

**EFFECT OF FINANCIAL ACCOUNTABILITY ON FINANCIAL
SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN KENYA.**

BY

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20/04688

**RESEARCH PROJECT REPORT SUBMITTED TO KCA UNIVERSITY IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR AWARD MASTER
OF SCIENCE IN COMMERCE (MSC) FINANCE AND ACCOUNTING**

NOVEMBER 2023

DECLARATION

I would like to declare that this research project is my original work and has not been presented to any other University, college or another examination body.

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This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

This work has been dedicated to my parents for their uttermost support and encouragement, thank you and May the almighty God bless you abundantly.

ACKNOWLEDGEMENT

I wish to acknowledge the efforts of my supervisor Dr. Peter Njuguna who took the time to guide me through the writing of this document. Secondly, is the KCA University at large. Thirdly, my friends and classmates for their moral support and companionship throughout my studies. Special thanks to my parents for the accorded emotional and financial support and for their unending love that has enabled me throughout my studies.

ABSTRACT

The study seeks to identify how financial accountability helps the MFIs in terms of financial sustainability in Kenya. As per 2002, the number of MFIs have increased to 14 from 10 while the number of accounts opened for deposit purposes are twenty thousand. This has been indicated to be a decrease, (GOK, 2020), due to the high cost of living. With this reduction, there has been an increase in the loan default according to the CRB. Microfinance has exhibited success as a bridge to poverty reduction, but the issue at hand is to make microfinance institutions sustainable and have fewer defaults from borrowers. By increasing the number of individuals reached, and the number of financial products, it can be made available not just to the moderate poor at whom it has traditionally been targeted, but also to the extremely poor and the vulnerable non-poor. Therefore, the main objective of this research study will be to find out the effect of financial accountability on financial sustainability of Microfinance Institution in Kenya. The specific objectives were to determine how financial control, financial monitoring, financial planning and transparency affect financial sustainability. On the theoretical review the study will be guided by three theories: principal-agent theory (agency theory), Resource mobilization theory and social strain theory. Descriptive research design will be used in the study. The target population includes managerial staffs which is a total of 145 head office heads, middle level officers and lower-level officers in the microfinance institution in Kenya. Stratified random sampling will be used to arrive at target group while simple random sampling will be done to get the sample size. The sample size is 73.1% of the target population which is 106 respondents. Data will be collected using Questionnaires. The study will use the quantitative and qualitative data analysis methods.

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LIST OF ABBREVIATIONS/ACRONYMS

FY	Financial Year
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
KENAO	Kenya National Audit Office
KPLC	Kenya Power and Lighting Company
MFI	Micro Finance Institutions
NAO	National Audit Office
PwC	Price Water House Coopers
ROCE	return on capital employed
SMEs	Small and Medium Enterprises
SPSS	Statistical Packages for Social Sciences
UNES	University of Nairobi Enterprises and Services

DEFINITION OF TERMS

Accountability	This is referred to the responsibility of an individual, organization, or institution to take ownership of their actions, decisions, and their consequences.
Sustainability	This is referred to the ability of an activity, process, or system to continue to exist and be maintained over the long term without degrading the economic systems upon which it depends.
Financial Accountability	This is the responsibility of an individual, organization, or institution to manage and report financial resources and transactions in a transparent and responsible manner.
Financial Sustainability	It is the ability of an organization or individual to maintain financial stability for long-term financial growth.
Financial Control	It is the process of managing and monitoring financial resources to ensure that they are being used in a responsible and effective manner.
Financial Monitoring	This is the ongoing process of tracking and analyzing an organization's financial performance to ensure that it is meeting its financial objectives and goals.
Financial Planning	This is the process of setting goals, developing a roadmap to achieve them, and implementing strategies to manage financial resources to reach those goals.
Transparency	This is the practice of disclosing accurate and complete information about an organization's financial activities to stakeholders, including shareholders, investors, customers, and employees.

CHAPTER ONE

INTRODUCTION OF THE STUDY

1.1 Background

According to (Wanjohi , 2021), financial sustainability of an organization is the ability of an organization to maintain all their cost from their generated income from their daily operation without subsidy or external support or donor support. This simply means that the organization is able to support its own operation with their profit that is generated from their income generating activities, (Nabwonya , 2016) without depending on funds from donors, government and other financial institutions. According to Price Water House Coopers (PwC, 2016) financial accountability is faced with challenges that consist of minimum or negative revenue growth, low morale, lack of skills and expertise and decrease in productivity. According to (Bayai & Ikhide, 2016), majority of the organization do not follow the rules and regulations requirement where the expenditure should be financed by the profit attained at a specific period of time and thus leading to unsustainability.

Globally, there have been different research conducted on financial sustainability of MFIs across the continent. According to (Mohammed & Ahmad , 2014) in a study conducted in Bangladesh, India the sustainability of MFIs can be attained by reducing borrowing from donors, government institutions and NGOs to avoid increase in debt, ensuring that the operation cost is reduced to an affordable level and increase the total asset for investment. (Sheremenko, Escalante, & Florkowski, 2017) conducted research in Eastern Europe and Central Asia on the sustainability of MFIs on poverty outreach where the study concluded that the sustainability of MFIS can be affected by the interest rate increase which make is expensive for the poor to access loans. Despite the fact that this can be solved by group lending the number of loan applicants that are not associated with groups are unable to benefit from credit thus minimizing the MFIs profit. In six South Asian countries it was discovered that the profitability and accountability of MFIs is connected, (Ahmed, Bhuiyan, Ibrahim, & Said, 2017) since the higher the profit the more sustainable the MFIs are. However, the intervening factor is high interest rate charged to borrowers since it is considered as a barrier to repayment by borrowers. According to (Kumar & Jesu, 2015) beside profitability the highest percentage of performance measurement of MFIs is measured by the social aspect of how they relate with the community around them. Social

performance of MFIs such as carrying out Corporate Social Responsibility (CSR) to the community is able to boost the performance of MFIs thus contributing to sustainability (Kumar & Jesu, 2015).

From a regional view, according to (Bayai & Ikhide, 2016) conducted research in South Africa on financing on financial sustainability of MFIs where the sustainability of MFIs varies with difference in regions and economic development of a country. The study recommended subsidies on MFIs are effective for financial sustainability with effort on proper measurement on efficiency and withdrawal when once the MFIs have attained the appropriate financial sustainability (Bayai & Ikhide, 2016). (Musoke, Senyonjo, & Kyeyune, 2017) discovered that board size inversely affects the financial sustainability of MFIs in Uganda. The analysis was interpreted that when the board size reduces the financial sustainability of MFIs increases since the smaller the board the more effective it is in guideline implementation and also the expense on allowance cost is reduced, (Musoke, Senyonjo, & Kyeyune, 2017). According to Siwale & Ngozi, (2017), MFIs regulations has effects on the social sustainability of MFIs with a case study of institutions in Nigeria and Zambia. The study further find that the regulations have increased unsustainability due to political interference thus unabel to reach out to the poor and social investors. (Musa, 2015) conducted research with an aim of identifying the extent at which financial regulations affects sustainability of MFIs in Tanzania, training and lack of skills have an effect in sustainability. High interest rate in lending and strict loan provision regulations causes low borrowing rate leading to low profit causing a negative impact on the performance (Musa, 2015).

According to (Kosgei, Abdi, & Kosgei , 2014), the financial sustainability of MFIs is affected by corporate governance in Kenya. The Chief Executive officers, Board Members and managers are significant in the sustainability of the financial institution thus the need for incorporation of women in leadership. The study further concluded that for sustainability in MFIs directors and leaders should ensure that there is the required expertise and skills in the leadership (Kosgei, Abdi, & Kosgei , 2014). The responsibilities are delegated by the governing body which is headed by the Chief Executive Officer thus good governance leads to successful accountability. MFIs have an important role in the economic development of a country (Bitok, Cheboi, & Kemboi, 2021) and the sustainability of financial system indicates the growth of MFIs and other financial sustainability. According to (Bitok, Cheboi, & Kemboi, 2021) financial sustainability

of MFIs is affected by the financial leverage since profitability, strategic decision making and investors' confidence have a significant in decision making. (Mukiri, 2013) conducted research on effects of government regulations on the financial sustainability of MFIs in Kenya where the conclusion was that there was a strong relationship between government regulations and financial sustainability. The protection of depositors from fraudsters helps in the attractions of investors thus increasing profitability and ensuring sustainability (Mukiri, 2013).

Different international studies have studied the sustainability of MFIs in different countries where financial sustainability can be acquired through profitability (Ahmed, Bhuiyan, Ibrahim, & Said, 2017), reducing borrowing rate from NGOs and Government institutions (Mohammed & Ahmad, 2014), social performance of MFIs to the society (Kumar & Jesu, 2015) and reduction of interest rate for affordability of credit (Sheremenko, Escalante, & Florkowski, 2017). Regionally research indicate subsidies on MFIs in South Africa (Bayai & Ikhide, 2016), board size on MFIs in Uganda (Musoke, Senyonjo, & Kyeyune, 2017), low borrowing interest rate in MFIs in Tanzania (Musa, 2015) efficiency in MFIs regulations in Nigeria and Zambia (Siwale & Ngozi, 2017) and financial regulations on MFIs in Tanzania (Musa, 2015) have impact on the Financial sustainability. In Kenya, corporate governance (Kosgei, Abdi, & Kosgei, 2014), economic development of a country (Bitok, Cheboi, & Kemboi, 2021) and government regulations (Mukiri, 2013). This shows that financial sustainability of MFIs in Kenya is affected by different factors such as corporate governance, leadership style, financial leverage and government regulation therefore the need to determine the effects of financial accountability on financial sustainability in Kenya in order to determine the different factors that affects the sustainability of MFIs.

Globally speaking, aside from the MFIs, fraud and money management schemes have emerged as a major business risk. These studies show the importance of financial sustainability on MFIs for measuring performance. There is urgent need to determine how financial accountability affects financial sustainability of Microfinance institutions. Wells, (2018), states that financial accountability is based on the fact that the organization can be held accountable in each financial activity that they carry out such as financial transaction, financial investment and currency exchange. Financial objectives of an organization are achieved by financial planning by ensuring fund are available effectively and financial control which is the assessment of the of whether the plans meet the objectives, (Mwaura, 2013). Harrison et al., (2011), state that

financial responsibility is identified as financial transparency. Further, studies researchers dwelt more on accountability on NGOs and SACCOs and neglected financial accountability on financial sustainability in MFIs. These studies include more of organizations and firms since they are managed by leaders who are prone to mistake and mismanagement and without accountability it will be difficult to sustain themselves. With a comparative view of these aspect in different studies these research aims on ways to address accountability in MFIs and ensure they operate with fewer financial expenses to support their day-to-day activities.

The challenge arises when there is a trade-off between financial accountability and financial sustainability. In some cases, organizations may be forced to compromise on accountability measures in order to meet short-term financial goals. This can lead to financial mismanagement, fraud, or corruption, which can ultimately threaten the financial sustainability of the organization. Conversely, an excessive focus on financial accountability can also threaten financial sustainability. Strict accountability measures can sometimes be overly burdensome and costly, diverting resources away from other critical activities, such as research and development, infrastructure, or service delivery. Therefore, finding a balance between financial accountability and financial sustainability is critical to the long-term success of any organization, institution, or government. This requires effective governance, strong financial management, and a commitment to transparency, accountability, and ethical behavior.

1.1.1 Relationship between financial accountability and financial sustainability

Financial accountability and financial sustainability are closely related concepts that are important for the long-term success of an organization. In a study conducted by (Chelangat, 2018), in Nairobi County, the study was able to conclude that there has been an increase in funds been lost through fraud due to lack of financial liability as the number of financial institutions increase. Financial accountability is a key component of financial sustainability, as it ensures that an organization is managing its finances in a responsible and transparent manner. The study focused on public governance NGOs in Nairobi on accountability and financial sustainability. Despite the increase in NGOs in Kenya, there have been an increase in closer of existing NGOs due to lack of funds (Chelangat, 2018). By being accountable for its financial activities, an organization can build trust with stakeholders, such as investors, donors, and customers, which can help to secure funding and support for future growth. Accountability is in the NGOs are brought about by unclear objectives and goals leading to donors demanding for accountability,

(Wanjohi , 2021)The study concluded that, due to lack of accountability the NGOs lack donors' findings and therefore, there is a recommendation on the adoption of mechanisms to ensure sustainability. For accountability to take place financial objectives must be put in place for both long-term and short-term aim of achieving the expected financial income and sustainability with transparency, (Wanjohi , 2021)

At the same time, financial sustainability is also important for financial accountability, as an organization that is not financially sustainable may be forced to make decisions that compromise its financial integrity. According to (Chelangat, 2018), financial sustainability can only occur if there is accountability of the human resource, financial resource, intellectual resources and physical resources. This means for sustainability of organizations there is need of proper strategies, fundraising and advocacy in the long run. The study conducted by (Chelangat, 2018) was able to identify that if NGOs are to be sustainable there is need for reliable financial sources, sound financial management and financial accountability to increase cash flow and market development. Accountability is measured by proper governance, skills and managerial knowledge by the human resource, (Ganesh, Swami & Shaik, 2015), which leads to sustainability. (Kabene, 2021) state that financial accountability is a very important element in the financial sustainability of organizations. The study further indicated that accountability is associated with management practices, management competency and financial planning in the organization.

Different studies in Kenya have been carried out on the effects of financial accountability on the general performance of MFIs. According to (Ngari, 2017), financial accountability can be carried out using internal control system, segregation of roles effectively and authorization of accounting transactions since it allows detection and prevention of errors thus improving the performance of MFIs. (Kuel, Kamukama, & Kijjambu, 2022) conducted a study on the relationship between financial accountability and financial performance of SACCOs in Uganda, where the study established a positive significant relationship between the two independent and dependent variables. This is an indication that accountability is important in the performance of financial institutions thus suggesting the need for financial accountability on the financial sustainability of MFIs in Kenya. In order to achieve both financial accountability and financial sustainability, organizations must prioritize financial management and planning. This may

involve developing clear financial goals and strategies, implementing financial controls and reporting mechanisms, and regularly monitoring and evaluating financial performance.

1.1.2 Microfinance Institution in Kenya

Micro financing is the process of provision of financial services to low-income customers for different purposes at a specific time frame. They consist of services such as deposit services, money transfer, insurance, payment services and credit services to the low-income household for their enterprises. Before advancing credit, the customer must be educated and trained on how to allocate the financed adequately. Therefore, not only does MFI offer financial services but they offer other services that are non-financial to its customers. In Kenya, MFIs are tools for poverty eradication in every part of the country, where they are convenient in rural areas. They complement the other financial institutions, especially the banks, Insurance firms and SACCOs in offering credit to the less paid.

Microfinance Institutions (MFIs) are type of financial institutions that have been proven to be of significance in reduction in poverty in different countries by offering employment as well as providing financial support in form of loans for entrepreneurship development (Mohammed & Ahmad , 2014). They also allow savings and insurance services in order to earn profit and also work as a contingency service for their clients. Responsibilities and accountability of an organization or an institution are experienced by the stakeholders of the organization such as customers, clients, shareholders and the employees. Accountability allows the exploitation of fiscal dividend of natural resources to organizations so as to secure the future of the organization, (Harrison & Sayog, 2014). Accountability is practiced in both the public and private organization since the benefits are similar and comply with promoting ownership, improving performance, building trust, reduce challenges, measure of progress and increase in profit as elements of sustainability.

According to the Microfinance Act 2006, a microfinance institution is any licensed company that carries out a microfinance bank business. According to the act of 2006, there are two types of MFIs: Nationwide microfinance institutions which are that are allowed to carry out financial activities across the country; and Community microfinance institutions aim on offering financial services in a specific region which are provided by the CBK. MFIs are different from commercial banks since they can offer small loans that are easy to recover in a small period and allows for an increase in the size of the loan over time (Hubka and Zaidi, 2005). Through forced

savings which are used as collateral and regular payment of a borrowed loan, the customer can build a strong history which helps in the increase in credit offered over time.

Microfinance institution in Kenya consists of the MFIs facilities and regulations in Kenya which started in the mid-1990s. The legislation and regulations were passed in 2006 with the microfinance act of 2006 which was active in 2008. By 2010, there were more than ten MFIs which since then have been increasing to fourteen in 2020. Currently, the largest MFI in Kenya is KWMB which has over 600,000 customers and 231 branches across Kenya and the main aim is to offer savings and credit to women and girls. K_Rep Bank, Faulu, and Jamii Bora are also large MFIs that have more than 5% market share and a large gross loan portfolio. These MFIs have eligibility criteria such as gender, age, valid citizen, a business, ability to pay the loan, and a customer of the institution. The lack of these criteria leads to loan default causing credit risk to the institution. MFIs are categorized as those that accept savings and credit from their members only, from non-members as well, and also granting just credit to the general public. MFIs are set to be regulated by the CBK just like any other financial institution which set the upper limit of the lending rate which are interest rate. Kenya has a monetary policy that is guided by the CBK act, which determine the interest rate, banking guidelines, and financial institutions.

The 2006 act indicates that the role of MFIs in Kenya as regulated by the CBK is accepting deposits as savings from customers, providing payment services such as payment of wages and salaries on behalf of another company, money transfer services, credit creation, and provision of insurance to poor and low-income households. MFIs were initially established to provide micro-loans, savings, business advice, and training for SMEs, (Mungure, 2015). This, therefore, was a poverty eradication mission that was established to help the poor access loans to finance their small business. The major role of the MFIs is the extension of credit facilities including SACCOs, Rural banks, FNGOs and Credit Union. Therefore, the purpose of MFIs in the economic development of Kenya is to serve the need of the economically marginalized group.

Financial accountability in MFIs is the key to their financial sustainability. Mungure, 2015, explains this as the ability of the MFIs to cover all their expenditures and cost without depending on donors, government funds, subsidy and other external financial support, that is self-operation. Majority if the profit generated by MFIs are from credit services where the interest paid is considered to be the cost of the loan, (Obota, 2013). Accountability consist of planning on who

to be advanced the loan, monitoring on how the funds are used by the borrower and evaluating the payment process to avoid delay. Lack of the accountability process leads to lack of sustainability and the MFI is unable to stay in the market for long due to lack of finances caused by loan default.

1.2 Statement of the Problem

The study seeks to identify how financial accountability helps the MFIs in terms of financial sustainability in Kenya. According to (Ahmed, Bhuiyan, Ibrahim, & Said, 2017), the problem of financial accountability on financial sustainability in microfinance institutions (MFIs) is particularly challenging due to the unique nature of their operations. MFIs provide financial services to low-income individuals and small businesses who have limited access to formal banking services, (Banyenze & Magara, 2017). These clients often lack collateral, credit history, or financial literacy, making it challenging for them to access modern financing. According to (Bayai & Ikhide, 2016), to address these challenges, MFIs have developed innovative financial products, such as microcredit, micro savings, and microinsurance, which have had a significant impact on poverty reduction and economic development.

However, the success of MFIs is dependent on their ability to maintain financial sustainability while also ensuring financial accountability. Financial accountability in MFIs is crucial to maintain the trust of investors, donors, regulators, and clients. MFIs must demonstrate that they are using financial resources responsibly, that their operations are transparent, and that they are complying with applicable laws and regulations (Ahmed, Bhuiyan, Ibrahim, & Said, 2017). This requires robust financial management systems, accurate and timely financial reporting, and a commitment to ethical behavior.

Many Microfinance Institutions (MFIs) struggle with implementing comprehensive financial reporting standards. As stated by (Pignatell, 2020), this can lead to inconsistencies, inaccuracies, and a lack of transparency in financial statements, making it challenging to assess the financial health and sustainability of MFIs. MFIs, particularly smaller and rural-focused institutions, face a shortage of skilled professionals with expertise in financial management and reporting. Insufficient technical capacity can hinder accurate financial reporting and impede the implementation of effective financial accountability practices, (Abdulai & Ibrahim, 2018). MFIs must adhere to numerous regulatory requirements, including licensing, reporting, and compliance with consumer protection regulations.

The studies conducted have focused on the different factors that affect the financial performance and financial sustainability of MFIs but they have not been able to identify how financial accountability can affect financial sustainability aspects in MFIs. There have been studies conducted indicating the effects of financial accountability on the financial sustainability in NGOs and Government organizations thus indicating that sustainability is an important tool and element in an organization. Additionally, little mention is made of how to conduct accountability techniques in MFIs to ensure sustainability. Due to the fact that MFIs are operating with depositors' money there is need for accountability in case the depositor needs to withdraw their funds. This explains that the issue of financial sustainability on MFIs has yet been explored and hence the institutions are not fully informed the effects accountability has on financial sustainability and continues to suffer from lack of financial sustainability. Based on this knowledge gap, this study seeks to answer the following questions; does financial controls, financial monitoring, financial planning, and transparency impact on the financial sustainability in Micro finance institution in Kenya?

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of this research study will be to find out the effect of financial accountability on financial sustainability of Microfinance Institution in Kenya.

1.3.2 Specific Objectives

- i. To establish the effect of financial control on financial sustainability of microfinance institutions in Kenya.
- ii. To explore the effect of financial monitoring on financial sustainability of microfinance institutions in Kenya.
- iii. To examine the effect of financial planning on financial sustainability of microfinance institutions in Kenya.
- iv. To determine the effect of transparency on financial sustainability of microfinance institutions in Kenya.

1.4 Research Questions

- i. What is the effect of financial control on financial sustainability of microfinance institutions in Kenya?
- ii. To what extent does financial monitoring effect on financial sustainability of microfinance institutions in Kenya?
- iii. What is the effect of financial planning on financial sustainability of microfinance institutions in Kenya?
- iv. To what extent does transparency effect on financial sustainability of microfinance institutions in Kenya?

1.5 Significance of the Study

1.5.1 Microfinance institution Administration

This study will be of benefit to the administration of Microfinance Institutions of Kenya as well as Globally and Regionally. The study will provide professional knowledge in MFIs on the different ways to be financial accountability in Kenya for financial sustainability. The Financial institution will be aware of the activities they are to carry out for during accountability process to ensure their sustainability.

1.5.2 Policy Makers

The major policy makers of MFIs are the CBK and the Microfinance act of 2006. This study therefore will provide an understanding for rules and regulations that should be introduced for accountability in MFIs. The policy makers are the government under the CBK as well as the board selected in the regulation of the MFIs activities. Therefore, the research will facilitate the achievements of the objectives set by the organizations in enhancing financial accountability putting in mind that resources are scarce and the funds are customers savings and thus should be utilized well for the greater good of the institution.

1.5.3 Researchers

The study can be used for education and learning purposes where different researchers are bale to acquire knowledge and understanding of the different methods that can be used to be financial accountable for sustainability in MFIs in Kenya. The literature will be able to elaborate further on the best ways for MFIs to be sustainable

Through this study, the researcher may be able to share a deeper and wider understanding of the effect of financial accountability on financial sustainability in the MFIs in Kenya. Therefore, gaining more knowledge in an area which the researcher may not be familiar with. To researchers, the result of the study will serve as literature to throw more light on the effect of financial accountability on financial sustainability not only to the MFI but to the entire financial institution.

1.6 Scope of the Study

The study will focus on the effect of financial accountability on financial sustainability of Microfinance institutions in Kenya. More specifically the study sought to establish whether financial control, financial monitoring, financial planning and transparency have an influence in the financial performance of MFIs in Kenya. The focus will be selected MFIs within Nairobi County since majority of the MFIs have their headquarters in Nairobi County. In addition, this study covered Nairobi as an urban setting because it is cosmopolitan and representative of the entire country. The study will take a period of six months from April, 2020 to September, 2020. Therefore, the views generated from the findings may only apply to MFIs with a similar context. Finally, the data will be collected from the top-level management of the selected MFIs in Nairobi since they are the more informed with sensitive data accurate information.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the review of literature relevant to the study which constitute of theoretical review and the empirical review. The MFIs' role in the country is to offer financial support in form of loans to individuals or groups of individuals and also cooperation and SMEs. The empirical review provides the evidence of other research studied in comparison to this research while the theoretical review indicates the theories related to the research problem being studied.

2.2 Theoretical Review

Microfinance institution are highly dependent on the financial accountability due to the fact that majority of their activities involve finances. Financial accountability gives the institution the advantage to be sustainable over a long period of time. There are different theories that explain the MFIs which explain the problems of how MFI can attain sustainability. To understand the concept of financial accountability and sustainability of MFIs in Kenya various theories have been reviewed;

2.2.1 Agency Theory

The foundations of agency theory were laid by economists such as Ronald Coase, who explored the role of transaction costs in economic organizations in 1970. It was further developed and refined by numerous scholars over the years, expanding its application to various organizational contexts and addressing different aspects of agency relationships. The two influential economists, Michael C. Jensen and William H. Meckling, are often credited with formalizing and popularizing agency theory through their seminal paper titled "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," published in 1976. Jensen and Meckling's paper laid the foundation for agency theory by exploring the relationship between principals (shareholders) and agents (managers) in corporations. Agency theory found widespread application in finance and corporate governance research during the 1990s and 2000s. It provided a framework for studying issues such as executive compensation, board structures, shareholder activism, and the relationship between ownership structure and firm

performance. Scholars like Eugene Fama, and Luigi Zingales contributed to the development of agency theory in these areas.

The theory of principal and agent is used to express the relationship between the principal and the agent where the agent is to carry out a task on behalf of the principal at a given price. This theory suggests that individuals or organizations (agents) may act in their own self-interest, rather than in the interests of their stakeholders (principals), and that this can lead to a lack of accountability. The theory emphasizes on the relationship between principals (shareholders or owners) and the agents (managers or executives) in an organization. The theory states the two parties involved have different goals and preference thus leading to different types of risk. To address this, agency theory recommends creating mechanisms, such as incentives, contracts, or monitoring, to align the interests of agents and principals and promote accountability. Both parties are guided by the same and common agenda and motivation for successful task. According to Mwangi (2013), the rules to be followed are made by the principal where according to them they are to maximize shareholders value. The theory was developed by Jensen and Meckling in 1976 where according to them the agent can be self-interested. The theory tends to expect that the agent acts and makes decisions in the principals' interest but on the contrary, it may not happen as expected. Opportunistic behavior is developed by the agent thus causing the risk and disagreements between the parties leading punishment. In the Microfinance Institution the borrower may not pay the credit on time due to the mismanagement of funds, where the punishment by the MFIs is to liquidate their assets as well as listing their name in CRB in case of non-payment.

The criticism in this theory was brought about by Norton (2018), since the cost of using the contract agreements leads to an increase in marginal cost for franchising. This means that conflicts may arise between the two parties due to disagreements and different interests thus creating the assumption of the theory. The challenges are brought about that the agent may shadow their own interest instead of that of the principal, (Ugurlu, 2017), leading to credit failure. According to Keitany (2013), credit default represents the financial failure of a person or a company who are the borrowers in a financial institution. Financial institutions use the credit risk model to determine the probability of default of a potential borrower since they are able to acquire information on the level of default by the borrower at a particular time in the future. This

is supported by Musango, (2018), who stated that the theory provides two methods that may lead to loan default; the Macroeconomics causes and Microeconomics causes. Macroeconomic effects occur when the loan is defaulted due to the financial environment in the economy such as interest rate, exchange rates and inflation. The microeconomic effects are changing personal or firms' financial conditions thus leading to credit defaults such as income, age and changes in consumption.

However, Merton had assumptions that there are no dividends that are paid which is usually not the case since financial institutions have shareholders who are paid according to their shares annually. Companies and institutions in Kenya, that do not pay dividends do not distribute it to the shareholders but they accumulate it in profit and reinvest it, (Maigua, 2017), in the National Treasury. The model has an assumption that no commissions are paid but institutions have commissions paid to brokers, investment advisors, external auditors and consultants. The other assumption by the Merton theory is that underlying stock volatility and the risk-free rate is constant but this is not the case since as explained by Maigua, (2017), there is no investment that entirely has no risk, especially in the property and stock market. The Merton theory assumes that the market movement is unpredictable on a long-term basis, but in the short-term it is predictable. This led to the improvement of the Merton model theory by; Black and Cox (1976) who introduced the possibility of a more complex capital structure as well as subordinated debt; Geske (1977) was able to introduce debts that pay back with an interest; Vasicek (1984) introduced the difference between short term and long-term liabilities and introduced the KMV model.

According to the theory, credit risk of a financial asset is affected by three main variables Keitany, 2013); the probability of default (PD), the loss given default, (LGD) and the exposure of default (ED). According to Mungure (2015), PD is defined as the reviewing of a borrower's probability of default by evaluating the current and future ability to fulfil its interest and principal repayment obligations. This evaluation considers various characteristics of the borrower, financial transactions of the borrowers and source of cashflow of the borrower. On the other hand, LDG, is defined by Mungure (2015), as the loss that is caused by collateralized portion which is normally in relation to the cost of selling the collateral. Therefore, the value of the collateral in the future price after the maturity period of the loan is taken into account in the

credit approval processes. ED explains the amount owed to the institution with comparison with the amount in the institution as asset and cash at hand (Mungure, 2015).

This theory is important since it incorporate the risk analysis in an institution to avoid an excessive loan default. According to (Musango, 2018), there is an importance of monitoring and supervision of borrowers as a method of avoiding credit risk to ensure the adherence of the terms and agreement as written in each loan contract. In majority of the MFIs, they lend to customers who have opened an account with their institution for deposit purposes or saving with them in order to monitor the cash inflow and outflows as well as the loan payment with that it becomes the monitoring element before any advancement of the loan, (Musango, 2018).

The principal-agent theory fit naturally with the issue in MFIs on accountability and sustainability. The MFIs offer credit to the borrowers as lenders for a specific purpose. The borrower (agent) may have different objectives rather than those meant with the MFIs (principal). When the borrower mismanages and misappropriate the funds this leads to failure of payment of the loan on time or even at all. This causes credit risk in the MFIs which in the long run the institution has more non-performing loans than performing ones. The proposition of the theory to the study is that due to the existence of principal-agent conflicts in the credit process, the borrowers may lack accountability of the borrowed funds. Therefore, lack of accountability according to principal-agent theory will automatically lead to reduction of payment of loans and hence reduction of sustainability of the institution.

2.1.2 Resource Mobilization Theory

Resource mobilization theory (RMT) is emerged as a collective effort by several sociologists and scholars in the 1970s. John D. McCarthy and Mayer N. Zald are often recognized as key contributors and influential figures in the development of resource mobilization theory. They played a crucial role in shifting the focus of social movement studies towards the strategic aspects of social movements and the mobilization of resources. As a result, resource mobilization theory represents a collective endeavor by sociologists and scholars interested in understanding the dynamics of social movements and their resource mobilization strategies. Another influential contribution to resource mobilization theory was the political process model, developed by Charles Tilly. This model, which emerged in the late 1970s and early 1980s, complemented resource mobilization theory by highlighting the political opportunities and constraints that shape

social movements. It emphasized that the availability of political openings or favorable contexts can facilitate resource mobilization and movement success.

Resource mobilization theory is a sociological theory that explains how social movement acquire and use resources to achieve their goals. In this case social movement is the organization structure that is able to mobilize resources such as money, time, organization capacity and human resources. According to Maigua, (2017) the movement is successful when the resources are mobilized effectively due to the role of organization in social movement. This is because it is the role of the organization to create a structure for coordinating and mobilizing resources thus helping in building solidarity and collective action among the members of the organization.

This theory explains that organizations should be able to generate resources that are long term in order to be successful. McCarthy and Zald (2007), explained that the theory supports that organization grow like a society where they are expected to own property and resources that enable them to run their day-to-day activities. In order to attain a certain organization short run and long run goals, acquisition of resources by the organization is necessary. The theory support that MFIs have resources which are fixed and current asset which ought to be effective and essential for financial sustainability. The criticism of this theory is that with small organization with limited resources there is minimum or no resource mobilization it fails to account how this organizations are able to sustain themselves in the market, (Musango 2018).

In the context of financial accountability, the theory states that an organization needs to be effective in mobilization of resources to achieve accountability. According to Musango (2018), the process of resource mobilization involves identifying and accessing resources, including financial, human and material resources to achieve their objectives where the main one is accountability. Tracking and reporting should be an effective method of financial record for resource mobilization to make accountability of the funds in the organization. According to Maigua, (2017), accountability should not only be carried out in financial resources but also human resources to achieve which includes developing effective internal control system, ensuring that the staff are trained and establish clear regulation for accountability. In overall, in order for organizations to achieve financial accountability there should be effective mobilization and management of resources by developing strategies to achieve accountability.

This theory is used to combine the borrowing rate and default possibilities in borrowing institutions. If the maturity of the loan is long, especially over five years, the theory support monitoring by the lender for equilibrium compared to short maturity loan. This was further explained by the theory of delegated monitoring which major aim is reducing the cost of monitoring borrowers (Maigua, 2017). This is simplified by the use of available information which is important in resolving problems of non-payment such as existence of CRB in the financial institutions. The monitoring of a borrower is done before and after loan advancement, as stated by Musango (2018). He further explains that before the advancement of the loan the monitoring that takes place is gathering all the relevant information and screening all the available information about the borrower which revolves around the cannons of lending. The monitoring of after the advancement is to ensure that the loan is not diverted for other use expect the one intended for. The moment the money is used for any other purpose that becomes a major contributor of non-payment of the loan, (Musango, 2018).

The theory has a strong relationship with financial sustainability since through resource mobilization the organization is able to diversify their funds thus reducing reliance from one source of funding leading to long term sustainability, (Mungure, 2015). According to Keitany (2013), loan rate depends on the market structure, monitoring cost by the lender, technology and joint liability which are all characterized when the borrowing group optionally chooses the timing of default. The theory adopted the pareto optimality improvement where it allows that lender to reduce the cases of default in bad economic state, (Keitany, 2013). The main reason for the MFIs in Kenya, is for poverty eradication and to SMEs growth across the country. Households in rural areas are poor and access loans from informal credit market such as friends and family members, local market lenders, loan sharks, brokers and Rotating Savings and Credit Association (ROSCAS) which sometimes is minimum amount with high interest rate for repayment.

2.1.3 Social Strain Theory

Social strain Theory was invented by sociologist Robert Merton in the 1930s where according to him social structure and organization may create constraint or pressure on individuals thus causing difference in behavior. This theory state that when an individual is under pressure in their social environment may feel a sense of frustration, anger and stress thus leading them to

engage in deviant behavior as a way of coping with their stress. The theory is also known as fraud theory which state that the behavior of an individual is considered to change with the changes of the environment, they are operating in. the attributes of Burgess and Akers (1966) the theory is able to indicate that the behavior is based on the norms and values of the people around thus creating a learning platform on what is acceptable to the society.

However, despite the fact that individuals are aware of what is not acceptable in the society the behavior is still not avoided. The theory is used in the study of criminology where according to Sutherland (2021) criminal behaviors are learned as the law-abiding behaviors are learned and thus through the interaction with others values and attitude as well as motive of criminal behavior are adopted. The concept of strain in social strain theory refers discrepancy between the individuals' aspirations and the opportunities available to them within the social environment. According to Merton (1930 when an individual is under stress, they tend to be innovative, rebellious, retreat, conform and ritualism to the society norms and values thus theory is used to explain the wide range of behavior as a way of promoting social cohesion.

Social Strain Theory is applied in financial accountability in terms of that an individual may engage in a different financial behavior when they experience strain or pressure in their social environment. According to Harrison et al., (2019), the first strain they experience is experience cultural stain where they feel disconnected to their cultural identity thus engaging in deviant financial behavior in order to gain a sense of belong. The second, is institutional or organizational strain where they experience barriers such as discrimination and lack of access of financial resource thus leading to a deviant financial behavior as a way of coping with the challenge. Thirdly, economic strain such as poverty and unemployment that may lead to deviant financial behavior in order to meet their basic needs. Finally, social strain where an individual feel socially isolated thus leading to a change in financial behavior in order to gain a sense of control. To promote financial accountability, it is important to address the underlying social structure that create strain and pressure on individuals. By addressing the underlying causes of social strain, it is possible to prevent the deviant financial behavior and promote greater financial accountability, (Harrison et al., 2019).

According to Keitany (2013), the theory was able to invent a formula for risky bonds after a basic intuition that payment to debt holders at the maturity of the debt has two quantities; this is either the face value of the debt or the market value of the firms, assets. This explains that if a

firm is unable to acquire a debt value in the market, then the asset is used to cover the loan in case of a default. If the firm has more liability than assets then the debt increases the liability of the firm leading to poor financial performance. The purpose of the formula was to estimate the return of a firm and to estimate the yield differential between a risky bond and a default-free bond, (Musango, 2018).

According to Keitany, (2013), for financial sustainability to be obtained there should be a level of strain or pressure that is need to applied by the employees or the organization withing their social environment to achieve sustainability. In financial organization financial strain may be experienced due to economic downturn, change in interest rate, change in market conditions or the inability to secure enough funds for investment. These stains create pressure on the organization and individual to engage in short term financial behavior that may not be sustainable over the long term. Therefore, the theory suggests financial sustainability can be promoted by addressing the underlying social structure and institutions that create financial strain, (Cressey, 2020). This may involve providing support and resources to organizations or individuals who are struggling financially as well as addressing systematic challenges. This indicates that social factors affect financial sustainability which leads to financial habits that are not accountable thus promoting financial sustainability and resilience within the environment.

In the field of finance, the theory is adopted due to the engagement of fraud in financial institutions thus affecting the financial sustainability of the institution. Through the advancement of Harrison et al., (2019). Cressey, (2020) dishonesty and disrespect is included in fraud since it negatively influences the sustainability of the institution. This study was able to apply the fraud theory in order to evaluate the MFIs performance in case of a default. The theory in the application is able to elaborate that the more the asset and capital of an MFI compared to liabilities, despite loan default, the institution is able to sustain itself in the market. The majority of the Assets in MFIs are building which are leased out as mortgages, cash at hand, corporate bonds and corporate stock while the liabilities are customers' savings and deposits, accounts payable to suppliers, interest payable and wages and salaries. If the liabilities of the MFIs are more an increase in credit risk leads to poor performance of the MFIs causing the liquidation of the entire institution, (Keitany, 2013).

2.3 Empirical Review

This consist of the analysis of the previous empirical studies conducted by other researchers' base on financial accountability and its role on sustainability in microfinance institution. The empirical review of this study is discussed in relation to financial controls, financial monitoring, financial planning, and transparency as factors of financial accountability and financial sustainability.

2.3.1 Financial Control and Financial Sustainability

Financial control is an important aspect of financial sustainability since it involves the management of financial resources to ensure that an organization's financial performance is in line with its objectives and goals, (Yudina, Vandina, Bogoviz, & Lobova, Summer 2017). Financial control improves the financial management, acts as a risk management tool, enhance financial transparency and ensure there is stronger compliance to financial regulations of an organization long term sustainability. In Microfinance Institutions financial control is important for sustainability since they work with limited financial resources and often low-income client to maintain profitability, (Ahmed, Bhuiyan, Ibrahim, & Said, 2017). Financial control is associated with a clean financial report. According to Kgabo (2018), on a study conducted in South Africa on financial resources internal control mechanism is effective if it is characterized by five elements; risk assessment, control activities, control environment, monitoring and information and communication. Numerous studies have been conducted on financial control and its impact on financial sustainability.

One study conducted by (Yilmaz, Turkmen, & Alp, 2018) aimed to investigate the impact of financial control on financial sustainability in Turkish municipalities. The methodology was experimental research which was conducted on the staff of Turkish municipalities. The study found that financial control positively affects financial sustainability, as it leads to better financial management practices and more efficient use of resources. (Yudina, Vandina, Bogoviz, & Lobova, Summer 2017) conducted research on the effects of internal financial control on sustainability of Tourism Companies' Development in Russia with comparative analysis. The authors were able to obtain the results where according to the findings highly effective methods of financial control solve the problem of financial sustainability in tourism companies. With the main goal been maximization of results and sustainability financial control and management is highly effective in an organization. The study concluded without the control of finances the

company is at financial risk and unable to run their day-to-day activities making it difficult to be sustainable for a long period of time. In a different context, a study conducted by (Martínez-Ferrero, 2019) examined the impact of financial control on the financial sustainability of Spanish non-profit organizations. This study used quantitative data method where data was collected with a questionnaire from employees working in NGOs in Spain. The study found that effective financial control positively impacts financial sustainability, as it helps organizations to better manage their financial resources, reduce costs, and increase revenues.

In a study by (Olowe & Ojo, 2018) the authors examined the impact of financial control on the financial sustainability of Nigerian small and medium-sized enterprises (SMEs). The study used descriptive analysis method and found that effective financial control practices, such as budgeting and financial reporting, positively influence the financial sustainability of Nigerian SMEs. The study found that effective financial control practices significantly impact financial sustainability by improving financial planning, monitoring, and reporting. In another study, (Rukundo & Tumwebaze), examined the relationship between financial control and financial sustainability in Ugandan non-governmental organizations (NGOs). The study was carried out the comparative research methodology and found that effective financial control practices, such as internal audits and financial monitoring, significantly impact the financial sustainability of NGOs in Uganda. A study by (Ntanda, 2017) investigated the relationship between financial control and financial sustainability in South African municipalities. With correlational and survey research methods, the study found that effective financial control practices, such as budgeting, financial reporting, and financial monitoring, positively impact the financial sustainability of South African municipalities.

In a study conducted by (Gathaiya, Ngugi, & Kihoro, 2017) on the impact of financial control on the financial sustainability of microfinance institutions in Kenya with survey methodology it was found out that financial control had a significant positive impact on the financial sustainability of MFIs. The study further explained that financial control is significant managing financial risks, maintaining profitability, and building financial reserves in MFIs. According to (Chege, 2018), on the impact of financial control on financial sustainability of commercial banks in Kenya. The methodology used was survey research with questionnaires and interview with key informant to acquire the quantitative and qualitative analysis. The study found that financial controls had a positive impact on the financial sustainability of banks, particularly in terms of

improving risk management, enhancing transparency, and ensuring compliance with regulatory requirements. In another study, carried out by (Muchiri, 2017), on impact of Financial Control on the Financial Sustainability of Savings and Credit Cooperative Societies in Kenya, financial control positively influenced the financial sustainability of SACCOs.

In research conducted by (Kigera & Kimutai, 2019), on the relationship between financial management practices and financial sustainability of small and medium-sized enterprises (SMEs) in Kenya indicated the importance of financial control. The study used comparative and correlation methodology the study concluded that effective financial control and management practices, such as budgeting, financial reporting, and internal controls, were positively associated with the financial sustainability of SMEs. (Kibet, 2020) also conducted research on SMEs where he was examining the relationship between financial control and financial sustainability in SMEs in Kenya. With use of comparative research methodology, the study results were that financial control had a significant positive effect on financial sustainability. There was a study on Financial Control and Financial Sustainability in Kenyan Public Sector Organizations conducted by (Njoroge & Munene, 2018). The study used case study methodology where the findings revealed that financial control had a positive and significant effect on financial sustainability. In another study there was the determination of effects of Financial Management Practices on Financial Sustainability of Micro and Small Enterprises in Kenya conducted by (Muhoro & Ngugi, 2018). The study used survey method and quantitative analysis to conclude that financial management practices, such as budgeting and financial reporting, significantly influenced the financial sustainability of MSEs. Despite the fact that financial control had weakness such as lack of finance, skills and expertise to undertake the control process it's a way of identify challenges (risk), strength and weakness of each department.

In conclusion, this study suggests that financial control is crucial in achieving financial sustainability in various sectors in Kenya especially in the financial institutions. Different studies show that financial control has a positive impact on financial management in public sector (Wakiriba, Ngahu and Wagoki 2014); good control of financial and human resource is highly critical in the MFIs (Ndiaye, Cheng, Azenga and Kwamboka, 2019); financial management influence which constitute financial control has an impact on financial sustainability, (Mbuta, 2014); bookkeeping skills were effective in the control of finances thus leading to financial sustainability (Mbuva 2014); and accountable by ensuring they have good financial control on

donors' funds in partnership with NGOs, (Lambert (2015)). In general, this study indicate that effective financial control is crucial for achieving financial sustainability regardless of the organization or institution roles. By implementing effective financial control practices, organizations can ensure that their financial performance is aligned with their goals and objectives, ultimately leading to greater financial sustainability.

2.3.2 Financial Monitoring and Financial Sustainability

Financial monitoring helps to identify potential financial issues early on, allowing organizations to take corrective action before problems become too severe. Financial monitoring can help organizations identify areas where they can reduce costs or increase revenue, which can improve their financial sustainability, (Chimwamurombe & Phiri, 2019). Financial monitoring can help organizations make informed financial decisions. By having accurate and timely financial information, organizations can make decisions about investments, loans, and other financial transactions with confidence, improving their financial sustainability, (Mwathe, 2019). Financial monitoring can help organizations manage risks. By monitoring financial data and trends, organizations can identify potential risks and take steps to mitigate them, helping to protect their financial sustainability as stated by (Abdulai & Ibrahim , 2018). There have been several studies conducted globally on the impacts of financial monitoring on financial sustainability all supporting monitoring system on the sustainability of different organization and industries.

Globally, (Ho et al, 2021), conducted research to examined the relationship between financial monitoring and financial sustainability in the tourism industry in Malaysia. With correlation methodology the study found a positive relationship between financial monitoring and financial sustainability, indicating that effective financial monitoring can help improve the financial sustainability of tourism organizations in Malaysia. Another research conducted by, (Alobaidi, 2020), on the impact of financial monitoring on the financial sustainability of Iraqi firms used survey method for analysis where the data was collected with questionnaires and interview of key informant. The study found that financial monitoring positively affects the financial sustainability of Iraqi firms, suggesting that effective financial monitoring practices can improve financial performance and reduce financial risks. In a study on the relationship between financial monitoring and financial sustainability in Chinese manufacturing firms conducted by (Tan et al. , 2020) comparative methodology was used to acquire information. The study found that financial monitoring has a positive impact on financial sustainability, suggesting that effective financial

monitoring practices can help improve the financial performance of Chinese manufacturing firms. A study by Kostova et al. (2019) investigated the impact of financial monitoring on the financial sustainability of Bulgarian firms. The study found that effective financial monitoring practices positively impact the financial sustainability of Bulgarian firms.

In Africa, there were different research conducted in different organization structure in Nigeria, Uganda, Namibia, and South Africa on the impact of financial sustainability. In Nigeria, there was a study conducted by (Abdulai & Ibrahim , 2018) on investigation on the impact of financial monitoring on the financial sustainability of Nigerian banks. By collecting data by use of questionnaire the research used survey method to conclude that financial monitoring is effective in financial sustainability. The study found that financial monitoring positively affects the financial sustainability of Nigerian banks, suggesting that effective financial monitoring practices can improve financial performance and reduce financial risks. (Banyenze & Magara, 2017) conducted a study on the relationship between financial monitoring and financial sustainability in Ugandan microfinance institutions. The study adopted a descriptive approach the sampling methodology employed, was simple random sampling of employees in Ugandan microfinance institutions. The study found that financial monitoring has a positive impact on financial sustainability, indicating that effective financial monitoring practices can help improve the financial performance of microfinance institutions in Uganda. A study by (Chimwamurombe & Phiri, 2019) investigated the impact of financial monitoring on the financial sustainability of Namibian small and medium enterprises (SMEs). The study adopted descriptive approach methodology and found that financial monitoring has a positive impact on the financial sustainability of Namibian SMEs, suggesting that effective financial monitoring practices can help improve the financial performance of these enterprises. A study by (Manoka & Mphidi, 2021) investigated the impact of financial monitoring on the financial sustainability of South African small and medium-sized enterprises (SMEs). The study found that financial monitoring practices have a positive impact on the financial sustainability of SMEs, suggesting that these practices can help improve financial performance and reduce financial risks.

In Kenya, there are different research conducted on the impact of financial monitoring on Financial Sustainability on different organizations such as SMEs, public universities and financial institutions. (Mwathe, 2019) conducted research on the impacts of Financial Monitoring on Financial Sustainability in Kenyan SMEs where the study found out financial

monitoring can have a positive impact on financial sustainability in small and medium-sized enterprises (SMEs) in Kenya. By use of quantitative research design on a sample of 156 SMEs in Kenya through a structured questionnaire the study concluded that financial monitoring can help SMEs to identify areas of financial weakness, improve their financial management practices, and make informed decisions that can contribute to their long-term financial sustainability. (Ochieng , 2018) also conducted research on 149 SMEs in Kenya with quantitative research design on the effect of Financial Monitoring on Financial Performance of SMEs in Kenya. The study found that there is a positive relationship between financial monitoring and financial performance in Kenyan SMEs. According to (Mungai & Karanja, 2015) on a study on Financial Management Practices and Financial Performance of Small and Medium Enterprises in Kenya mixed-method research design was used. More studies were carried out on financial sustainability on SMEs since engage in regular financial monitoring are more likely to achieve their financial objectives and improve their overall financial performance, (Ochieng , 2018). A study by Ombati and Kilwake (2017) examined the relationship between financial monitoring and financial sustainability in Kenyan public universities. The study used quantitative and qualitative data analysis and found that financial monitoring has a positive impact on financial sustainability, indicating that effective financial monitoring practices can help improve the financial performance of public universities in Kenya.

In conclusion, different studies indicate that there is importance of financial monitoring on financial sustainability globally, in Africa and in Kenya and that effective financial monitoring practices can help improve financial performance, reduce financial risks, and facilitate informed financial decision-making in various industries and countries on the continent. Financial monitoring has been important to sustainability in county government (Sudsomboon 2014), World Bank funded projects (Kamwana and Muturi 2014), Non-Government Organizations (Ernest, 2017) and Microfinance Institutions (Amu, 2018). Several, studies indicate that financial monitoring of MFIs is conducted through credit risk analysis where credit risk monitoring is considered to be weak relationship. Monitoring requires skills, expertise and resources which are expensive to acquire. The study indicated that financial monitoring if implemented has a positive relationship with financial sustainability and performance. the recommendation on financial monitoring according to the different literature is; the internal audit department is not sufficient, understaffed and does not conduct regular audit activities making it a weakness in the system,

thus need for improvement (Mugo 2018); the auditors were unbiased and lack objectives and recommended that the auditing department should have soundness and transparency and should have their objective in their auditing process, (Kimutai, 2017) and Monitoring should focus more on stakeholders with professional standards, (Owolabi, 2015).

2.3.3 Financial Planning and Financial Sustainability

In order to achieve the objectives of an organization or firm there is need of a plan. Financial planning is an important tool that is used to identify the major activities to allocate responsibilities effectively, resources and funds in the organization. Planning requires the time, cost and scope that are used within the organization objectives for quality services. According to Hassan & Forhad (2018), stakeholder's participation, budget control, financial reporting and analysis of financial proposal are the key elements of financial planning. June (2017) was able to determine the importance of financial planning on financial sustainability on donor funded projects. The study concluded that financial planning affected financial sustainability to a great extent, meaning good planning leads to positive outcome and thus sustainability.

In finance, planning is identified as budget since it is the allocation of funds effectively that directly control the affairs of large institutions, government, industries, public bodies, counties and private bodies (Shah, 2017). This explains that financial planning is an important tool for planning and controlling. According to Shah, (2017) study on planning in county government goals should be outlined in the plans since planning aid on policy making process and keeping check on its execution through monitoring and evaluation. The plan constitute of which activities and program should be conducted, which ones are to be more emphasized on and which one should be ignored in the period under scope. The purpose of the omission of some activities is budget constraint mainly the financial resources available in the organization. Obwaya, (2016), state that a good budget process needs to have three important objectives; maintenance of fiscal discipline, attaining allocation efficiency and operational or technical efficiency.

Globally, (Fici, Palumbo , & Rizzo, 2020) conducted a research in Italy on Financial Planning and Corporate Sustainability: Evidence from Italian Listed Companies where the methodology used was quantitative research design. The study found that financial planning has a positive impact on corporate sustainability. On the Impact of Financial Planning on Financial Sustainability of Small and Medium Enterprises in Malaysia conducted by (Abdullah, 2018) the study found that financial planning has a positive impact on the financial sustainability of SMEs.

The methodology adopted was a survey research design, to investigate the impact of financial planning on the financial sustainability of small and medium-sized enterprises (SMEs) in Malaysia. According to (Rostami, 2019) financial planning positively affects corporate sustainability. He carried out a study on the Relationship between Financial Planning and Corporate Sustainability: A Study of Companies in the United Kingdom with quantitative research design. Another study was conducted by (Brown & Singleton, 2018) on the Effect of Financial Planning on the Financial Sustainability of Non-Profit Organizations in the United States. With survey research design methodology the study found that financial planning has a positive impact on the financial sustainability of non-profit organizations.

In Africa, (Olaoye, Oladejo, & Oyetunji, 2019), conducted a study on Financial Planning and Financial Sustainability of Small and Medium Enterprises (SMEs) in Nigeria where the methodology adopted was a survey research design. This study found that financial planning has a significant positive impact on the financial sustainability of SMEs in Nigeria. The study also found that access to finance, managerial competence, and market competition significantly affect the financial sustainability of SMEs. In Tanzania, (Kyaruzi & Kadage, 2018) conducted a study on Effect of Financial Planning on Financial Sustainability of Small and Medium Enterprises (SMEs) where the methodology adopted was a cross-sectional research design. The findings were that financial planning has a positive effect on the financial sustainability of SMEs in Tanzania. The study also found that access to finance, managerial skills, and government policies affect the financial sustainability of SMEs. According to (Assefa & Adugna, 2020) on a study on Financial Planning and Financial Sustainability of Micro and Small Enterprises (MSEs) in Ethiopia. This study found that financial planning significantly affects the financial sustainability of MSEs in Ethiopia. The study also found that access to finance, entrepreneurial skills, and government support significantly affect the financial sustainability of MSEs. The methodology adopted was a survey research design, and data were collected from 170 MSEs in Ethiopia using a structured questionnaire. The data collected were analyzed using descriptive statistics, correlation analysis, and regression analysis. On the Impact of Financial Planning on the Financial Sustainability of Small and Medium Enterprises in Ghana conducted by (Adomako & Opoku, 2018) the study found that financial planning has a positive impact on the financial sustainability of SMEs in Ghana. The study also found that access to finance, managerial skills, and government policies significantly affect the financial sustainability of SMEs. The

methodology adopted was a quantitative research design, and data were collected from 100 SMEs in Ghana using a structured questionnaire. The data collected were analyzed using descriptive statistics, correlation analysis, and regression analysis.

In Kenya, there was a study conducted on the Effect of Financial Planning on Financial Sustainability of Small and Medium Enterprises by (Wambugu & Kinyanjui, 2017) with survey methodology. The study found that financial planning has a positive impact on financial sustainability in Kenyan SMEs. (Karanja & Ndungu, 2018) conducted research on the The Relationship between Financial Planning and Financial Sustainability of Micro-Enterprises in Kenyawhere the methodology was survey with quaectionnaires and interviews. The study found that financial planning has a positive impact on financial sustainability in Kenyan micro-enterprises. Specifically, micro-enterprises that engage in financial planning tend to have better financial management practices, higher levels of profitability, and better access to finance. According to (Kariuki & Kamau, 2020) on the Role of Financial Planning in Enhancing Financial Sustainability in Kenyan Public Universities survey method was used where questionnaires were distributed in finance officers in Kenyan public universities. The findings were that financial planning has a positive impact on financial sustainability in Kenyan public universities. Specifically, universities that engage in financial planning tend to have better financial management practices, improved financial performance, and better alignment of financial resources with institutional goals. Mwaura (2018), examined using descriptive research method, financial planning measures such as interest rate and tax and the capital employed on financial sustainability which was measured with return on capital employed, (ROCE). With inferential research method, the study was able to identify a strong positive relationship between financial planning and financial sustainability. It was concluded that he success of any organization depends on the manner of financial plan and how they are formulated, (Mwaura 2017).

Obwaya (2016), explains financial planning as financial budgeting which has a relationship with financial performance and sustainability in local authorities in Kenya. This is indicated with financial statement that indicate the cash inflow. Financial budgetary participation of all the stakeholders involved has a positive significant relation, according to Obwaya (2016), thus concluding that that there is contingent effect of task uncertainty, task difficulties and organization effective commitment that is required for the variables to have a positive

relationship. However, Obwaya, (2016) recommended that the county should make sure there is budgetary participatory strategies that are sufficient to enable budget administration and management and to avoid impediments.

2.3.4 Transparency and Financial Sustainability

Transparency is an important tool in organization especially in stakeholders' management. In public and private organizations transparency is carried out by publishing meaningful data in online platform where the financial activities are shared to the public, (Dener & Min, 2018). In government organization, transparency answers what is being done, how it is done, why it is carried out, who is involved and what are the standards made. Increased transparency can lead to increased investor confidence, lower financing costs, and improved access to capital. According to Johnston, (2017), just like any other process transparency may be slow due to lack of significant resources thus it is important for the necessary party improve on the important elements such as security and privacy ensuring good governance. The four most criteria of transparency are: well identified roles and responsibilities, an open budget process, assurance of integrity and information that is publicly available. There have been different studies that have been carried out in order to identify the relationship between financial transparency and financial sustainability.

Transparency is free flow of information which is available in any information channel to all the concerned parties. Through transparency the citizens are able to be auditors with the right to access to free press and communication. In public and private organizations transparency is carried out by publishing meaningful data in online platform where the financial activities are shared to the public, (Dener & Min, 2018). In government organization, transparency answers what is being done, how it is done, why it is carried out, who is involved and what are the standards made. According to Johnston, (2017), just like any other process transparency may be slow due to lack of significant resources thus it is important for the necessary party improve on the important elements such as security and privacy ensuring good governance. The four most criteria of transparency are: well identified roles and responsibilities, an open budget process, assurance of integrity and information that is publicly available.

Globally, improved financial transparency can lead to increased financial sustainability as agreed by (Ouda & Alnaser, 2019). The study used survey methodology where the questionnaires were distributed to the employees of the firms to determine the effects of financial transparency on

financial sustainability found that improved financial transparency positively affects financial sustainability in Jordanian listed firms. The study suggested that increased transparency can lead to improved stakeholder trust, reduced information asymmetry, and better access to capital. (Duh & Lee, 2017) conducted a research on the effects of financial sustainability on financial stability of Taiwanese Listed firms with survey methodology with quantitative analysis. The study found that lack of financial transparency can lead to financial instability and suggested that poor transparency can lead to increased uncertainty, reduced investor confidence, and increased financing costs. In study conducted by (Hsiang-Lin , 2018) on the Impact of Financial Transparency on Corporate Investment Efficiency: Evidence from Global Markets used regression analysis to investigate the relationship between financial transparency and corporate investment efficiency. The studies findings were that financial transparency has a positive impact on corporate investment efficiency. Specifically, firms with higher levels of financial transparency tend to have higher levels of investment efficiency. A study was conducted on the Impact of Financial Transparency on Corporate Performance by (Ahmed & Elnahas , 2019) using meta-analysis comparative methodology. The study identified that financial transparency has a positive impact on corporate performance. Specifically, firms with higher levels of financial transparency tend to have higher levels of profitability, productivity, and market value. Financial transparency and sustainability are important issues in Africa. This is according to a research conducted by (Mohammed & Akeem, 2021) on the Financial Transparency and Sustainable Development in Africa with panel data analysis and fixed-effects regression analysis. The study found that financial transparency has a positive impact on sustainable development in Africa. Specifically, countries with higher levels of financial transparency tend to have higher levels of economic growth, human development, and environmental sustainability. According to a study conducted by (Kayode & Adebawale , 2018) on Impact of Financial Transparency on Public Financial Management in Africa the methodology used was survey methodology with descriptive statistics and regression analysis. The study found that financial transparency has a positive impact on public financial management in Nigeria. Higher levels of financial transparency are associated with better budget planning and implementation, improved accountability and governance, and reduced corruption. According to (Amuakwa & Amoah, 2018), financial transparency has a negative impact on debt sustainability in sub-Saharan Africa. The study was conducted on Financial Transparency and Debt Sustainability in Sub-Saharan

Africa where the methodology was panel study where countries in sub-Saharan were put under study for 10 years. Specifically, countries with higher levels of financial transparency tend to have higher levels of debt, lower levels of debt service capacity, and higher debt service ratios.

In Kenya, (Mungai & Muturi, 2018) conducted a study on the Impact of Financial Transparency on Bank Performance in Kenya where the content analysis on 11 commercial banks for 5 years. The study found that financial transparency has a positive impact on bank performance in Kenya. Specifically, banks with higher levels of financial transparency tend to have higher levels of profitability, liquidity, and asset quality. Another study was conducted by, (Oduol & Odhiambo, 2019) on the Impact of Financial Transparency on Public Financial Management in Kenya where the study methodology was survey method where the questionnaires were distributed to the public officials in Kenya, including financial managers and auditors. The study found that financial transparency has a positive impact on public financial management in Kenya. Specifically, higher levels of financial transparency are associated with better budget planning and implementation, improved accountability and governance, and reduced corruption. financial transparency has a positive impact on financial sustainability in Kenyan SMEs as indicated by (Abade & Tubanisia, 2021). The study was on the Impact of Financial Transparency on Financial Sustainability: Evidence from Kenyan SMEs where the study used a survey and descriptive and regression analysis.

(Nyang'au & Juma , 2018) conducted research on the Impact of Financial Transparency on Corporate Financial Performance where the study data from 40 listed firms in Kenya over the period of 2010-2014. The study found that financial transparency has a positive impact on corporate financial performance in Kenyan listed firms. Specifically, firms with higher levels of financial transparency tend to have higher profitability, better asset quality, and lower levels of risk. In Kenyan Counties, (Komen & Ngugi, 2020) conducted a research on The Effect of Financial Transparency on Financial Sustainability in Kenyan Counties where the method of methodology of survey and multiple regression analysis. The study found that financial transparency has a positive impact on financial sustainability in Kenyan counties. Specifically, counties with higher levels of financial transparency tend to have better financial management practices, lower levels of debt, and higher levels of revenue. Another study was conducted by (Karanja & Ndungu , 2019) on the Effect of Financial Transparency on Access to Credit in Kenya: A Case Study of Small and Medium-Sized Enterprises where the survey method of data

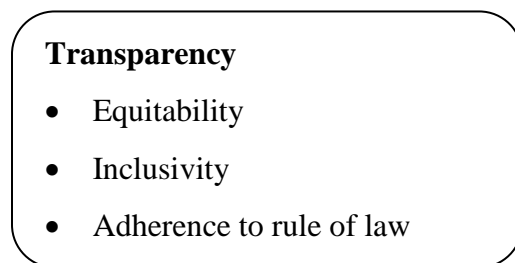
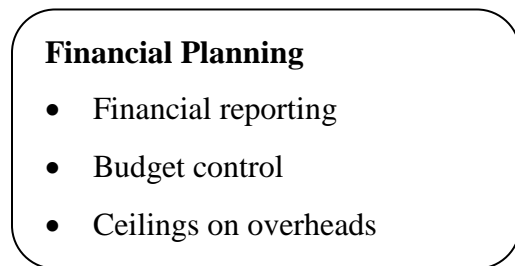
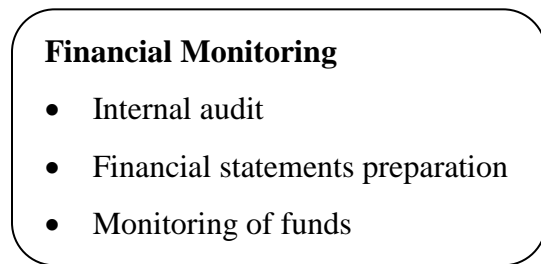
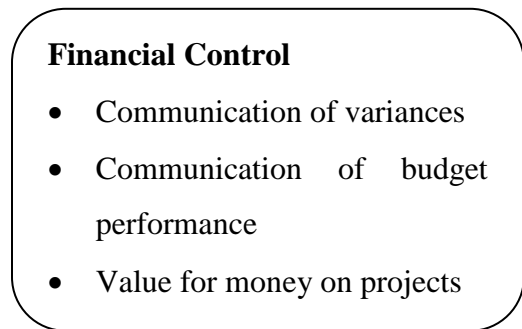
processing and analysis. The study found that financial transparency has a positive impact on access to credit in Kenyan SMEs. Specifically, SMEs with higher levels of financial transparency tend to have better credit ratings, lower interest rates, and better repayment terms. Transparency is built on accountability and financial reporting, in government partnership programs and companies. The government of Kenya, ensures that they take information required from all the income generating activities in the country and ensure the rules and procedures are open and comprehensive to each and every organization, (Johnston, 2017). The definition of transparency according to Heritage, (2017), is the ability to provide finance information so as the content is clearly visible to the public. The most important mechanism of transparency is governmental accounting and financial reporting since official information is shared to the public allowing people to have access to government information and activities, (Relly & Sabharwal, 2014) to avoid fraud and other intentional deceptive practice.

2.4 Conceptual Framework

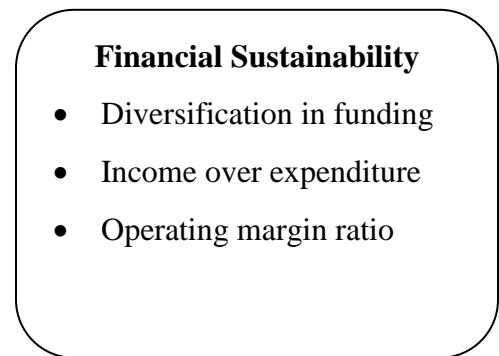
This is an essential tool in research that is meant to help any researcher to come up a brief knowledge for better understanding of the problem under investigation and to be able to communicate the same (Kombo & Tromp, 2014). The variables are as a result of the gap in knowledge on the financial accountability affecting financial stability of microfinance institution in Kenya.

Figure 2.1 Conceptual Framework

Independent Variables



Dependent Variable



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Data collection was conducted using different methods indicated in this chapter. The method of collection and analysis was indicated in this chapter according to the research objectives. The chapter consist of research design, target population, sample frame, research instruments, data collection procedures, pilot study and data analysis.

3.2 Research Design

This research study adopted a descriptive survey approach to establish the relationship between financial accountability on financial sustainability on microfinance institutes in Kenya. This survey approach will answer what, where and how the phenomenon happened to enable the researcher to generalize the findings. The design is supported by Mugenda and Mugenda (2012) since it can be used to collect information about peoples' attitude, views of management, character and opinions, thus effective in the collection of financial accountabilities on financial sustainability in MFIs in Kenya.

3.3 Target Population

This is the entire population in a given case study which is known as a census. As explained by Dawson (2014), it comprises of people, occasion or records that has a desired information and can answer the questions about the study. The target population is all the employees of the 12 MFIs in Kenya from different positions from the top-level management, middle management and lower-level management. The target population from all the MFIs was 2976 employees from different branches of the MFIs in appendix II attached. The purpose of this is to be able to acquire sensitive information from the top management and the information collected from the institution will be represented significantly.

Table 3.1 Target Population

Category	Population	Percentage
Caritas Microfinance Bank Limited	25	0.84

Century Microfinance Bank Limited	30	1.01
Choice Microfinance Bank Limited	33	1.11
Daraja Microfinance Bank Limited	14	0.47
Faulu Microfinance Bank Limited	1,866	62.70
Kenya Women Microfinance Bank Limited	238	8.00
Rafiki Microfinance Bank Limited	375	12.60
Remu Microfinance Bank Limited	20	0.67
SMEP Microfinance Bank Limited	279	9.38
Sumac Microfinance Bank Limited	25	0.84
U & I Microfinance Bank Limited	46	1.55
Uwezo Microfinance Bank Limited	25	0.84
Total	2976	100.00

Source: AUTHOR (2022)

3.4 Sampling Frame

According to Dawson 2014 sample frame is the list of character form which the sample size will be drawn which can be individuals, households and institutions, (Chandran, 2014). This will allow choosing a particular character from the target population that is to be interviewed in the survey. Cooper and Schindler (2010) define a sampling frame as the list of elements from which a sample will be drawn. In this study the sampling frame provided a means for choosing the particular members of the target population that were interviewed in the survey. The sampling frame indicates the sampling techniques and the sample size selected. The sampling frame will be the employees of headquarters of the different MFIs.

3.4.1 Sampling Technique and Sample Size

According to Chandran, (2014), Sampling Technique is the method in which the sample population is selected while sample size is the number of participants in research study. There are different sample techniques which are simple random sampling, systematic sampling, clustered sampling, quota sampling and judgmental sampling. In this study the researcher will use stratified sampling to select the sample size to represent the target population. Stratified sampling allows sub-dividing of the respondents into groups with similar characteristics known as strata, (Mugenda and Mugenda, 2003). According to this research the respondents' strata are based on the 12 different MFIs that they are employed. The study will collect data from all the respondents across the institution from top level officials, middle level official and lower-level official. The researcher in the survey will study the management and employees of MFIs, however from the possible 2976 target population, simple random sampling will be employed to select head officials, middle level official and lower-level officials where the total sample size will be 353 respondents. This study will utilize Yamane's formula to compute the sample as demonstrated as follows:

$$n = \frac{N}{(1 + N(e)^2)}$$

Where n = sample size

N = population of the study

e = level of significance (5% level of significance)

N = target population = 2976

Applying the formula,
$$n = \frac{2976}{1 + 2976 (0.05)^2}$$

$$n = 353$$

Sample Size = 353

Table 3.2 shows the distribution on how data will be collected in each institution where the respondents are grouped in strata's which are the different Microfinance Institution. The data is distributed based on the employment ration where the MFIs with high number of employees such as Faulu Microfinance Bank Limited, Kenya Women Microfinance Bank Limited, Rafiki Microfinance Bank Limited and SMEP Microfinance Bank Limited have the highest sample size.

Table 3.2 Sample Size

Category	Population	Percentage
Caritas Microfinance Bank Limited	3	0.84
Century Microfinance Bank Limited	4	1.01
Choice Microfinance Bank Limited	4	1.11
Daraja Microfinance Bank Limited	2	0.47
Faulu Microfinance Bank Limited	221	62.70
Kenya Women Microfinance Bank Limited	28	8.00
Rafiki Microfinance Bank Limited	44	12.60
Remu Microfinance Bank Limited	2	0.67
SMEP Microfinance Bank Limited	33	9.38
Sumac Microfinance Bank Limited	3	0.84
U & I Microfinance Bank Limited	5	1.55
Uwezo Microfinance Bank Limited	3	0.84
Total	353	100.00

Source: Author (2022)

3.5 Data collection Instruments and procedure

According to Cox (2016), research instrument is used for data collection, where it varies with different research topics, objectives, design and data analysis. According to this study the researcher will use questionnaire as an instrument of data collection. The questionnaire shall be designed to have closed-ended questions, using a five-point Likert scale to standardize the respondents: 1= Not at all; 2 = Little Extent; 3= Moderate Extent; 4= Large Extent and 5= Very

Large Extent. Open-ended and closed-ended questions will be used and the questions will be organized based on the objectives. The researcher shall drop the questionnaires at the place of work of the respondents and wait for them to fill in after a grace period of three weeks before collecting them for analysis. This will help minimize the level of interruptions on the target respondents work schedule. This will also enable the researcher to be in a position to analyze the effect of financial accountability on financial sustainability of microfinance institution in Kenya and any other factor not mentioned in the study.

3.6 Validity and Reliability of Research

Validity and reliability test is known as study which aims on the testing of the data collection instrument before the actual data collection process. The pilot study is done by selecting 10% to 30% of the sample size to improve the questionnaire. The study will conduct a pre-test on a lecturer, a business student and a supervisor in the microfinance institution. A pilot test will be conducted on 24 staff of the microfinance institution. Pilot test will assist in questionnaire modification and reconstruction based on the feedback which will be got.

3.6.1 Validity of Study

Validity helps in identifying the right research indicators that are used for effective measurement that the research intends to measure, (Fisher, 2014). Validity degree allows appropriate interpretation of scores. The questionnaire shall be piloted before use and content validity will be employed by ensuring the questionnaire covers the key aspects of the study variables. The results will be used to assess whether the questionnaires are clear to the subject and its content (Hopkins, 2017). The instruments will also be made available to experts i.e. supervisor for validation and ensuring that the items are based on the research objectives in order to enhance validity of the instrument. This study will adopt content validity. In order to ensure internal validity and control measurement errors, the data collection instruments will be reviewed by the members of the committee for the content and validity.

3.6.2 Reliability of Research Instruments

Cronbach's alpha is used to measure reliability or stability for consistency of measurement, (Bollen, 2014). The coefficient helps in indicating unbiased estimate of the general data presented to obtain reliable data. Some adjustments will be made in the structure, chronology,

and wording based on their recommendations. The instruments will be pilot tested by randomly selected groups of employees and management by sending questionnaires to some selected sample respondents and then the information acquired will be evaluated to assess its reliability. Reliability will be tested using Cronbach Alpha. The alpha value will be compared with the predetermined value of 0.7 (Brain & Manheim, 2016). Content validity will be tested by seeking expert opinion from lecturers, supervisors and finance professionals. From this, the study will establish construct, face and content validity.

3.7 Data Processing and Analysis

Data processing and analysis is conducted after the data has been collected. The raw data collected by the questionnaire will be organized by cleaning, coding key and analyzing by using Statistical Packages for Social Sciences (SPSS) version 26. The methods of analysis will be both quantitative and qualitative analysis. Tables, Pie charts and other graphs will be used as appropriate to present the data collected for ease of understanding and analysis. The research methodology to be used will be survey methodology where data will be collected using a questionnaire to measure attitude, opinion, behavior and can provide a broad understanding of the target population.

Descriptive and inferential statistics was used where, descriptive includes percentages, frequencies, average, sample variance and standard deviation and inferential constitute of spearman's rank correlation co-efficient tests, regression analysis, diagnostic test and t-test analysis. Qualitative analysis will be conducted on open-ended questions through the use of content analysis to indicate the theoretical interpretation of questions in the interview. That is, the responses will be grouped into a non-repetitive and exhaustive manner in accordance to common emerging themes (Kombo & Tromp, 2014).

The study also applied multiple regression analysis as the analytical model to establish the overall influence of the composite independent variables on dependent variables. The multiple regression formula was as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where:

Y = Financial Sustainability (dependent variable)

β_0 = Constant Term; β_1 = Beta coefficients.

X1 = Financial Control (independent variable).

X2 = Financial Monitoring (independent variable).

X3 = Financial planning (independent variable).

X4 = Transparency (independent variable).

E = Residual value

3.8 Diagnostic Test

Before performing regression analysis, the researcher carried out various diagnostic tests to test the underlying statistical assumptions for the linear and multiple regressions (Field, 2014). Diagnostic tests carried out included Normality, Linearity, Homoscedasticity, and Multicollinearity tests.

3.8.1 Normality Test

One of the assumptions for parametric tests to be reliable is that data should be approximately normally distributed. The normality test was used to determine whether sample data had been drawn from a normally distributed population. Normality of the data was tested using Kolmogorov – Smirnov test. If the test is non-significant ($P > 0.05$), the distribution of the sample is not significantly different from that of a normal distribution hence normally distributed. If the test is significant ($p < 0.05$), the distribution of the variables is significantly different from that of a normal distribution hence it is not normally distributed violating the assumption of normality (Field, 2014).

3.8.2 Linearity Test

Another assumption for parametric tests was that the independent and dependent variables had a linear relationship. Linearity was tested using the linearity test in the regression model based on the ANOVA table output for regression. This is indicated by the value sig. deviation from linearity. If the value sig. Deviation from linearity is non-significant, i.e. greater than 0.05 ($P > 0.05$) then the relationship between the dependent and independent variable is linear and if the Sig. Value Deviation from Linearity is significant, less than 0.05 ($P < 0.05$) then the relationship is non-linear (Hair *et al.*, 2013)

3.8.3 Homoscedasticity Test

Homoscedasticity (homogeneity of variance) refers to the assumption that the dependent variable exhibits equal variance across the range of values for an independent variable (Hair et al., 2013). Heteroskedasticity occurs when dependent variable exhibits unequal variance across the range for independent variables. Levene's test for equality of variance was used to test for homogeneity of variance. The Null hypothesis is that there is equal variance hence the difference between the variance is zero. If Levene's test is significant, at $P < 0.05$, we reject the hypothesis and if $P > 0.05$ is and the test insignificant, we accept the null hypothesis that the variance is equal and the assumption of homoscedasticity is fulfilled (Hair, *et al.*, 2013).

3.8.4 Collinearity Test

Another assumption of linear regression is that of collinearity that assumes that the independent variables are not correlated. Multicollinearity exists when there is a strong correlation between two or more independent variables. Presence of multicollinearity reduces the predictive power of individual variables. Multi-collinearity was tested using Tolerance and Variance Inflation Factor (VIF) calculated using SPSS regression procedure. A VIF of less than 3 for all the independent and dependent variables indicates no multicollinearity while a VIF of more than 10 ($VIF \geq 10$) indicates a problem of multi-collinearity (Field, 2014).

3.9 Ethical Consideration in Research

The researcher aims at abiding by the set research ethics including allowing free and willing participation in the study, the respondents shall be allowed to sign an informed consent and shall be allowed to leave the study whenever they want. All the work will be cited to avoid cases of plagiarism and reporting of the study findings will be without manipulations, exaggerations and undue assumptions. All the respondents and responses will be handled with utmost confidentiality and protection of their privacy shall be upheld. The researcher shall use all the collected information for academic and this research.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, AND INTERPRETATION OF FINDINGS

4.1 Introduction

The primary goal of this research was to investigate the impact of financial accountability on the financial sustainability of Kenyan microfinance firms. This chapter therefore reports the research findings and reporting according to the four specific objectives of the study outlined in chapter one. These objectives include financial control, financial monitoring, financial planning and transparency. It includes response rate, demographic representation, descriptive statistics, diagnostic test, regression analysis, correlation analysis and summary descriptive. The results of the analysis were presented using tables and graphs based on the research questions with the guideline set by the questionnaire.

4.2 Response rate

The sample size was 353 of the respondents who were employed from the top, middle and lower-level rank who are working in different MFIs. The response rate is the number of questionnaires returned divided by the total sample size multiplied by a hundred. Data was collected using questionnaires administered physically where the returned questionnaires were 300.

Figure 4.1 Response Rate

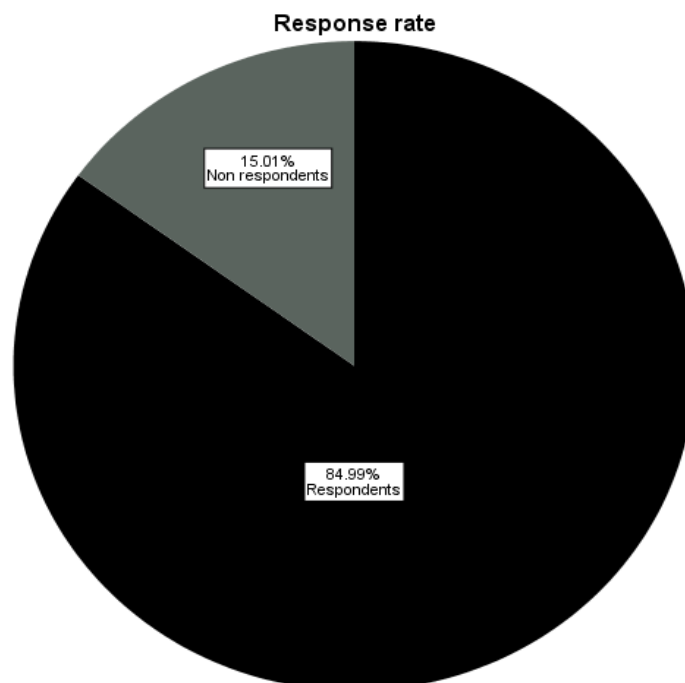


Figure 4.1 shows that the response rate was 84.99%. This is very good as supported by Mugenda and Mugenda (2003), where a rate of reply of above 50% is good but a response rate of above 70% is very good since it is an excellent representation of the population to avoid biasness. The unreturned questionnaires were 15.01% which could have occurred due to the delay in completion on time by the respondents. It was difficult to reach some respondents especially those who did not have internet access or smart mobile phones to respond to the questionnaires.

4.3 Demographic analysis

This is the relevant profile information of the respondents in the study. This section focused on the gender, age category, years of experience in the position, level of education and the MFI which the respondents are working in as indicated in table 4.1. The aim of the demographic analysis was to help the researcher to make conclusion regarding personal differences and generalization of the collection of data.

Table 4.1 Demographic Analysis

Gender	Frequency (n=300)	Percentage
Male	160	53.33
Female	140	46.67
Age	Frequency	Percentage
18 - 29 years	98	32.67
30 - 39 years	109	36.33
40 - 49 years	59	19.67
50 years and above	34	11.33
Years of experience	Frequency	Percentage
Less than 2 years	119	39.67
2 - 4 yrs	88	29.33
5 -7 years	61	20.33
Over 7 years	32	10.67
Level of education	Frequency	Percentage
Diploma	65	21.67
Undergraduate degree	142	47.33

Post Graduate Degree	64	21.33
Others	29	9.67
Which MFI that one is working	Frequency	Percentage
Caritas Microfinance Bank Limited	3	1.00
Faulu Microfinance Bank Limited	4	1.33
Century Microfinance Bank Limited	3	1.00
Kenya Women Microfinance	1	0.33
Choice Microfinance Bank Limited	188	62.67
Rafiki Microfinance Bank Limited	24	8.00
Daraja Microfinance Bank Limited	37	12.33
Remu Microfinance Bank Limited	2	0.67
SMEP Microfinance Bank Limited	28	9.33
Sumac Microfinance Bank Limited	2	0.67
U & I Microfinance Bank Limited	5	1.67
Uwezo Microfinance Bank Limited	3	1.00

Gender analysis is used to examine the difference in the social and economic life to apply in policy development. The opinion differs according to the gender, and it was important to determine the gender of the respondents which was indicated by table 4.1. majority of the respondents were male represented by 53.33% while the female respondents were 46.67%. In conclusion it is indicated that there is need for consideration of gender balance when hiring in the Microfinance institutions.

The age analysis is important since it helps in understanding the respondents' views about a particular problem. It also indicates the level of maturity of the respondents and the possible experience in the work environment since different age groups give different opinions. The age analysis is indicated by table 4.1. The analysis indicates that majority of the respondents were between the age of 30 to 39 years represented by 36.33%. The lowest represented was indicated by those with 50 years and above represented by 11.33%. MFI employees between the age of 18 to 29 years and 40 to 49 years was represented by 32.67% and 19.67% respectively.

The more the individual have worked in a specific field or organization the more experienced they are in the leadership and development of the organization. According to table 4.1 it is

indicated that 39.67 of the respondents have worked for less than 2 years. The lowest representation was 10.67% which indicate the employees who have worked for over 7 years. The respondents with 2 to 4 years' experience and 5 to 7 years of experience were represented by 29.33% and 20.33% respectively.

The importance of education analysis is to help in understanding a person's attitude and knowledge to the research carried out. It also helps to identify other problems and solutions in the organization that are outside the research study that will be recommended to other researchers. As indicated in table 4.1 majority of the respondents represented by 47.33% were undergraduate degree while the lowest representation was 9.67% which indicated others form of education such as certificate and other informal educations. For diploma and post graduate degree the representation was 21.67% and 21.33% respectively.

4.4 Descriptive analysis

Descriptive statistics is used to describe the basic features of the data such as mean, mode, median, minimum, maximum, standard error, variance, percentage, standard deviation, range, and sum. Variance is used for probability distribution showing how far each number in the set is from the mean and it is normally used as a measure of risk. A variance value of zero means that a set of data is identical. Large variance shows that the data set is far from the mean. Standard deviation on the other hand is used to quantify the amount of variation in a set of data value. The mean is the average of the total number of answers given by the respondents.

4.4.1 Financial control on financial sustainability

Figure 4.2 Financial control on financial sustainability

Does financial control effect on financial sustainability of MFIs in Kenya

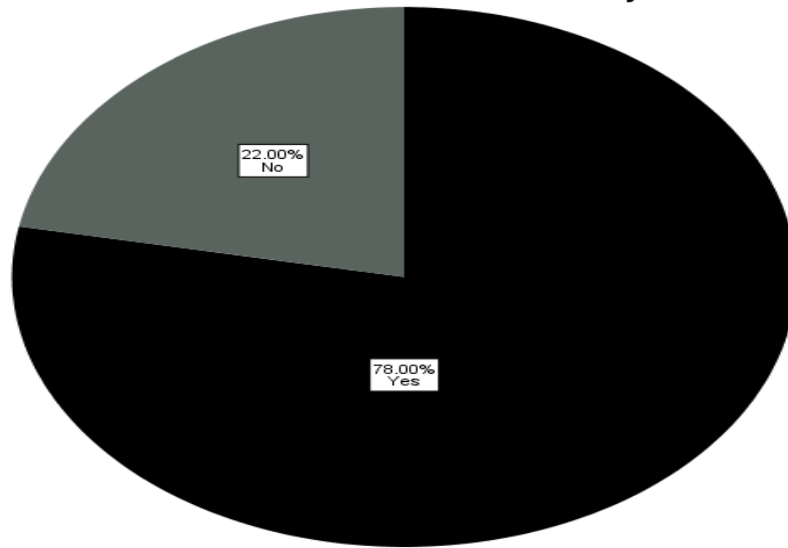


Figure 4.2 shows that financial control has an effect on financial sustainability of MFIs as agreed by 78% of the respondents since it involves the management of financial resources to ensure that an organization's financial performance is in line with its objectives and goals. However, 22% of the respondents disagreed on the statement.

Figure 4.3 To what extents does financial control affects financial sustainability

To what extents do you agree that financial controls effects on financial sustainability of MFIs in Kenya

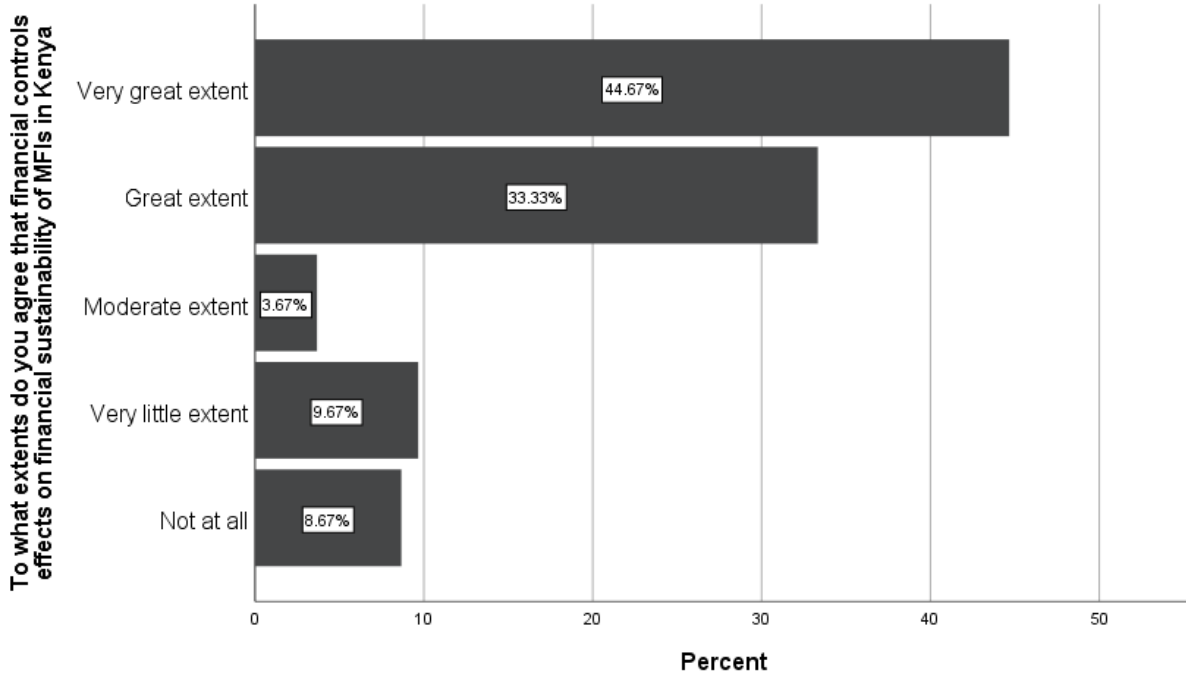


Figure 4.3 shows that majority of the respondents represented by 44.67% and 33.33% agreed that financial control affects financial sustainability with a very great extent and great extent respectively. Financial control improves the financial management, acts as a risk management tool, enhance financial transparency and ensure there is stronger compliance to financial regulations of an organization long term sustainability.

Table 4.2 Descriptive analysis on financial control on financial sustainability

Descriptive Statistics				
	N	Mean	Std. Deviation	Variance
The microfinance institution does not heavily depends on the borrowed funding for its operations.	290	4.06	1.235	1.526
The microfinance institution has adopted an accounting standard with knowledgeable staff who are accountable and responsible for its implementation.	285	3.91	1.363	1.858
The senior finance managers in the microfinance institution are accountable to deliver timely and accurate financial statements.	282	3.89	1.208	1.460
The microfinance institution has put in place effective internal audit trails for all financial transactions within its purview.	273	4.15	1.178	1.388
Valid N (listwise)	231			

Table 4.2 shows that the highest mean is 4.15 with a standard deviation of 1.178 which explained that it was agreed by majority of the respondent's The microfinance institution has established effective internal audit trails for all financial transactions within its scope. The second highest mean is 4.06 with a standard deviation of 1.235 which explained that majority of the respondents agreed that the microfinance institution heavily depends on the borrowed funding for its operations. The lowest mean was 3.89, with a standard deviation of 1.208, indicating a lack of agreement among top finance managers in microfinance institutions to deliver timely and accurate financial reporting. With a mean of 3.91 and a standard deviation of 1.363, the microfinance institution has implemented an accounting standard with knowledgeable employees who are accountable and responsible for its implementation.

4.4.2 Financial monitoring on financial sustainability

Figure 4.4 Financial monitoring on financial sustainability

Does financial monitoring influence on the financial sustainability of MFIs in Kenya

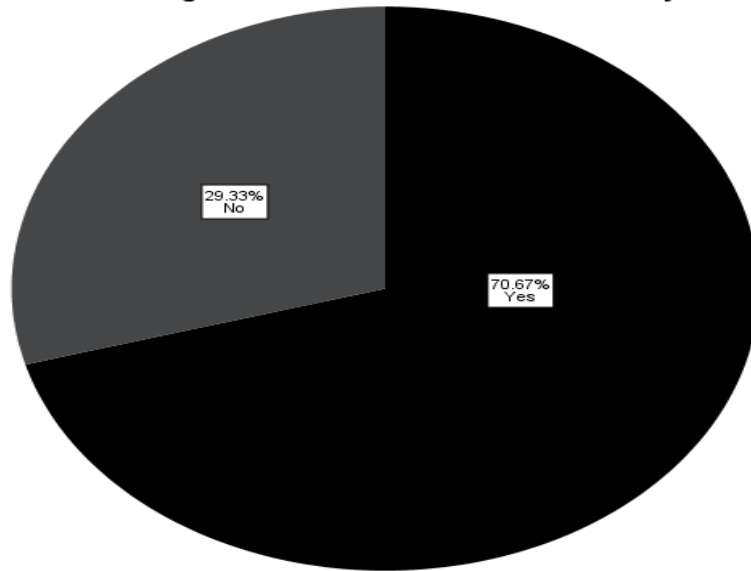


Figure 4.4 shows that financial monitoring has an influence on financial sustainability as represented by majority of the respondents, 70.67%. However, 29.33% disagreed on the statement that financial sustainability is not influenced by financial monitoring. Financial monitoring helps to identify potential financial issues early on, allowing organizations to take corrective action before problems become too severe.

Figure 4.5 To what extents does financial monitoring affects financial sustainability

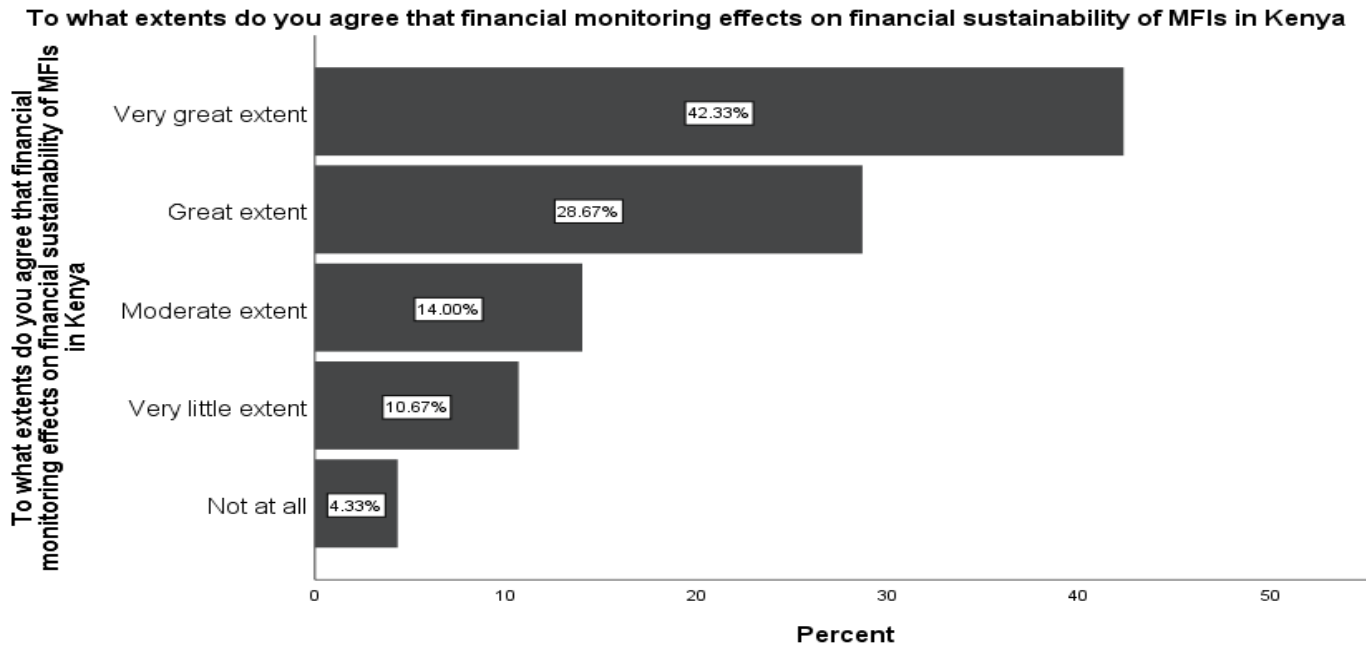


Figure 4.5 shows that financial monitoring respondents represented by 42.33% and 28.67% agreed that financial monitoring affects financial sustainability with a very great extent and great extent respectively. Financial monitoring can help organizations make informed financial decisions. By having accurate and timely financial information, organizations can make decisions about investments, loans, and other financial transactions with confidence, improving their financial sustainability

Table 4.3 Descriptive analysis on financial monitoring on financial sustainability

Descriptive Statistics				
	N	Mean	Std. Deviation	Variance
There exist a fully functional internal financial monitoring department including internal audit.	284	4.22	1.136	1.290
Financial transactions are recorded immediately they occur to facilitate finance monitoring.	282	3.88	1.205	1.452
The results of financial monitoring exercises are communicated to the stakeholders	280	3.57	1.268	1.607
Microfinance institution expenditure is continuously monitored in relation to the budget and the planned use of the MFI funds	283	4.10	.961	.923
Valid N (listwise)	237			

Table 4.3 reveals that the highest mean is 4.11, with a standard deviation of 1.136, indicating that the majority of respondents agreed that a fully functional internal financial monitoring department, including internal audit, exists. The majority of respondents agreed that microfinance institution expenditure is regularly reviewed in respect to the budget and the planned use of MFI money, with a mean of 4.10 and a standard deviation of 0.961%. According to a percentage of respondents indicated by a mean of 3.88, monetary transactions are documented immediately they happen to facilitate financial monitoring. The lowest mean was 3.57 which explains that there was a high disagreement on the statement that the results of financial monitoring exercises are communicated to the stakeholders.

4.4.3 Financial planning on financial sustainability

Figure 4.6 Financial planning on financial sustainability

Does financial planning influence on the financial sustainability of MFIs in Kenya

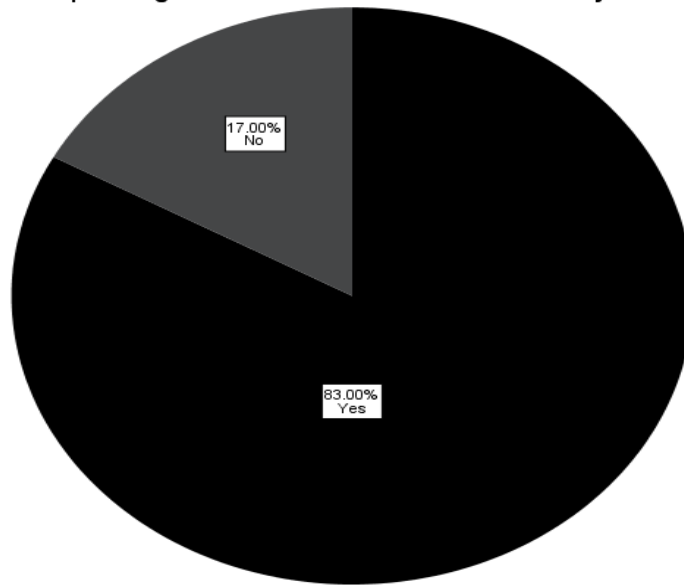


Figure 4.6 indicates that financial planning has an influence on financial sustainability as represented by majority of the respondents, 83%. However, 17% disagreed on the statement that financial sustainability is not influenced by financial planning. Financial planning is an important tool that is used to identify the major activities to allocate responsibilities effectively, resources and funds in the organization.

Figure 4.7 To what extents does financial planning affects financial sustainability

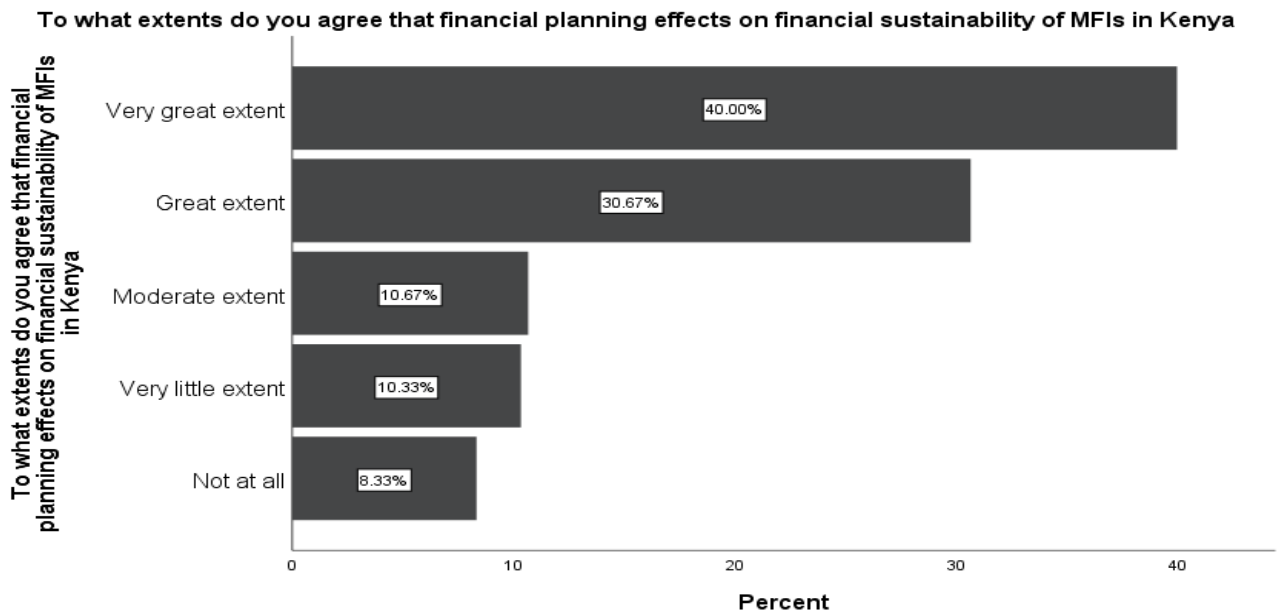


Figure 4.7 shows that financial planning respondents represented by 40% and 30.67% agreed that financial planning affects financial sustainability with a very great extent and great extent

respectively. Stakeholder’s participation, budget control, financial reporting and analysis of financial proposal are the key elements of financial planning. Planning requires the time, cost and scope that are used within the organization objectives for quality services.

Table 4.4 Descriptive analysis on financial planning on financial sustainability

Descriptive Statistics

	N	Mean	Std. Deviation	Variance
There is full and accurate reporting on the financial planning to the stakeholders.	283	4.18	1.116	1.245
In financial planning, management seeks counsel and guidance from professional advisors.	284	3.84	1.222	1.493
Stakeholders of the organization participate in budgetary process.	282	4.06	1.163	1.352
Financial proposals are analyzed and debated vigorously by all stakeholders before they are approved and implemented.	282	3.30	1.416	2.006
Valid N (listwise)	236			

Table 4.4 reveals that the highest mean is 4.18, with a corresponding standard deviation of 1.116, indicating that financial planning is fully and accurately reported to stakeholders. It was decided that stakeholders in the organization engage in the budgetary process, with a mean of 4.06 and a standard deviation of 1.163. Management seeks advice and counsel from professional advisors in financial planning, as evidenced by a mean of 3.84 and a standard deviation of 1.222. The lowest mean was 3.30, with a standard deviation of 1.416, indicating that there was significant disagreement on the statement on All stakeholders fiercely analyses and debate financial proposals before they are authorized and implemented.

4.4.4 Financial transparency on financial sustainability

Figure 4.8 Financial transparency on financial sustainability

Does transparency effect on financial sustainability of MFIs in Kenya

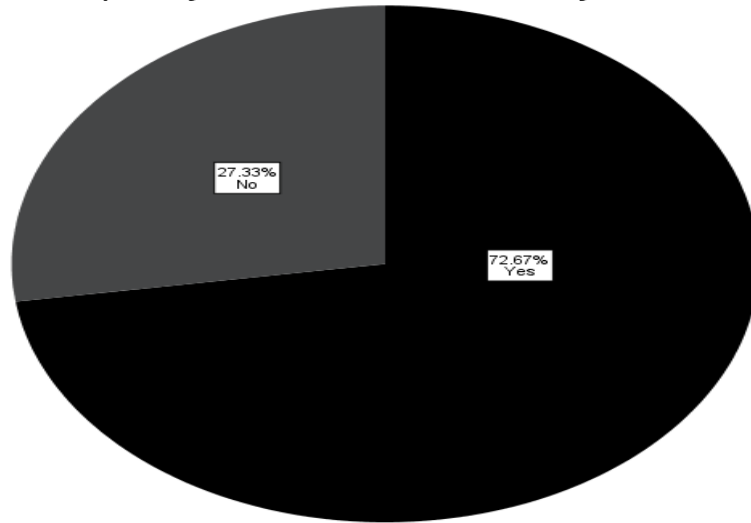


Figure 4.8 shows that financial transparency has an effect on financial sustainability of MFIs as agreed by 72.67% of the respondents. Those who disagreed on the statement were 27.33%. Transparency is an important tool in organization especially in stakeholders’ management. In public and private organizations transparency is carried out by publishing meaningful data in online platform where the financial activities are shared to the public.

Figure 4.9 To what extents does financial transparency affects financial sustainability

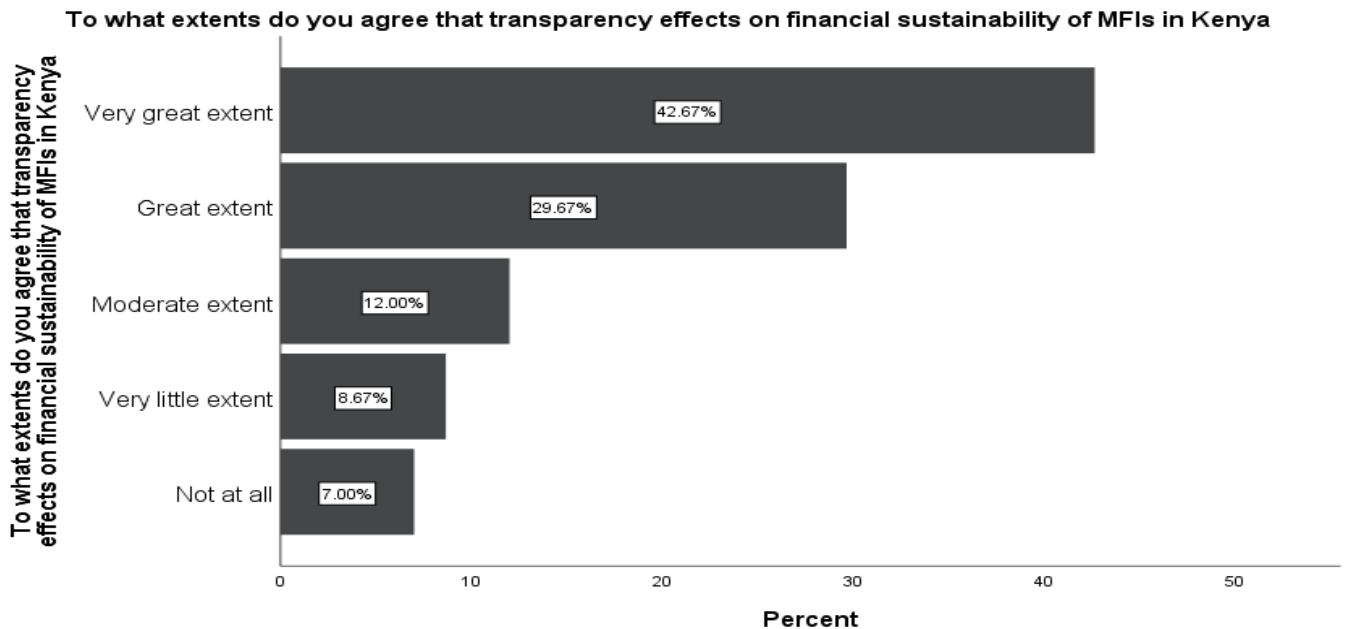


Figure 4.9 shows that majority of the respondents represented by 42.67% and 29.67% agreed that financial transparency affects financial sustainability with a very great extent and great extent

respectively. Transparency answers what is being done, how it is done, why it is carried out, who is involved and what are the standards made. Increased transparency can lead to increased investor confidence, lower financing costs, and improved access to capital

Table 4.5 Descriptive analysis on financial transparency on financial sustainability

Descriptive Statistics				
	N	Mean	Std. Deviation	Variance
The system installation stage envisages staff involvement to enhance transparency.	283	3.84	1.357	1.841
The MFI financial system is transparent by majority of the senior managers of the institution.	280	3.68	1.369	1.875
Most employees resist financial systems for fear of its transparent procedures.	278	4.07	1.082	1.172
The financial system is clear due to knowledge on how to use it.	283	4.15	.985	.971
Valid N (listwise)	231			

Table 4.5 displays the descriptive analysis, which shows that the highest mean was 4.15, indicating that the majority of respondents believed that the financial system is straightforward because they know how to use it. With a mean of 4.07 and a standard deviation of 1.082, nearly all of respondents agreed that most employees dislike financial systems because of their explicit procedures. The system installation stage anticipates employee participation to improve transparency, as evidenced by a mean of 3.38 and a standard deviation of 1.357. The lowest mean was 3.68 with a standard deviation stating that the majority of respondents disagreed that the MFI financial system is transparent by the majority of the institution's senior administrators.

4.4.5 Financial Sustainability

Table 4.6 Descriptive analysis on financial sustainability

Descriptive Statistics				
	N	Mean	Std. Deviation	Variance
The budgetary allocations have been on an upward trajectory since 2013.	300	4.47	.720	.518
The actual expenditure of the MFIs has been increasing for the past 4 years.	300	4.54	.719	.517

The MFIs is presently operating on a budgetary surplus.	300	4.24	1.067	1.138
The MFIs do not take long period before paying its creditors and suppliers.	300	4.55	.772	.596
Valid N (listwise)	300			

According to Table 4.6, the highest mean was 4.55, with a matching standard deviation of 0.772, indicating that the majority of respondents believed that MFIs do not take a long time to pay their customers and suppliers. The real expenditure of MFIs has been increasing over the last four years, as demonstrated by a mean of 4.54 and a standard deviation of 0.719. With a mean of 4.47 and a standard deviation of 0.720, the majority believed that budgetary allocations have been on an upward trend since 2013. The final mean was 4.24, indicating that the MFIs are now operating on a budgetary surplus.

4.5 Diagnostic Test

Diagnostic tests carried out included Normality, Linearity, Homoscedasticity, and Multicollinearity tests.

4.5.1 Normality Test

Table 4.7 Normality Test

		One-Sample Kolmogorov-Smirnov Test				
		Financial Sustainability	Financial Control on Financial Sustainability	Financial Monitoring on Financial Sustainability	Financial Planning on Financial Sustainability	Financial Transparency on Financial Sustainability
Normal	Mean	4.4500	3.9819	3.9306	3.8358	3.9272
Parameters ^{a,b}	Std. Deviation	.77965	1.19994	1.12406	1.19293	1.17769
Most Extreme Differences	Absolute	.276	.243	.171	.181	.202
	Positive	.240	.198	.171	.165	.181
	Negative	-.276	-.243	-.165	-.181	-.202
Test Statistic		.276	.243	.171	.181	.202
Asymp. Sig. (2-tailed)		1.151 ^c	2.413 ^c	1.221. ^c	8.791. ^c	1.047 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Table 4.7 shows the Kolmogorov-Smirnov test between financial accountability and financial sustainability to determine whether the data is normally distributed or not. Based on the output the value of Asymp. Sig. (2-tailed) is used to determine the normality test where value of financial Sustainability, Financial Control on Financial Sustainability, Financial Monitoring on Financial Sustainability, Financial Planning on Financial Sustainability and Financial Transparency on Financial Sustainability was 1.151, 2.413, 1.221, 8.791 and 1.047 respectively. this can be explained that since the Asymp. Sig. is greater than 0.05 it can be concluded that financial accountability and financial sustainability are normally distributed.

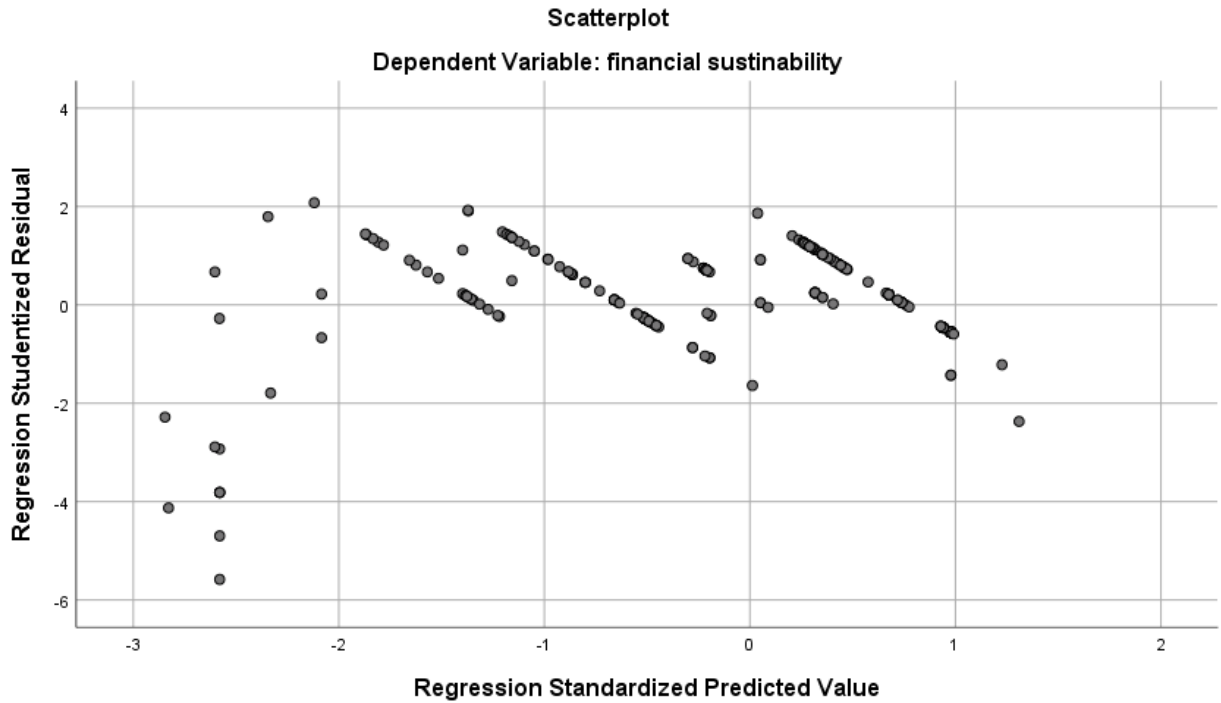
4.5.2 Linearity Test

Table 4.7 Linearity Test

			ANOVA Table				
			Sum of Squares	df	Mean Square	F	Sig.
Financial Sustainability * Accountability	Between Groups	(Combined)	177.588	93	1.910	94.505	.000
		Linearity	151.963	1	151.963	7520.761	.000
		Deviation from Linearity	25.625	92	.279	13.785	2.464
	Within Groups		4.162	206	.020		
	Total		181.750	299			

The Linearity Test aims to determine the connection between the independent and dependent variable and whether the dependent variable is linear or not for regression and correlation analysis. Table 4.7 shows that based on the output the linearity test is indicted by 2.462 which is greater than 0.05 ($2.464 > 0.05$) thus concluding that there is a linear relationship between financial control, financial monitoring, financial planning and financial transparency and the dependent variable.

4.5.3 Homoscedasticity Test



To detect the presence or absence of Homoscedasticity the type of data conducted was multiple regression where both the dependent and independent variable represent a satisfied score. According to the scatter plot its appears that there is no specific patter thus concluding that the regression model does not occur Homoscedasticity problem.

4.5.4 Collinearity Test

Table 4.8 Collinearity Test

		Collinearity Statistics	
		Tolerance	VIF
1	financial control	.057	17.420
	Financial monitoring	.022	46.235
	financial planning	.019	52.085
	financial transparency	.022	46.365

a. Dependent Variable: financial sustainability

To determine the assumption of collinearity for the financial accountability variable, the study used variance inflation factor (VIF) values. Table 4.8 presents the VIF values which indicated that there's collinearity since the VIF value was is greater than 10.

4.6 Inferential Statistics

The following section presents the R square value for regression model summary, F statistics for regression ANOVA and t statistics for regression coefficient for the linear relationship between financial accountability on financial sustainability microfinance institutions in Kenya.

4.6.1 Model Summary

Table 4.9 shows the model summary of the regression analysis for financial control, financial monitoring, financial planning and transparency on financial sustainability on MFIs. The findings of the model summary indicate that the financial accountability explained about 86.6% of the variability in the implementation of financial sustainability ($R^2 = 0.866$). This is an indication that despite financial accountability factors effect on implantation of the financial sustainability there are other factor that affect the implementation of the guideline which are political instability, poor health environment, lack of effective network and poor management of resources which represent 13.4%.

Table 4.9 Model Summary for Linear Relationship

Model Summary^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.931 ^a	.866	.864	.28729

a. Predictors: (Constant), financial transparency on financial sustainability, financial control on financial sustainability, financial monitoring on financial sustainability, financial planning on financial sustainability

b. Dependent Variable: financial sustainability

4.6.2 Regression Analysis of Variance

The linear regression F statistics shown in the Table 4.10 shows that there was a statistical and significant linear relationship between financial accountability and financial sustainability of MFIs, ($F(1, 300) = 476.779 > F_{sig.} = 0.000$). This means that financial control, financial monitoring, financial planning and transparency have impact on the financial sustainability of MFI.

Table 4.10 ANOVA Analysis

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	157.402	4	39.351	476.779	.000 ^b
	Residual	24.348	295	.083		
	Total	181.750	299			

a. Dependent Variable: financial sustainability

b. Predictors: (Constant), financial transparency on financial sustainability, financial control on financial sustainability, financial monitoring on financial sustainability, financial planning on financial sustainability

4.6.3 Regression Coefficients

The regression coefficients presented in Table 4.11 shows that financial accountability factors can statistically and significantly affect financial sustainability of Microfinance institutions.

Table 4.11 Regression Coefficients for Linear Relationship

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.933	.065		29.681	.000
	financial control on financial sustainability	-.181	.058	-.278	-3.124	.002
	Financial monitoring on financial sustainability	.769	.101	1.109	7.654	.000
	financial planning on financial sustainability	.107	.101	.163	1.062	.289
	financial transparency on financial sustainability	-.050	.096	-.076	-.523	.601

a. Dependent Variable: financial sustainability

Holding all the independents variable (financial control, financial monitoring, financial planning and transparency) constant financial accountability affects the financial sustainability by 1.933. this can be explained that financial accountability has positive effect on financial sustainability. The estimated regression equation from Table 4.11 above is given by:

$$\text{Financial Sustainability} = 1.933 - 0.181 \text{ Financial Control} + 0.769 \text{ Financial Monitoring} + 0.107 \text{ Financial Planning} - 0.05 \text{ Transparency} + 0.065$$

The table indicates that the financial control affects the financial sustainability with -0.181, financial monitoring affects the financial sustainability with 0.769, financial planning affects the

financial sustainability with 0.107 and financial transparency affects the financial sustainability with -0.05. The analysis concluded that financial monitoring affects the financial sustainability of MFIs more compared to financial control, financial planning and transparency.

4.7 Correlation Analysis

Correlation is the statistical measure that indicates the strength of the relationship between two or more variables, which can be either positive or negative. It is used to indicate variables that are positively related or negatively related. A strong relationship is said to be at 0.7 and above.

Table 4.12 Correlation matrix for the variables used in the study

		Correlations				
		Financial Control	Financial Monitoring	Financial Planning	Financial Transparency	Financial Sustainability
Financial Control	Pearson Correlation	1	.964**	.967**	.967**	.876**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	300	300	300	300	300
Financial Monitoring	Pearson Correlation	.964**	1	.986**	.984**	.928**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	300	300	300	300	300
Financial Planning	Pearson Correlation	.967**	.986**	1	.986**	.914**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	300	300	300	300	300
Financial Transparency	Pearson Correlation	.967**	.984**	.986**	1	.908**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	300	300	300	300	300
Financial Sustainability	Pearson Correlation	.876**	.928**	.914**	.908**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	300	300	300	300	300

** . Correlation is significant at the 0.01 level (2-tailed).

The relationship between the independent and dependent variable were 0.876, 0.928, 0.914 and 0.908 indicating the relationship between financial sustainability and financial control, financial monitoring, financial planning and financial transparency respectively. According to the correlation analysis it can be indicated that financial monitoring has the highest effects on financial sustainability and the lowest influence was on financial control on financial

sustainability. The relationships indicate a strong positive relationship between financial accountability and financial sustainability in MFIs.

4.8 Chapter Summary

This chapter present all the research data that was collected form different MFIs in Kenya with the aim of investigating the impact of financial accountability on financial sustainability on MFI. The specific objectives been financial control financial monitoring, financial planning and transparency on financial sustainability. Th descriptive analysis, diagnostic test, regression and correlation analysis shows that financial sustainability is highly influenced by financial monitoring, financial planning, financial transparency and least by financial control. The next chapter will present the discussion, conclusion, recommendations of the study and suggestions for further research.

CHAPTER FIVE
DISCUSSION,
CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter discusses the summary of the findings. Included are summary, conclusion and recommendations represented from all the qualitative and quantitative analysis presented in chapter 4 with relation to the literature review in chapter 2. Most of the financial accountability factors are made and handled by the top-level management in a business or the most important person in the organization.

5.2 Discussion of Findings

5.2.1 Financial control on financial sustainability

According to the findings it was indicated that financial control has an impact on financial sustainability in MFIs and with a very great extent. This means that when MFIs implement effective financial control practices, it positively influences their ability to maintain their financial stability and viability in the long run. This is highly supported by (Ahmed, Bhuiyan, Ibrahim, & Said, 2017) who states that for MFIs to be sustainable the most important activity is to well-manage financial activities, proper budgeting, accurate accounting, and prudent financial decision-making. The analysis indicates that MFIs are financially self-sufficient since they do not rely on borrowed funding for their operations. This is highly supported by (Olowe & Ojo, 2018) who stated that MFIs have good financial management thus desirable for stability due to their reduced dependency on borrowed funds from external forces, such as other MFIs, banks, NGOs and Government. It was indicated that the adoption of an accounting standard within a microfinance institution (MFI) is highly experienced due to the existence of knowledgeable staff who are accountable and responsible for its implementation. In relation to this (Martínez-Ferrero, 2019) agrees that accounting standards indicate the MFIs' willingness to sustain themselves, adding that despite the benefits, there may be challenges in terms of finding and retaining staff with the required expertise, providing ongoing training, and ensuring that the chosen accounting standard remains up to date and relevant. Accountability is significant in sustainability and risk management since prompt and accurate financial statements facilitate the identification of

financial risks and vulnerabilities. Senior finance managers can assess trends and deviations from expected financial outcomes, allowing the institution to take proactive measures to mitigate risks and ensure its stability, (Ntanda, 2017). This is highly supported by (Gathaiya, Ngugi, & Kihoro, 2017) who stated that internal audit trails provide a clear and traceable record of all financial transactions thus enabling financial control of where and how the financial resources are used.

5.2.2 Financial monitoring on financial sustainability

The study regression and correlation findings illustrate that financial monitoring has the highest effect on the financial sustainability of MFIs. The descriptive analysis further explains that it affects with a very great extent since it helps to identify potential financial issues early on, allowing organizations to take corrective action before problems become too severe. This is in relation to (Chimwamurombe & Phiri, 2019) study conducted on Financial Monitoring Practices on Microfinance Institution Sustainability where the results the presence of a well-structured monitoring department contributes to effective corporate governance, ensuring accountability and responsible financial management. According to the survey, MFIs have a fully functional internal financial monitoring department, including internal audit. In relation to this financial monitoring is carried out by internal monitoring as indicated by Abdulai & Ibrahim, (2018), identifying that internal audits help in identifying and preventing fraudulent activities, protecting the organization's assets and reputation. The expenditure of microfinance institutions is constantly examined in regard to the budget and the intended use of MFI funds. This is supported by Banyenze & Magara, (2017) who was able to identify that through regular assessments; the department can identify inefficiencies and recommend improvements in financial processes. Finally, the study indicated that the results of financial monitoring exercises are communicated to the stakeholders. External stakeholders, such as investors, lenders, and regulators, gain confidence in the organization's financial reporting when there is an independent internal audit function.

5.2.3 Financial Planning on financial sustainability

An important tool in an institution or organization is planning for the human resources, financial resources and the time effectively in order for the activities to be successful. The analysis indicate that the financial planning has a positive impact on financial sustainability where with

the right time, scope and time the products and service have good quality. In support to this Hassan & Forhad (2018), agree that creating and adhering to a budget helps control spending, ensure that funds are allocated to essential needs, and prevent overspending. Effective cash flow management enhances liquidity and financial stability. This is supported by (Abdullah, 2018) on the impacts of financial planning on sustainability that providing comprehensive and accurate information about an organization's financial planning demonstrates transparency. Stakeholders of the organization participate in budgetary process. This is further explained by Assefa & Adugna, (2020) that stakeholders involvement indicate transparency and they ensure that the budget aligns with the organization's goals and objectives. The analysis indicates that in financial planning, management seeks counsel and guidance from professional advisors. In support to these professional advisors possess specialized knowledge in various aspects of finance, taxation, investment, law, and risk management. They stay updated with industry trends, regulations, and best practices, allowing them to offer accurate and relevant advice to their clients, (Mwaura, 2018). Vigorous analysis and debate allow for a comprehensive evaluation of financial proposals. This contradicts with a study conducted by Wambugu & Kinyanjui, (2017) who stated that involving stakeholders in the analysis and debate process ensures that decisions are made based on a well-informed assessment of the proposal's pros, cons, risks, and benefits.

5.2.4 Financial Transparency on financial sustainability

The findings indicate that transparency in MFI is experienced by the stakeholders since transparency is carried out by publishing meaningful data in online platform where the financial activities are shared to the public. This is explained by Dener & Min, (2018), who indicates that involves open and clear communication about an entity's financial health, practices, and strategies. The system installation stage in a microfinance institution (MFI) is a critical phase that involves implementing new technological systems or upgrading existing ones to improve operations, data management, and overall efficiency. Involving staff from different levels and departments in the planning and decision-making process helps create a shared understanding of the purpose and benefits of the new system. According to the analysis transparency is a cornerstone of building trust among stakeholders, including investors, clients, regulators, and the public. In relation to this Johnston, (2017) support this by stating that when senior managers champion transparency, it sends a strong signal that the institution is committed to open and honest financial practices. Employees may worry that transparent financial systems will make

them more accountable for their actions. In support to this (Ouda & Alnaser, 2019) employees might fear that errors or mistakes will be more visible, potentially leading to negative consequences. They might feel uncomfortable or threatened by the idea of adapting to new procedures and technologies. Having a clear financial system in a microfinance institution (MFI) due to knowledgeable usage is a positive and crucial aspect for the institution's success, transparency, and sustainability. In support to this (Kayode & Adebawale , 2018) indicates that Employees who are well-versed in using the financial system can generate reports promptly. This helps stakeholders make informed decisions and keeps the institution responsive to changes in its financial landscape.

5.3 Conclusion

5.3.1 Financial control on financial sustainability

MFIs implement effective financial control practices; it positively influences their ability to maintain their financial stability and viability in the long run. It implies that well-managed financial activities, proper budgeting, accurate accounting, and prudent financial decision-making play a crucial role in ensuring the sustainability of MFIs. The study concludes that if an MFI is not heavily reliant on borrowed funding, it can have greater control over its operations and decision-making. This financial autonomy allows the institution to make strategic choices that align with its mission and goals without being overly influenced by external lenders. On the other hand, adopting a standardized accounting framework ensures consistency and uniformity in financial reporting. This transparency is vital for stakeholders, including investors, donors, regulators, and clients, to understand the MFI's financial health and performance. Knowledgeable staff accountable for implementation can ensure that financial records are accurate and adhere to the chosen standard, minimizing the risk of errors or misreporting. The conclusion of the study, accurate financial statements serve as a critical tool for decision-making at various levels of the organization. Senior management relies on these statements to make strategic choices, allocate resources, and assess the MFI's financial performance. Many microfinance institutions are subject to regulatory requirements that mandate accurate and transparent financial reporting. Internal audit trails facilitate compliance with these regulations by providing a detailed and verifiable record of transactions that can be presented to regulatory bodies when required. Finally, it was concluded that Comprehensive audit trails provide valuable

data that can inform decision-making processes. Senior management can analyze trends, patterns, and performance metrics based on the recorded transactions, leading to more informed strategic choices.

5.3.2 Financial monitoring on financial sustainability

It is concluded that an internal financial monitoring department helps identify and mitigate financial risks that the organization may face. This is crucial for preventing fraud, errors, and non-compliance with financial regulations. Internal audits help in identifying and preventing fraudulent activities, protecting the organization's assets and reputation. Recording transactions promptly provides real-time visibility into the organization's financial position, enabling better decision-making based on accurate and up-to-date information. Immediate recording helps identify anomalies, errors, or suspicious activities early, allowing for swift corrective actions and reducing the risk of financial discrepancies going unnoticed. Regular communication of monitoring results builds trust with stakeholders, demonstrating the organization's commitment to accurate financial reporting, compliance, and risk management. On the other hand, Stakeholders, including management and the board of directors, need accurate financial information to make well-informed decisions that affect the organization's future strategies and actions. Monitoring expenditure ensures that the MFI's financial resources are utilized as intended, preventing overspending and promoting financial sustainability. Continuous monitoring allows the MFI to allocate resources efficiently, ensuring that funds are directed towards priority activities and initiatives. Ensuring that expenditure data is accurate and consistently recorded can be challenging, especially in cases of manual record-keeping. Unexpected events or changes in market conditions can impact the MFI's budget and planned expenditures, necessitating flexibility in monitoring approaches.

5.3.3 Financial Planning on financial sustainability

In conclusion, providing comprehensive and accurate information about an organization's financial planning demonstrates transparency. Stakeholders have the right to know how the company is being managed financially, and reporting ensures that decisions are made with a clear understanding of the financial position and performance. On the other hand, managing financial risks is an integral part of financial planning. Advisors can assess potential risks and suggest strategies to mitigate them, whether through insurance, investment diversification, or

other means. When stakeholders are actively involved in the budgeting process, they develop a sense of ownership over the financial decisions. This ownership translates into increased commitment to achieving budget targets and goals. In relation to this, stakeholder involvement can foster innovative thinking. Different perspectives can lead to the identification of new opportunities, cost-saving measures, and creative ways to achieve financial objectives. Involving stakeholders in the analysis and debate process fosters transparency. The organization demonstrates a commitment to openness and accountability by allowing various stakeholders to assess and discuss financial proposals. Financial planning begins with setting clear and realistic financial goals. These goals could include saving for retirement, funding education, paying off debts, or achieving specific business targets. Clear goals provide a roadmap for making financial decisions that contribute to sustainability. Proper financial planning addresses debt management. Managing and reducing high-interest debt can free up resources for other financial goals and enhance overall financial stability.

5.3.4 Financial Transparency on financial sustainability

The study concluded that staff involvement in system design and customization ensures that the technology aligns with their workflow since their insights help in identifying potential bottlenecks and enhance usability. Training sessions involving staff help them understand the new system's functionalities and how to use it effectively. Establishing mechanisms for continuous feedback and improvement from staff allows the MFI to address issues promptly and make necessary adjustments to the system. When senior managers actively support and promote financial transparency, it instills confidence in stakeholders. Investors are more likely to invest in an MFI that has a strong track record of transparent financial practices. Senior managers serve as role models for the rest of the organization. Their commitment to transparency sets an ethical standard that can influence staff members at all levels. Transparent financial systems might reveal inefficiencies or underperforming areas of the institution. Employees could worry that this could lead to downsizing or restructuring that affects their job security. If employees are not accustomed to working with advanced financial systems, they might be intimidated by the learning curve associated with using new technology. If employees aren't well-informed about the benefits of transparent financial systems, they might be more resistant due to misinformation or misunderstandings. Knowledgeable usage of the financial system streamlines processes, reducing the time and effort required to manage financial tasks. This leads to increased overall

productivity. Adequate understanding of the financial system ensures that the MFI complies with financial regulations and reporting standards, avoiding legal issues and penalties. A knowledgeable workforce can better assess financial risks and develop mitigation strategies, which is essential for maintaining the institution's stability.

5.4 Recommendation

5.4.1 Financial control on financial sustainability

In the context of microfinance, where these institutions provide financial services to low-income individuals and communities, financial sustainability is vital for them to continue fulfilling their mission and serving their target clients effectively. MFI's reduced dependence on borrowed funding is a noteworthy characteristic that reflects careful financial management and a desire for stability. However, this approach needs to be carefully balanced with the institution's growth aspirations, social mission, and the potential opportunities that external funding can bring. Striking this balance is crucial to ensure the MFI's long-term sustainability while effectively serving its clients and communities. The adoption of an accounting standard alongside knowledgeable and accountable staff is a positive step for a microfinance institution. It enhances financial transparency, decision-making, regulatory compliance, and stakeholder trust, ultimately contributing to the institution's financial sustainability and social impact. However, careful attention must be given to staff training, ongoing development, and the balance between compliance and operational efficiency. The accountability of senior finance managers to deliver timely and accurate financial statements is a cornerstone of responsible financial management within a microfinance institution. It affects transparency, decision-making, compliance, stakeholder relationships, and the overall success of the institution's mission. It is essential to invest in the necessary resources and processes to ensure that this accountability is upheld consistently. The study recommends that while the benefits are substantial, implementing and maintaining effective internal audit trails can be challenging. It requires investing in technology, training staff, designing efficient workflows, and ensuring compliance with data protection regulations.

5.4.2 Financial monitoring on financial sustainability

The study recommends that the of MFIs success depends on careful planning, resource allocation, and a commitment to objectivity and continuous improvement. This is because a fully functional internal financial monitoring department, including internal audit, is an integral part of

an organization's governance structure. It helps manage risks, improve processes, ensure compliance, and build trust with stakeholders. On financial transactions recordings that are immediately conducted as they have occurred to facilitate finance monitoring to it is recommended that organizations must carefully weigh the challenges and considerations associated with this approach and invest in the necessary resources to implement and maintain effective real-time recording systems. This is because recording financial transactions immediately they occur offers numerous benefits, ranging from improved accuracy to better risk management. Communicating the results of financial monitoring exercises to stakeholders is essential for transparency, trust-building, and effective governance. While challenges exist, organizations can overcome them by adopting best practices that facilitate clear, relevant, and timely communication of monitoring outcomes. Finally study recommends that while challenges exist, addressing them through accurate data recording, variance analysis, and effective communication with stakeholders can lead to improved financial management and organizational success. This will help the institution in relation to the budget and planned use of funds is crucial for financial stability, accountability, and efficient resource allocation.

5.4.3 Financial Planning on financial sustainability

According to the study full and accurate reporting on financial planning is a cornerstone of effective corporate governance. It ensures that stakeholders have the necessary information to make informed decisions and holds organizations accountable for their financial activities. Transparent reporting contributes to trust-building, sound decision-making, and the overall success and sustainability of the organization. In recommendation to this seeking counsel and guidance from professional advisors is a wise approach to financial planning. There should expertise, objectivity, and specialization contribute to the development of comprehensive and effective financial strategies that align with individual or organizational goals. Through collaboration with these experts, individuals and entities can make informed decisions that lead to financial success and security. The study recommends that by tapping into diverse perspectives and expertise, organizations should create budgets that align with objectives, mitigate risks, and drive overall success. This collaborative approach enhances organizational culture, fosters trust, and empowers stakeholders to contribute to the financial well-being of the organization. The practice of rigorously analyzing and debating financial proposals among all stakeholders before approval and implementation is a cornerstone of effective financial

governance. It leads to better decisions, enhanced transparency, and increased accountability. In recommendation harnessing diverse perspectives and expertise, organizations can navigate financial challenges with greater confidence, aligning their actions with their strategic goals and ensuring long-term success. By establishing clear goals, managing resources effectively, considering risks, and adapting to changing circumstances, individuals and organizations can achieve long-term financial stability and resilience. With thoughtful planning, they can navigate challenges, seize opportunities, and ensure a sustainable financial future.

5.4.4 Financial Transparency on financial sustainability

Staff involvement during the system installation stage in an MFI is instrumental in enhancing transparency, accountability, and successful technology adoption. It is recommended that the institution should value their insights, addressing their concerns, and making them an integral part of the process, an MFI can build a culture of openness and collaboration that benefits the organization as a whole. When a majority of senior managers in a microfinance institution prioritize and promote financial transparency, it has far-reaching positive effects on the organization's credibility, stakeholder relationships, decision-making, and overall sustainability. Their leadership sets the tone for a culture of openness, ethical conduct, and responsible financial management throughout the institution. On the other hand, employee resistance to transparent financial systems in MFIs can arise from various factors, but with the right strategies and approaches, institutions can address these concerns, promote understanding, and create a more transparent and efficient work environment. Balancing transparency with empathy and support is essential for the successful adoption of these systems. The importance of having a clear financial system in an MFI cannot be overstated. Employees who understand how to use the financial system effectively contribute to accurate reporting, transparency, informed decision-making, and overall operational efficiency. Thus, it is recommended that investing in training and capacity building ensures that the MFI's workforce is equipped to navigate the financial landscape successfully.

APPENDIX I: QUESTIONNAIRE

Please tick the correct answer and give narrative where applicable, to the best of your knowledge. All responses will be treated with confidentiality.

SECTION A: BACKGROUND INFORMATION

1. Gender

Male []
Female []

2. What is your age?

18-29 years []
30-39 years []
40-49 years []
50 and Above []

3. How long have you worked with the organization?

Less than 2 years []
2-4 Years []
5-7 Years []
Over 7 Years []

4. What is your highest level of education?

Diploma []
Undergraduate Degree []
Postgraduate Degree []
Others []

5. Which Microfinance institution do you work for?

Caritas Microfinance Bank Limited []
Faulu Microfinance Bank Limited []
Century Microfinance Bank Limited []

- Kenya Women Microfinance []
- Choice Microfinance Bank Limited []
- Rafiki Microfinance Bank Limited []
- Daraja Microfinance Bank Limited []
- Remu Microfinance Bank Limited []
- SMEP Microfinance Bank Limited []
- Sumac Microfinance Bank Limited []
- U & I Microfinance Bank Limited []
- Uwezo Microfinance Bank Limited []

SECTION B: FINANCIAL CONTROL

6. Does financial control effect on financial sustainability of MFIs in Kenya?

- Yes []
- No []

7. To what extents do you agree that financial controls effects on financial sustainability of MFIs in Kenya?

- Very great extent []
- Moderate extent []
- Not at all []
- Great extent []
- Very little extent []

8. Indicate your level of agreement with the following statement regarding to financial controls as the factor that affects financial sustainability of MFIs. Where 1-strongly agree, 2- agree, 3- neutral, 4-disagree and 5- strongly disagree.

Statement	1	2	3	4	5
The MFIs heavily depends on the deposit of their customers for its operations.					
The MFIs has adopted an accounting standard with knowledgeable staff who are accountable and responsible for its implementation.					
The senior finance managers in the MFIs are					

accountable to deliver timely and accurate financial statements.					
The MFIs has put in place effective internal audit trails for all financial transactions within its purview.					

SECTION C: FINANCIAL MONITORING

9. Does financial monitoring influence on the financial sustainability of MFIs in Kenya?

Yes []

No []

10. To what extent do you agree on the following statement as they relate to financial monitoring by the MFIs in Kenya? Rate, 1 to strongly agree while 5 to strongly disagree. Please tick appropriately.

Statement	1	2	3	4	5
There exist a fully functional internal financial monitoring department including internal audit.					
Financial transactions are recorded immediately they occur to facilitate finance monitoring.					
The results of financial monitoring exercises is communicated to the stakeholders					
MFIs expenditure is continuously monitored in relation to the budget and the planned use of the funds					

11. Do you agree that financial monitoring effects on financial sustainability of MFIs in Kenya?

Strongly agree []

Agree []

Moderately agree []

Disagree []

Strongly disagree []

SECTION D: FINANCIAL PLANNING

12. Does financial planning influence on the financial sustainability of MFIs in Kenya?

Yes []

No []

13. To what extent do you agree on the following statement as they relate to financial planning on the financial sustainability of MFIs? Where 1-strongly agree, 2- agree, 3-neutral, 4-disagree and 5- strongly disagree. Please tick appropriately.

Statement	1	2	3	4	5
There is full and accurate reporting on the financial planning to the stakeholders.					
In financial planning, management seeks counsel and guidance from professional advisors.					
Stakeholders of the organization participate in budgetary process.					
Financial proposals are analyzed and debated vigorously by all stakeholders before they are approved and implemented.					

SECTION E: TRANSPARENCY

14. Does transparency effect on financial sustainability of MFIs in Kenya?

Yes []

No []

15. To what extent does transparency effect on financial sustainability of MFIs?

Very great extent []

Moderate extent []

Not at all []

Great extent []

Very little extent []

16. Indicate your level of agreement with the following statement regarding to transparency as the factor that effects on financial sustainability of MFIs. Where 1-strongly agree, 2-agree, 3- neutral, 4-disagree and 5- strongly disagree.

Statement	1	2	3	4	5
The system installation stage envisages staff involvement to enhance transparency.					
The MFIs financial system is transparent by majority of the senior officers of the banking industry					
Most employees resist financial systems for fear of its transparent procedures.					
The system is not clear cut due to lack of knowledge on how to use it.					

SECTION F: FINANCIAL SUSTAINABILITY

17. To what extent do you agree on the following statement as they relate to financial sustainability? Rate, 1 to strongly agree while 5 to strongly disagree. Please tick appropriately.

Statement	1	2	3	4	5
The budgetary allocations have been on an upward trajectory since 2013.					
The actual expenditure of the MFIs has been increasing for the past 4 years.					
The MFIs is presently operating on a budgetary surplus.					
The MFIs mostly runs on debt					
The MFIs takes long period before paying its creditors and suppliers.					

THANK YOU FOR YOUR PARTICIPATION

APPENDIX II: LIST OF MICROFINANCE INSTITUTION IN KENYA

NO.s	DIRECTORY OF LICENSED MICROFINANCE BANKS
1.	<p>Caritas Microfinance Bank Limited</p> <p>Physical Address: Cardinal Maurice Otunga Plaza, Ground floor, Kaunda Street, Nairobi</p> <p>Date Licensed: 02.06.2015</p> <p>Branches: 2</p>
2.	<p>Century Microfinance Bank Limited</p> <p>Physical Address: K.K. Plaza, 1st Floor, New Pumwani Road – Gikomba, Nairobi</p> <p>Date Licensed: 17.09.2012</p> <p>Branches: 1</p>
3.	<p>Choice Microfinance Bank Limited</p> <p>Physical Address: Siron Place, Ongata Rongai, Magadi Road, Nairobi</p> <p>Date Licensed: 13.05.2015</p> <p>Branches: 1</p>
4.	<p>Daraja Microfinance Bank Limited</p> <p>Physical Address: Karandini Road, off Naivasha Road, Nairobi</p> <p>Date Licensed: 12.01.2015</p> <p>Branches: 1</p>
5.	<p>Faulu Microfinance Bank Limited</p> <p>Physical Address: Faulu Kenya House, Ngong Lane - Off Ngong Road, Nairobi</p> <p>Date Licenced: 21.05.2009</p> <p>Branches: 39</p>
6.	<p>Kenya Women Microfinance Bank Limited</p> <p>Physical Address: Akira House, Kiambere Road, Upper Hill, Nairobi</p> <p>Date Licenced: 31.03.2010</p> <p>Branches: 31</p>
7.	<p>Rafiki Microfinance Bank Limited</p> <p>Physical Address: Rafiki House, Biashara Street, Nairobi</p> <p>Date Licensed: 14.06.2011</p>

	Branches: 17
8.	<p>Remu Microfinance Bank Limited</p> <p>Physical Address: Finance House, 14th Floor, Loita Street, Nairobi</p> <p>Date Licensed: 31.12.2010</p> <p>Branches: 2</p>
9.	<p>SMEP Microfinance Bank Limited</p> <p>Physical Address: SMEP Building - Kirichwa Road, Off Argwings Kodhek Road, Nairobi</p> <p>Date Licensed: 14.12.2010</p> <p>Branches: 7</p>
10	<p>Sumac Microfinance Bank Limited</p> <p>Physical Address: Consolidated Bank House, 2nd Floor, Koinange Street, Nairobi</p> <p>Date Licensed: 29.10.2012</p> <p>Branches: 3</p>
11	<p>U & I Microfinance Bank Limited</p> <p>Physical Address: Asili Complex, 1st Floor, River Road, Nairobi</p> <p>Date Licensed: 08.04.2013</p> <p>Branches: 1</p>
12	<p>Uwezo Microfinance Bank Limited</p> <p>Physical Address: Rehani House, 11th Floor, Koinange Street, Nairobi</p> <p>Date Licensed: 08.11.2010</p> <p>Branches: 1</p>