FACTORS AFFECTING FINANCIAL SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN DEMOCRATIC REPUBLIC OF CONGO: THE CASE STUDY OF MFIs IN THE CITY OF KINDU

BY

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: ________________________  Date: ________________________
Nduba Molanenge Paulin (651223)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ________________________  Date: ________________________
Mr. Kepha Oyaro

Signed: ________________________  Date: ________________________
Dean, Chandaria School of Business
ABSTRACT

The purpose of this study was to examine the financial sustainability of microfinances in Democratic Republic of Congo. The study sought to address the following specific objectives; To examine the effects of loan performance in financial sustainability of MFIs in the city of Kindu, Democratic Republic of Congo; To examine the extent that outreach affect the financial sustainability of MFIs in the city of Kindu, Democratic Republic of Congo; To examine the influence of financial structure on sustainability of MFIs in the city of Kindu, Democratic Republic of Congo.

The study employed descriptive research design to study microfinance institutions in Kindu. The population comprised of 3218 customers of MFIs in the city of Kindu at the time of the study. A simple random sampling technique was used to select a sample of three hundred and fifty-five (355) customers from the total population. The researcher used questionnaire as the data collecting instrument targeting customers and top senior management of the institutions. The questionnaire was necessary for collection of primary data, both open-ended and closed ended method were used. Descriptive survey was adopted in this research to collect quantitative and qualitative data for analysis. Data collected from research was analyzed using quantitative analysis techniques. The use of SPSS and excel was necessary for data presentation and interpretation. The findings were presented using charts and tables, graphs.

Major findings revealed that, on loan performance, approximately 64% of clients had taken loan from the MFIs, out of which up to 66% of the loan are for duration above 1 year. For the loan taken by clients, 35% have someone else to pay for the debt as guarantor and 31% have assets given as security. On outreach, most respondent, up to 79% are in agri-business and live on poverty level and only 21% use MFIs for consumption loan. Financial structure plays a major role in MFIs sustenance, mainly funded by members accounting for 60% while 40% were funded by individual owners who controls the management, it was found that all the MFIs have bad debts due to loan default. The member-based contribution approach was highly used for pooling together of resource.

The study concluded that financial sustainability of MFIs was highly depend on the loan performance, most of loans taken was used for agri-business which was repaid partly thus affecting the financial health of the MFIs. In outreach, the number of clients
and the size of loan taken by those clients was very loan as compared to the potential of the region. Although most MFIs used the member based approached, the fund pulled was very low due to the level of poverty in the region from recent years.

From the study, it is recommended that MFIs should strengthen the loan processing process to avoid possible bad debts by introduction of system such as credit rating for their customer using the system to limit the possible loan amount that can be extended to the customer. The study recommended that microfinance institutions should take advantage of all source of funds including donor financing as this would enhance their financial sustainability. MFIs should work to strengthen internal systems to promote membership growth and enhance the outreach. MFIs should also increase number of borrowers (breadth of outreach) so that they could increase the volume of sell (loan). However, selling high volume of loan alone may not guarantee financial sustainability. The study also recommends enhancement of financial structure by increasing more ways of raising finances such as operating account where members can operate fixed accounts or current accounts as well as diversification of loan portfolio to include special categories such salary employees. Finally, further detailed research is recommended in order to cover a wider region and large number of MFIs in DRC to evaluate the sustainability of MFIs, the study may also evaluate other factors such as government policy, political stability among others.
ACKNOWLEDGEMENT

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DEDICATION

To my family, my father Nduba Kilima, my mother Matengo Zawadi, my brothers Christian, Nathan, Joe and my sister Martine who are my pillars and sources of great inspiration.
# TABLE OF CONTENTS

STUDENT'S DECLARATION ................................................................. ii
COPYRIGHT .................................................................................. iii
ABSTRACT .................................................................................... iv
ACKNOWLEDGEMENT .................................................................. vi
DEDICATION .................................................................................. vii
LIST OF TABLES ........................................................................... xi
LIST OF FIGURES .......................................................................... xii
LIST OF ABBREVIATIONS .............................................................. xiii

CHAPTER ONE ................................................................................ 1
1.0 INTRODUCTION ......................................................................... 1
1.1 Background of the Study .......................................................... 1
1.2 Problem Statement ................................................................... 5
1.3 Purpose of the Study ............................................................... 6
1.4 Specific Objectives ................................................................. 6
1.5 Significance of the Study ......................................................... 6
1.6 Scope of the Study ................................................................... 7
1.7 Definition of Terms .................................................................. 7
1.8. Chapter Summary ................................................................. 8

CHAPTER TWO ................................................................................ 9
2.0 LITERATURE REVIEW ............................................................. 9
2.1 Introduction .............................................................................. 9
2.2 Effect of Loan Performance on the Financial Sustainability of MFIs ........................................ 9
2.3 Effect of Outreach on the Financial Sustainability of MFIs ...................................................... 14
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Start Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.4</td>
<td>Effect of Financial Structure on the Financial Sustainability of MFIs</td>
<td>18</td>
</tr>
<tr>
<td>2.5</td>
<td>Chapter Summary</td>
<td>22</td>
</tr>
<tr>
<td>3.0</td>
<td>RESEARCH METHODOLOGY</td>
<td>23</td>
</tr>
<tr>
<td>3.1</td>
<td>Introduction</td>
<td>23</td>
</tr>
<tr>
<td>3.2</td>
<td>Research Design</td>
<td>23</td>
</tr>
<tr>
<td>3.3</td>
<td>Population and Sampling Design</td>
<td>23</td>
</tr>
<tr>
<td>3.4</td>
<td>Data Collection Methods</td>
<td>25</td>
</tr>
<tr>
<td>3.5</td>
<td>Data Collection Procedures</td>
<td>26</td>
</tr>
<tr>
<td>3.6</td>
<td>Data Analysis</td>
<td>26</td>
</tr>
<tr>
<td>3.7</td>
<td>Chapter Summary</td>
<td>27</td>
</tr>
<tr>
<td>4.0</td>
<td>RESULTS AND FINDINGS</td>
<td>28</td>
</tr>
<tr>
<td>4.1</td>
<td>Introduction</td>
<td>28</td>
</tr>
<tr>
<td>4.2</td>
<td>Demographic Information</td>
<td>28</td>
</tr>
<tr>
<td>4.3</td>
<td>Effect of Loan Performance on Financial Sustainability of MFIs</td>
<td>31</td>
</tr>
<tr>
<td>4.4</td>
<td>Effect of Outreach on Financial Sustainability of MFIs</td>
<td>38</td>
</tr>
<tr>
<td>4.5</td>
<td>Effect of Financial Structure on Financial Sustainability of MFIs</td>
<td>41</td>
</tr>
<tr>
<td>4.6</td>
<td>Chapter Summary</td>
<td>45</td>
</tr>
<tr>
<td>5.0</td>
<td>SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS</td>
<td>46</td>
</tr>
<tr>
<td>5.1</td>
<td>Introduction</td>
<td>46</td>
</tr>
<tr>
<td>5.2</td>
<td>Summary of the Study</td>
<td>46</td>
</tr>
<tr>
<td>5.4</td>
<td>Conclusion</td>
<td>53</td>
</tr>
</tbody>
</table>
LIST OF TABLES

Table 4.1: Type of Micro-credit extended to customers .................................................. 32
Table 4.2: Duration of Loan Repayment ............................................................................ 34
Table 4.3: Consequences of Loan Non-payment ............................................................... 35
Table 4.4: Descriptive Statistics for Loan Performance and Financial Sustainability of MFIs .......................................................................................................................................................................................... 36
Table 4.5: Correlation between Loan Performance and Financial Sustainability of MFIs .......................................................................................................................................................................................... 36
Table 4.6: Model Summary ............................................................................................... 37
Table 4.7: ANOVA .............................................................................................................. 37
Table 4.8: Coefficient ........................................................................................................ 38
Table 4.9: Average Loan Size Extended to Customer in CDFs ......................................... 38
Table 4.10: Descriptive Statistics for Outreach and Financial Sustainability of MFIs ....... 39
Table 4.11: Correlation between Outreach and Financial Sustainability of MFIs .......... 40
Table 4.12: Model Summary ............................................................................................ 40
Table 4.13: ANOVA ........................................................................................................... 41
Table 4.14: Coefficient ..................................................................................................... 41
Table 4.15: Descriptive Statistics for Financial Structure and Financial Sustainability of MFIs .......................................................................................................................................................................................... 43
Table 4.16: Correlation between Outreach and Financial Sustainability of MFIs .......... 43
Table 4.17: Model Summary ............................................................................................ 44
Table 4.18: ANOVA ........................................................................................................... 44
Table 4.19: Coefficient ..................................................................................................... 45
LIST OF FIGURES

Figure 4.1: Response Rate .................................................................28
Figure 4.2: Gender Classification .........................................................29
Figure 4.3: Classification by Age .........................................................29
Figure 4.4: Classification by Education level .........................................30
Figure 4.5: Classification by Experience with MFIs .................................30
Figure 4.6: Classification by Occupation ..............................................31
Figure 4.7: Nature of loans extended to the customers ................................32
Figure 4.8: Customers' Loan Experience ..............................................33
Figure 4.9: Ranking of loan lenders accessible to customers ....................34
Figure 4.10: Financiers of MFIs ............................................................42
LIST OF ABBREVIATIONS

BCC: Banque Central du Congo (Central Bank of Congo)

CDF: Congolese Francs

COOPEC: Sacco (Saving and Credit Cooperative)

FNM : Fond National de Microfinance (National Fund for Microfinance)

FPM : Fond pour la promotion du Microfinance (Microfinance Promotion Fund)

MFI : Microfinance Institution
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Finance is the lifeblood of business organization. Whether the business concerns are big or small, they need finance to fulfil their business activities. In the modern world, all economic activities are concerned, particularly profit-making organizations require finances. In the finance discipline, increasing credit access to the poor is one of the most discussed topic as well as conducting low income related financial services to sustain them in long term is a concern of most scholars (Paramasivan and Subramanian, 2006).

According to International Monetary Fund report (2014) microfinancing is not a new topic in discussion regarding development. It is viewed as one of the best ways to fight poverty in different regions of the world. Robust economic growth cannot be achieved without putting into place well-focused programs to reduce poverty; empowering the people by increasing their access to factors of production, especially credit is the key (Emeni, 2008). With the ideas of providing finance to low-income segment of the society, microfinance offers best practice supported by different internal society, governments, and non-governmental organizations. Microfinance is the provision of financial services for the poor through savings, transfers, insurance, and credit. Microfinance is delivered by many types of institutions, commercial banks, state development banks, postal banks, MFI banks, rural banks, NGOs, pawn shops, money lenders, informal groups and mobile network operators.

Microfinance is a means of building financial systems that serve the poor (Hartarska and Mersland, 2009). It is acknowledged by many scholars that access to finance plays a significant role in economic growth and development by efficiently channeling resources from the surplus unit to deficit units. The topic of microfinance is significant for developing nations seeking to reduce poverty and increase the well-being of the citizen.

Informal saving and credit have operated for centuries in the developing worlds, Microfinance evolved from an informal saving beginning in the eighteenth and nineteenth century as a type of banking for the poor. The focus was more on how to increase credit access to the low-income segment of the population with the aim to facilitate growth in the economy (Rajpal, 2011).
Early before 1970, several experimental programs extend tiny loans to groups of poor women to invest in micro-businesses that could help them their family needs. This activity was conducted by many researchers and banks in different regions in the world. Early pioneers include Grameen Bank in Bangladesh (winner of Nobel Peace Prize), ACCION International in Latin America, and Self-Employed Women’s Association (SEWA) in India. Experiments were on microcredit. Later in the 1990’s, microfinance was born from the improvement of microcredit program experiment. The major objective is inclusive finance that leads to the welfare of the low-income population.

Since then, microfinance has emerged as the powerful tool for sustainable development. The idea of granting loans at fair conditions to alleviate financial constraints of the poor has gained general acceptance among academics, investors and the public sector alike. The market for microcredit has expanded over many years, with microfinance institutions (MFIs) extending loans to more than 200 million clients by the end of 2010” (Lützenkirchen, 2012). The effectiveness and efficiency of small scale financial services have long been a subject of many studies by different scholars.

There has been evidence that financial inclusion of all segment of society was a positive step towards the global reduction of poverty. Several studies have been conducted to evaluate the real impact on the reduction of poverty. On the other side, many scholars have been evaluating the sustainability issues of the microfinance institutions (David, 2013). It has been observed by different researchers that, microfinance being important in different low-income regions, many microfinance institutions struggled to survive due to the difficulty of conducting operations with low-income clients. This challenge has led to some conclusions from some scholars that microfinance does not add significant value either to microfinance institutions neither to the population they served (Sarker, 2015).

Sustainability of Microfinance institutions is a matter of contention currently. There numerous negative reports about microfinance industry in most of the country where microfinance is very popular. There exist reports criticizing the effectiveness of Grameen Bank operations in Bangladesh. This reality is a major concern of many scholars. There are many scholars who question the impact of microfinance in alleviating poverty. Jose and
Chacko (2017) have suggested that further empirical evidence is highly demanded by investors and other groups of interest.

The term sustainability is a popular word of great interest among politicians and businesses. All the stakeholders are concerned in the evaluation of firm’s performance and its impact on long-term sustainability in their overall business agenda. Stakeholder interest is to know the sustainability of the firm with which they want to engage but the reality is that many of them do not have the clear understanding of what sustainability could mean for an institution (Son and Kim, 2018). The concepts Sustainability can be regarded as the ability of a firm to continue a defined behavior indefinitely, in simple words we can say that it is the of an organization’s ability to meet its goals or target over the long term (Long, 2016).

In our context of microfinance institutions, it implied that profitability: a return on equity and assets, shall exceed the opportunity cost of resources. Many of the MFIs are not sustainable due to the difficulty in making their finance more sustainable. Financial sustainability can be considered as the base of overall sustainability of an organization that deals with financial issues. For microfinance institutions, the goal of sustainability (cost recovery and eventually profit) is the key not only to institutional permanence in lending but also to making the lending institution more focused and efficient (Jose and Chacko, 2017).

At the global level, the world has witnessed impressive growth in bank accounts among the poor creating widespread financial inclusion of the poor customers in the financial service sector between 2011 and 2014. Now 62 percent of the world’s adult population has a bank account; up from 51 percent in 2011 based on the research by Jose and Chacko (2017). A considerable number of commercials banks provide financial service to the low-income customer. Mostly in the developing countries of Africa and Asia (India, Bangladesh, Nepal, etc.). Some corporation has gone far by including microfinance strategies in their corporate social responsibility to increase the welfare of the people in the region they are operating. Large numbers of NGOs are created to achieve financial access for the poor.

In most African countries, mostly on the post-conflict region, and the sub-Saharan regions, financial services for poor are provided by saving and credit cooperative (Sacco). A considerable number of Sacco’s are present in the great leak region of central and east
Africa regions. The reality is that most of the central and east African economies are still having difficulty in capital mobilization due to much political and economic instability of the past two decades.

Achieving financial sustainability for microfinance institutions is a major concern in Democratic Republic of Congo, a country destroyed by the past two wars of Congo since 1996. The largest segment of the population still poor. Mostly in the eastern side of the country where different forms war crime must stop social and economic growth. According to the World Bank Group report (2014) reports, more than 50% percent of the population live below poverty line and with 80 million hectares of arable land and over 1,100 minerals and precious metals identified, the DRC has the potential to become one of the richest economies on the African continent and a driver of African growth, provided the country manages to overcome political instability.

Many microfinance institutions are attracted the high number of possible customers to serve, mostly in the Eastern region of the country. Past 10 years, there is significant growth in the microfinance demand. MFIs are present with services in the cities like Goma, Bukavu, Uvira, and Kindu. Most of them struggled to achieve financial sustainability. In the city of Kindu, MFIs have struggled to achieve financial sustainability. With a population of 200,000, in which 60% of the population depend on the commerce, micro activities due to a very low presence of infrastructure that does not allow the establishment of major industry and corporations (Fpm Congo, 2015).

The early 2000s the economy of the country was destroyed after many years of mismanagement and poor governance, prolonged financial isolation, and a devastating civil war that started in 1996 after the Rwanda genocide (World Bank, 2014). Financial inclusion in the Democratic Republic of Congo aims to contribute to the reduction of poverty by favoring some sustainable offers of financial services to small-scale enterprises, and to the population with low income and low revenue. Such efforts are undertaken in all the regions of the country. The city of Kindu is the largest in the Maniema province at the center of the Democratic Republic of Congo.

With a population of 200,000, Kindu is the only big city in the entire province, where a large portion of the population is poor and financial assistance is highly needed to improve
the quality of living. The region has a lot of resources, and there are many opportunities for business. The financial sector comprises of only three banks and 3 micro-finances institutions who struggled to sustain their activities where the demand is high with 66421 micros, small scale enterprises according to the report of the Fond National pour la Microfinance (Fpm Congo, 2015).

For several years the financial sector in the Democratic Republic of the Congo (DRC) has been expanding. New microfinance institutions and savings and loan associations are being formed, and a number of commercial banks are gradually discovering micro, small and medium-sized enterprises (MSMEs) as a target group. Even so, the financial sector is still severely underdeveloped. The total capital of the Congolese banking sector is about half the average for sub-Saharan Africa. The range of financial services is also extremely narrow, and only 5% of the population have a bank account (Long, 2016).

According to the World Bank's Doing Business Report 2013, the DRC ranks 176 of 185 countries in the category 'Ease of getting credit'. This rating is based mainly on available credit information and the legal rights of financial institutions and their customers.

1.2 Problem Statement

Intensive efforts to fight poverty saw the emergence of microfinance However, microfinances are shifting emphasis from the social objective of poverty alleviation towards the economic objective of sustainable and market based financial services. More specifically, MFIas are expected not only to reach the poor but also to become financially viable. This has pushed MFIas to adapt more “business” practices and to become more self-sufficient (Ledgerwood 1999). Nyamsogoro (2010) stated that having no MFIas is better than having unsustainable ones.

According to World Bank (2013) DRC rank 176 out of 185 in the ease of getting credit. Unlike other sub-Saharan countries, DRC has limited number of microfinances with most of the struggling to survive. For instance, Kindu which is our study area has only 4 microfinance institutions in operational, and all of them continues struggle to survive (Central Bank of Congo, 2016). Despite having limited number of Microfinances in DRC, there has been no effort to evaluate the sustainability of Microfinances in Kindu. This study focusses on the analysis of the effects of Outreach, Loan performance and financing
structure in achieving financial sustainability of microfinance institutions in the city of Kindu.

1.3 **Purpose of the Study**
The purpose of the study was to establish the factors affecting financial sustainability of microfinance institutions in the city of Kindu, in the Democratic Republic of Congo.

1.4 **Specific Objectives**
The study was guided by the following specific objectives:

1.4.1 To determine the effect of loan performance in financial sustainability of MFIs

1.4.2 To determine the extent to which outreach affect the financial sustainability of MFIs in the city of Kindu.

1.4.3 To determine the effect of financial structure on financial sustainability of MFIs in the city of Kindu.

1.5 **Significance of the Study**
The findings of this research are useful to various groups which are:

1.5.1 **Microfinance Institutions**
Sustainability is a major concern for the microfinance institutions with a plan to start operation in the Democratic Republic of Congo. Information's contained in this work may contribute to the analysis to understand the financial environment in the region of Kindu.

1.5.2 **Microenterprise**
The owners of small-scale enterprises, as well as investors, are able to get valuable information and understand their role towards the success and sustainability of the microfinance institutions which are important to their operations.

1.5.3 **Policymakers**
Findings in this project may be important to policymakers in their development of innovative models to fill the gaps and pitfalls in their initiative to embracing policy reforms. Based on this research, a newly updated policy can be made and help to build a more developed financial sector in the region of Kindu and the whole country.
1.5.4 Scholars
This work provides significant information and a good source of reference for future studies financial sustainability of MFIs. It also served as a source of literature for academics in the field of entrepreneurship and finance.

1.6 Scope of the Study
This study focused on the financial sustainability of microfinance institutions operating the city of Kindu, in the central region of the Democratic Republic of Congo: The density in the region is high and need for small scale financial service is highly demanded. Four Micro-finance institutions are considered in the study, these are: (Coopec Imara, Coopec Maniema, and Mecrekindu, Coopec Kindu). The primary data was collected during the period from September to December 2017. The secondary data to support this study was collected from the information covering a period 2005-2017. The research was conducted in a French speaking country, professional translation of research’s tools was prepared by the researcher to get accurate date.

1.7 Definition of Terms
1.7.1 Microfinance Institution
In finance, microfinance consists of providing to low-income clients’ financial services that match their needs. Those services are provided via microfinance institutions (MFIs); it includes credit, savings, and insurance services. Usually, the service includes also social intermediation which consists of training and education, to achieve social development of the low-income individuals (Thileepan, 2012).

1.7.2 Microfinance Institutions
Microfinance institutions are organizations that offer financial services to low-income populations. Almost all give loans to their members, and many offer insurance, deposit and other services (Hamada, 2010).

1.7.3 Sustainability
Refers to the ability to continue any given activity into the future within the likely existing resources of an organization, as part of its ongoing budgetary and management processes. For Microfinance institutions, it consists of operational self-sufficiency (OSS) which measures operating revenue as a percentage of operating and financial expenses, the ability to covers its expenses from its operations. And Financial Self-Efficiency (FSS) concerns
with the ability of the firms to covers its direct cost. Financial sustainability describes the ability to cover all costs on adjusted basis and indicates the institution’s ability to operate without ongoing subsidy (i.e. including soft loans and grants) or losses. Financial sustainability tells that the institutions have enough revenue earned to cover direct costs, (including financing costs, provision for loan losses and operating expenses) and indirect costs including adjusted cost of capital (Guntz, 2011).

1.7.4 Loan Performance
The concept of loan portfolio refers to the ratio of non-performing advances (loans) to the total loan portfolio of the bank. The total loan portfolio is a collection of all the loans and advances. A loan is said to be performing if the interest and principal installment or any other charges are paid or settled within an agreed period (Rodgers, 2013).

1.8. Chapter Summary
The chapter entitled ‘Introduction’ has given a background of the study which reviewed the financial sustainability of microfinance institutions, the origin, and growth of microfinance and its importance. The chapter has also highlighted the purpose of this study which is to establish the factors influencing the financial sustainability of microfinance institutions in the city of Kindu, in the Democratic Republic of Congo. The chapter also presented the research questions, the significance of the study, and the scope of the study as well as the definition of terms. The next chapter gives a review of the literature relating to the financial sustainability of microfinance.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from the available literature in the same field of study. The chapter review theories of Microfinance especially its financial performance as well as empirical studies on factors that affects its financial sustainability like loan performance, the outreach and the financing structure.

2.2 Effect of Loan Performance on the Financial Sustainability of MFIs

A loan is anything or money that an organization or individual such as financial institutions or individuals lend or borrow to and from people which is repayable or paid back with interest at a particular fixed date. Mbucho and Senaji (2015) confirm that effective management of credit is of great importance to the long-term success of any microfinance institution. Loan are source of most of income in every financial institution, interest earned on loans are charged on the small and medium entrepreneurs.

Whenever the credit period expires for a particular customer, financial institutions expect such a customer to meet their obligation, however not all customers do this at the specified date, like in this case, the institutions operates with the low income customers which makes the work difficult (Fields et al., 2006). A loan is said to be performing if the interest and principal installment or any other charges are paid or settled within an agreed period.

Financial institutions in Democratic Republic of Congo have increasingly shown difficulty in profitability and performance such as Imara, Mecreco, the major problem still loan performance. Fridson and Mcleod-Salmon (2011) suggested that loan quality directly reflects the on the quality of the portfolio policy. Poor portfolio management manifests in poor lending policies due to deficient internal control, inadequate credit analysis, excessive risk concentration and fraud has increasingly reduced performance and profitability. According to the report by the Central Bank of Congo (2012) the main cause of the difficulties of those institutions remains the loan performance. It clear that a microfinance institution cannot sustain its activities if the performance of loan is poor.
2.2.1 Attributes of Good Lending

Mbucho and Senaji (2015) suggested three important attributes for a good lending for microfinance institutions: Safety, Liquidity and Profitability. The lender needs to ensure that funds lent is safe and that the lender’s own financial position is sound. Safety when applied to an advance, is an understanding that the borrower has the legal capacity to borrow, and to provide security should this be required. Liquidity is the ability of the borrower to meet repayments as they fall due. In the case of a personal loan this would be from monthly salary, and for a business from cash generated from business operations. Profitability is measured in terms of the income generated by the advance in terms of interest and fees and its proper reflection of the risk involved (Kirschenmann and Norden, 2012).

The concept of loan portfolio refers to the ratio of non-performing advances (loans) to the total loan portfolio of the bank. Wang and Yang (2016) discussed that the total loan portfolio is a collection of all the bank’s loans and advance, the same conclusion was discussed further by Rodgers (2013). Ongena and Roscovin (2013) supported the empirical evidence provided by James (1987) as well as by Lummer and McConnell (2013) which shows positive and significant abnormal returns associated with loan announcements. While James does not distinguish between new loans and renewals, Lummer and McConnell (2013) continued supporting the fact that significant positive abnormal returns are limited to renewals of loans. The significant response to renewals and not to new loans presumably reflects the access to private borrower information that small lenders obtain through the continuous relationship that leads up to a loan renewal.

2.2.2 Performing and Non-performing Loans

In finance, a loan can simply be defined as to mean a contractual promise between two parties where one party, the creditor agrees to provide a sum of money to a debtor, who in turn promises to return the said amount to the creditor either in one lump or in installments over a specified period (Falato and Liang, 2016). The agreement may include provision of additional payment of rental charges on the funds advanced to the borrower for the time the funds are in the hands of the debtor. The additional payments that are in the form of interest charges, processing fees, commissions, monitoring fees, among others are usually paid in addition to the principal sum lent. Different studies have been conducted to prove that
additional payments if made in accordance with the covenants of the loan facility constitute the interest income to the MFIs.

A loan facility may therefore be considered as performing if payments of both the principal and interest charges are up to date as agreed between the lender and the borrower. In general, when it comes to loan classification (Ostromogolsky, 2017), loans are considered current if the payment of principal and interest are up to date as planned by the small lenders. It goes further to stipulate that an overdraft is classified as current or performing if there are regular activities in the account with no sign of hard core debt build-up.

Loans are the dominant asset and represent 50-75 percent of the total amount at most Microfinance institutions, generate the largest share of operating income and represent the Microfinance institutions greater risk exposure (MacDonald and Koch, 2006). A loan can be treated as bad loans and be used interchangeably with nonperforming and impaired loans as identified by Fofack (2005). Other authors like Berger and De Young (1997) also considers these types of loans as “problem loans”. Thus, these descriptions are used interchangeably throughout the study. Generally, loans that are outstanding in both principal and interest for a long-time contrary to the terms and conditions contained in the loan contract are considered as non-performing loans. This is because going by the description of performing loans above, it follows that any loan facility that is not up to date in terms of payment of both principal and interest contrary to the terms of the loan agreement, is nonperforming.

Available literature gives different descriptions of bad loans. Some researchers noted that certain countries use quantitative criteria for example number of days overdue scheduled payments while other countries rely on qualitative norms like information about the customer’s financial status and management judgment about future payment. In the research on loan performance, Gilbert and Hazen (2001) agreed that non-performing are those loans that are ninety days or more past due or no longer accruing interest.

Furthermore Fofack (2005) consider non-performing loans as loans which for a relatively long period of time do not generate income, that is the principal and or interest on these loans have been left unpaid for at least ninety days. A non-performing loan may also refer to one that is not earning income and full payment of principal and interest is no longer
anticipated, principal or interest is ninety days or more delinquent or the maturity date has passed and payment in full has not been made (Paulican, 2017). A critical appraisal of the foregoing definitions of bad loans points to the fact that loans for which both principal and interest have not been paid for at least ninety days are considered non-performing.

MFIs have unfavorable environment to mobilize high cost low incomes into savings and lend to the people with virtually no collateral to support such credits. It is therefore, imperative to put in place legitimate policies and procedures that were ensured among other things that. The proper authorities grant credit. Credit goes to the right people, , The appropriate size of credit is granted, Credit is used for the purpose for which it was granted, Credit is granted for productive activities, Credit granted is fully recovered, The proper authorities grant credit There is adequate flow of management information within the organization to monitor each credit activity (Takyi, 2011).

2.2.3 Unsecured Loan and Loan Performance
Unsecured Lending and Loan Performance Unsecured loans are not a full substitute for secured lending in that, due to their terms and conditions, they are not being appropriate for financing the entire spectrum of assets that are acquired by consumers. There is some degree of overlap and, to an extent unsecured personal loans are complementary to secured lending. A direct comparison of the costs between unsecured personal loans and secured lending products should be seen within the context of the respective product characteristics (Credit Regulator, 2012). It is very imperative to note that most small businesses and individual firms have no collateral to offer for borrowing hence they borrow without security under unsecured lending. Managing the loan portfolio between the various products offered is extremely vital as both secured loans and unsecured loans contribute to loan performance. Effective management of loan portfolio and credit function which is fundamental to a bank’s safety and soundness should be carried out on both secured lending and unsecured lending. The largest credit risk inherent in any commercial bank lies heavily and almost entirely on its loan portfolio. Loan portfolio is essentially the largest asset base Banks boasts about and it is the predominantly greatest source of income (Morsman, 2003). Financial performance is the single 6 most important factors in assessing growth potential, earnings and overall financial strength (Richardson, 2002). In view of Richardson’s postulation, then a proper loan portfolio management is critical so as to maximize the returns and its performance wholesomenly (Khole, 2013).
2.2.4 Group Lending versus Individual Lending in Microfinance

In 2006, the Nobel Peace Prize was awarded to Mohammad Yunus. Since he founded the Grameen Bank in Bangladesh in the late 1970s, microbank has experienced an impressive growth. This is largely due to the many positive effects attributed to microfinance programs. Microfinance schemes have been found to reduce poverty and to positively affect nutrition, health and education as well as gender empowerment. In 2006, microfinance institutions reached around 130 million customers around the world (Daley-Harris, 2007).

Considerable theoretical attention has been paid to understanding how group lending works and what affect it may have in practice. Most theoretical studies have focused on how peer group schemes can overcome the inherent problems associated with credit constraints and asymmetric information in financial markets. Specifically, in a world where borrowers lack collateral, group lending has been shown to mitigate problems associated with adverse selection, moral hazard, contract enforcement, and state verification (Pellegrina, 2006).

Group lending with joint liability overcomes these problems by passing the monitoring activity onto the borrowers themselves. The underlying idea is that group members monitor their peers and pressure individuals who might misuse their loans not to do so. While this monitoring activity is costly for the borrower, it is assumed to be much less costly than for the lender, since group members will typically know each other well in advance of the date of borrowing. Other authors show that when compared to an individual liability contract, entrepreneurial effort is strictly higher under peer group lending with joint liability, assuming, of course, that monitoring costs are low and social sanctions are effective.

For the purposes of this paper, effort is defined as actions that would contribute to the success of entrepreneurial activity, and hence to greater repayment probabilities. Theoretical models seem to demonstrate that peer group schemes tend to induce higher levels of repayment effort due to intra-group monitoring and greater peer pressure. However, whether peer group schemes outperform traditional individual liability is still an open question in the theoretical literature (Gómez and Santor, 2008).

Microfinance is typically associated with joint liability of group members. However, a large part of microfinance institutions rather offers individual instead of group loans. Only recently, researchers have been interested in comparing group lending programs to individual lending schemes. Gine and Karlan (2006) conducted an experiment in the
Philippines. They found that by offering individual loans, a microfinance institution could attract relatively more new clients. The so far rather descriptive literature on individual lending schemes typically focuses on the crucial role of closely monitoring borrowers. Navajas et al. (2003), Armendariz de Aghion and Morduch (2005) as well as Gine et al. (2006) describe the problem that poor borrowers may divert a loan, at least partly, to urgent consumption needs. To ensure the use of the loan for the agreed upon investment project, Champagne et al. (2007) as well as Zeitinger (1996) stress the importance of regularly visiting clients. In a theoretical analysis of individual lending schemes by Gangopadhyay and Lensink (2007), the monitoring of borrowers by informal lenders plays a central role. Armendariz de Aghion and Morduch (2000) as well as Dellien et al. (2005) also point to the importance of monitoring borrowers in individual lending schemes.

2.3 Effect of Outreach on the Financial Sustainability of MFIs

Kota (2007) stated achieving sustainability while reaching the remote and rural poor who are at the bottom of the income ladder is indeed a challenge. Although, few institutions have gone against the norm and proved it is possible for an MFI to do so. Experience has shown that sometimes it is possible to serve the poor at a significant scale and be profitable in the long run (Kota, Littlefield and Rosenberg, 2004). Views vary as to whether an MFI can serve the poorest and be financially sustainable as Fernando (2004) states, three of these are; First camp – Is of the view that the poorest cannot be reached with financial services on a sustainable basis as they do not have the capacity to service the debt. The major assumptions are that there is very little effective demand for financial services among the poorest, providing such services is very costly, and the poorest cannot afford to pay the prices required.

In the wake of persistent poverty and budding of MFIs, outreach is perceived goal from social and business point of view. The gloomy part of the story looms when the issue of sustainability of the microfinance program have come out since it is observed that only few percent of the MFIs are sustainable to run operation without subsidies (Hulme and Mosley, 1996). Outreach and impact are complementary in nature in achieving microfinance sustainability. The concept cannot be applied in general as in some cases outreach and sustainability is competitive and sustainability pre-conditioned on the reduction or removal of subsidy on microfinance. It also requires a well recovery rate, which can further help in outreach of the program. A deep attention on the concept can be attracted by taking the case
of depth of outreach. For example, when an MFI serve a section of population who lives below poverty line, the probability of poor repayment in the case of adverse economic shocks to their lives increases delinquency rate. While even a small delinquency rate can cause more annual loss of loan, thus loan loss provision increases their cost segment (Gutu, Nyakuwanika and Unganayi, 2015).

Sustainability of microfinance nowadays therefore becomes more complex and debatable issue from different angles of observation and which is among the one6 of the important key principles of Consultative Group to Assist Poor (CGAP). In common parlance sustainability of microfinance indicates permanency of the program. Within microfinance, sustainability can be viewed at several levels- institutional group and individual) and can relate to organizational, managerial and financial aspects. However, financial sustainability of microfinance institutions has become the critical point of focus of mainstream microfinance analysis at the expense of the sustainability of the client. In defining sustainability of microfinance, Woller et al (1999) used the definition that offered by Brinkerhoff, which stated sustainability as the “ability of a program to produce outputs that are valued sufficiently by beneficiaries and other stakeholders that the program receives enough resources and inputs to continue production.” Pollinger et al (2007) defined sustainability as the ability to cover annual budgets including grants, donations, and other fundraising.

Acharya and Acharya (2006) considered view of Sharma and Nepal (1997) to understand the concept of sustainability of microfinance institutions, where sustainability indicates excess of operating income over operating cost. The concept is from the banker’s perspective and it includes both financial viability and institutional viability of MFIs. On the whole sustainability is not an end. It is just a means to the end of improving the lot of the poor (Schreiner, 1997).

Hermes, Lensink and Meesters (2011) provide new evidence on the existence of the trade-off between sustainability and outreach, using data for 435 MFI for the period 1997–2007. The study focuses on the relationship between cost efficiency of MFIs (as a measure of sustainability) and the depth of outreach measured by the average loan balance and percentage of women borrowers. Cost efficiency of an MFI is measured by using a stochastic frontier analysis (Hermes and Lensink, 2011).
The two most usual aspects of outreach in the literature are its depth and breadth. Depth of outreach refers to the poverty level of clients served, whereas breadth of outreach refers to the scale of operations of an MFI. There is some disagreement in the literature about the relative benefits of depth and breadth of outreach, this disagreement exists between the pro-poor and the proponent of microfinance sustainability. The pro-poor microfinance approach argues that depth of MFIs reaches out to the poorest individuals of the society, hence that depth of outreach is more important for achieving the social objective of microfinance. Proponents of sustainable microfinance on the other hand are more interested in opening access to a wide range of un-served or underserved clients (Safavian and Haq, 2013).

2.3.1 Breadth of Outreach

According to Kinde (2012) the breadth of outreach refers to the number of poor served by a microfinance institution (Hishigsurem, 2004). Various studies have used the number of borrowers as a measure of microfinance breadth of outreach (Ganka, 2010; Mersland, 2009; Hermes and Lensink, 2016). It is generally assumed that the larger the number of borrowers the better the outreach. According to Logotri (2006) larger number of borrowers found to be the biggest sustainability factor, on the contrary, Ganka (2010) on Tanzanian microfinance institutions reports negative and significant relationship between breadth of outreach and financial sustainability. Ganka concludes on the result that increased in number of borrower itself does not improve financial sustainability of microfinance institutions. The reason could be increased inefficiency because of increased number of borrowers. However, Hartarska (2005) reports that number of borrowers had no significant impact on financial sustainability.

2.3.2 Depth of Outreach

Hulme and Musley (1996) assert that without the poor the supposed MFI is no longer different from a bank. Their argument is that outreach should not be measured by just total number of clients, but it should rather be based on the number of poor clients. Besides, according to Ledgerwood (1999) the number of borrowers or clients as a measure of outreach considers only the total number of clients served from various products of MFIs without their relative level of poverty. Thus, average loan size has been used as a proxy measure of depth of outreach using relative level of poverty. Smaller loans indicate poorer customers (Mersland, 2009; Cull et al., 2007). However, they argue that average loan size does not consider the relative number of the poorest with small loan sizes. Moreover, most
microfinance clients may be average poor or non-poor whose loan sizes are relatively large and, therefore, could easily influence the computed average loan size figure.

According to Woller and Schreiner (2002) the relationship between depth of outreach and financial self-sustainability is multidimensional. In their study, they found that depth of outreach has a positive relationship with financial self-sustainability. Woller and Schreiner’s finding put evidence against a wide spread belief that small loans are highly risky and associated with lower financial sustainability.

Moreover, Cull et al (2007) indicates that institutions that make small loans are not less profitable compared to those making bigger loans, and the study by Paxton (2003) confirms that there is a negative correlation between depth of outreach and subsidy dependency index. This exhibits that there is a positive relationship between profitability and depth of outreach. Contrary to the above, Hulme and Musley (1996) state that delivering small loans to the poor and the relatively hard-to-reach clientele is inherently costly.

Trade-off between outreach and efficiency an important trade-off that must be made for MFI s is the trade-off between outreach and efficiency. Hermes and Lensink (2011) show the negative correlation between the two factors. Put differently, the more efficient an MFI wants to operate, the less people it can supply with financial services. This could be explained by the fact that the opportunity costs become higher when a client becomes less reachable. Especially the information costs and the transaction costs are positively correlated with the distance, which implies higher overall costs. The conclusion here is that the trade-off between outreach and efficiency is based on the costs and not on the revenues. The authors also look at the commercialization process.

Commercialization can be something good regarding outreach. The amount of loans can be augmented and can be spread over a longer period. Competition may, as previously mentioned, also contribute to higher efficiency. This can result in the possibility for the released funds to help more poor people and thus, again, deepen the outreach. There is a possibility for financial self-sustainability and efficiency to go together with outreach. In other words, there i.e. Local and foreign competition are positive spill-over effects associated with a higher efficiency. However, the trade-off is a knife that cuts both ways.
Pursuing financial self-sustainability and efficiency can also happen at the expense of outreach. The two objectives are not always easy to reconcile.

It has long been a point of debate which objective should get the preference, and it has divided policy-makers into two camps, i.e. Institutions and welfares, which are further discussed below. In the previous paragraph it was mentioned that the trade-off between outreach and efficiency is based on costs and not on revenues.

2.4 Effect of Financial Structure on the Financial Sustainability of MFIs
One of the important financial decisions confronting a firm is the choice between debt and equity according to Glen (2004). The linkage between capital structure and firm value has engaged the attention of both academics and practitioners. Indeed, the famous seminal paper by Modigliani and Miller (1958) set the stage for numerous propositions that have been developed to provide the theoretical underpinnings of this crucial concept. Theoretical advancement with emphasis of shaping capital structure models based on tax balancing and information asymmetry, product market, corporate governance have aided in understanding the financing behaviour of corporate entities. Argument amongst others like Choi (2015) has centred on the determination of an optimal capital structure for a specific firm and as to whether the quantum of debt usage in relation to equity is irrelevant to a firm’s worth.

A profitable microfinance industry is vital in maintaining the stability of the microbanking system. Low profitability weakens the capacity of microfinance institutions (henceforth MFIs) to absorb negative shocks, which subsequently affect solvency. Profitability reflects how MFIs are run given the environment in which they operate, which should epitomize efficiency, risk management capabilities, their competitive strategies, quality of their management and levels of capitalization. Why is financing choice important for MFIs profitability? Financing choice raises is particularly important in research and policy questions regarding the microfinance industry according to (Bayai and Ikhide, 2018).

Flora (2015) commented that microfinance industry promotes small scale investments that generates sufficient revenues from otherwise unrealized market activities while yielding a return on the investment. Agency costs may be particularly large in this industry because MFIs hold private information on their loan clients. In addition, MFIs access to grant funding and other safety net protections may increase incentives for risk shifting or lax risk.
Management, potentially increasing the agency costs of outside debt. For MFIs to become financially sustainable the capital structure composition is important. The findings show a positive relationship between the short-term debt ratio and profitability (Peters, 2014).

Patti and Berger (2006) argues that capital structure and firm performance could be closely correlated with each other. And the findings are consistent with the agency theory that high leverage reduces the agency costs of outside equity and increases firm value by inspiring managers to act more in the interests of shareholders of the firm. Found that microfinance institutions use long term debt financing for their operations that might have less pressure on the management of MFI. It also highlights that profitable microfinance institutions depend more on long term debt financing. (Kyereboah-Coleman, 2007), conducted a same study by exactly taking the same research phenomena but with some more control variables. Total debt, short term debt and long term are used as capital structure indicators whereas return on asset and return on equity are used as profitability measures. Age, size and risk level are used as control variables. Examine that leverage has a significant and negative impact on financial sustainability of MFIs. Financial sustainability is positively and significantly influenced by the gross loan portfolio to total asset and size of the firm whereas efficiency and credit risk have a negative and significant impact on financial sustainability of MFIs (Tehulu, 2013).

2.4.1 Deposit Mobilization

Low income segment of population can have access to financial services, which has never been material for the orthodox financial system. However, due to controversial issues regarding the capacity of the poor and the debate on the importance of local resource mobilization against foreign capital, providing saving services for the pro poor in developing countries has been given little emphasis in the microfinance arena. Due the fact that this affect highly operations for sustainability.

Several studies have concluded that at any given time, low income segment of population will need to save but might not need or might not able to borrow. Among those able to save, many are not entrepreneurs who need credit service; rather the ultimate and greater outreach will be achieved if and only if the intended financial services are provided tailored to the needs of the low-income customer.

19
Moreover, most recent literature and case studies have revealed that poor households are using and have been using various mechanisms to manage liquidity and save for investment and future needs. Though of such practices are limited to the semi-formal and informal financial services due to lack of affordability and access of the formal financial system.

However, access to deposit services in microfinance institutions mostly enables the poor to efficiently manage their financial resources. It helps in consumption smoothing during economic shocks and provide an opportunity to accumulate large sums of money for future investment and household outlays. On the other hand, taking deposit from the public largely benefit the microfinance institutions in achieving long term sustainability and wider client outreach.

With the objective of taking advantage on the deposit taking, there exist a cost that have direct impact with financial sustainability of an organization, there are many factors affecting directly and indirectly the cost of savings. “The cost of savings mobilization depends not only on internal factors such as operational efficiency, but also on external factors such as minimum reserve requirements, tax rates and general market conditions. Determining both internal and external costs helps to establish what rate to pay on different savings products” (Ledgerwood, 1998). On the other hand, Klaehn et al (2002) has identified that numerous non-financial costs related to designing, marketing and protecting saving deposits products are incurred while offering the service and suggests a functional costing mechanism for accurately determine the financial and non-financial costs associated with providing the service.

Deposit mobilization (Deposit to loan ratio) Sustainability of MFIs depends on their saving mobilizing capacity. Deposit to loan ratio is an important indicator for MFIs that mobilize deposits. Deposit to loan ratio measures that portion of the MFIs portfolio funded by deposits. The higher the ratio the greater is the MFIs capability to fund it loan portfolio from its deposits and enhances commercialization of microfinance operation. Thus, higher ratio brings down the cost of funds and helps MFIs to rely on internal funding. Deposit mobilization has now becoming more important in Ethiopia as commercial banks seem to be reluctant to fund MFIs portfolio through their debt. Some commercial banks lent to MFIs, with strong third-party guarantee (Wale, 2015).
2.4.2 Grants as an Element of MFIs Funding Sources

In study, Firpo (2009) agreed with others different authors that the minority of the microfinance institutions get their funding from grants and donations. These donations come from foundations, NGOs, charities and some social enterprise organizations that will like to contribute to the development of micro financing in some specific areas. Some private organizations or companies also do it through what is called Corporate Social Responsibilities (CSR).

Many MFIs all over the world have proven that they can deliver financial services to individuals and businesses that otherwise would not have access to financial services. However, Gani and Clemes (2002) argued that for many of these MFI’s, the dependence on donor funds increasingly constitutes an obstacle to growth, and thus they are now turning to other, commercial sources of funds. The shortage of capital creates two major, interrelated problems for MFIs: slower than optimal rates of growth due to shortage of funds, and (2) large operational deficits prior to institutional financial breakeven, which itself tends to limit optimal growth rates. These operating deficits limit MFI access to capital, even at market rates. While there is an undeniable need for MFIs to access capital that would enable them to make a greater contribution towards poverty-reduction, commercial lenders and equity investors (whether private, public or mix) have difficulties in identifying viable microfinance investments, or do not yet see microfinance with the poor as a potentially profitable investment opportunity. This obliged MFIs to turn more on members contributions and grants to sustain financially in long term (Bélanger and Parada, 2012).

With development and commercialization, MFIs are spanned off to become fully independent, the enigma of funding structure that ensure sustainability becomes relevant. The question of optimal capital structure for MFIs, particularly ones with access to grant funding, is an open and substantial question (Bogan et al., 2007).

2.4.3 Debt and Equity Financing in MFIs

Leverage (Debt to Equity ratio) Debt to equity ratio is the simplest measure firm leverage and believed as the drivers of MFIs sustainability and efficiency. Although maintaining best mix of debt and equity is still the subject of intense debate among scholars, three popular theories are emerged to define the appropriate mix of equity and debt to enhance
firms’ return and efficiency. Modigliani and Miller (1958) published a seminal work in capital structure where they concluded to the broadly known theory of “capital structure irrelevance” where the capital structure is irrelevant to firm performance in perfect capital markets. This view is further supported by Berk and Demarzo (2007) when they argued that the law of one price implied that leverage would not affect the total value of the firm. Instead, it only changes the allocation of cash flows between debt and equity, without changing the total cash flows of the firm.

The Modigliani and Miller theorem holds true under the assumption of a perfect capital market, which means: individuals and firms trade at the same, no taxes exist, and no transaction costs exist. However, this scenario is unlikely to happen in real world particularly in the MFI sector under which all these assumptions cannot be hold true and less straight-forward. The basic MM principles are applicable to MFIs, but only after accounting for the fundamental differences in how MFIs and corporations operate (Cohen, 2003).

There is an important reason for the difference between governmental and private institutions. Governmental institutions can receive funds more easily than private MFIs do. Consequently, the trade-off is not as important for the state-owned ones as it is for the private sector. The private sector is more funded by private equity, which is more limited and restricted to conditions than donations are. As private investors expect, profit margins must be respected and achieved. Otherwise, investors may lose their interest, which could bring about a deficit in funds. This contrasts with the state-owned MFIs. They get their funds from subsidies and/or donations, which are not (or barely) conditioned with profit goals or similar agreements (Andy Carlton et al, 2001).

2.5 Chapter Summary
The chapter is a literature review of existing research literature on the micro finance institutions and their long term financial sustainability. The discussion tackles all the research questions posed. Chapter three describes the methodology of research which was used in this study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the research methods which were used in the analysis of data collection, data presentation and procedures carried out in the study. The chapter entails, sample size of the study, the population and sampling design, sampling techniques. The data collection methods and data analysis are also discussed in this chapter as well as the chapter summary.

3.2 Research Design
In his book on research design in social science, Vaus (2001) explained that the function of a research design is to ensure the evidence obtained enables us to answer the research question as unambiguously as possible. The research design entails the techniques and strategies used by the researcher to put together various elements of the study in an organized and clear way with the aim of ensuring that the research problem has been addressed effectively.

Descriptive survey design was used for this study. Gill and Johnson (2010) agreed that descriptive surveys address specific characteristics of a selected population of subjects at a point in time, for comparing the relationship between the dependent variable and the independent variables. This design is used to describe the traits of the study population or phenomenon. It describes and explains phenomena that observations reflected measure social reality or describe what is in the real world. For this study, financial sustainability is the dependent variable and the Independents variables are loan performance, Market outreach and Financing structure. For this study, descriptive design is the most favorable, and the most cost and time effective, it facilitated data collection and analysis for this study. Qualitative and quantitative data were used in this study.

3.3 Population and Sampling Design

3.3.1 Population
According to research, populations is defined as the group of individuals or objects that possess similar traits. All individuals or objects within a certain population usually have a common, binding characteristic or trait (Polit, Beck and Hungler, 2001). For this research,
the target population consisted of customers and top senior management of Microfinance Institutions operating in the city of Kindu (Fpm Congo, 2015).

3.3.2 Sampling Design

3.3.2.1 Sampling Frame
Sampling frames refers to a list of all the items within a population that can be sampled It is and can include households, individuals or even institutions (Salant and Dillman, 1994). This study drew a sample frame from the Microfinance institutions that are operating in the city of Kindu consisting of top senior management and customers. This sampling frame is based on the report from The Fond pour la promotion de Microfinance (Fpm Congo, 2015). The top senior management consisted of directors, managers and credit officers. The customers consisted of farmers, household-based entrepreneurs, artisans, street vendors, shopkeepers, service providers, microenterprise, students, and low-income individual.

3.3.2.2 Sampling Technique
Cooper and Schindler (2014) define a sample size as a complete and correct list of members of a population. Nieman (2014) added that the researcher need to select a sample which is economic, one that includes enough participants to ensure a valid survey. In this study two methods were used to achieve the objective. The sample frame consists of only top senior management and customers of MFIs. Due to small size of the top senior management of MFIs, the study adopted census method for MFIs. Census technique is also favorable when the population is small and does not present difficulties in reaching all elements of the population, cost and time would allow for census. Simple random sample technique was used for selecting the population. The total population size was 3218. According to this study, the characteristic of the population is homogeneous and therefore there was no requirement for this study to undertake complex and advance sample techniques. In research simple random sample is a subset of a statistical population where each unit have known and equal chance of being selected (Cooper and Schindler, 2014).

3.3.2.3 Sample Size
According to Saunders et al (2016), the choice of the sample depends on many factors including, the research time, budgetary constraints and characteristics of the population. When the population is large, the sample ratio needs to be small to provide an appropriate and manageable sample. When the population is small, the sample ratio needs to be large
to capture the sample that a true representative of the population. The report by Fpm Congo (2015) concluded that the city of Kindu has 4 MFIs which serves a population of 3218 customers only in the city.

Yamane (1967) formula was used to compute the sample size for the population. This formula was employed to sample fairly a large size as representation of the total population such that the research findings obtained can be considered valid. The details on the determination of sample size of customers using Yamane’s formula are shown below;

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

Where \( n \) = sample size required,

\( N \) = population size
\( e \) = alpha level
\( n \) = sample size

Sample size, \( n = \frac{3218}{1+3218(0.05\times0.05)} = 355 \)

All managers of the four selected microfinance institutions were included in the study.

3.4 Data Collection Methods

Primary data was used. The primary data source consisted of information bulk obtained from the respondents using questionnaires. Data was collected using variety of methods comprising of questionnaire (structured, semi-structured, and close ended questions) and interview. Questionnaires relating to the research questions were developed by the researcher. The questionnaire, targeting the managers and clients to MFIs. The questionnaire was divided into four (4) Sections, whereby, section one (1) consisted of the general information such as gender, age, category and how long they worked with the organization. The remaining parts represented the research questions. The questionnaires adopted were both open-ended and closed-ended. This was suitable in order to save time as well as to enable the respondents to answer appropriately given different options from each of them.
3.5 Data Collection Procedures
A pilot study of the questionnaire was conducted by the researcher in order to ensure that the tool is suitable before carrying out the actual administering of questionnaires. The questionnaire was pre-tested via electronic mail and sent to 5 senior managers and 20 customers selected randomly from the sample size. This allowed the researcher to modify and make necessary changes to the questionnaire for objectivity and efficiency of the process.

The research procedure included the preparation of the actual and final structured questionnaires. This was followed by the recruitment of a Research Assistant (data clerk) based in the city of Kindu. The assistant was trained on the research tool to minimize data collection errors and was also retained for the whole period of data collection and provided with incentives.

To increase the response rate, the research assistant delivered the cover letter first to the respondents that explained importance of their contributing to the research. Furthermore, the researcher sought for authorization from potential respondents. The researcher obtained consent from participants to ensure it is out of free will and their contribution to the research would be highly appreciated. The participants were requested not to write names on the questionnaires to maintain anonymity as the information given by them would be treated with highest discreet and confidentiality.

3.6 Data Analysis
The analysis of statistical data was conducted using the application of computer software programs such as MS word, MS excel, and SPSS. The values of the outcome were presented in percentages, averages, and percentage averages. The outcome of the data analysis is presented frequency charts, tables, and graphs if necessary. Inferential analysis using correlation and regression models were used to make an analysis between the effects of loan performance, outreach, financial structure and the financial sustainability of MFIs. In order to measure the relationship between the effect of loan performance, outreach and financial structure on the financial sustainability of MFIs, Pearson Correlation was used.
An approach to evaluate the statistical significance on the relationship that existed between the independent variables and dependent variables incorporated the linear regression model.
Y = β₀ + β₁X₁ + β₂X₂ + β₃X₃ + ε. Where;

Y = represents financial sustainability scores

X₁ = loan performance

X₂ = Outreach

X₃ = Financial structure

β₀ = Constant Term, β₁, β₂, β₃ = Beta coefficients,

ε = error term

The Dependent variable (Y) is the financial sustainability concern total Financial Revenue divided by total financial expenditures. And the Independents variables: Loan performance is the Size of Loan and Repayment rate, deposit mobilization. Market Outreach concern the total Clients of the MFI and Financing structure is Debt to Equity Ratio of the MFI.

3.7 Chapter Summary

The study assumed a descriptive survey employing both qualitative and quantitative data and inferential statistics was used to measures to what extent the financial sustainability of MFIs are affected by the Loan performance, outreach and Financing structure. The study incorporated simple stratified random sampling in order to do away with biasness. The primary and secondary sources were used to collect data. The respondents were administered questionnaires to fill and return. Data analysis was performed using SPSS and the results revealed in graphs, charts and figures.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter outlines the results and findings of the study based on the research objectives. The first section describes an analysis of the demographic information of the respondents’. The second, third and fourth section describes findings of each research objective based on the study. At the end of this chapter, a summary of the major findings is presented.

The research administered a total of 355 questionnaires to senior managers and clients of MFIs in the city of Kindu. Out of the 355 questionnaires issued, 311 were filled and returned. A response rate of 87% was indicated and was considered sufficient for analysis as shown in Figure 4.1.

4.2 Demographic Information
This section presents descriptive analysis of the respondents’ gender, age, education, experience with MFIs and occupation in the microfinance institution. The results were presented as follows:

4.2.1 Classification by Gender
Figure 4.2. Indicates distribution of the respondents’ gender. According to the figure, male respondents accounted for 56% whereas female respondents accounted for 44% of the sample. This indicates that there was adequate representation of gender.

Figure 4.1: Response Rate

Response Rate (%)
- Response 87%
- Non Response 13%

Figure 4.2: Classification by Gender
- Male 56%
- Female 44%
4.2.2 Classification by Age

The classification of respondents by their age group is presented in Figure 4.3 below. The figure indicates that 16% of the respondents were within the age bracket of 20 – 24 years, while 12% of the respondents were aged between 30 – 34 years. The respondents who accounted for 22% were aged between 25 – 29 years. On the other hand, the respondents aged 35 years and above accounted for 50%.

4.2.3 Classification by Highest Education Level

The respondents’ level of education was presented in Figure 4.4. The figure indicates that 23% had attained graduate degrees whereas 2.9% of the respondents had attained a level of post-graduate degrees. The respondents who had attained vocational and secondary levels accounted for 3.8% and 12% respectively.
4.2.4 Classification by Experience with MFIs
The classification of the respondents by their experience with MFIs was presented in Figure 4.5. The figure shows that 43% of the respondents had experience between 2 to 4 years while 7% of the respondents had experience between 0 to 2 years. Those who had experience above 7 years accounted for 33% while 27% of the respondents had experience between 4 to 6 years.

4.2.5 Classification by Occupation
The classification of the respondents by their occupation was presented in Figure 4.6. The figure shows that 47% of the respondents were credit officers while 1% were directors. Those respondents who were managers accounted for 8% while 28% of the respondents were laborers/vendors. The respondents who were employed and unemployed accounted for 12% and 4% respectively.
4.3 Effect of Loan Performance on Financial Sustainability of MFIs

This section sought to establish the relationship between loan performance and financial sustainability from the respondents. Loan performance was measured by five items namely: nature of the loan, loan experience, poor loan portfolio management, loan repayment duration and consequences of loan defaulting.

4.3.1 Nature of Loan

Figure 4.7 shows an analysis of the nature of loan extended to customers by MFIs. The figure revealed that 79% of the respondents had borrowed agri-business loans while 21% of the respondents had borrowed consumption loan.
4.3.1.1 Type of Micro-credit

The study also examined the type of micro credit extended to customers which include: education loan, loan to take up small economic activities, loan to buy any machinery/equipment, auto loans and medical loans. Findings from the study according to Table 4.1 indicated that the respondents who had taken loan to take up small economic activities accounted for 49%, while 20% had taken education loan. The respondents who had taken loan to buy any machinery/equipment accounted for 17% while 14% had taken auto loans.

**Table 4.1: Type of Micro-credit extended to customers**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education loan</td>
<td>62</td>
<td>20</td>
</tr>
<tr>
<td>Loan to take up small economic activities</td>
<td>153</td>
<td>49</td>
</tr>
<tr>
<td>Loan to buy machinery/equipment</td>
<td>54</td>
<td>17</td>
</tr>
<tr>
<td>Auto loans</td>
<td>42</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>311</td>
<td>100</td>
</tr>
</tbody>
</table>
4.3.2 Loan Experience

Figure 4.8 shows an analysis of the loan experience by customers. The findings indicated that 64% of the respondents had taken a loan while 36% of the respondents had not taken a loan.

![Loan Experience (%)](image)

**Figure 4.8: Customers' Loan Experience**

4.3.3 Source of Loan/Loan Lender

Figure 4.9 shows an analysis of the sources of loan assessed by the customers. The findings revealed that 77.1% of the respondents accessed loan from Microfinances, 35.4% from money lenders, 27.9% from private financial lenders, 25.7% from commercial banks, 11.3% from co-operative societies, 10.0% from colleagues, 7.8% from employers and 4.1% from pawnshops.
4.3.4 Loan Repayment Flexibility

Table 4.2 shows an analysis of the flexibility of the loan repayment schedule extended to the customers by MFIs. The findings indicated that 44% of the loans extended were payable within the first one year. While 24% of loan extended were payable for more than one year but less than three years and 20% of loans lasted for more than three years and less than five years. Loans extended that were payable for more than five years accounted for 12%.

Table 4.2: Duration of Loan Repayment

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 1 year</td>
<td>137</td>
<td>44</td>
</tr>
<tr>
<td>1 – 3 years</td>
<td>76</td>
<td>24</td>
</tr>
<tr>
<td>3 – 5 years</td>
<td>61</td>
<td>20</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>37</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>311</td>
<td>100</td>
</tr>
</tbody>
</table>
### 4.3.5 Consequences of Loan Defaulting

Table 4.3 shows an analysis of the possible consequences faced by individuals who defaulted loan payment. The study found that 35% of the MFIs would pay the guarantor/SHG’s members when a member is not able to pay a loan while 34% took legal actions and 31% confiscated assets given as security as a consequence of defaulted payment.

**Table 4.3: Consequences of Loan Non-payment**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets given as security is confiscated</td>
<td>95</td>
<td>31</td>
</tr>
<tr>
<td>Legal action is taken</td>
<td>107</td>
<td>34</td>
</tr>
<tr>
<td>Someone else would pay a guarantor/SHG’s</td>
<td>109</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>311</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

### 4.3.7 Descriptive Statistics for the Effect of Loan Performance on the Sustainability of MFIs

Table 4.4 presents the frequency distribution of the opinion of respondents’ level of agreement or disagreement concerning the effect of loan performance on the financial sustainability of MFIs. Their opinion on given statements were computed and mean scores ranked on a 5-point Likert scale of 1-5 where, 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree. Effectiveness was denoted by mean scores of 3.5 and above ($M > 3.5$).

The results shown in Table 4.4 indicates that financial sustainability of MFIs was affected by nature of loan extended to customers ($M = 3.73$, $SD = .85$), poor loan portfolio management ($M = 4.07$, $SD = .86$), flexibility of loan repayment schedule extended to the customers ($M = 3.93$, $SD = 1.05$), consequences of loan defaulting faced by customers ($M = 3.65$, $SD = 1.02$) and lastly per capita income of a location ($M = 3.96$, $SD = .85$).
### Table 4.4: Descriptive Statistics for Loan Performance and Financial Sustainability of MFIs

<table>
<thead>
<tr>
<th>Effect of Loan Performance on Financial Sustainability of MFIs</th>
<th>MEAN</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of loan extended to customers has affected the sustainability of profit margin of your MFI</td>
<td>3.73</td>
<td>.852</td>
</tr>
<tr>
<td>Poor loan portfolio management has affected the sustainability of asset ratio of your MFI</td>
<td>4.07</td>
<td>.867</td>
</tr>
<tr>
<td>Flexibility of loan repayment schedule extended to the customers has affected the sustainability of turnover of your MFI</td>
<td>3.93</td>
<td>1.056</td>
</tr>
<tr>
<td>Consequences of loan defaulting faced by customers has affected the sustainability of return on investment of your MFI</td>
<td>3.65</td>
<td>1.02</td>
</tr>
<tr>
<td>Per capita income of a location has affected the sustainability of market share of your MFI</td>
<td>3.96</td>
<td>.859</td>
</tr>
</tbody>
</table>

### 4.3.8 Correlation Analysis between Loan Performance and Financial Sustainability of MFIs

The relationship between loan performance and financial sustainability of MFI was tested using Pearson Correlation. Table 4.5 indicates the results that there was a statistically significant strong positive correlation between loan performance and financial sustainability of MFIs, $r(311) = .761, p < .05$.

### Table 4.5: Correlation between Loan Performance and Financial Sustainability of MFIs

<table>
<thead>
<tr>
<th>Variables</th>
<th>Loan Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Sustainability</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N</td>
</tr>
<tr>
<td>Loan Performance</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed).
4.3.9 Regression Analysis between Loan Performance and Financial Sustainability of MFIs

A simple linear regression analysis was conducted to show the extent to which loan performance affected the financial sustainability of MFIs. The findings of the model summary revealed in Table 4.6 indicates that loan performance explained about 73.8% of the variability in the financial sustainability of MFIs ($R^2 = .738$, $F(1, 310) = 1.35$, $p < .05$) and the strength of the relationship ($r = .579$).

Table 4.6: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.579</td>
<td>0.738</td>
<td>0.672</td>
<td>1.354</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Loan Performance

*p < .05

The linear regression ANOVA results presented in Table 4.7 indicates that loan performance statistically significantly predicted the financial sustainability of MFIs $F(1, 310) = 1.35$, $p < .05$.

Table 4.7: ANOVA

<table>
<thead>
<tr>
<th>ANOVA</th>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>19.559</td>
<td>1</td>
<td>19.559</td>
<td>1.354</td>
<td>.000</td>
</tr>
<tr>
<td>Regression</td>
<td></td>
<td>19.559</td>
<td>1</td>
<td>19.559</td>
<td>1.354</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>231.221</td>
<td>310</td>
<td>1.102</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>250.78</td>
<td>311</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Sustainability of MFIs

b. Predictors: (Constant), Loan Performance

Table 4.8 shows findings of the regressions coefficient which indicates that loan performance predicted the financial sustainability of MFIs ($B = .353$, $p < .05$). Therefore, it means that one unit of increase in loan performance would lead to an increase in the financial sustainability of MFIs by a unit of 0.353. The general form of the linear regression model equation based on the results of the coefficients was shown as follows;
Financial Sustainability of MFIs = 1.619 + 0.353 Loan performance.

**Table 4.8: Coefficient**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.619</td>
<td>1.311</td>
<td>1.322</td>
<td>.000</td>
</tr>
<tr>
<td>Loan Performance</td>
<td>.353</td>
<td>.084</td>
<td>.611</td>
<td>2.571</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Sustainability of MFIs

*p < .05

**4.4 Effect of Outreach on Financial Sustainability of MFIs**

This section sought to establish the relationship between outreach and financial sustainability from the respondents. Outreach was measured by five items namely; average loan size, average loan balance per borrower, number of active borrowers, and stiff competition from banks and number of branches.

**4.4.1 Average Loan Size**

Table 4.9 shows an analysis on the average size of loan extended to the customers in CDF’s. The findings indicated that 44% of the customers could only access up to 10,000 (CDF), 24% could access between 10,000 and 30,000 while 20% could access between 30,000 and 60,000.

**Table 4.9: Average Loan Size Extended to Customer in CDFs**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10,000</td>
<td>137</td>
<td>44</td>
</tr>
<tr>
<td>10,000 – 30,000</td>
<td>76</td>
<td>24</td>
</tr>
<tr>
<td>30,000 – 60,000</td>
<td>61</td>
<td>20</td>
</tr>
<tr>
<td>60,000 – 100,000</td>
<td>37</td>
<td>12</td>
</tr>
<tr>
<td>More than 100,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>311</td>
<td>100</td>
</tr>
</tbody>
</table>
4.4.2 Descriptive Statistics for the Effect of Outreach on the Sustainability of MFIs

Table 4.10 presents the frequency distribution of the opinion of respondents’ level of agreement or disagreement concerning the effect of outreach on the financial sustainability of MFIs. Their opinion on given statements were computed and mean scores ranked on a 5-point Likert scale of 1-5 where, 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree. Effectiveness was denoted by mean scores of 3.5 and above ($M > 3.5$).

The results shown in Table 4.10 indicates that financial sustainability of MFIs was affected by increased average loan size extended to customers ($M = 3.56, SD = 1.10$), decreased cost per borrower ($M = 4.02, SD = .52$), increased number of active borrowers ($M = 3.81, SD = .65$), stiff competition from banks ($M = 3.63, SD = 1.25$) and lastly, number of branches ($M = 3.91, SD = .76$).

Table 4.10: Descriptive Statistics for Outreach and Financial Sustainability of MFIs

<table>
<thead>
<tr>
<th>Effect of Outreach on Financial Sustainability of MFIs</th>
<th>MEAN</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in average size of loan extended to customers has affected the sustainability of profit margin of your MFI</td>
<td>3.56</td>
<td>1.104</td>
</tr>
<tr>
<td>Decrease in cost per borrower has affected the sustainability of profit margin of your MFI</td>
<td>4.02</td>
<td>.520</td>
</tr>
<tr>
<td>Increased number of active borrowers has affected the sustainability of profit margin of your MFI</td>
<td>3.81</td>
<td>.656</td>
</tr>
<tr>
<td>Stiff competition from banks has affected the sustainability of profit margin of your MFI</td>
<td>3.63</td>
<td>1.25</td>
</tr>
<tr>
<td>Increased number of branches has affected the sustainability of profit margin of your MFI</td>
<td>3.91</td>
<td>.761</td>
</tr>
</tbody>
</table>

4.4.3 Correlation Analysis between Outreach and Financial Sustainability of MFIs

The relationship between outreach and financial sustainability of MFI was tested using Pearson Correlation. Table 4.11 presents the results which indicates that there was a statistically significant strong positive correlation between outreach and financial sustainability of MFIs, $r(311) = .682, p < .05$. 

39
4.4.4 Regression Analysis between Outreach and Financial Sustainability of MFIs

In order to show the extent to which outreach affected the financial sustainability of MFIs, a simple linear regression analysis was carried out. Table 4.12 presents findings of the model summary which indicates that outreach explained about 82.4% of the variability in the financial sustainability of MFIs ($R^2 = .824$, $F(1, 309) = 0.122$, $p < .05$) and the strength of the relationship ($r = .634$).

Table 4.12: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.634</td>
<td>0.824</td>
<td>0.672</td>
<td>1.255</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Outreach

*p < .05

Table 4.13 presents the linear regression ANOVA results which indicates that outreach statistically significantly predicted the financial sustainability of MFIs $F(1, 309) = 0.122$, $p < .05$. 

---

Table 4.11: Correlation between Outreach and Financial Sustainability of MFIs

<table>
<thead>
<tr>
<th>Variables</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Sustainability</td>
<td></td>
<td>.682</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>.000</td>
<td>311</td>
</tr>
<tr>
<td>Outreach</td>
<td></td>
<td>1</td>
<td>311</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed).
### Table 4.13: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>11.228</td>
<td>1</td>
<td>11.228</td>
<td>0.122</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>247.671</td>
<td>309</td>
<td>1.056</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Total</td>
<td>258.89</td>
<td>310</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Sustainability of MFIs
b. Predictors: (Constant), Outreach

* * \( p < .05 \)

Table 4.14 presents the regressions coefficient findings which indicates that outreach predicted the financial sustainability of MFIs (\( B = .409, p < .05 \)). It therefore means that one unit of increase in outreach would lead to an increase in the financial sustainability of MFIs by a unit of 0.409. The general form of the linear regression model equation based on the results of the coefficients was established as follows:

\[
\text{Financial Sustainability of MFIs} = 1.508 + 0.409 \text{Outreach}.
\]

### Table 4.14: Coefficient

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.508</td>
<td>1.011</td>
<td>1.233</td>
</tr>
<tr>
<td></td>
<td>Outreach</td>
<td>.409</td>
<td>.021</td>
<td>.344</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Sustainability of MFIs

* * \( p < .05 \)

#### 4.5 Effect of Financial Structure on Financial Sustainability of MFIs

This section sought to establish the relationship between financial structure and financial sustainability from the respondents. Financial structure was measured by five items namely; deposit mobilization, long term debt financing, and increase in leverage, size of the firm and regulation by government.
4.5.1 Financiers of Institutions
The mode of financing plays a major role in MFIs sustenance. The study found MFIs at Kindu were mainly funded by Sacco members accounting for 60% while 40% were funded by individual owners as shown in Figure 4.8 below.

![Financiers of MFIs](image)

**Figure 4.10: Financiers of MFIs**

4.5.2 Descriptive Statistics for the Effect of Financial Structure on the Sustainability of MFIs
The frequency distribution of the opinion of respondents’ level of agreement or disagreement concerning the effect of financial structure on the financial sustainability of MFIs was presented in Table 4.15. The opinion of the respondents on given statements were computed and mean scores ranked on a 5-point Likert scale of 1-5 where, 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree. Effectiveness was denoted by mean scores of 3.5 and above ($M > 3.5$).
The results shown in Table 4.15 indicates that financial sustainability of MFIs was affected by high deposit mobilization ($M = 3.61, SD = 1.22$), long term debt financing extended to borrowers ($M = 3.55, SD = .44$), increase in leveraging loans ($M = 3.77, SD = .67$), size of the firm ($M = 3.60, SD = 1.05$) and lastly, regulatory framework ($M = 3.88, SD = .71$).

Table 4.15: Descriptive Statistics for Financial Structure and Financial Sustainability of MFIs

<table>
<thead>
<tr>
<th>Effect of Financial Structure on Financial Sustainability of MFIs</th>
<th>MEAN</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher deposit mobilization has affected the sustainability of profit margin of your MFI</td>
<td>3.61</td>
<td>1.22</td>
</tr>
<tr>
<td>Long term debt financing extended to borrowers has affected the sustainability of profit margin of your MFI</td>
<td>3.55</td>
<td>.443</td>
</tr>
<tr>
<td>Increase in leveraging loans has affected the sustainability of profit margin of your MFI</td>
<td>3.77</td>
<td>.675</td>
</tr>
<tr>
<td>Size of the firm has affected the sustainability of profit margin of your MFI</td>
<td>3.60</td>
<td>1.05</td>
</tr>
<tr>
<td>Regulatory framework has affected the sustainability of profit margin of your MFI</td>
<td>3.88</td>
<td>.713</td>
</tr>
</tbody>
</table>

4.5.3 Correlation Analysis between Financial Structure and the Financial Sustainability of MFIs

The relationship between financial structure and the financial sustainability of MFI was tested using Pearson Correlation. Table 4.16 reveals the results which indicates that there was a statistically significant strong positive correlation between financial structure and financial sustainability of MFIs, $r(311) = .774$, $p < .05$.

Table 4.16: Correlation between Outreach and Financial Sustainability of MFIs

<table>
<thead>
<tr>
<th>Variables</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Sustainability</td>
<td>.774</td>
<td>.000</td>
<td>311</td>
</tr>
<tr>
<td>Financial Structure</td>
<td>1</td>
<td></td>
<td>311</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed).
4.5.4 Regression Analysis between Financial Structure and Financial Sustainability of MFIs

To show the extent to which financial structure affected the financial sustainability of MFIs, a simple linear regression analysis was conducted. The findings of the model summary revealed in Table 4.17 indicates that financial structure explained about 69.1% of the variability in the financial sustainability of MFIs ($R^2 = .691$, $F(1, 310) = 0.232$, $p < .05$) and the strength of the relationship ($r = .539$).

Table 4.17: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.539</td>
<td>.691</td>
<td>0.549</td>
<td>1.114</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Financial structure

* $p < .05$

Table 4.18 presented the linear regression ANOVA results which indicates that financial structure statistically significantly predicted the financial sustainability of MFIs $F(1, 310) = 0.232$, $p < .05$.

Table 4.18: ANOVA

<table>
<thead>
<tr>
<th>ANOVA</th>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>9.887</td>
<td>1</td>
<td>9.887</td>
<td>0.232</td>
<td>.0</td>
<td></td>
</tr>
<tr>
<td>Residual</td>
<td>251.331</td>
<td>310</td>
<td>1.004</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>261.218</td>
<td>311</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Sustainability of MFIs
b. Predictors: (Constant), Financial structure

* $p < .05$

The regressions coefficient findings presented in Table 4.19 indicates that financial structure predicted the financial sustainability of MFIs ($B = .711$, $p < .05$). This means that one unit of increase in financial structure would lead to an increase in the financial sustainability of MFIs by a unit of 0.711. Based on the results of the coefficients, the general form of the linear regression model equation established was as follows:

Financial Sustainability of MFIs = 1.894 + 0.711 Financial structure.
Table 4.19: Coefficient

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std.</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.894</td>
<td>1.421</td>
<td>1.208</td>
</tr>
<tr>
<td></td>
<td>Financial structure</td>
<td>.711</td>
<td>.133</td>
<td>.189</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Sustainability of MFIs

*p < .05

4.6 Chapter Summary

This chapter presented the results and findings of the data analysis conducted on 311 questionnaires administered to respondents. The first section looked at the demographic information of the respondents while the other subsequent parts focused on the findings from the specific objectives of the study which assessed; the effect of loan performance on the financial sustainability of MFIs, the effect of outreach on the financial sustainability of MFIs and the effect of financial structure on the financial sustainability of MFIs. The next chapter discusses the findings of this study.
CHAPTER FIVE

5.0 SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the study followed by detailed discussion and makes conclusions. It also discusses the recommendations for policy and practice on the findings in relation to the specific objectives of the study.

5.2 Summary of the Study

The purpose of this study was to determine the factors affecting financial sustainability of MFIs in the city of Kindu, DRC. The study was guided by three research questions which included; what are the effects of loan performance on the financial sustainability of micro finance institutions in the city of Kindu, DRC? How does outreach affect the financial sustainability of micro finance institutions in the city of Kindu, DRC? Finally, what are the effects of financial structure on the financial sustainability of micro finance institutions in the city of Kindu, DRC?

This study adopted a descriptive correlational research design. The study population comprised 3218 senior managers and clients of MFIs that had been operating in the last five years in the city of Kindu at the time of the study. In order to obtain a sample of 311 senior managers and clients of MFIs from the total population, stratified random sampling was used as the selection technique. A structured questionnaire was used in this study as the data collection instrument. Descriptive and inferential statistics were used in this study to analyze data in order to investigate the relationship between the dependent variable and the independent variables. The descriptive statistical analysis used in this study included mean and standard deviations while the inferential statistical analysis used included Pearson Correlation test and Regression test. The Statistical Package for Social Sciences (SPSS) was the tool used for statistical analysis and the findings presented in figures and tables.

An analysis on the first research question regarding the effect of loan performance on the financial sustainability of MFIs revealed that the respondents agreed financial sustainability of MFIs rely on nature of loan extended to customers \( (M = 3.73, SD = .85) \). It was also strongly agreed financial sustainability of MFIs was affected by poor loan portfolio management \( (M = 4.07, SD = .86) \). It was agreed that financial sustainability of MFIs was
affected by flexibility of loan repayment schedule extended to the customers \( (M = 3.93, SD = 1.05) \). Similarly, it was strongly agreed that financial sustainability of MFIs was affected by consequences of loan defaulting faced by customers \( (M = 3.65, SD = 1.02) \) and lastly per capita income of a location affected the financial sustainability of MFIs \( (M = 3.96, SD = .85) \). Pearson Correlation test findings indicated that there was a statistically significant positive correlation between loan performance and financial sustainability of MFIs; \( r(311) = .761, p < .05 \). An analysis carried out on Linear regression indicated that loan performance explained about 73.8% of the variability in the financial sustainability of MFIs, \( R^2 = .738 \) and statistically significantly predicted the sustainability of MFIs, \( F(1, 310) = 1.35, p < .05 \).

On the second research question regarding the effect of outreach on the financial sustainability of MFIs revealed that the respondents agreed financial sustainability of MFIs rely on increased average loan size extended to customers \( (M = 3.56, SD = 1.10) \). It was also strongly agreed financial sustainability of MFIs was affected by the increased number of active borrowers \( (M = 3.81, SD = .65) \). It was agreed that financial sustainability of MFIs was affected by decreased cost per borrower \( (M = 4.02, SD = .52) \). Similarly, it was strongly agreed that financial sustainability of MFIs was affected by stiff competition from banks \( (M = 3.63, SD = 1.25) \) and lastly increased number of branches affected the financial sustainability of MFIs \( (M = 3.91, SD = .76) \). Pearson Correlation results test indicated that there was a statistically significant positive correlation between outreach and financial sustainability of MFIs; \( r(311) = .682, p < .05 \). Analysis conducted on Linear regression showed that outreach explained about 82.4% of the variability in the financial sustainability of MFIs, \( R^2 = .824 \) and statistically significantly predicted the sustainability of MFIs, \( F(1, 309) = 0.122, p < .05 \).

Regarding the third research question concerning the effect of financial structure on the financial sustainability of MFIs revealed that the respondents agreed financial sustainability of MFIs rely on higher deposit mobilization extended to customers \( (M = 3.61, SD = 1.22) \). It was also strongly agreed financial sustainability of MFIs was affected by long term debt financing extended to borrowers \( (M = 3.55, SD = .44) \). It was agreed that financial sustainability of MFIs was affected by increase in leveraging loans \( (M = 3.77, SD = .67) \). Similarly, it was strongly agreed that financial sustainability of MFIs was affected by size of the firm \( (M = 3.60, SD = 1.05) \) and lastly regulatory framework affected the financial
sustainability of MFIs ($M = 3.88$, $SD = .71$). Pearson Correlation results test indicated that there was a statistically significant positive correlation between financial structure and financial sustainability of MFIs; $r(311) = .774$, $p < .05$. An analysis on Linear regression showed that financial structure explained about 69.1% of the variability in the financial sustainability of MFIs, $R^2 = .691$ and statistically significantly predicted the sustainability of MFIs, $F(1, 311) = 0.232$, $p < .05$.

5.3 Discussion

5.3.1 Effect of Loan Performance on Financial Sustainability of Microfinance Institutions

The results revealed that the respondents strongly agreed that poor loan portfolio management affected the financial sustainability of MFIs ($M = 4.07$, $SD = .86$). This finding agrees with the report by the Central Bank of Congo (BCC, 2012) that loan quality directly reflects on the quality of the portfolio policy. Poor portfolio management causes difficulties in the institution thereby manifests in poor lending policies due to deficient internal control, inadequate credit analysis, excessive risk concentration and fraud. This leads to increasingly reduced performance and profitability of the MFI. The report further argues that the main cause of the difficulties of those institutions remains the loan performance. It is therefore clear that a microfinance institution cannot sustain its activities if the performance of loan is poor.

Pearson Correlation test indicated that there was a statistically significant positive correlation between loan performance and financial sustainability of MFIs; $r(311) = .761$, $p < .05$. The findings reveal that the respondents agreed that flexibility of repayment schedule affected the financial sustainability of MFIs ($M = 3.93$, $SD = 1.05$). The results confirmed findings of a study by Field at al (2006) which indicated that a more frequent repayment schedule generates a higher effective interest rate. The findings suggest that among microfinance clients who are willing to repay at either weekly or monthly repayment schedules, a more flexible schedule can significantly lower transactions.

Linear regression analysis indicated that loan performance explained about 73.8% of the variability in the financial sustainability of MFIs ($R^2 = .738$) and statistically significantly predicted the sustainability of MFIs, ($B = .353$, $p < .05$). The findings reveal that the respondents agreed that per capita income of a location affected the financial sustainability of MFIs ($M = 3.96$, $SD = .85$). This finding agrees with a study by Adongo and Stark (2011)
which found that the more income the microfinance clientele has, the higher the probability that a microfinance institution serving this target group will be financially sustainable. According to this study, the per capita income is positively related to the financial sustainability of microfinance institutions in the city of Kindu in DRC.

Gine and Karlan (2016) conducted an experiment in the Philippines and argued that by offering individual loans, a microfinance institution can attract relatively more new clients. Credit Regulator (2012) further argues that it is very imperative to note that most small businesses and individual firms have no collateral to offer for borrowing hence they borrow without security under unsecured lending. Managing the loan portfolio between the various products offered is extremely vital as both secured loans and unsecured loans contribute to loan performance. Effective management of loan portfolio and credit function which is fundamental to a bank’s safety and soundness should be carried out on both secured lending and unsecured lending. The largest credit risk inherent in any commercial bank lies heavily and almost entirely on its loan portfolio.

Report by the Central Bank of Congo (2012) argues that loan quality directly reflects the on the quality of the portfolio policy. Poor portfolio management manifests in poor lending policies due to deficient internal control, inadequate credit analysis, excessive risk concentration and fraud has increasingly reduced performance and profitability. The report further states that the main cause of the difficulties of those institutions remains the loan performance. It clear that a microfinance institution cannot sustain its activities if the performance of loan is poor. Findings by Takyi (2011) argues that MFIs have unfavorable environment to mobilize high cost low incomes into savings and lend to the people with virtually no collateral to support such credits. It is therefore, imperative to put in place legitimate policies and procedures that ensure among other things that the proper authorities grant credit. Credit goes to the right people and the appropriate size of credit is granted for its intended purpose. Therefore, there is adequate flow of management information within the organization to monitor each credit activity.

5.3.2 Effect of Outreach on Financial Sustainability of Microfinance Institutions

The results revealed that the respondents strongly agreed that decreased cost per borrower affected the financial sustainability of MFIs ($M = 4.02$, $SD = .52$). This finding agrees with the findings by the Woller and Schreiner (2014) that a low cost per borrower suggests that
MFIs are facing very low operational costs as such it is therefore expected that sustainability would be impacted positively. The study further argues that similarly, if loan become expensive as a result of as a result of high cost per borrower, MFIs may resort to the issuance of bigger loans, which in principle, suggests that depth of outreach is impacted negatively.

Pearson Correlation test indicated that there was a statistically significant positive correlation between outreach and financial sustainability of MFIs; \( r(311) = .682, p < .05 \). The findings reveal that the respondents agreed that adequate number of active borrowers affected the financial sustainability of MFIs \( (M = 3.81, SD = .65) \). The results confirmed findings of a study by Harmes et al. (2008) stating that the larger the number of borrowers the better the outreach. According to Logotri (2006) larger number of borrowers was found to be the biggest sustainability factor. On the contrary, Ganka (2010) on Tanzanian microfinance institutions reports negative and significant relationship between breadth of outreach and financial sustainability. Ganka concludes on the result that increased in number of borrower itself does not improve financial sustainability of microfinance institutions. The reason could be increased inefficiency because of increased number of borrowers.

Linear regression analysis indicated that outreach explained about 81.2% of the variability in the financial sustainability of MFIs \( (R^2 = .812) \) and statistically significantly predicted the sustainability of MFIs, \( (B = .409, p < .05) \). The findings reveal that the respondents agreed that increased average loan size extended to customers affected the financial sustainability of MFIs \( (M = 3.56, SD = 1.10) \). This finding agrees with a study by Ledgerwood (2013) stating that average loan size has been used as a proxy measure of depth of outreach using relative level of poverty. Mersland and Strom (2009) argue that smaller loans indicate poorer customers and that average loan size does not consider the relative number of the poorest with small loan sizes. Moreover, most microfinance clients may be average poor or non-poor whose loan sizes are relatively large and, therefore, could easily influence the computed average loan size figure.

Studies by Logotri (2006) argues that larger number of borrowers were found to be the biggest sustainability factor. On the contrary, studies by Ganka (2010) on Tanzanian microfinance institutions reports negative and significant relationship between breadth of outreach and financial sustainability. Ganka concludes on the result that increased in
number of borrower itself does not improve financial sustainability of microfinance institutions. The reason could be increased inefficiency because of increased number of borrowers.

Studies by Hermes et al. (2011) argues that the more efficient an MFI wants to operate, the less people it can supply with financial services. This could be explained by the fact that the opportunity costs become higher when a client becomes less reachable. Especially the information costs and the transaction costs are positively correlated with the distance, which implies higher overall costs. The conclusion here is that the trade-off between outreach and efficiency is based on the costs and not on the revenues.

According to studies by Paxton (2013) argues that commercialization can be something good regarding outreach. The amount of loans can be augmented and can be spread over a longer period. Competition may, as previously mentioned, also contribute to higher efficiency. This can result in the possibility for the released funds to help more poor people and thus, again, deepen the outreach. There is a possibility for financial self-sustainability and efficiency to go together with outreach. In other words, local and foreign competition are positive spill-over effects associated with a higher efficiency. However, the trade-off is a knife that cuts both ways. Pursuing financial self-sustainability and efficiency can also happen at the expense of outreach. The two objectives are not always easy to reconcile.

According to studies by Hulme and Mosley (2016) argues that outreach and impact are complementary in nature in achieving microfinance sustainability. The concept cannot be applied in general as in some cases outreach and sustainability is competitive and sustainability pre-conditioned on the reduction or removal of subsidy on microfinance. It also requires a well recovery rate, which can further help in outreach of the program. A deep attention on the concept can be attracted by taking the case of depth of outreach. For example, when an MFI serves a section of population that lives below poverty line, the probability of poor repayment in the case of adverse economic shocks to their lives increases delinquency rate.

5.3.3 Effect of Financial Structure on Financial Sustainability of Microfinance Institutions

The results revealed that the respondents strongly agreed that regulatory framework affected the financial sustainability of MFIs ($M = 3.88$, $SD = .71$). This finding agrees with
the findings by Logotri (2006) that if MFIs are to be financially sustainable they have to be registered under a suitable legal form to ensure a sufficient equity base. This means that MFIs have to be properly regulated. Satta (2012) argues that regulation of microfinance institutions strengthens their financial sustainability. The study further argues that microfinance providers that take deposits need prudential regulation. Deregulation of interest rates has opened the way to alternative lending where interest rates (setting interest rate ceilings) on the other hand, restrict MFIs available options and they might be unable to cover the transaction costs which will affect their financial sustainability.

Pearson Correlation test indicated that there was a statistically significant positive correlation between financial structure and financial sustainability of MFIs; \( r(311) = .774, \ p < .05. \) The findings reveal that the respondents strongly agreed that adequate number of active borrowers affected the financial sustainability of MFIs \( (M = 3.81, \ SD = .65). \) The results confirmed findings of a study by AEMFI (2014) that argues the higher the ratio the greater is the MFIs capability to fund it loan portfolio from its deposits and enhances commercialization of microfinance operation. Thus, higher ratio brings down the cost of funds and helps MFIs to rely on internal funding. Deposit mobilization has now become more important in Ethiopia as commercial banks seem to be reluctant to fund MFIs portfolio through their debt.

Linear regression analysis indicated that financial structure explained about 69.1% of the variability in the financial sustainability of MFIs \( (R^2 = .691) \) and statistically significantly predicted the sustainability of MFIs, \( (B = .711, \ p < .05). \) The findings reveal that the respondents agreed that increase in leveraging loans affected the financial sustainability of MFIs \( (M = 3.77, \ SD = .67). \) These findings agree with a study by Modigliani and Miller (1958) who published a seminal work in capital structure where they concluded to the broadly known theory of “capital structure irrelevance” where the capital structure is irrelevant to firm performance in perfect capital markets. This view is further supported by Berk and Demarzo (2007) when they argued that the law of one price implied that leverage would not affect the total value of the firm. Instead, it only changes the allocation of cash flows between debt and equity, without changing the total cash flows of the firm.

Patti and Berger (2016) argue that capital structure and firm performance could be closely correlated with each other. And the findings are consistent with the agency theory that high leverage reduces the agency costs of outside equity and increases firm value by inspiring
managers to act more in the interests of shareholders of the firm. Their findings found that microfinance institutions use long term debt financing for their operations that might have less pressure on the management of MFI. It also highlights that profitable microfinance institutions depend more on long term debt financing.

Studies carried out by Modigliani and Miller (2014) in capital structure argues that the broadly known theory of “capital structure irrelevance” where the capital structure is irrelevant to firm performance in perfect capital markets. This study is further supported by Berk and Demarzo (2007) when they argued that the law of one price implied that leverage would not affect the total value of the firm. Instead, it only changes the allocation of cash flows between debt and equity, without changing the total cash flows of the firm.

The Modigliani and Miller theorem holds true under the assumption of a perfect capital market, which means: individuals and firms trade at the same, no taxes exist, and no transaction costs exist. However, this scenario is unlikely to happen in real world particularly in the MFI sector under which all these assumptions cannot be hold true and less straight-forward. The basic MM principles are applicable to MFIs, but only after accounting for the fundamental differences in how MFIs and corporations operate according to argument by Cohen (2013).

5.4 Conclusion
5.4.1 Effect of Loan Performance on Financial Sustainability of Microfinance Institutions
To assess the loan repayment among the customer. The study examined factors such as nature of loan taken, types of micro credit accessible to customers as well as microsaving options. Loan repayment duration, saving frequency, loan history amount of loan extended to customer and consequences of default in repayment of the loan. The study found most of loans taken were to finance business/agricultural activities. Consequently micro credit was mainly acquired for samll economic actictivities. The study also found that majority had taken loan from MFIs and private leaders. Most loans were repayable within the first year with the loan offered being less than 100,000 CDFs.

5.4.2. Effect of Outreach on Financial Sustainability of Microfinance Institutions
Outreach plays a major role in success and perfomance of most organisation. The study found that memebers had increased from the recorded memebrs during first of business and
during the study period. The study found that most of MFIs had operated in DRC between 6-10 Years and in Kindu for 6-10 Years. Majority of customers reported to 11-15 employees. The study found that most of records were manually kept in most of MFIs. From the increased member and number of operational years, we can conclude that the microfinances were sustainable.

5.4.3. Effect of Financial Structure on Sustainability of Microfinance Institutions
The study found that there was various method available for financing MFIs in Kindu. These included member’s contribution through a Sacco, owners funding and other organization such as churches and NGOs. The main form of financing the SACCOS at Kindu was through SACCO member contribution which was mainly on weekly and monthly basis. Ability to finance the operations of an organization has high influence on its sustainability. The study also found returns on loans extended to customer once managed were sufficient to sustain the growth of MFIs. From analysis of these factors we conclude that financing structure employed by microfinances at Kindu affected their sustainability despite having experiences with bad debts.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Effect of Loan Performance on Financial Sustainability of Microfinance Institutions
MFIs should strengthen the loan processing process to avoid possible bad debts by introduction of system such as credit rating for their customer using the system to limit the possible loan amount that can be extended to the customer. The study recommended that microfinance institutions should take advantage of all source of funds including donor financing as this would enhance their financial sustainability. MFIs should charge interest rates high enough to enable them to cover not only the operating costs but also to cover for the possible losses because of loan default. This however should be done with caution considering the impact of increasing the interest rate on repayment.

5.5.1.2 Effect of Outreach on Financial Sustainability of Microfinance Institutions
MFIs should work to strengthen internal systems of SACCOs affiliated to these MFIs to promote membership growth and enhance the outreach programme. MFIs should also increase number of borrowers (breadth of outreach) so that they could increase the volume of sell (loan). However, selling high volume of loan alone may not guarantee financial
sustainability. It should be accompanied by effective follow-ups to ensure higher repayment rate and strive to operate at relatively lower operating cost per borrower. Likewise, microfinance institutions should increase the average loan size (depth of outreach) to be sustainable. That is, larger average loan size will improve financial sustainability, however; it increases the level of risk in case of defaults of repayments. Thus, MFIs should make every effort to thump to balance the average loan size.

5.5.1.3 Effect of Financial Structure on Sustainability of Microfinance Institutions

The study also recommends enhancement of financial structure by increasing more ways of raising finances such as operating account where members can operate fixed accounts or current accounts as well as diversification of loan portfolio to include special categories such salary employees. Microfinance institutions should strive to mobilize deposits from their clients and institute effective mechanism to protect their clients’ deposits so that they can enhance not only financial sustainability.

5.5.2 Recommendations for Further Studies

The study suggests that further research should be conducted to cover a wider region and large number of MFIs in DRC to investigate the sustainability of MFIs. Moreover, this study concentrated on only financial sustainability component. Therefore, further study can also examine other dimensions of sustainability (mission sustainability, program sustainability, and human resource sustainability) of MFIs in DRC.
REFERENCES


APPENDICES

Appendix (i): Cover Letter

NDUBA MOLANENGE PAULIN
United States International University- Africa
P.O. Box 14634-00800
Nairobi - Kenya

Dear Respondent,

I am carrying out a study on the financial sustainability of microfinance institutions in Democratic Republic of Congo. This study is in partial fulfillment of the requirement of the Degree of Masters in Business Administration (MBA) at the United States International University-Africa in Kenya.

The study analyses the case of microfinance institutions operating in the city of Kindu. The findings and recommendations will provide to the stakeholders with key insight on how financial sustainability is affected and can be developed in the city of Kindu.

This is an academic research and confidentiality is strictly emphasized. The respondent is requested to maintain anonymity by refraining from revealing their name identity. Kindly spare your valuable time to complete the questionnaire attached.

Thank you in advance

Yours sincerely.

NDUBA MOLANENGE PAULIN
Appendix (ii): Questionnaire

SECTION 1 : DEMOGRAPHIC INFORMATION

Kindly answer the following questions by providing a brief answer in spaces provided or ticking (√) in the boxes.

1. Please indicate your gender
   Male ☐ Female ☐

2. Kindly indicate your age group
   20 - 24 Years ☐ 25 - 29 Years ☐
   30 - 34 Years ☐ above 35 Years ☐

3. What is your highest level of formal education?
   Secondary School ☐ Vocational ☐
   Graduate ☐ Post-graduate ☐

4. How long has your experience associating/working with MFIs been?
   0 - 2 Years ☐ 2 - 4 Years ☐
   4 - 6 Years ☐ above 7 Years ☐

5. What is your occupation?
   Director ☐ Manager ☐ Credit Officer ☐
   Laborer/Vendor ☐ Employed ☐ Unemployed ☐
SECTION 2: EFFECT OF LOAN PERFORMANCE ON FINANCIAL SUSTAINABILITY OF MFIs

Please indicate by ticking (√) where appropriate, the extent to which you agree or disagree with each of the following statements regarding the effect of loan performance on the financial sustainability of MFIs. Use a scale of 1 to 5, where; 1 = Strongly Disagree (SD), 2 = Disagree (D), 3 = Neutral (N), 4 = Agree (A), and 5 = Strongly Agree (SA).

<table>
<thead>
<tr>
<th>Effect of Loan Performance on Financial Sustainability of Microfinance Institutions (MFIs).</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>6  Nature of loan extended to customers has affected the sustainability of profit margin of your MFI</td>
<td></td>
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<tr>
<td>7  Poor loan portfolio management has affected the sustainability of asset ratio of your MFI</td>
<td></td>
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<tr>
<td>8  Flexibility of loan repayment schedule extended to the customers has affected the sustainability of turnover of your MFI</td>
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<tr>
<td>9  Consequences of loan defaulting faced by customers has affected the sustainability of return on investment of your MFI</td>
<td></td>
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<tr>
<td>10 Per capita income of a location has affected the sustainability of market share of your MFI</td>
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</tbody>
</table>
11. Which type of Loan have you taken? (Nature of Loan)

Agri-business ☐ Consumption Loan ☐

12. Mark the microfinance services you have use?

Education loan ☐
Loan to buy machinery/equipment ☐
Loan to take up small economic activities ☐
Auto loans ☐

13. Have you ever taken loan from any type of source before?

Had taken loan ☐ had never taken loan ☐

14. Where do you get loan?

Relative/Friends ☐ Employer ☐ Private moneylenders ☐
MFI ☐ Church ☐ Commercial banks ☐
Pawnshops ☐ Landlords ☐ Co-operatives societies ☐
NGOs ☐ Colleagues ☐ Others ☐

15. What is the duration of the Loan?

0-1 ☐ 1-3 ☐ 3-5 ☐ More than 5 ☐
16. What will be consequences in case of non-repayment?

- Assets given as security will be confiscated
- Legal action to be taken
- Someone else would pay like the guarantor
- Other (specify)………
SECTION 3: EFFECT OF OUTREACH ON FINANCIAL SUSTAINABILITY OF MFIs

Please indicate by a ticking (√) where appropriate, the extent to which you agree or disagree with each of the following statements regarding the effect of outreach on the financial sustainability of MFIs. Use a scale of 1 to 5, where; 1 = Strongly Disagree (SD), 2 = Disagree (D), 3 = Neutral (N), 4 = Agree (A), and 5 = Strongly Agree (SA).

<table>
<thead>
<tr>
<th>Effect of Outreach on Financial Sustainability of Microfinance Institutions (MFIs).</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in average size of loan extended to customers has affected the sustainability of profit margin of your MFI</td>
<td>Strongly Disagree</td>
<td>Disagree</td>
<td>Neutral</td>
<td>Agree</td>
<td>Strongly Agree</td>
</tr>
<tr>
<td>Decrease in cost per borrower has affected the sustainability of profit margin of your MFI</td>
<td></td>
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<tr>
<td>Increased number of active borrowers has affected the sustainability of profit margin of your MFI</td>
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<tr>
<td>Stiff competition from banks has affected the sustainability of profit margin of your MFI</td>
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<tr>
<td>Increased number of branches has affected the sustainability of profit margin of your MFI</td>
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</tr>
</tbody>
</table>

22. What is the amount of loan (in CDF)?

- 10.000
- 10.000 – 30.000
- 30.000 – 60.000
- 60.000 – 100.000
- More than 100.000
SECTION 4: EFFECT OF FINANCIAL STRUCTURE ON FINANCIAL SUSTAINABILITY OF MFIs

Please indicate by a ticking (√) where appropriate, the extent to which you agree or disagree with each of the following statements regarding the effect of financial structure on the financial sustainability of MFIs. Use a scale of 1 to 5, where; 1 = Strongly Disagree (SD), 2 = Disagree (D), 3 = Neutral (N), 4 = Agree (A), and 5 = Strongly Agree (SA).

<table>
<thead>
<tr>
<th>Effect of Financial Structure on Financial Sustainability of Microfinance Institutions (MFIs).</th>
<th>1</th>
<th>2</th>
<th>3</th>
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<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher deposit mobilization has affected the sustainability of profit margin of your MFI</td>
<td></td>
<td></td>
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<tr>
<td>Long term debt financing extended to borrowers has affected the sustainability of profit margin of your MFI</td>
<td></td>
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<tr>
<td>Increase in leveraging loans has affected the sustainability of profit margin of your MFI</td>
<td></td>
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<tr>
<td>Size of the firm has affected the sustainability of profit margin of your MFI</td>
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<tr>
<td>Regulatory framework has affected the sustainability of profit margin of your MFI</td>
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</tbody>
</table>

28. Who are the financiers of the institutions?

- Local authority
- Churches
- Members of the organization
- Individual owners
29. Does the institution have bad debts?

Yes ☐ No ☐

30. What recommendation would you give for financial sustainability in the city of Kindu?

..................................................................................................................................................

“THANK YOU”