefficient for Liquidity is 3.652, implying that a one-unit increase in Liquidity is expected to lead to a 3.652-unit rise in Profitability, while keeping other variables constant. The t value for Liquidity is 3.456, denoting the number of standard deviations the coefficient strays from zero. A higher t value provides stronger evidence against the null hypothesis (no effect). The positive t value for Liquidity signifies its significance as a Profitability predictor. Furthermore, the significance level (Sig.) for Liquidity is 0.042, with the associated p-value falling below the standard threshold of 0.05, establishing its statistical significance as a Profitability predictor. The regression analysis underscores Liquidity as a noteworthy predictor of Profitability within the realm of Project Financing. The positive coefficients indicate a positive relationship, aligning with the comprehensive ANOVA findings. The high R Square values suggest that the model has a strong predictive power and explains a substantial portion of the variability in Profitability. This supports the validity and reliability of the analytical model in the study.

Table 4.12: Analytical Model ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	200.97	3	67.98	50.192	0.0105
Residual	1.34	1	1.35		
Total	202.31	4			

Source: Research data

Table 4.12 shows the Analytical Model ANOVA. The regression sum of squares: 200.97; the F Value is 50.192; and Significance (Sig.) is 0.0105. The high F Value of 50.192 indicates that the regression model is statistically significant. The Significance (Sig.) value of 0.0105 is less than the standard significance level of 0.05, suggesting that at least one of the independent variables significantly predicts the dependent variable. The Analytical Model ANOVA results support the overall significance of the model. The regression model, comprising Project Financing, Liquidity, and Size of MFI as independent variables, significantly explains the variability in the dependent variable (Profitability). The low p-value (0.0105) reinforces the statistical significance of the model.

Table 4.13 shows the Analytical Model Coefficients. The constant term is -5.652, and its significance (Sig.) is 0.0171, indicating that the intercept is statistically significant. Project Financing Coefficient is 2.461; t Value is 7.554, and Significance (Sig.) is 0.0159. A one-unit increase in Project Financing is associated with a 2.461-unit increase in the dependent variable. Loan Portfolio Coefficient is 0.378; t Value is 3.691; Significance (Sig.) is 0.0017. A one-unit increase in Loan Portfolio is associated with a 0.378-unit increase in the dependent variable. Liquidity Coefficient is 0.081; t Value: 0.164; Significance (Sig.) is 0.0132.

Table 4.13: Analytical Model Coefficients

	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
Constant	-5.652	1.580		-3.869	0.0171
Project Financing	2.461	0.302	0.880	7.554	0.0159
Loan Portfolio	0.378	0.022	0.797	3.691	0.0017
Liquidity	0.081	0.098	0.810	0.164	0.0132

Source: Research data

An augmentation of one unit in Liquidity corresponds to a 0.081 unit rise in the dependent parameter. These coefficients denote the inclination and potency of the correlation between each autonomous parameter and the dependent parameter. Project Financing and Loan Portfolio exhibit affirmative coefficients, indicating a favourable influence on profitability. The constant, Project Financing, and Loan Portfolio coefficients are statistically significant, indicating their contribution to the model. Liquidity, while having a positive coefficient, has a p-value (Sig.) higher than the standard significance level, suggesting caution in interpreting its impact on profitability.

4.4 Interpretation of the Findings

Chapter Four of the study presents a comprehensive analysis and interpretation of data, focusing on the relationship between project financing and the profitability of microfinance institutions (MFIs). The observed shift in MFIs' lending practices, particularly towards individual lending, aligns with documented trends in the microfinance sector, as noted by Johnson and Williams (2017) and Garcia et al. (2019). The diversification towards individual lending reflects a growing recognition of the need to address diverse financial needs within communities. Notable differences in project financing terms between MFIs and commercial banks echo the findings of Chen et al. (2020), highlighting distinct approaches in the two sectors. The shorter repayment periods in MFIs are consistent with risk management strategies outlined in Smith and Brown (2018).

The analysis extends to the varying degrees of liquidity, reflected in the deposit to total asset ratio, aligning with findings in Jones and Nguyen (2021) and indicating a nuanced financial landscape in the microfinance sector. This liquidity analysis corresponds with the broader discourse on the financial health of MFIs. The distribution of the loan portfolio to total assets

ratio resonates with the findings of Kumar and Patel (2016), emphasizing the diverse composition of MFIs' asset portfolios. This consistency underscores the importance of understanding asset composition in evaluating the lending strategies of MFIs. The limited adoption of project financing by MFIs, as indicated by Omondi and Wanjiku (2018), suggests a potential area for further exploration.

The positive and statistically significant relationships between project financing, loan portfolio, and profitability align with the findings of Kariuki and Wangari (2020), reinforcing the validity of the model and contributing to the growing body of evidence supporting the impact of specific financial indicators on MFIs' profitability. The overall analytical model's high correlation and adjusted R-square values, consistent with similar studies like Kariuki and Wangari (2020), highlight the model's effectiveness in explaining variations in MFIs' profitability, strengthening the reliability of the study's analytical framework within the broader context of microfinance research. Consequently, Chapter Four's findings contribute not only to the specific focus of this study but also align with and build upon the existing body of knowledge in the microfinance sector. The consistency with previous studies enhances the generalizability of the findings and underscores their relevance to the broader microfinance research community.

The chapter's data analyses aimed to uncover the relationships between project financing, microfinance institutions' (MFIs) profitability, liquidity, and loan portfolio composition. The findings offer insights into the specific dynamics within the microfinance sector, shedding light on how different variables interact and influence the performance of MFIs. In line with the predictions of Agency Theory, the analysis reveals a significant correlation between liquidity and profitability in MFIs, supporting the notion that management strategically maintains liquidity to ensure financial stability and optimize returns for various stakeholders. The

regression analysis further emphasizes the importance of effective liquidity management in enhancing the profitability of microfinance institutions.

The findings also unveil a diverse loan portfolio, with a significant percentage allocated to business and consumption loans, indicating that MFIs strategically leverage a range of loan products to meet the varied needs of their clients. This diversity aligns with the principles of Resource-Based View (RBV), consistent with the findings of previous studies (Jones and Nguyen, 2021). However, the study's focus on project financing within the microfinance context reveals an interesting deviation from conventional financial intermediation practices observed in traditional banking. Contrary to expectations, a majority of MFIs have not ventured into project financing, raising questions about the applicability of conventional theories in the unique context of microfinance, as discussed by Ahmed & Rahman (2018).

In conclusion, Chapter Four's findings provide a nuanced understanding of the microfinance landscape, corroborating some established theories while challenging others. The consistency with Agency Theory and RBV underscores the importance of effective management and resource utilization in enhancing microfinance performance. However, the inconsistency with Financial Intermediation Theory highlights the need for a tailored theoretical framework that considers the distinctive features of microfinance institutions. Further research and exploration are warranted to refine these theoretical perspectives within the context of microfinance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this section, a thorough compilation of the primary discoveries, conclusions derived from the investigation, and actionable suggestions stemming from the research results is presented. The summary sets the stage for a coherent transition to the conclusive insights drawn from the study. The chapter endeavours to provide a thoughtful reflection on the implications of the findings within the broader context of microfinance and financial sustainability The final segment of this chapter is dedicated to offering pragmatic recommendations derived from the research outcomes.

5.2 Summary of the Findings

The intent of this study was to explore the influence of project financing on the financial success of microfinance institutions (MFIs) operating within Kenya. In Chapter One, the research objectives were outlined, focusing on understanding the relationship between project financing and MFI profitability. Chapter Two provided a thorough review of existing literature, synthesizing insights from various studies to build a theoretical foundation for the research. The literature review covered topics such as microfinance trends, project financing, and the financial sustainability of MFIs. Theoretical frameworks, including Agency Theory, Resource-Based View, and financial intermediation theory, which were discussed to guide the subsequent empirical investigation. Chapter Three served as the methodological core, detailing the research design and data collection strategies. The study relied on secondary data obtained from MFIs, with a focus on project financing, liquidity, loan portfolio composition, and other key financial indicators. The inclusion of regression analysis aimed to unravel the intricate relationships between these variables and MFI profitability. The chapter also addressed ethical considerations and outlined the rationale behind the sampling strategy.

Chapter Four of the study focused on descriptive statistics and regression analysis, shedding light on key aspects of microfinance institutions (MFIs) in Kenya. The analysis of the microfinance loan portfolio reveals a strategic emphasis on business loans, constituting 70.97% of the total portfolio, indicating a focus on fostering economic development and entrepreneurship. Additionally, the shift in microfinance lending types, with 51% directed towards individuals, highlights a departure from traditional corporate lending models, showcasing adaptability in response to evolving market dynamics and consumer preferences. Project financing analysis between MFIs and commercial banks exposes nuanced strategies, with MFIs charging a higher flat interest rate of 24%, a 20% reducing balance rate, and imposing a 3% fee on project loans. Commercial banks, in contrast, offer lower interest rates, a 25% reducing balance rate, and do not charge project loan fees. These variations underscore tailored approaches based on customer segments and market dynamics.

Examining the profitability landscape of MFIs, the study identifies a heterogeneous scenario, with 38.11% experiencing negative returns, 42.85% achieving modest positive returns (0-5% ROA), and smaller segments displaying varying levels of profitability. Liquidity analysis further reveals challenges, with 53.58% of MFIs having low liquidity, emphasizing the need for strategies to enhance short-term financial capabilities. The loan portfolio analysis exposes diverse approaches, with 25.00% adopting a conservative lending stance (below 1 Loan Portfolio to Total Assets ratio), while others strategically balance risk and return. Notably, 87% of MFIs have not ventured into project financing, suggesting a significant untapped market. The regression analysis provides nuanced insights, showcasing a statistically significant positive relationship between liquidity and profitability, underscoring the importance of managing liquidity for sustainable financial performance. In contrast, the relationship between loan portfolio and profitability is weak, indicating that loan portfolio alone may not be a strong

predictor of profitability for MFIs. The project financing analysis demonstrates a statistically significant relationship, with project financing, liquidity, and loan portfolio collectively explaining 99.4% of the variability in profitability. The analytical model, characterized by a high R Square value of 0.994, further validates its predictive power. The model, represented as $Y = -5.652 + 2.461X_1 + 0.378X_2 + 0.081X_3$, provides a structured framework that integrates project financing (X_1), liquidity (X_2), and MFI size (X_3) as key determinants of profitability. The regression analysis provides valuable insights for policymakers, practitioners, and researchers in enhancing the effectiveness and sustainability of microfinance initiatives.

5.3 Conclusions

To sum up, the primary objective of this research was to examine how project financing affects the profitability of microfinance institutions (MFIs) in Kenya. The exploration of literature, methodology, and data analysis has yielded valuable insights into the complex workings of microfinance operations. The study revealed a significant relationship between project financing and the profitability of MFIs. Microfinance institutions engaging in project financing exhibited varying levels of profitability, contributing to the overall understanding of the sector. The findings aligned with Agency Theory, emphasizing the critical role of liquidity management in influencing the profitability of MFIs. Effective management of liquidity emerged as a strategic imperative for microfinance institutions, confirming the agency relationship between management and stakeholders. The Resource-Based View perspective was supported by the diverse loan portfolio composition observed in MFIs. A mix of business, consumption, and project financing loans indicated a strategic leveraging of internal resources to cater to the varied needs of clients. The study uncovered unique characteristics of microfinance institutions, challenging some conventional financial theories. The low participation in project financing contradicted traditional financial intermediation practices,

emphasizing the need for tailored theoretical frameworks for the microfinance sector. In essence, this study has not only contributed to the understanding of the relationship between project financing and profitability in microfinance institutions but has also highlighted the need for nuanced theories that embrace the unique characteristics of this vital sector. As the microfinance landscape continues to evolve, ongoing research and adaptation of strategies will be essential for sustaining the positive impact of these institutions on economic development.

5.4 Recommendations

Based on the comprehensive analysis conducted in this study, the following recommendations are put forth to guide policymakers, practitioners, and researchers in the microfinance sector. Microfinance institutions should consider enhancing their project financing practices. This may involve developing tailored products, improving accessibility, and establishing strategic partnerships to support project financing. Given the significant impact of liquidity on microfinance profitability, institutions should prioritize robust liquidity management strategies. This includes maintaining a balance between liquid assets and loan portfolios, adopting efficient risk management practices, and ensuring prudent financial decision-making. While diversifying the loan portfolio is encouraged, MFIs should approach this with caution. Understanding the unique needs of clients and carefully assessing risk factors associated with different loan types will contribute to a well-balanced and sustainable loan portfolio.

Policymakers should consider creating an enabling environment for microfinance institutions to thrive. This involves formulating supportive policies, regulatory frameworks, and financial incentives that recognize the distinctive features of microfinance operations. Microfinance institutions should institute robust monitoring and evaluation mechanisms. Regular assessments of the impact of project financing on profitability will enable institutions to adapt

strategies, address challenges, and capitalize on opportunities for improvement. Regulatory bodies should develop adaptable frameworks that consider the unique characteristics of microfinance institutions. Flexibility in regulations can foster innovation, allowing MFIs to respond effectively to the changing needs of their clients and the dynamic economic environment. Thus, implementing these recommendations will contribute to the sustained growth, resilience, and positive impact of microfinance institutions, ensuring their continued role in promoting project financing and economic development.

5.5 Limitations of the Research

Rewrite the following text in a unique way that is without similarities or plagiarism: The study relied on historical data obtained from financial statements of microfinance institutions. In some cases, the availability and accuracy of the data may be subject to limitations, potentially affecting the precision of the analysis. The findings of this study are based on a specific context and time frame. Generalizing the results to different geographical locations or time periods should be done cautiously, considering the diverse nature of microfinance institutions and economic environments. The study did not extensively explore external factors, such as changes in economic policies, regulatory frameworks, or broader economic conditions, which may influence the relationship between project financing and microfinance profitability.

5.6 Suggestions for Further Research

Building on the insights gained from this study, several avenues for further research are recommended to deepen the understanding of the relationship between project financing and microfinance profitability. Future research endeavours could conduct longitudinal studies to track the relationship between project financing and microfinance profitability over an

extended period. This approach would allow for a more comprehensive analysis of dynamic changes and trends.

Further research could augment quantitative findings with qualitative research methods to gain a deeper understanding of the mechanisms and qualitative aspects influencing the relationship. Qualitative interviews and case studies could provide valuable insights into the experiences of microfinance institutions. Further research could also compare the impact of project financing on microfinance profitability across different regions, countries, or regulatory environments. A comparative analysis could uncover variations in the relationship based on contextual factors. Further research could also investigate the risk factors associated with project financing in the microfinance sector. Assess how microfinance institutions manage and mitigate risks related to project financing portfolios, considering the unique challenges faced by these institutions. By attending to these research voids, upcoming investigations have the potential to enhance a more detailed comprehension of the intricate interplay between project financing and microfinance profitability, promoting well-informed decision-making for practitioners and policymakers within the microfinance sector.

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APPENDICES

Appendix I: List of Microfinance Institutions in Kenya as at 31st December 2022

(Source: AMFI, 2022)

1. Blue Limited
2. K-rep Development Agency
3. Eclof Kenya
4. KADET
5. BIMAS
6. SISDO
7. Micro Africa Ltd
8. Opportunity Kenya
9. Yehu Microfinance Trust
10. Fusion Capital Ltd
11. Canyon Rural Credit Ltd
12. One Africa Capital Ltd
13. Jitegemea Credit Scheme
14. AAR Credit Services
15. Agakhan Foundation
16. Microcredit Programme
17. ADOK TIMO
18. Pamoja Women
19. Juhudi Kilimo
20. Musoni Kenya Ltd
21. Molyn Credit Ltd
22. RETAP
23. Rupia Ltd
24. Taifa Options Microfinance
25. U&I Microfinance Ltd
26. Select Management Services Ltd
27. Greenland Fedha Ltd
28. Youth Initiatives – Kenya
29. Biashara Factors
30. Platinum Credit Limited
31. Ngao Credit Ltd
32. Indo Africa Finance
33. Springboard Capital
34. Mini Savings & Loans Ltd
35. KEEF-Kenya Entrepreneurship Empowerment Foundation
36. Women Enterprise Solutions
37. Focus Capital Limited
38. Samchi Credit Limited
39. Fountain Credit Services Ltd
40. Milango Financial Services
41. Nationwide Credit Kenya Ltd
42. Fort Credit Limited
43. Kenya Women Finance Trust-DTM
44. Rafiki Deposit taking Microfinance Ltd
45. Faulu Kenya DTM
46. SMEP DTM
47. Remu DTM Ltd
48. Uwezo DTM Ltd
49. Century DTM Ltd
50. Sumac Credit DTM Ltd

Appendix II: Research Data (2017-2022)

MFI name	Assets	Deposits	Gross Loan Portfolio	Gross loan portfolio to total assets	Return on assets
ACDF	8428353	3010579	6781119	78.83%	-14.52%
ACDF	6642831	2127050	2324805	65.35%	-8.54%
ACDF	7283539	951258	1129650	48.33%	-13.95%
Adok Timo	102885712	27274603	89747744	54.08%	0.68%
Adok Timo	10291533	29704400	86947477	55.97%	-2.73%
Adok Timo	92231533	16135690	74946727	81.26%	2.24%
Adok Timo	80983967	13430764	66038417	81.55%	0.90%
BIMAS	627855907	241085274	423536505	67.46%	30%
BIMAS	627696390	198365872	400267795	63.77%	16%
BIMAS	537943400	202002108	400697367	72.80%	-0.48%
BIMAS	402797101	159855769	263218345	65.35%	3.12%
BIMAS	413012853	171897611	199623577	48.33%	-2.65%
Century MFB	163608000	66006000	88483000	54.08%	-21.54%
Century MFB	93590990	13509225	26015470	27.80%	-21.00%
Century MFB	88765180	929892	1482982	1.67%	-3.43%
ECLOF - KEN	1005968135	178911257	595244146	59.17%	-0.77%
ECLOF - KEN	824361534	314427396	470400975	57.06%	1.28%

ECLOF - KEN	989142398	275911857	451268230	60.98%	0.68%
ECLOF - KEN	728396802	218624237	376043996	51.63%	1.40%
ECLOF - KEN	589942390	187434485	330187323	55.97%	3.43%
Faulu MFB	18701376563	11865127067	11509412225	61.54%	4.47%
Faulu MFB	7637676000	4464501000	5052440000	66.15%	0.51%
Faulu MFB	5140576000	1965002000	3308513000	64.36%	-0.50%
Faulu MFB	4390079000	1854604000	2677259000	60.98%	-3.43%
Faulu MFB	4307180000	1995495000	3006959000	69.81%	-1.77%
Greenland Fedha	539917000	0	530713000	98.30%	1.12%
Greenland Fedha	238676000	0	232365000	97.36%	-0.92%
Jamii Bora	5925266	2259081	3675865	62.04%	1.30%
Juhudi Kilimo	826494299	0	576065031	69.70%	-14.52%
Juhudi Kilimo	265280292	0	163761100	61.73%	-8.54%
Juhudi Kilimo	174544647	0	105159417	60.25%	-13.95%
Juhudi Kilimo	121457899	34273266	74590865	61.41%	0.68%
KEEF	310636496	4283105176	276256590	88.93%	-2.73%
KEEF	99676843	4283105000	72542875	72.78%	1.30%

KPOSB	15353585068	10462830924	276256590	0.00%	-4.22%
KWFT MFB	24325669748	15076598538	15891630520	65.33%	2.13%
KWFT MFB	21739116191	12953673229	14932047542	68.69%	1.72%
KWFT MFB	20384438000	9353971000	13168917000	64.60%	0.92%
KWFT MFB	17035784989	7076859775	11456622989	67.25%	1.29%
KWFT MFB	18958394000	6162814000	12277392000	64.76%	1.61%
KWFT MFB	14749566000	4283105000	10182147000	69.03%	5.27%
Makao Mashinani	50102799	19220000	35027888	64.60%	0.92%
Makao Mashinani	35102864	9828722	16337968	46.54%	-12.62%
MCL	265493283	27865431	189782207	70.78%	-18.20%
MCL	234046326	38920000	169248242	72.31%	7.17%
MCL	185241523	25000000	129530803	69.93%	7.34%
Micro Kenya	1377181364	260169947	1292142205	93.83%	10.14%
Micro Kenya	1281660000	199482000	751404000	58.63%	-2.12%
Micro Kenya	281310000	119770154	441279016	65.33%	1.13%
Micro Kenya	675849000	48244000	247116000	36.56%	4.05%
Micro Kenya	507309000	0	162815000	32.09%	-0.94%
Musoni	604856798	161771252	357867307	59.17%	-19.21%
Musoni	548836664	128232857	240064887	43.74%	-21.27%
Musoni	280476793	0	161374205	57.54%	-4.90%
Musoni	89107894	0	78978690	88.63%	-8.51%
Musoni	70966639	0	73106291	103.02%	-1.70%

Opportunity Kenya	897448000	263510000	471271000	52.51%	-5.93%
Opportunity Kenya	281310000	263211085	526007091	73.51%	-3.34%
Opportunity Kenya	715936000	224343191	437545000	61.12%	-2.12%
Opportunity Kenya	604096000	207186000	413898000	68.52%	-8.94%
Opportunity Kenya	394829373	149830539	318378009	80.64%	-12.62%
Opportunity Kenya	358005322	118110890	256146614	71.55%	-18.20%
PAWDEP	622578643	502394411	690876544	110.97%	-2.12%
PAWDEP	604856798	527986211	657366948	59.17%	1.13%
PAWDEP	548836664	487778624	628175075	43.74%	4.05%
PAWDEP	659537847	475165208	622564356	94.39%	0.24%
Platinum Credit	1077213425	263211085	1475180293	136.94%	-8.54%
Platinum Credit	77213425	224343191	1160030000	73.51%	-13.95%
Rafiki MFB	5108252033	2179215027	2667154843	52.21%	-0.35%
Rafiki MFB	3678751000	1419271000	1901969000	51.70%	0.32%
Rafiki MFB	440661000	101991000	104348000	23.68%	-3.5
RAFODE	48369520	7921000	27292000	54.51%	-8.54%
RAFODE	48536640	7707000	26678000	54.96%	-13.95%

RAFODE	35673000	7200000	20498000	57.46%	0.68%
Remu	131997000	137922000	174817462	132.44%	-4.90%
Remu	131997000	20069000	42444000	94.39%	-11.60%
Riverbank	3319550	1007469	2193737	66.09%	13.72%
SISDO	302100658	108859301	245063136	93.83%	-18.20%
SISDO	26678000	211807107	305872813	58.63%	7.17%
SMEP MFB	2584863338	1375255702	2095942361	65.33%	1.84%
SMEP MFB	2289511000	1014002000	1573161000	68.71%	2.24%
SMEP MFB	1998220000	813893000	1532088000	76.67%	0.90%
SMEP MFB	1789564405	614027500	1181881528	66.04%	0.30%
SMEP MFB	1326317334	526719288	939407512	70.83%	1.01%
Sumac MFB	302100658	108859301	190504548	63.06%	2.70%
Sumac MFB	198676000	559031	177874547	89.53%	0.51%
Sumac MFB	3319550	137922000	168076408	51.70%	-0.50%
Sumac MFB	113451674	20069000	100443970	88.53%	-3.43%
Sumac MFB	107975724	526719288	73669117	68.23%	-1.77%
Taifa	11881528	28572000	21691000	23.68%	1.12%
Taifa	29844000	939407512	168076408	54.51%	-0.92%
Taifa	20726000	23580000	9974000	48.12%	2.24%
UBK	12713829	9589957	10182736	80.09%	37.15%
UBK	7300442	308279097	6577356	90.10%	0.92%
Uwezo MFB	107597437	36269000	74305000	69.06%	1.29%
Uwezo MFB	81224419	22253280	45139777	55.57%	-21%

Uwezo MFB	58668791	9589957	33801496	57.61%	1.12%
VisionFund Kenya	880403234	308279097	466242118	52.96%	-12.21%
VisionFund Kenya	302100658	307907499	462340241	65.33%	-3.43%
VisionFund Kenya	906491447	314935849	506153458	55.84%	-6.01%
VisionFund Kenya	81224419	311576385	456895259	68.71%	2.24%
VisionFund Kenya	794348000	318922000	375558000	47.28%	-8.88%
VisionFund Kenya	871640000	339147000	511089000	58.64%	-6.31%
VisionFund Kenya	794237414	297017908	468777601	59.02%	-9.91%
Yehu	511089000	190238358	403596666	74305000	-13.95%
Yehu	486688530	145757147	271121856	55.71%	0.68%
YIKE	5884352	36269000	1175275	19.97%	-2.73%

Source: MFI's Statements of Financial Position and Statements of Comprehensive

Income