ABSTRACT

The overall objective of the study was to establish the relationship between microfinance outreach and financial sustainability in Kenya. The study specifically aimed at establishing the relationship between breadth of outreach, depth of outreach and portfolio at risk, and microfinance institutions’ financial sustainability in Kenya. Achieving financial sustainability is critical for microfinance institutions self-sustaining programs independent of subsidies that facilitate expanded outreach and attraction of external funding. Most studies in Kenya had focused more on organizational sustainability and fewer attempts had been made to study factors affecting microfinance institutions financial sustainability in Kenya. It is from this perspective that this study was undertaken to statistically identify possible determinants of financial sustainability among microfinance institutions in Kenya. Descriptive design was employed and it was found suitable for the study since it aimed at establishing the relationship between microfinance outreach variables and financial sustainability. Similar studies had also used the same research design. The population for the study was composed of 46 retail and deposit taking microfinance institutions in Kenya. Secondary data was collected from 8 purposively selected microfinance institutions reporting voluntarily their financial information to the microfinance information exchange portal over the period 2007-2011. Multi-regression analysis was then carried out on a panel data collected in order to establish relationships between variables. The study employed ANOVA tool for inference. Significant relationship between depth of outreach measured as average loan sizes and financial sustainability was evident among microfinance institutions in Kenya. However, the microfinance institutions breadth of outreach and portfolio at risk were insignificantly associated with financial sustainability. From the econometric results, it was concluded that depth of outreach affect microfinance institutions financial performance in Kenya. The study therefore recommends that managers in the microfinance sector in Kenya can achieve greater financial sustainability with higher average loan sizes.