DEPOSIT TAKING MICROFINANCE INSTITUTIONS GOVERNANCE AND IMPLICATIONS ON CLIENTS' LIVELIHOOD SUSTAINABILITY IN NAKURU COUNTY, KENYA

CATHERINE KARIMI NDUNG'U

A Thesis Submitted to The School of Education and Social Sciences in Partial Fulfillment of the Award of the Degree of Doctor of Philosophy in Development Studies of St. Paul's University

NOVEMBER, 2023

DECLARATION AND RECOMMENDATION

This thesis is the original work carried out during my PhD scholarship at St. Paul's University and has not been presented in any other university or learning institution.

Signature; …… Date…….

CATHERINE KARIMI

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We confirm that "the work reported in this thesis was carried out by the student under our supervision".

Signature ……..…….. Date……

Dr. Peter Koome

Supervisor

Signature ……..…… Date…….

Dr. Paul Gesimba

Supervisor

DEDICATION

To my two lovely girls, Joan Muthoni Ndung'u and Lilian Njeri Ndung'u.

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LIST OF ABBREVIATION ACRONYMS

AMFI:	Association of Microfinance Institutions
ASCAs:	Accumulating Savings and Credit Associations
CBK:	Central Bank of Kenya
CBOs:	Community-based Organizations
DTM:	Deposit - Taking Microfinance
FBOs:	Faith-based Organizations
K-Rep:	Kenya - Rural Enterprise Program
KWFT:	Kenya Women Finance Trust
MFIC:	Microfinance Institution Client
MFIM:	Microfinance Institution Manager
MFIs:	Microfinance Institutions
NCCK:	National Council for Churches in Kenya
NGO:	Nongovernmental Organization
ROSCAs:	Rotating and Credit Associations
SDG:	Sustainable Development Goals
SMEP:	Small and Micro Enterprise Program

OPERATIONAL DEFINITION OF TERMS

OPERATIONAL TERMS	DESCRIPTION
Clients	Refers to the microfinance institutions customers/ members who receive micro credit services from the microfinance institution.
Deposit taking microfinance institutions	Refers to the organizations that provide financial services to the poor people with an aim of enhancing their living standards and are regulated by the Central Bank of Kenya.
Governance	Refers to the procedures the MFIs leadership uses in dealing with their clients in the processes of dispensing their mandate.
Empowerment procedure	Refers to a process of helping the MFIs clients to gain social and financial ability to control their lives.
Loan qualifiers	Refers to the aspects that make the MFIs client be suitable for a loan
Loan repayment procedure	Refers to the process used by the MFIs to ensure that the money together with the interest borrowed by the clients is repaid as per the agreed terms and conditions
Clients Livelihood Sustainability	Refers to the ability of the MFIs clients to constantly enhance their abilities and assets at all circumstances
Regulatory procedure	Refers to the process of controlling and monitoring the activities of the MFIs by the Central Bank of Kenya

ABSTRACT

The microfinance institutions' clients' livelihoods sustainability is affected negatively by the high interest imposed on borrowed loans and the legal enforcement used by the microfinance institutions to recover the defaulted loans. The study explored the relationship that exists between deposit taking microfinance Institutions' governance and clients' livelihoods sustainability in Nakuru County. Specifically, this study sought to explore the effect of empowerment procedures, risk management methods, loan qualifiers, and relationship of loan repayment mechanism on client's livelihood sustainability and to evaluate the interaction between prudential and non- prudential moderating factors and deposit taking MFIs governance and clients' livelihoods in Nakuru County, Kenya. The theories adopted for the study were the agency theory, the stakeholders' theory and the resource dependence theory. The study adopted pragmatism philosophy and the mixed method research design. Further, the study adopted the multi-stage sampling technique whereby the microfinance institutions were purposefully selected while the respondents were systematically sampled. The study had a validity factor loading of above 0.4 and the reliability Cronbach's Alpha coefficient of over 0.7 for all the variables. The sample size consisted of 580 microfinance institutions clients and 10 managers out of 1,954,111 target population. The Primary data was collected through the use of questionnaires and key informant interview guides. The study utilized descriptive statistics, cross tabulation chi-square and simple regression analyses to establish the relationship between the independent and dependent variables. The data was presented using tables. The cross tabulation results show that majority of the microfinance institutions' clients were women whose highest level of education was primary level. Savings, client representation in management, training time and content and mode of borrowing were found to have a significant relationship with clients' livelihoods sustainability. Regression results indicate a positive relationship between project progress assessment and repayment assessment with client livelihoods sustainability. However, there is a negative relationship between the clients' project age, savings and assessment by microfinance institutions with business income and clients livelihoods sustainability. The regulatory procedures had a positive significant interaction with empowerment procedures and loan repayment mechanisms and not with the risk management procedures and loan qualifiers methods adopted by the MFIs. The study concludes that empowerment procedures play a greater role in improving the livelihoods sustainability of clients through savings and trainings. Individual borrowing contributed significantly to better livelihoods than group borrowing. The clients' projects assessment should be objective and comprehensive for objective achievement and experts needs to be involved in monitoring. Borrowed finances should be accompanied by monitoring on their use to avoid moral hazard. The current gender legal rights should be sensitized to clients, to pave way for households' sustainable livelihoods through improved access to productive resources. While the prudential regulations policies grants deposit taking MFIs autonomy in developing and implementing their own loan classification system that are based on internal risk rating methodologies ,the internal mechanisms needs to be monitored in order to defend the clients livelihoods wellbeing. The study recommends that the microfinance institutions' need to focus on vibrant and continuous empowerment programs. Policies should be put in place to safeguard the interests of individual borrowers by offering favorable borrowing terms.

CHAPTER ONE
INTRODUCTION

1.1. Overview of the Chapter

The study explored on the effect of Microfinance Institutions (MFIs) governance on clients' livelihood sustainability in Nakuru County, Kenya. This chapter provides both global and local perspectives on clients' livelihood sustainability and the role of MFIs governance on livelihoods sustainability. The chapter also discusses the problem statement, justification of the study, the scope of the study, limitations of the study and finally the definitions of the terms.

1.2. Background of the Study

Livelihoods sustainability is significant in poverty alleviations as well as minimization in equality gap that exists in most societies. Sustainable development goal one anticipates an end to poverty in all its forms everywhere by 2030. Since Poverty is a global problem facing the world today, as noted by Sun *et al*., (2021), it widens equality gap globally most specifically in African nations (Fosu, 2018). Studies done reveal that inequality manifests itself in the level of individual or household income, gender, opportunities available and in standards of living (Ramosa *et al.*, 2020, Brunori *et al*., 2019, and Gershon *et al*., 2019).

In 2018, the World Bank report presented poverty lines at US$3.20 a day and US$5.50 a day to reflect national poverty lines in lower-middle-income and upper-middle-income countries, which was higher than the previous threshold of US$1.90 a day. The report indicated that in South Asia and Sub-Saharan Africa, many people hardly got out of the extreme poverty. In Sub-Saharan Africa the number of people living in extreme poverty rose from 284 million in 1990 to 431 million in 2017. The report also notes that sub-Saharan Africa faces high levels of multidimensional poverty with high overlaps across the different dimensions, signifying that nonmonetary deprivations are compounding monetary poverty. The report also indicated that there was increase in the extreme poverty rate between 2015 and 2018 in Middle East and North Africa region, with a rise of poverty levels from 2.3 percent in 2013 to 3.8 percent in 2015 and almost doubled to 7.2 percent in 2018.

The global poverty estimates show that poverty reduction continues to slow and if not checked the sustainable goal of lowering global extreme poverty to 3 percent by 2030 will not achieved meaning that the poor people livelihoods will continue to be unstable (World Bank, 2018). Therefore a rapid and sustained action should be taken in ensuring that the wellbeing of the poor people is taken care of.

The microfinance, with its core mandate, is a livelihood sustainable model that was introduced to enhance the living standards of the poor people leading to livelihood sustainability. When the poor people, who are basically the clients of the MFIs, are socially and financially empowered, they gain ability and capacity to improve their living standards thus alleviating poverty. Poverty alleviation according to the World Bank (2019) definition is "the strategic use of tools such as education, economic development, as well as health and income redistribution to improve the livelihoods of the world's poorest by the governments and internationally approved organizations". Thus, it is imperative to entrench the poverty alleviation models into the specific context as noted by Sun *et al*. (2021) in order to uplift the living standards of the vulnerable poor people in the society as proposed by Kumari (2020) who cannot afford or are struggling to access daily basic needs by increasing their income level through access to microcredit services.

The sustainable livelihood (SL) approach which is a core principle in addressing global poverty issues was first clearly formulated in a 1987 report of the Brundtland Commission and was endorsed in the first UNDP Human Development Report. In 1995, the World Summit for Social Development (WSSD) held in Copenhagen, Denmark, in 1995, reinforced and launched the importance of Microfinance in people-centered development, with the reference of the Grameen Bank that was initiated by Professor Muhammad Yunnus in 1950s as indicated by Mutoko &Mutoko (2020 and Quayes (2015), that had economically empowered the poor women of Bangladesh. Also, Copenhagen Declaration expressed a commitment "to enabling all men and women to attain secure and sustainable livelihoods all over the world as a vehicle towards poverty alleviation livelihoods through freely chosen productive employment and work" (Zhang *et al*. 2019). As a result, most nations, especially the developing nations, endorsed and adopted microfinance institutions as viable social and economic sustainable developmental tool to alleviate poverty, promote employment and enhance economic growth thus promote economic development as it promotes social inclusion (Koker & Jentzsch, 2013).Thus the economically

active poor who lacked access to conventional financial institutions would get a chance of access and benefit from the services offered (Ledgerwood, Earne & Nelson, 2013).

Dushime *et. al.* (2022) notes that access to financial services generally helps the poor people households improve on livelihoods /income through generated activities /entrepreneurship thus improve their living conditions. Microfinance institutions according to Hearth, H. (2018) are based on the premise that improved access to credit by the poor is crucial to improve the returns to economic activities; it expands self-employment and promotes business and entrepreneurial activities; it allows incomes to grow and provides a "safety net" to the poor who are vulnerable to income fluctuations.

The major challenge for the poor people is that they are usually socially and economically excluded, since they lack access or are excluded from accessing banking services especially conventional/mainstream financial institutions. Microfinance comes in to bridge the gap of financial exclusion by ensuring that the low income earners have an access to monetary facilities for their economic and social development. In order to ensure the success in financial inclusion, it is important to ensure that the financial facilities are located in areas where they can be accessed by the poor/low-income earners (Agarwal, 2016). The microfinance have made this possible by reaching out to the poor people by providing micro loan services in their residents thus accomplishing their financial inclusion objective (Kulb, Hennink, Kiiti & Mutinda, 2016). Financial inclusion in this study refers to enabling, through microfinance institutions, access to monetary services by the low income earners (poor households) and Small micro entrepreneurs (SMEs) (Chen, Chang & Bruton, 2017). As a result of the MFIs activities, progressive outreach growth of 200 million households by 2010 from 10 million households by 1997 has been experienced (Reed, 2015).

The Microfinance barometer (2019) indicates that by 2018 the microfinance had 916 institutions with a gross loan portfolio of USD 124 billion, with 140 million clients who borrowed finances globally. This was all aimed at enhancing their clients' living standards by empowering them financially in order to enhance sustainability in their developments as noted by García-Pérez et al., (2018) at their own context, thus stimulate economic development (Lopatta & Tchikov, 2016).

Subsequently, according to Ahamad, Al-jaifi & Mostafiz (2020) and Widiarto et al., (2017) the microfinance has been used from 1980s, as a social economic tool that has enabled the poor people with their small businesses as well as households to access financial services e.g. micro savings/deposit services, micro credit, micro insurance and Financial advisory services (The State of the Microcredit Summit Campaign Report, 2006). On financial advisory services, the poor people's needs are listened to and brought to the attention of the policy makers for consideration in their policy decision making. Meaning that the poor people are enabled to access monetary products and services which enabled them to transact, do payments as well as savings, pension funds, and get credit and insurance covers (World Bank 2018) thus enhance their livelihoods towards sustainability.

The microfinance strategy of reaching the financially and socially excluded groups in the society gained prominence more recently in developed nations with the micro-financing center creating guidelines to create a sustainable system in the European Union (EU), after witnessing successful cases in eastern Europe such as Mikrofund in Bulgaria, Express finance in Romania, and Fundusz Mikro in Poland (Kim, 2018). The trend of MFIs in industrialized nations is therefore focused on efficiency and self-sustainability (Kraemer *et al.*, 2013). However, according to Reed (2013), the breadth of outreach of MFIs in industrialized economies was low (5.5 million people) compared to 189.5 million people in the developing world by the end of 2011.

Microfinance in developed countries exists to serve a limited number of micro-entrepreneurs, who can still be served by the conventional banks, intending to facilitate self-employment. Unlike the developing countries where MFIs serve the purpose of enhancing the living standards of poor people, the developed countries' main objectives are job creation, financial-social inclusion, and promotion of micro-enterprises and empowerment of specific target groups (Bendig, 2012). The governments in developed nations such as Europe provides subsidies, for the upcoming MFIs, such as tax incentives, protection against default risks, provision of business developed services and loans at preferential rates (Hudon and Traca, 2011).

Globally microfinance institutions continue to play a significant role in the lives of the poor in the World through responding to their concerns, voices, and needs by providing easy access to financial services. Currently, the microfinance industry has changed radically, providing the unfortunate with a vast amount of financial services and products like international money

transfers, consumer loans, time deposits, micro-insurance, micro leasing, savings accounts as well as offering some entrepreneurial and/or vocational skill (Sandberg, 2012).

While subsidy is seen as the best strategy for enhancing the MFIs in developed economies, the action can hamper the functioning of the MFIs by promoting a state of dependency thus compromising livelihoods sustainability as well as the MFIs mission (Armendariz, *et al*., 2013). On the other hand, the banks view subsidy as a threat since the MFIs can offer attractive credit conditions as well as business training. Note some countries such as Germany allow only the conventional banks to grant credit. To deal with the conflict between the MFIs and the commercial banks the banking sector requested the formulation of new rules which would allow access data from credit bureaus, interest-rate caps, access to financial markets, and dictate on the loan ceilings (European Microfinance Network, 2012).

In Sub-Saharan Africa, microfinance institutions has the lowest level of access to finance of any region in the world, with an average banked population of only 24 percent, whose services are mainly concentrated in urban centers and are meager at rural areas (MIX 2011). Micro financing in Sub-Saharan Africa has been known for playing a great role in social economic development of the poor people, thus a good way of enhancing livelihoods and eradicating poverty (Bel, *et. al*., 2015). According to Alam & Azad (2021 and Mawa (2018) the micro –credit services offered by the microfinance institutions stimulate the generation of income which in turn activate opportunities, increase revenue, increase empowerment opportunities, and improve the well-being of the poor people leading to sustainability of the clients livelihoods (Akhter & Zaman, 2015). This led the Microfinance institutions in East Africa in 1990s to have a tremendous transformation according to Erasmus & Xianzhi (2013), in relation to the number of clients served, the geographical coverage and the number of firms established (UBOS, 2010, Triodos, 2011 & MFT, 2011).

The move has been enabled because MFIs were adopted by the governments as means for social-economic development as well as means for poverty reduction. Secondly, since a lot of the East African population lives in rural areas, where banking sectors have not yet reached, MFIs through their lending models and approaches are more favourable for low-income earners in rural areas (Triodos 2011; Marr & Tubaro, 2011).

Kenya being one of the East African community whose main aim is poverty alleviation through an established unitary/integrated political federation as per the thought of Dushime *et. al.,* (2022), begun lending programs for the poor people through faith- based institutions in 1980s with the aim of filling the gap that was left by banks in offering credit to persons, micro, small and medium enterprises that were on the increase during the period (Bassem, 2014). These programs served the purpose of providing financial credits to their members at affordable interest rates for use in specific purposes. According to Farooq & Khan (2014) the aim was to enhance the livelihoods of the poor people both in rural and urban areas in order to improve their living standards through building their assets as well as mitigation of risks incurred while doing business (Lebovics, Hermes & Hudon, 2016). As time passed on the faith- based institutions were overwhelmed by the high credit demands from their clients and as a result, the nongovernmental organizations (NGOs) started to fill the gaps by extending the credit services to church money lending groups (Adhikary & Papachristou, 2014). Further, in the 1990s, the NGOs developed systems that facilitated the management of credit delivery thus helping the poor people enhance their ability to access capital through borrowing and also saving (Amelec & Carmen, 2015).

The Kenyan poor people livelihoods are sustained by the MFIs because they have characteristics that are most favorable for them as noted by Elecrtin *et al*. (2013) which includes access to financial services, minimum affordable entry requirement, simple application procedure, short processing periods, tapered interest rates, no collateral requirements, assessments of clients' repayment potential by running cash flow analyses based on the stream of cash flows generated by the activities for which loans are taken. The MFIs adopts models, which help facilitate the enhancement of the poor people which include accumulating credit and savings associations (ASCAs) which has been accepted as the single most effective strategies for delivering the poor out of poverty in Kenya (Macharia, 2005 as cited by Electrin *et al.*, 2013).Group and Individual Lending (a straight forward credit lending model) is another model whereby microloans are given directly to the borrower. Another model is the Rotating Savings and Credit Associations (ROSCAs) whereby a group of individuals make regular cyclical contributions to a common fund thereby lending money from the common fund to the members (Nair &Fissha, 2010; Adjei, 2010 as cited by Akwasi Addai Boateng, 2015).

These models are applied through the formal and semiformal institutions entail among others, the cooperatives, credit unions Non-Governmental Organizations, Savings and Credit Cooperatives (SACCOs banking financial institutions and development programs, Faith-based organizations (FBOs), community-based organizations (CBOS), non-governmental organizations (NGOs), groups and individual money lenders (Ali, 2015, Daher and Le Saout, 2013,AMFI, 2013). All these models have been used in different contexts and have been very instrumental to the functions of the microfinance institutions as well as social economic wellbeing of the microfinance clients (Abate, Borzaga & Getnet, 2014). Effective governance, therefore, becomes fundamental for the corporate achievement of its goals (Nzoriza, 2010).

By mid-2009, the Central Bank of Kenya had licensed two large microfinance institutions (Faulu Kenya Deposit Talking Limited and the Kenya Women Finance Trust), as deposit-taking institutions which made them broaden their mandate of being microcredit lenders to permitting them to mobilize funds internally (Ochanda, 2012). Later by 2018 only 13 deposit taking microfinance institutions had been registered and they included the Small and Micro Enterprise Program (SMEP), Rafiki Deposit-Taking Microfinance Limited, Uwezo Deposit-Taking Microfinance Limited, Century Deposit-Taking Microfinance Limited, Choice Microfinance Deposit-Taking Microfinance, and Sumac Deposit-Taking Microfinance Limited (AMFI 2018 & Directory of licensed microfinance banks [DLMB], 2017).

In the modern world, the client who is a primary stakeholder is the midpoint of every single activity of the Microfinance institution. They utilize the act through Customer relationship management (CRM) strategy to understand the client's needs and performances (Chikako & Hamu 2021). The purpose of the MFI is to ensure that the clients achieve sustainable livelihoods. Therefore, a client's livelihood is considered to be sustainable when they can handle the external pressure and tremors thus boosting and upholding its capacity and assets for a progressive life now and in the days to come (Bhuiyan *et al.,* 2012). Sustainable livelihoods measures entail the human capital which includes the skills, the knowledge, the capacity to work and the physical capital that includes but is not limited to the infrastructures that support the livelihoods, financial capital that includes savings, pensions and credits and finally social capital that entails the social networks and affiliations (Serrat, 2017). In order to maintain sustainable livelihoods for the clients, the MFIs ought to adapt to reliable livelihood strategies which according to Hossain *et*

al., (2010), is whatever it is that the poor people do for survival in an ever-changing context of all aspects of life.

Since microfinance institutions finances poor people who have no collateral according to Yunnus (2018), they therefore adopt the group lending model for financial transactions and better outreach (Grameen, 2018, Mughal, 2017, Roy & Strom, 2010). However, depending on the availability of finances from the donors according to UNDP (2010), the microfinance can decide to offer free interest loans or charge minimal interest on loans. The conventional banks in Kenya, since the 2016, offer interest rates of between 10-14% as per the Central Bank of Kenya regulatory requirements (Safavian & Zia, 2018). Globally poverty is spread unequally and as such the statistics provided by the World Bank (2018) shows that 736 million people live far below the set international poverty mark out of which 41% are located in sub-Saharan Africa and 12 % in South Asia. The poor governance functions of microfinance institutions has become an issue in Africa and the majority of these institutions are beginning to embrace corporate governance practices on their strategic management plans to enhance their sustainability. This in due time may contribute to the failure of most MFIs in Kenya and as a result, sustainable livelihood will not be experienced by the already poor families.

Since corporate governance play a great role in client's sustainability, there is need to establish sound corporate governance functions especially in deposit taking microfinance institutions, as an emergent demand (Pandya, 2011). After all, good governance is based on the ability to practice transparency, formulate the strategic vision that guarantees the clients' livelihoods sustainability (Labie & Mersland, 2011).

1.2.1. Clients Livelihood Sustainability

Clients' livelihoods are sustainable when they can be able to enhance their abilities and capacities at all times despite the circumstances that surround them for a progressive life now and in the days to come (Bhuiyan *et al.*, 2012). Sustainable livelihoods measures entail the human capital (includes the skills, the knowledge and the capacity to work, the physical capital that includes but is not limited to the infrastructures that support the livelihoods, financial capital that includes savings debts, pensions and credits and finally social capital that entails the social networks and affiliations (Serrat, 2017). Schleiner (2002) offered six aspects of outreach framework that would ensure clients livelihoods sustainability comprising of ; the depth of

outreach, the breath of outreach, the scope of outreach, the length of outreach, the cost of outreach to clients, and worth of outreach to clients.

The depth of outreach signifies the additional worth of microfinance clients to actively participate in the society**.** It concerns the measure of the level of poverty for the poor in the society (quality concerns) and therefore the measures can be: location (rural or urban), gender, (male or female), education, access to public services and the average loan size. The breath of outreach concerns MFIs clients' membership i.e. the quantity concerns according to Quayes (2012), therefore measured by the active number of MFIs client's borrowers. The scope of outreach of MFIs is measured by the number of microcredit services offered that ensures the clients livelihoods sustainability. The good quality and usefulness of services enhances the household economy and socio-economic circumstances of borrowers, the social obligations to its clients, employees, and the wider society (Minai *et al.*, 2021). The length of outreach refers to the period at which the MFIs services are offered. The costs of outreach to clients describe the transaction and price costs that are charged to programs offered to the MFIs clients. Conversely the worth of outreach to clients involves the willingness of microfinance clients to re pay back the borrowed loans.

However, in measuring accurately the quality of the MFIs clients in Nakuru County, Kenya, the study adopted the following measures; business growth, business income, assets and living standards were used for the study.

1.2.2. Deposit Taking MFIs Governance

Deposit taking MFIs governance is an internal system encompassing policies, processes, and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business understanding, objectivity, accountability and integrity (Mang'unyi, 2011). The MFIs governance facilitates for financial interventions that offer credit facilities to the poorest of the poor while they meet their expenses through interest income (Mersland & Strøm, 2013).

In order to ensure that the MFIs governance in Kenya dispense their mandate, all the deposit taking MFIs were registered in 1999 with the Association of Micro- Institution of Kenya (AMFI-K) with a total of 59-member institution serving over 6 million clients by June 2021 (AMFI, 2021). Deposit-taking business is defined by its three operations; operating a current account, receiving and payments of cheques, repayment of deposit on demand or at the expiry of

a fixed time or after notice, investing on the deposits and lending short-term loans to SMEs or low-income households.

The governance of the MFIs has both the internal mechanisms and the external mechanisms of operation. The internal mechanism provides for the shareholders to work with the managers, while the external mechanism does not have that provision (Hussain &Ahmed, 2020). The external governance comprises of the directors who are not the employees of the microfinance institutions but are engaged for their expertise in the industry (Mersland & Strøm, 2013). Their main role is to enable the microfinance institution to access savings, local currency deposits and commercial loans that result to deeper outreach and operational self-sustainability (Barry & Tacneng, 2014, Varottil, 2012).The external governance mechanism therefore helps the microfinance institutions to make a better strategic decision, to have better risk management, capital inflow, and have a long term survival (Hossain, 2013, Quayes, 2012).

The study uses the internal mechanism element of deposit taking MFIs governance in order to measure the client's livelihoods sustainability. These elements entailed client empowerment procedure measured by training, savings, and clients representation in decision making organ, the risk management methods measured by the risk sharing through guarantors, risk transfer through collaterals and risk avoidance through shares, the loan qualifiers measured by the clients business size, business age and liquidity, the loan repayment mechanisms measured by the loan repayment mechanisms, interest rates and default handling and finally the regulatory procedures measured by the prudential and non -prudential regulations.

1.2.3. Deposit Taking MFIs Clients in Nakuru County

The Deposit-taking microfinance (DTM) in Nakuru County, Kenya, are financial institutions that ventures into offering financial services such as micro credit to the excluded poor people within Nakuru county in order to enhance their living standards through sustainable livelihoods. The deposit taking MFIs Clients within Nakuru County are engaged in small enterprises both in rural and urban centers. The study was done within the ten deposit taking MFIs found in Nakuru County, Kenya, with special focus on their clients and branch managers. These are; Faulu Kenya deposit taking microfinance limited, Kenya Women Finance Trust (KWFT), small and micro enterprise program (SMEP), Rafiki deposit -taking microfinance limited, Uwezo deposit-taking microfinance limited, Century deposit-taking microfinance limited, Sumac deposit taking

microfinance limited, Musoni Kenya microfinance limited, Key deposit-taking microfinance limited, Choice deposit-taking microfinance limited

1.3. Problem Statement

The MFIs clients' livelihoods sustainability depends on the ability of the Microfinance institution to offer the micro credit services to their clients who in return invests in their businesses in order to repay back the borrowed loans together with the interest. The beneficiaries of micro financing are either self-employed or employed in the informal sector and thus have low-incomes. The withdrawal of donations and grants from the donor nations triggered the MFIs into seeking for alternative sources of funds for enhanced profitability according to Yunnus (2011) in order to finance their activities ((Mutoko &Mutoko, 2020, Pugliese, 2010). The commercialization of the MFIs, in return, led to MFIs taxing high interest rates to their clients borrowed loans (Muithya *et al*., 2021). The action led to massive loan default of the clients in most parts of the world. More so for the MFIs to recover their finances, the prudential regulations grants them permissions to develop and implement their own loan classification system that are based on internal risk rating methodologies, according to CBK guidelines (2013), therefore seeking for activities such as use of collateral as security for the borrowed loans that grants the MFIs permission to auctioning off the client's properties. The MFIs clients lack documented ownership titles of their assets and have inadequate legal identity document according to Dushimes (2022) and therefore have low or no collateral in obtaining credit (Mersland, 2011).

Correspondingly, studies show that the MFIs governance lack documentary evidence of credit-worthiness, and have also repayment tracking problems (Nasir, 2013, Das *et al*., 2011). According to Olomi & Mori (2012) Njenga, (2013) the MFIs also lack proper risk management methods and this led to the closure of most MFIs (The global criteria for rating microfinance institutions 2017, Abdelaziz, Mehdi, & Mayaki (2013). Unfortunately relatively little has been written about it, and the efforts of various governance initiatives have been fragmented (Mackee, 2012). For Kenya to achieve its goal of poverty alleviation thus breaks from poverty cycle prudent regulations need to be strengthened. This study therefore aims at contributing to the existing literatures on livelihoods sustainability by assessing the effect of MFIs governance on clients' livelihood sustainability among deposit taking microfinance institutions in Nakuru County Kenya.

1.3. Objectives

1.3.1. General Objective

The main objective of the study was to assess the effect of deposit –taking microfinance governance and implication on clients' livelihoods sustainability in Nakuru County, Kenya.

1.3.2. Specific Objectives

To achieve the main objective of the study, the research specifically sought;

1. To determine the effect of deposit taking MFIs empowerment procedures on clients' livelihoods sustainability in Nakuru County, Kenya.
2. To assess the effect of deposit taking MFIs risks management methods on clients' livelihoods sustainability in Nakuru County, Kenya.
3. To evaluate the effect of deposit taking MFIs loan qualifiers on clients' livelihoods sustainability in Nakuru County, Kenya
4. To establish the relationship between deposit taking MFIs loan repayment mechanism and clients' livelihoods sustainability in Nakuru County, Kenya.
5. To evaluate the interaction between moderating factors and deposit taking MFIs governance and clients' livelihoods sustainability in Nakuru County, Kenya.

1.3.3 Research Questions

1. What are the effects of deposit taking MFIs empowerment procedures on clients' livelihoods sustainability in Nakuru County, Kenya?
2. How does the deposit taking MFIs risk management affect the clients' livelihoods sustainability in Nakuru County, Kenya?
3. What is the effect of deposit taking MFIs loan qualifiers on clients' livelihoods sustainability in Nakuru County, Kenya?
4. What is the effect of deposit taking MFIs loan repayment procedure on clients' livelihoods sustainability in deposit taking MFIs in Nakuru County, Kenya?
5. How does the interaction between the moderating factors and deposit taking MFIs governance affect the clients' livelihoods sustainability in Nakuru County, Kenya?

1.4 Rationale of the Study

Poverty is a major world developmental threat, especially in developing nations. The World Bank (2013) indicates that globally there is a tremendous improvement in extreme poverty reduction with only 10.7% (767 million) population living in extreme poverty. Half of the extremely poor (389 million) live in Sub-Saharan Africa (SSA) while 70 % of the world's poor are women. Further in 2015, the United Nations report by the UN general secretary Ban Ki-Moon to the United Nations Assembly on the progress on the achievement of the millennium development goal indicated that Southern Asia and Sub-Saharan Africa accounted for about 80% of the global total of extremely poor people. According to the World Bank (2016), the global average of poverty was 10.7% compared to Sub-Saharan Africa with 43%. Sub-Saharan Africa accounted for more than 40% of people living in extreme poverty of below $ 1.25 a day (UN MGD Report 2015, World Bank data 2018). Kenya by 2015 accounted for 13.5 % of people living with extreme poverty (World Bank, 2018). According to 2019 Kenya population and housing census, Nakuru County has a population of 2,162,202 constituting of 1,077,272(male) 1,084,835 (female). The rural population was 1, 115, 122, out of which 559,639(male) and 555, 45(female).The urban population was 1,047,080, of which, 517,633 (male) and 529,377 (female). The Overall poverty headcount constituted of 29.1% (629,200) according to KNBS (2018), KIHBS (2015/16) Report. An assessment on poverty rate in Kenya by the World Bank in (2015) indicated that the poverty level was at 46.8 percent by 2005 and had declined to 36.1 percent by 2015, indicating improved living standards by the poor people in Kenya. Most specifically the rural poverty level declines from 14.3 million poor households by 2005 to 12.6 million people by 2015.Apparently the number of the poor households in urban areas increased during the said period (2.3percent to 3.8 percent) due to high cost of living in urban areas compared to rural areas. The assessment on poverty rate in Kenya by World Bank (2015) also observed that the households headed by women, the elderly and the people with low educational levels had higher poverty incidence. Coincidentally these households tend to be large in number hence high dependence rate, high levels of destitution, poverty, hopelessness among the poor households. The poverty reduction rate between 2005 and 2015 in Kenya was at 1.6 percent whereas a 6.1 percent poverty reduction rate is required per decade (World Bank 2018), in order to achieve the anticipated 2030 sustainable poverty reduction goal. In order to achieve sustainable development goal more inclusive economic strategies need to be entrenched in

poverty reduction policies. The deposit taking microfinance institutions in Kenya especially in Nakuru County, need to align their management practices with their clients' empowerment procedures, risk management procedures, loan taking qualifications, repayment mechanisms with their clients' livelihoods sustainability. This study therefore, aimed at contributing to the existing limited knowledge on the effect of the deposit taking microfinance institutions governance and the clients' livelihoods sustainability in Kenya. Equally the study aims at offering insights to the key microfinance institutions policymakers especially in Nakuru County since the county has ten (10) out of the 59 microfinance institutions in Kenya according to the Association of Micro Finance Institution of Kenya (AMFI, 2021) whose main aim is to alleviate poverty through sustainable livelihoods.

1.5 Scope of the Study

The study aimed at assessing the effect of deposit –taking microfinance governance and clients' livelihoods sustainability in Nakuru County, Kenya. More specifically, the study focused on determining the effect of deposit taking MFIs empowerment procedures, assessing the effect of deposit taking MFIs risks management methods, evaluating the effect of deposit taking MFIs loan qualifiers, establishing the relationship between deposit taking MFIs loan repayment mechanism and evaluating the interaction between moderating factors and deposit taking MFIs governance and clients' livelihoods sustainability in Nakuru County, Kenya.

The study was carried out within Nakuru East, Nakuru West and Naivasha sub counties in Nakuru County, Kenya with an aim of assessing the effect of deposit taking MFIs governance on clients' livelihoods sustainability. The deposit taking MFIs governance is the unit of analysis assessing the client's livelihood sustainability. The study units of objective entail clients' empowerment procedure, the risk management, the loan qualifiers and the loan repayment procedures. The study was done among the Microfinance institutions 580 clients and the 10 branch managers, within the scope of ten deposit-taking microfinance institutions namely Kenya Women Finance Trust (KWFT) and Small and Micro Enterprise Program (SMEP), Faulu deposit-taking microfinance, Rafiki deposit-taking microfinance, Uwezo deposit-taking microfinance, Century deposit-taking microfinance, Sumac deposit-taking microfinance, REMU deposit-taking microfinance, Choice deposit-taking microfinance and Musoni deposit-taking

microfinance. All these micro finances are registered under AMFIK and are regulated by the Central Bank of Kenya and their main goal is poverty reduction.

1.6 Assumption of the Study

The study assumed that all the questionnaires will be filled by the respondents and will be returned fully filled within the short given time. However, the primary data collection period coincided with the COVID -19 Pandemic which was a great hindrance to data collection. However, the researcher observed the set COVID-19 protocols on issuing the questionnaire and gave the respondent time to fill them. The interviews were conducted for both branch managers and the ten clients from all the selected microfinance through electronic means, such as phone calls. Therefore, patience in securing the appointments was of great essence.

1.7 Chapter Summary

The chapter has explored the background of the study taking special consideration of the global and local perspectives on the Microfinance industry concerning the client's livelihoods sustainability. This means that the study explored the developed and developing nation's stance on the microfinance industry. At a more local level, the study assessed the initiation and the development of the microfinance industry in Kenya, taking into consideration the relationship that exist between the deposit taking MFIs governance and the clients livelihoods sustainability. The chapter explored the problem statement, the objectives of the study, the research questions, the rationale of the study, the scope of the study and the assumptions of the study.

CHAPTER TWO
LITERATURE REVIEW

2.1. Introduction

This chapter presents thematic reviews of the literatures on the implication of the deposit taking MFIs on clients' livelihoods sustainability. The theories that informed the empirical literatures are; the stakeholders' theory, the agency theory, and the resource dependence theory. Empirical reviews on the effect of deposit taking microfinance governance and the clients' livelihood sustainability focused on the reviewing literatures on deposit taking MFIs ; clients livelihood sustainability (business income and growth, assets and the living standards), empowerment procedure (training ,saving and clients representation), risk management methods (risk transfer, risk sharing risk avoidance), loan acquisition process (loan qualifiers) and loan repayments mechanisms) and the regulatory procedures (prudent and non-prudent procedures) that help significantly in ensuring that the right procedures are maintained for the wellbeing of the clients governance on clients livelihood sustainability (internal and external audit functions, the policy making process. The conceptual framework, the study gaps and the chapter summary form part of the chapter.

2.2. Theoretical Review

The main theory that anchored the study was stakeholder theory; the other two theories; agency theory, and resource dependency theory were supporting the relationships between the MFIs governance and the clients' livelihood sustainability.

2.2.1. Stakeholders' Theory

The stakeholder concept originated with freeman in 1984 though it can be traced back from Adam Smith in his theory of moral sentiments. Adam smith (1759) in his moral sentiment theory argued that there are two different efforts that act as the basis of virtues; one, the spectator's effort to enter into the sentiments of the sufferer, and two, the sufferer's efforts to bring his emotions down to a level where the spectator can go along with them (Bennett 2017). In this case the microfinance institutions puts an effort in feeling with the poor person status and comes in to help them be of the same level with any other person who is socially and financially included through offering the microcredit services. In this case the deposit taking MFIs clients are of great attention and importance for the microfinance institutions.

Further, Freeman (1984) posits that when businesses are taking strategic stance they should be conscious of the stakeholders (Mainardes *et al.* 2011). In trying to understand the term stakeholder, Littau *et al.* (2010) states that the term stakeholder is moving towards a broader and diverse view. However, citing Cleland (1989), Littau *et al.*, (2010) posits that the "Stakeholders are those persons or organizations that have, or claim to have an interest or share in the project undertaking. Littau *et al.,* (2010) understanding of the term stakeholders is the same as that of Freeman (2004) who defined stakeholders as, 'those groups who are vital to the survival and success of the corporation' since they affect and are affected by the firm's decisions and objectives. In this study the stakeholders are the deposit taking microfinance institutions, poor clients who are the reason for their existence, have an interest with the microcredit services that are offered by the microfinance institutions and can be affected both positively and negatively by the MFIs functions.

The stakeholder theory was pioneered by Freeman (1984) with an idea on the company and its management at the Centre and the stakeholder as an internal entity. Freeman advocated for the interaction of the company management with the stakeholders (Freeman, 2017). That is, the stakeholder's theory describes the interrelationship and interdependence of various actors (Ramakrishnan, 2019). In the study the deposit taking MFIs clients' livelihood sustainability depends on the institutional governance processes on clients such as the empowerment procedures, the risk management methods and the loan acquisition and repayment procedures. For the clients livelihoods to be sustained the MFIs governance functions such as empowerment of the clients through training and encouraging savings, client's risks mitigations through encouraging use of shares, guarantors and collaterals for security as well as ensuring clear and comprehensive loan acquisition and repayment procedures must be put into practice. The practice can be enhanced by involvement of the clients at the different levels of decision- making processes, as well as the engagement of the prudent regulatory procedures. The interaction is very important since it ensures the clients' sentiments are well addressed.

The stakeholder theory is classified into three according to Donaldson & Peterson (1995) cited by Ramakrishnan (2019); normative, instrumental and descriptive. The normative form of the stakeholder theory interprets the tasks of an organizations based on the organizations underlying moral and philosophical principles. Therefore, it offers moral and philosophical guidelines to the

managers of the institutions while rendering their services. The deposit taking microfinance institutions' philosophical principal is to enhance the poor client's livelihoods through microcredits and therefore their governance moral actions, ought to be geared towards the achievement of the same.

The normative theory assumes that the stakeholders are of great value to the institution since their actions greatly affects the institutions functions. In this case the status of the deposit taking microfinance clients' livelihoods affects them positively or negatively and this has a great impact on the institutions functions. When the deposit taking microfinance institutions clients livelihoods are sustainable, the institutions stick to their mission of poverty alleviation but when the client's livelihoods are unsustainable, the MFIs shifts their outreach strategies in order to remain relevance in financial market.

The instrumental stakeholder theory stipulates how those in management should invest their energy in achieving the set institutional goal with an aim of increasing profitability, growth and achieve sustainability. Mainly the emphasis is on the cause-effect relationships as well as the managerial decision – making outcomes in relation to the concerns of the stakeholder. This means that the more the microfinance institutions create and nurture relationships with their clients in their various groupings, the more the value they create for themselves in terms increased client's benefits and economic value. The value addition to an individual client leads to emergence of positive attitudes and mental representations of individuals within the MFIs stakeholder groups (Bridoux & Stoelhorst 2016).Therefore the governance of the deposit taking microfinance institutions should invest much in achievement of their clients' sustainable livelihoods (business and income growth, increased assets and improved living standards) while maintaining the relative importance of traditional performance metrics (Jones *et al.*, 2018).

Harrison & Wicks (2013) on the other hand, argue that, the value provided to stakeholders can be understood as the sum total of all utility/what is worth in the eyes of a stakeholder in their association with the management. This utility therefore is dependent on individual preferences some of which cannot be met by the cordial relationship between the MFIs clients and the management only, but requires intervention of other external factors, for example the client's literacy level and the regulatory bodies.

The descriptive form of the stakeholder model defines how an institution value is distributed among the major stakeholders (how power and authority are shared among the stakeholders as well as how the systems operate). The deposit taking microfinance institutions entrust their poor clients with microloans which they ought to invest and repay back with interest. The investment power is distributed across their deposit taking microfinance clients with an aim of helping them exploit their potentials and reap benefits. Therefore, the loan acquisition and repayment mechanism clearly describe how the investment power is entrusted on the MFIs clients. Descriptive stakeholder theory is said to be one of the most controversial model according to Harrison, Bosse, & Phillips (2010) in the academic world. However, the study adopted all three forms of the stakeholders due to their nested nature and the intrinsic value of the stakeholders with special focus on the deposit taking MFIs clients. Though the stakeholder theory is contested, it is widely applicable by most organizations (Miles, 2011). The microfinance poor clients are the reason for the existence of the microfinance institutions and therefore should not be viewed as externals but internal entities whose economic value and benefits should be the main focus. Moreover, all of the corporate value addition is determined by the willingness of stakeholder's participation in improving the materials into products or services (Freeman *et al*., 2020). Therefore, all the stakeholders/clients have a right to be treated fairly by an organization since they contribute to the welfare of the organization and as such the managers should manage the organization to benefit all stakeholders/ clients (Freeman, 2010). The theory was important for this study because the clients' livelihoods sustainability is facilitated by the deposit taking microfinance institutions through their microcredit services that entails loan acquisition and repayment procedures.

2.2.2. Agency Theory

The agency theory was proposed by Jensen and Meckling in 1976 who argued that there exist a contractual relationship between principal and agent, where a person (principal) delegates to another (agent) the authority to conduct on their behalf a service that involves the delegation of some decision-making power. In the case of this study the deposit taking microfinance management (principal) i.e. the branch manager delegates the authority to the credit officers (agent) to make the microcredit service decisions to their clients on their behalf. The deposit taking MFIs loan officers carries out the loan acquisition and repayment procedures with an ideal aim of helping their poor clients to enhance their livelihoods to sustainable levels. Therefore, the

deposit taking MFIs loan officers, on behalf of their branch managers carries out empowerment procedures, such as clients' trainings in order to equip their clients with knowledge that will help then carry out their small enterprises.

Besides the delegation of powers concept, the agency theory addresses the problem of information asymmetries and divergence interests according to Hernández & Cruz (2018), Christopher, 2010 & Ujunwa *et al*. (2012 and Vargas *et al*., 2014,) that arises due to the relationship between the principal and the agent in terms of separation of ownership and controls. The information asymmetry arises when the deposit taking MFIs begin to delegate managerial decision- making functions to the loan/credit officers (Vargas *et al*., 2014) both of which have divergence interests. The credit officers are cornerstones of MFIs' operations (Mori 2010; Batillana & Dorado, 2010) since they bring relevant information because they are better informed about the issues and problems concerning the MFI. In any case, the credit officers (agent) are expected to collect information such as their living standards status, empowerment status, financial knowledge and lot more from the clients (borrowers) on behalf of the MFIs (principle) as well as relay the MFIs policy information to the clients (borrowers). The information asymmetric problems cannot be assumed in the process of loan contractual agreement due to divergence interest between the loan officer (agent) and the clients (borrower). For example, the client may not use the loan borrowed/acquired for the intended purpose thus creating the problem of moral hazard (Karaivanon *et. al.,* 2020). This problem is enhanced further by the fact that the MFIs poor monitoring of their client's implementation of the loan borrowed (Kihanga 2020, Arhin *et al*., 2019). Therefore, the agency theory, seeks to assure the loyalty to the principal (MFIs) by the agent (Loan offices) in exchange for a fair compensation system.

Studies done later by Barley & Means (1932) shows that the separation between ownership and control exists at different levels and that the separation of ownership and control becomes almost complete when there is not even one substantial minority (clients) shareholder (Mahoney, 2012) involved. In fact, Barley & Means (1932) continued arguing, that there is no guarantee that an organization is primarily run for the interests or wellbeing of its clients. However, Zeckhauser (1985) argued that with creative institutional governance the principal-agent problems can be solved and the agency costs that involve a continuous monitoring and control of the agents by the

principals (Hernández & Cruz, 2018) can be avoided for the wellbeing of their clients. The theory was important for the studies since it is addressing the governance functions of empowerment, risk management and loan acquisition and repayment procedures on clients' livelihoods sustainability.

2.2.3 Resource Dependency Theory

The theory was pioneered by Pfeffer and Salancik (1994) who argue that the external factors have a great impact on organization dependency, although constrained by their context. The deposit taking MFIs clients depend solely on micro loans acquired for the microfinance institutions that help start of or boost their small business for their sustenance and repayments of their Loans. At times, the external factors such as markets instability and the financial fluctuations affect the clients' stability negatively thus default in their loan repayment. With the withdrawal of most of the external donors, most of the deposit taking MFIs depend on the interest earned form the loans borrowed by the clients for their sustenance. Therefore, the interest earned from the institutional borrowers has an advanced effect on the organizational behaviour. When the clients default, the organization may opt to change its outreach strategy, of reaching out to the poor people, to reaching out to the well-off people in the society. The theory was important for the study especially when dealing with the governance functions of loan acquisitions and repayment mechanisms i.e. repayment plan, interest rates and default handling.

2.3 Empirical Review

The clients' livelihood sustainability is affected either positively or negatively by the relationship that exists between the deposit taking MFIs general working processes and their clients. Therefore, the clients' livelihoods sustainability ought to be the first deposit taking MFIs priority. Secondly, the deposit taking MFIs institutions governance ought to be on check out for their clients' resilience and sustainability in order to fulfill its mandate of poverty alleviation. Third, the governance should be on check out on the clients' empowerments procedure as well as the undertaken risk mitigation measures. Fourth, since the relationship that exists between the deposit taking MFIs and the clients is a financial one, the loan acquisition processes and repayment mechanism needs to be on checkout in order to fulfill their mandate on poverty alleviation through micro-credit to the poor clients. Lastly, the regulation of the deposit taking MFIs is important in ensuring clients livelihoods sustainability. Therefore, the study reviews

literature on the deposit taking; MFIs clients' livelihoods sustainability, the MFIs Governance on clients' livelihoods sustainability, client empowerment procedures (training, saving, client representation), the risk management (risk transfers (guarantors), risk avoidance (shares), risk sharing_ (collaterals), the loan acquisition process; (loan qualifiers and loan repayments mechanisms) and the MFIs regulations (prudent and non-prudent) effects on clients' livelihoods sustainability.

2.3.1 Deposit Taking MFIs Clients' Livelihood Sustainability

The deposit taking MFIs poor clients' livelihoods sustainability is determined by the clients' ability and capacity to access and utilize both the tangible and intangible assets resources. These resources includes but not limited to the skills the poor people have, the knowledge they possess, capacity they have, sources of credit and also the social networks that supports them. The extent of their vulnerability, in the context of culture, religion and politics, influences much their access to the tangible and intangible assets. Correspondingly, the poor people's ability and capacity to engage with external shocks such as epidemics, natural disasters, climate change, social and cultural networks and livelihoods and seasonality such as financial market fluctuations influences their sustainable (Bhayuin *et al*., 2011a).

Therefore, sustainable livelihood is a significant idea that ensures that the abilities, resources and activities necessary for a way of life in the modern world are maintained. One can talk of a sustainable livelihood only when that livelihood is able to cope with the external environment, recover from the external pressures, and maintain its current abilities and assets as well as in the future (Vercillo, 2016). Livelihoods can only be sustainable when the people are able to get themselves out of external stress and shocks thus enhancing their capacity and assets continually as well as maintain good living standards (Taschakert *et al*., 2007). The inclusion of livelihoods in development according to Scoones (2015) has been cited as an important aspect of consideration especially in rural development. Over time, quite a number of several strategies and theories of livelihoods sustainability have been developed (Bhuiyan *et al*., 2012). The poor people are usually tied to low productivity and self-employed economies due to a lack of capital. Other times they are challenged by both short- and long- term negative impacts on their livelihoods (Maitrot, 2014). Therefore, crediting the poor people boosts them a great deal in

solving their everyday challenges of meeting the basic requirements of life, as well as improving their well-being (Ahamad, Al-jaifi, & Mostafiz, 2020).

In this aspect, microfinance programs are best suited in meeting these challenges through offering microcredit with an aim of boosting the poor people's activities, thus enhancing sustainable livelihoods and reducing poverty (Bhuiyan *et al*., 2011a; 2011b). However, Maitrot (2014) posits that the MFIs sometimes neglect the clients' recruitments and follow up procedures. Due to lack of enough knowledge on their clients' challenges, they sometimes end up using informal and unfriendly means to recover payments from them.

Since 2015 when sustainability was embraced in the developmental goals and the current global economic shifts due to ever-changing technology, most of the institutions started embracing sustainability practices such as stakeholders' integration and engagement in their decision making process. Clarkson (1995), Wijnberg (2000) and Jawahar and MClaughlin (2001) identified two categories of the stakeholders; first the primary stakeholders without whose contributions to the organization, there can be no sustainability. These include clients, employees, owners, investors, competitors, and suppliers. The second category is that of the secondary stakeholders whose contribution or lack of contribution does not affect the survival of the organization. These include the donors, the nongovernmental organizations (NGOs), the local community, the government, etc. The deposit taking MFIs exist for their clients, without whom they jeopardize their existence. Therefore, the client's livelihood sustainability is of key essence for the poverty alleviation.

MFIs clients' sustainability is normally measured by the use of the two outreach variables according to Schreiner (2002) i.e. the depth of outreach that concerns the measure of the level of poverty for the poor in the society (quality concerns) and the breadth of outreach which concerns MFIs clients' membership (quantity concerns). Measuring the MFIs' outreach quality as noted by Quayes (2012), is not a simple affair. However, in measuring accurately the quality of the MFIs clients, information on the clients' business income, business growth, assets and living standards needs to be attained.

2.3.2. Relationship between Deposit Taking Microfinance Governance and Clients' Livelihood Sustainability

In this study deposit taking MFIs is the unit of analysis therefore it is paramount to discuss on the relationship of deposit taking MFIs governance with the clients' livelihoods sustainability.

The governance of deposit taking MFIs has gained recent attention mainly on factors such as growth and scale of MFIs, emergency of legal and regulatory gaps, increased industrial risks and types and entry of new investors who pay more attention to the quality of MFIs governance (Pasquale, Ira & Laura 2015). Studies done by OECD (2016), Balc *et al*.(2013), Pasquale, Ira, and Laura (2015), Hossain (2013), Christopher (2010), Mori & Mersland (2014) argue that viable governance relationships that affect and are affected by each other's decisions and have various influences on both governance and performance of deposit taking microfinance institutions needs to be preserved . The deposit taking microfinance institution governance ought to constitute of various personalities with diverse background (Hussain *et al*., 2021, Mori & Mersland, 2014) and skills since they guide the operational aspects and make the firm competitive (Hussain *et al.*, 2021, Singapurwoko, 2014)). These external human resource as argued by Pfeffer and Salancik (1994) in resource dependence theory have great impact in ensuring the clients' livelihoods are sustainable, since every governance member strives to give their best to deliver the value that the firm promises (Freeman, 2010) thus achieve sustainable livelihoods growth (Ford, 2012).

Subsequently governance focuses on the existing relationships, the deposit taking microfinance institutions are structured in a way that they offer financial interventions through offering credit facilities to the poorest of the poor while they meet their expenses through interest income (Mersland & Strøm, 2013). Even so, the microfinance institutions are still struggling financially according to Labie & Mersland (2011), since the interest income is not able to meet their expenses. This is because the approach adopted by the deposit taking microfinance is the poverty lending approach and not the institutional financial sustainability model whose emphasis is enhancing institutions to be financially sustainable through profit gains ((Lam *et al*., 2020, Kumari, 2020, Ahmed, 2018, Ibrahim, *et al.*, 2018). The poverty lending model depends on donor grants according to Ahmed *et al*. (2018) and focuses on microcredit programs that provide credit services to the industrious poor at a subsidized interest in order to encourage them earn their livelihoods without much struggle thus get themselves out of poverty (Hussain & Ahmed 2020). Therefore, the governance activities on clients' empowerment, risk management

functions, loan acquisition and repayment mechanisms, need to be the top most priority in their planning.

The best governance aim at resilience for the sustainability of its clients livelihoods in order to survive in hostel context (Galpine *et al*., 2013). Hussain &Ahmed (2020) posits that the deposit taking MFIs internal mechanisms governance should be conscious of the mission drift. The mission drift according to Ibrahim *et al. (*2018), Ahmed *et al.* (2016) and Quayes (2012) which is caused by its struggle to be relevant in financial market and therefore focuses on activities with good business understanding, objectivity, accountability and integrity in order to serve the needs of clients (OECD, 2015, Alzahrani ,2013, Mang'unyi, 2011). The deposit taking MFIs resilience implies an alteration and adaptation of action that will help the institution hold in times of shock. Resilience determines the persistence of relationships within a system and is a measure of the ability of those systems to absorb changes of management variables, dynamic variables and parameters and persistence (Souza *et al.,* 2017).Therefore, the essence of sustainability in an organizational context according to the Chartered Institute of Personnel and Development (CIPD, 2012) is the principle of enhancing the societal, environmental and economic systems within which a business operates. However, maintaining long-term livelihoods sustainability especially in microfinance institutions is a challenge because it requires being able to evaluate and modify the clients livelihoods sustainable actions _(business and income growth) whenever there are perceived changes in social efficiencies, economics and the environment (Fiksel *et al.,* 2014). In fact the crash in stock market in 1980s according to Francis *et al.* (2012) and subsequent failure of some corporations in different parts of the world, led to a change in governance codes in order to retrieve the financial markets (Ahmed *et al.,* 2018). Therefore, deposit taking MFIs need to develop the ability to constantly adapt their sustainable practices such as clients' empowerment and risk management procedures.

The deposit taking MFIs in general are seen as tool that stimulates overall sustainable economic development according to D'Espallier *et. al.* (2017) with the vision of poverty alleviate especially in developing countries (Bakker *et. al.,* 2014). It is a tool whose intention is to meet the financial needs of the poor borrowers (Kumari *et. al.,* 2019). Therefore, according to Dato *et. al*. (2019) the participation and interest of their clients or borrowers becomes paramount aspect of ensuring their livelihoods sustainability (Benedetta *et. al.,* 2015, Estape & Torreguitart, 2015).

Therefore the deposit taking MFIs need to adapt to a culture of sustainability by developing sustainable policies that would enhance the environmental, social and financial performance by articulating the values and the beliefs that underpin the organization's objectives (Eccles *et al.,* 2011). The creation of meaningful values that shape strategic decision-making lead to a culture that reinforces desirable behavior (CIPD 2012). Therefore, the sharing of the benefits of livelihoods sustainability with the clients as well as offering information to its employees, especially the credit officer, on the best way possible to implement sustainable programs is very important (Gabler *et al.*, 2015). Subsequently, the microfinance ought to bench mark on the internal strategies with other competitors for their efficiency and relevance.

The deposit taking MFIs clients are sometimes viewed by most people, especially those in management, as naive in terms of technical decision making. However, Pischke (2002) posits that microfinance clients know what they want and possess enough knowledge to make certain decisions. Deposit taking MFIs operate in a market competitive driven environment that is characterized by customer dropouts (defaulters) as well as multi borrowing (Woller, 2002). Therefore, their inclusion in decision making organ is significant in providing better information that would give guidance to the management as they forge towards ensuring their sustainability (Mersland & Strøm, 2009). More so, the MFIs credit officers are expected to work closely with the clients as they progressively carry out their mandate (Batillana & Dorado, 2010).

The inclusion of the clients in the management of any institution is usually an added advantage to the members, since the clients have a direct interest in the institutions. According to a report by Public Management and Governance Research Group (2013) client's engagement is a good strategy for enhancing governance, since the management would draw important information they would help in policy formulation. Besides the fact that the clients act as representatives, they play the role of monitoring, alerting the management members on some external observations as well as providing resources and various clients' links to the chief executive officer (manager).

The stakeholder's theory posits that including stakeholder (Client) representatives in the management is a ''formal mechanism that acknowledges the importance of their relationship and interests with the organization'' (Mitchell et al., 1997). Further, Freeman's (1984) argument of

stakeholder theory asserts that the inclusion of the clients' representation in the management is an organization's visible indicator of its commitment to its clients who have different interests and great effects on the management functions.

2.3.3 Deposit Taking MFIs Empowerment Strategies on Clients' Livelihood Sustainability

Since the initiation of microfinance institutions as an economic tool in March 1995 at the World Summit for Social Development in Copenhagen, they have thrived globally, especially in low-income economies with an extensive impact enough to have warranted acknowledgement by the United Nations which declared 2005 the international year of microfinance. The microfinance institutions aimed at filling the needed gap within the financial services industry by providing small loans, or microloans, to individuals incapable of accessing conventional loan services (stewart *et al*., 2012). Therefore, the main goal of the microfinance institutions is to empower its clients through microcredits. In fact microfinance is normally known as a powerful tool to empower women by improving their psychosocial well-being and socioeconomic status (Le Thai, 2021). The key aim of the microfinance institutions is to enable the poor people to get out of poverty on their own effort through provision of financial means to help them in their entrepreneur activities. In this regard the poor people are able to gain independence since they manage and rely on their own resources by themselves without relying on others. They also attain self-respect as they are able to provide for themselves without relying on handouts for survival purposes (Hearth, 2018).

Empowerment in this case, refers to the use of spiritual, political, social and economic strength of individuals and communities through developing the confidence of the individual in his/her capacities (Khan & Raham, 2007). It is the ability to express self-strength, self-control, self-power, self-reliance, freedom of choice and life of self-respect (dignity) according to one's values (Kapila *et al.,* 2016). Equally, empowerment the is ability to express the capacity to advocate for one's rights, independence decision making or rather, it is the ability and capacity that one gets in order to make an income and thereby improve on one's bargaining power positions.

This section of the study will review literatures on deposit taking microfinance institutions micro saving empowerment, microcredit empowerment, and training and women empowerment methods.

Deposit taking micro- saving empowerment strategy

Micro saving according to Bernard, Kevin and Khin (2016) is a key aspect for the MFIs as it provides the opportunity of individual and group saving and also lay the ground for microcredit. Microcredit is an important service aspect of MFIs, as the small loans that are given to the clients helps boost their small-scale businesses or begin a new business (Kessy, Msuya, Mushi, Stray-Pedersen, &Botten, 2016). Therefore, creating a great reliance on credit as a tool for business growth and profitability is paramount for the MFIs clients' sustainability (Ondoro & Omena, 2018). Micro credit also helps their clients, who are mainly women, to increase their ability in decision-making power over their every aspect of lives (Kapila *et al*., 2016).

It is important to note that microfinance in Sub-Saharan Africa according to Ahlin *et al.*(2011), was introduced based on economic factors; savings and investments due to the fixed nature of the donations that targeted only the political elite and the cash crop growers (Richardson & Lennon, 2001).Therefore, the MFIs helps in mobilizing voluntary savings, ensuring safety, flexibility, and accessibility, which can have the strongest impact on the growth and performance of SMEs (Kalu & Nenbee, 2016). The financial support programs of the microfinance institutions helps in the accumulation of finances for future financial stability (Abdullah, *et, al*., 2021). A recent study conducted in Malaysia exploring on the general progress of MFIs women revealed that, the MFIs clients who borrowed loans had an average increase of their household assets (Haque, Siwa, Ghazali, Said & Bhuiyan, 2021). This is because the microfinance institutions offered them an opportunity to meet their predetermined standards that enabled them achieve financial households and microenterprises need (Cull *et al.* 2007). However, Karlan *et al*. (2014) argue that saving and borrowing is bad economics for MFIs clients since borrowing is usually at high interest rates while saving at much lower interest rates.

Deposit taking micro -credit empowerment strategy

Sustainable livelihoods demands continuous economic empowerment thus the deposit taking microfinance institutions offers their clients an opportunity for both social and economic

empowerment since their main focus is to rebuild their clients' self-reliance, self- confidence, self-efficacy abilities according to Nagaveena & Bhojanna (2022) and their relationships with other people for their growth and wellbeing (Khursheed, 2022). The objective is achieved through creating opportunities for participation in small group meetings which enables them to be socially, economically and psychologically empowered (Nieuwenhuijze, 2019, Tariq, *et al.,* 2018). These opportunities of meeting together, working together and supporting each other help the microfinance clients to build their entrepreneurial capacities through micro savings, microcredit, skill development as well as business assistance (Neeti, *et al.,* 2021,Palmkvist & Lin, 2015)). The creation of clients meeting opportunities by the deposit taking microfinance institutions help empower women on economic, social and decision making within the groups and in their families (Bhattacharyya, 2019).

Subsequently, in order to enhance client's livelihoods, the microfinance adopts various economic empowerment models that are aimed at the enhancement of the poor people (Jacobs *et al*., 2012). They include; the Grammen model which advocates for the group responsibility as collateral for the loan according to Roy (2010), village banking which is a community-managed credit and savings association mainly established by the nongovernmental organizations (NGO) according to Macharia, 2005 as cited in Electrin *et al*. (2013), that helps the members to access financial services, build community self-help groups and accumulate savings in a group of 25-50 people (Wrenn, 2005). Group and Individual Lending which is a straight forward credit lending model where microloans are given directly to the borrower, Rotating Savings and Credit Associations (ROSCAs) whereby a group of individuals come together and make regular cyclical contributions to a common fund and then lend money to the members through the common fund.

Studies done revealed that the microfinance economic development strategy has highest success in microfinance industry. To cite just but a few, a study was done by Mula & Sarker (2013) on the impact of microfinance on women empowerment: An economic analysis from Eastern India used the variables of income, assets, employment, investment, consumption and savings of the members to find out the economic impact of microfinance on members revealed that there was a general success in gaining the socio-economic status of the members, but economic empowerment was higher than social empowerment. Another study by Kato & Kratzer (2013) assessed the impact of microfinance on women empowerment in Tanzania using control over

savings and income, ownership, decision-making, self-efficacy, self-esteem, mobility, and participation in activities outside home variables found out that women's participation in microfinance services led to increased empowerment on all variables chosen. The demerit of this study is that, it did not explore the microfinance impact on gender relations. A study carried out by Wanjiku and Njiru (2016) in Olkalou Constituency in Kenya, assessing the Influence of Microfinance Services on Economic Empowerment of Women using access to credit, income generation, financial literacy Variables, concluded that all the three variables had a strong influence on economic empowerment.

Throughout Kenya, the microfinance institutions take up a social-economic empowerment perspective and contribute to formal, sub-formal and informal sectors of the economy through their micro credit services that allow their clients to borrow loans (Cherotich, 2013).

Deposit taking MFIs training empowerment strategy

The deposit taking MFIs clients empowerment (Landy & Conte 2010), takes place through participation in group dynamics and organizational groups led to a global emergence of the microfinance women targeted programs, which became a major consideration for the donor poverty alleviation and gender and development strategies in the 1990s (Mayoux, 2005).

The low literacy level was one of the reasons why poor women suffered financial inclusion and therefore training became an important empowerment method for the microfinance institutions. Beside illiteracy, training is usually an important element in enhancing a person's skills and abilities to perform. Training acts as an eye-opener, on how to go about the daily business affairs for the small micro entrepreneurs, since workforce skills enhancement is key to the competitiveness of SMEs (Kimball and Lussier, 2021).

Microfinance institutions mainly train their clients on business management which is a common way of supporting the clients' ongoing and new businesses (Baráth, Nazir & Andre, 2017). Similarly, according to Baporikar (2021) the clients are also trained on technical skills that helps them identify the skills that are important for production thus maximize on profits, as well as entrepreneurial skills training that helps them recognize the economic opportunities available for their actions (Kibet, 2020).The training helps the clients develop critical thinking and problem solving skills that helps them in interacting well with their group members as well as

their family members (Masouras, Maris & Kavoura, 2020). Fosu (2018) posits that training and sports activities also helps in capacity building of the MFIs clients in book keeping, financial literacy and business management thus enhancing the clients financial management independence (Wairimu, &Mwilaria, 2017). In any case proper training help in gaining better knowledge that helps improve on production, sales and profits in business ventures thus survival in business sector (Chaudhry, 2018, Cumming & Fischer 2017).

The trainers of microfinance institutions use interactive/participative training techniques, that involve action as well as adult learning methods that involve beginning from known to unknown in order to improve their business management skills and knowledge (Ahmad, *et,al*., 2017). This helps the MFIs clients, especially women, to overcome employment barriers especially in developing nations since they get equal opportunities in market and policy and programs implementation (Klasen, 2019).

Deposit taking microfinance institutions training programs helps empower women both socially and economically, with an aim of first meeting the needs of the poor for working capital, second, offering relevant investment advice, third, presenting productive savings options to compete with asset hoarding, fourth, offering insurance for risk management or life-cycle savings, fifth, responding rapidly and flexibly to unplanned changed circumstances or misadventure and lastly, providing advice on flexible money management tailored to the circumstances of poor households (Hearth, 2018). The outcome of these programs are reduced unemployment, decreased vulnerability, attainment of upgraded and additional assets, higher returns from their products and improved livelihoods. For clients livelihoods sustainability deposit taking microfinance institutions' programs, are geared towards enhancement of personal economic empowerment, but do not involve full and equal participation of women in all spheres of society, including decision-making and access to power (Rooyen, Stewart &Wet, 2012).

Deposit taking MFIs women empowerment strategy

The effectiveness of the microfinance as a tool for directly reducing poverty is determined by the characteristics of the people it benefits (Simanowitz, 2004, Wrenn, 2005). In determining the microfinance beneficiaries, the consultative group to assist the poorest, (CGAP) World Development Report (2000) posits that MFI clients are categorized as per the poverty status as

follows: destitute, extremely poor, moderate poor (roughly just below the poverty line), and vulnerable non-poor (just above the poverty line). The study conducted on seven microfinance institutions in four countries i.e. Bangladesh, Philippines, Uganda and Bolivia targeting 1,500 microfinance clients concluded that most clients come from moderate poor and vulnerable non-poor households. The extreme poverty is the inability to meet basic consumption needs on a sustainable basis. People who live in extreme poverty lack both income and assets and typically suffer from interrelated, chronic deprivations, including hunger and malnutrition, poor health, limited education, and marginalization or exclusion (USAID 2015).

Though the microfinance institutions targets the poor, the main focus is on the women in those poor households (women empowerment global perspectives, 2006) for the reason that the women are generally committed in domestic expenditure and can be used as perfect channel for reaching out to other women, through poverty eradication programs (Kulkarni, 2011). Women are equally credit –worth, responsible for using their finances for livelihoods activities (Aseanty &Hassan, 2013). It is also evidenced that female borrowers are the main priority of the microfinance institutions, and in microfinance programs, female client's percentage is much more than that of their male colleagues (Périlleux and Szafarz 2015, D'Espallier *et al.* 2017 and Hermes *et al.* 2011). Infact. many microcredit reports prepared for local and international microcredit summit from 1997 reviewed that most donor funders prefer funding the microfinance institutions that aimed at women empowerment programs as noted by Mayoux (2005) with an aim of enabling the women to have economic freedom which grants them a higher bargaining power in their households as well as the community (Kato &Kratzer, 2013). Women just like men form an important portion in every society and play a crucial role in economic growth of family, society and country (Hameed *et al*., 2018).

The United Nations Development Program (2014), report on human development asserts that globally, women experience personal insecurity and vulnerability. The Microcredit Summit Campaign launched in 2007 and whose goal was to help the microfinance institutions reach out to 100 million families, showed that reaching out those who live in extreme poverty through offering financial services, designing programs that empowered the women with an aim of achieving their positive and measurable financial sustainability. The report by Krupp (2014) reviewed that globally by 2010 there was an overall increase of the client to 204 million poor

families from 79 million families reported in 2006. By 2012, the number of poorest microfinance clients dropped to 116 million families. More so by the year 2013, the MFIs globally had reached over 211 million borrowers and by 2016, the total number of the clients with outstanding loans had significantly reduced to 144, out of which 82.6 per cent were women. Among the first clienteles who took the loans 93 million were the poorest of which 85% were women who are the main MFIs targets as noted by Urmila (2011) since they constitute 70% of the world's poor according to Mohan (2011). This reflects the ability of women on loan repayments thus increased the reliability of women on being granted loans with an emphasis on targeting women as efficient strategy for poverty alleviation, as well as individual sustainability. Microfinance has an immense impact on the economic status, decision making power, knowledge and self-worthiness of women (Lamichhane, 2020).

Therefore, women empowerment as a concept, featured as early as 1970 with the work of Esther Boserup who assessed women's role in economic development majoring in the sexual division of labour (Wien &Mag, 2005). Boserup argues that the economic development process affects the women's position and context thus deteriorating their status in society. The view on the great triple roles: - productive role, reproductive role and community role (Muknhopadhyay, Smyth & March, 2008). The women involvement in development came into play in the early 1970s with women campaigning for their space and recognition in development activities.

In 1975 there was a great awareness of the productive role of women in national economies in the first international women conference in Mexico, besides their reproductive role for the wellbeing of their households. This was further reinforced by the microcredit summit campaign in 1997 whose goal was to reach and empower women as well as poverty reduction (Mayoux, 2005). The campaign was held on realization that women empowerment is crucial on achieving livelihoods sustainability and economic development (Nasir & Farooq, 2016). As a result of the conference, many women micro-credit banks and networks were established to offer credit and savings services and were mainly sponsored by the governments and non-governmental organizations. The availability of credit services made many of the microfinance institutions clienteles borrow loans and it was notable that the highest loan repayment was made by the female clienteles (microcredit summit report, 2016).Therefore, for individual livelihood sustainability, there is a need to reflect on gender relations because the increase in access to

financial services does not automatically lead to an increase in individual power (Mayoux, 2005). Again, there are barriers that have been recorded in regard to empowerment of the poor women which included the age, educational level, marital status, inherited assets, level of income among other factors (Rehman *et al.* 2020).

The beginning point of women empowerment is a current perception of one as being disempowered, disadvantaged as indicated by Mosedale (2003) by the way power relations shape their choices, opportunities, and well-being (Wrenn, 2005). Therefore, empowerment cannot be bestowed by a third party but must be claimed by those seeking empowerment through an ongoing process of reflection, analysis, and action (Mosedale, 2003 quoted by Wrenn, 2005). Gender relation relates to how gender shapes the distribution of power at all levels. Mayoux (2010) in her research round-up offers a framework for gender analysis and argues that there are four various forms of power; power within, the power to, power over and power with.

First, the power within looks into the issues of increased will for change for individual women. Mayoux (2010) argues that the power within a person increases women's confidence and assertiveness leading to changes in aspirations and consciousness to challenge gender subordination thus acquiring the ability to enhance the livelihood. This further increases autonomy and willingness to make decisions about self and others. This helps the deposit taking microfinance institutions clients in finding value in themselves as well as others thereby willing to unleash their potentials as they learn from other people's abilities.

The second form of power is the power to act. Studies done by Gangdhar & Malyadri, (2015), Herath *et al.*, (2015), reveals that the deposit taking microfinance institutions are known for enhancing women, (who forms majority of membership) status development through increasing their social security, mobility and power to make decision at house hold level. The increase in mobility enables women to have access to markets thus improved health and nutrition (living standards). This results to increased capacity for change for individual women i.e. the women's capacity to access various rights within the society. In this case, when power is enhanced on women, the outcome is the increased access to income, thus income growth due to successful micro-enterprise (Bernard *et al.*, 2016, Atmadja *et al.*, 2016). There is also increased access to productive assets and household property, increase in skills including literacy due to access in

education and training as noted by Shetty &Hans (2015) both for the women and their children. This makes microfinance institutions a tool that positively enhances women's wellbeing (Akhter, 2018).

The third form of power is the power over. The power over aims at issues related to the reduction in obstacles to change at the household and community level. Once the obstacles are identified and removed the deposit taking microfinance clients have power to make decision as noted by Kapila *et al*. (2016) thus will have control over loan use, control over income from loans and other household productive activities, control over productive assets and household property and control over their living standards. The women will have the increased ability to determine parameters of household consumption and other valued areas of household decision-making in favour of themselves. They will also possess the ability to defend themselves against violence in the household and community. The power over form means that the women have enhanced perception of women's capacities and rights at household and community levels which boosts their productivity.

The fourth form of power is the power with the responsibility that assesses the increased solidarity with other women for change at the household, community, and macro levels. The power with perspective focuses on the increase in social networks for support in times of crisis or for chosen strategies, ability and willingness to act as a role model for other women entrepreneurs particularly in lucrative microenterprises (Mayoux, 2010).

Women empowerment is perceived as an integral and inseparable part of a wider process of social transformation thus the reason for women being the best strategy for achieving most of the sustainable development goals. Microfinance institutions do not only project on financial inclusion but also the implementation of the 2030 development agenda by the promotion of services in the fields of health, food security, education, energy, and housing, (microfinance barometer, 2016). The original and main purpose or aim of microfinance is to equip women to be financially independent and self –reliant, increase self-esteem thus become resilient as they contribute to development activities (Kapila *et al*., 2016).Therefore, microfinance in its capacity plays the main role in many gender and development strategies because of its direct relationship

to both poverty mitigation and the empowerment of women as well as on its collaboration of both the human and social capital for a desired economic growth(Prasetyo *et al.*, 2020).

The women empowerment strategies employed by microfinance, especially in Sub-Saharan Africa, face cultural challenges because of the patriarchal society that takes gender relations seriously. The patriarchal culture is very dynamic and hence exercises constraints differently in different contexts, in diverse forms and at various stages in the women empowerment process (Ashok et al., 2014). The dynamism is experienced in bargaining power and the ability to make decisions on economic issues within the household, ability to make decisions outside the household, control over loans, building of social networks, responsibility for household chores, and power over one's time and physical and emotional health and energy. Empowerment of women faces challenges in patriarchal societies where men feel threatened by the enhanced ability and capacity for women thus end up rendering the microfinance empowerment activities futile (Bulte and Lensink, 2019).

The women empowerment comes in to help women who have been constrained by the cultural beliefs, customs, norms, and values and have been denied the capability to make deliberate life choices and acquire such ability to help improve their livelihoods to sustainable levels. The empowerment process in deposit taking microfinance thus aims at training and creating awareness on the existing barriers to clients' livelihoods sustainability (Mayoux, 2010). Therefore, it requires to be mainstreamed in other social programs such as group-based health education, marketing, and job skill training (Maldonado *et al.* 2020).

More so, Malhotra and Schuler (2005) provided a framework of women's empowerment dimensions; economic, social and cultural, legal, political and psychological and indicators that constituted of household, community and broader arena and that explored women's ability to make strategic decisions, which affect their well-being and their families. The economic empowerment variables included women's control, access to credit, and contribution to family support and increased household ownership of properties and assets. Social and cultural empowerment variables included freedom of movement, lack of discrimination against daughters, commitment to educating daughters, participation in domestic decision making, control over sexual relations, ability to make childbearing decisions, use contraception, control

over spouse selection and marriage timing and freedom from violence. Legal empowerment independent variables included the knowledge of legal rights and mechanisms and familial support for exercising rights. Political empowerment independent valuables included the knowledge of the political system and means of access to it, familial support, political engagement and ability to exercise fight to vote. Psychological empowerment variables included women increased self-esteem, self-efficacy and psychological well-being. Enhancing women's abilities through deconstructing gender relations would enable the women to freely participate in their own societal social and economic decision making which in return helps to enhance their livelihoods sustainability (Ashok et al., 2014).

Equally, Kabeer (2001c) based his gender empowerment framework on three variables i.e. the resources, agency, and achievements. Resources included the conditions in which choices are made on material, social and human resources. Agency for him, is the ability in which one defines and acts on their goals i.e. the potential that people have that influences their being and doing. The achievements are the positive outcome of the choices that people make. The gender development strategy focuses on participatory techniques in analyzing the empowerment strategies (Mayoux 2005).

More so Malhotra *et al.* (2002) developed a comprehensive list of important dimensions of empowerment, by using different frameworks developed by various authors. Economic, socio-cultural, familial/interpersonal, legal, political, and psychological are significant dimensions that are composed of various factors (sub-domains). Malhotra (2002) further observes that there is no single standard tool developed by the World Bank or any other development agency to measure empowerment, although it is considered to be a primary development goal. Furthermore, Khan & Maan (2008) stated that "there is no universal yardstick for measuring women empowerment because empowerment is a context-specific construct that may vary from one socio-cultural scenario to other". Therefore, it is essential to identify the dimensions of empowerment and measure them.

Gender relation is also another aspect of women empowerment in that most of the gender policy development cycles consider women as weapons against poverty (Rehman, Moazzam & Ansari, 2015). The aim of deposit taking microfinance micro credit services and empowerment programs

is to empower women's positively by influencing their decision-making power and improving their overall socio-economic status. The main question here is, do women have direct control over the acquired income? Mayoux (2010) argues that women may access financial services but may not fully and directly have control over the resources. This leads us to the question of whether deposit taking microfinance institutions empowerment strategies are focused on real women's practical and strategic needs. The fact that women economically contribute immensely to households does not necessarily mean that they directly benefit from their contributions (Mayoux, 2005).

Based on the above and many other types of research done, one can conclude that deposit taking MFIs play a major societal social and economic transformation. In fact Ashok *et al.,* (2014) and Gereta (2013) argues that the current popular thinking in development studies considers microfinance, especially deposit taking MFIs, as the best holistic approach to development and a remedy for poverty alleviation through sustained livelihoods, since it helps in addressing the cultural barriers that limits the poor to exploit their potentials in fullness (Haustmann *et al.,* 2012) In any case, microfinance services are viewed to have a significant positive effect on both social development and economic growth, especially in developing Nations (Bansal and Singh 2019, Lopatta *et al.* 2017, Lopatta and Tchikov 2016).

2.3.4 Deposit Taking MFIs Risk Management Methods on Clients' Livelihood Sustainability

Deposit taking MFIs clients' livelihoods sustainability is also dependent on how the clients and the institutional risks are managed /mitigated. Various studies assert that the microfinance institutions start small and they grow in size as they diversify their portfolio, intending to provide services to the poor who have limited access to conventional banking services to reduce poverty (Andryushchenko, Savina, Stepanov *et al*., 2015 Ball & Watt, 2013). This in return leads to the manifestation of a different form of risk. More so, according to Steinwand (2000) and Goldberg &Palladini (2010), the MFIs are faced with lots of risks; both internal and external that threatens their social mission and long term sustainability. According to Chen *et al*., (2022), management of risk is usually associated with the livelihoods sustainability of their clients. A study done by Saleh and Afifa (2020) found out that the overall risk strategies developed in financial institutions in Jordan, were more proactive on prevention of risks, rather than reacting to the

risks when they occurred. According to Kanake (2014), credit risk management determines the success and the survival of the microfinance industry and therefore, the MFIs management should ensure proper management of their portfolio in order to avoid the failure of the institution (Mbah & Wasum, 2019).

The deposit taking MFIs are prone to various risks as they try to meet the loan demands as indicted by Fernando (2008) that affects their service delivery to their clients and in return affects the clients' livelihoods sustainability. Studies done review various forms of classifying MFIs risks, for example, Goldberg and Palladini (2010) classify MFIs risks into three categories; financial risks, operational risks, and strategic risks while Lascelles *et al*., (2014) argue that MFI s can be classified into three; client relationship risks, service provider risks and market risks. La Torre (2006) equally argues that the MFIs can be grouped into financial risks, business risks, and process risks.

The study herein examined the financial risks, liquidity risks, strategic risks, operational risks, market risks and business risks with the justification that risks are inevitable as equally indicated by Kombo *et al*. (2011) and therefore the deposit taking MFIs need to adopt sustainable mitigation procedures to assure the sustainability of the clients as well as the MFI institutions and at the same time win the donors' support.

The risks incurred by the deposit taking MFIs are governance and financially related. The governance related risks considered in the study include, the governance risk, the external business environment risks, operational risk and the client's relationship risk.

The governance risk entails having an inadequate structure that makes effective decisions such as change of its original mission (World Bank, 2016; Caserta, Monteleone & Reito, 2018). This risk arises from an ineffective oversight, poor governance structure, or both of these (Van Damme, Wijesiri & Meoli, 2016). When the deposit taking MFIs experiences the governance risk then their clients' livelihoods sustainability cannot be assured, meaning that they will have failed in achievement of their poverty alleviation goal. The governance risk leads to the reputation risk which affects the deposit taking MFIs ability to sell their products and services or its access to capital or cash funds according to Fernando (2008), due to negative public opinion in regard to their operation especially on their behavior when handling loan defaulters.

The unfavorable external environment such as the climate change, market fluctuations and regulatory demands affects the deposit taking clients businesses which in return affects their livelihoods sustainability. As a result the deposit taking MFIs clients suffers from loan design risk as indicated by Goldberg & Palladini (2010), Lascelles, Mendelson & Rozas (2014) and Pagadala (2017) due to the methods employed by the deposit taking MFIs in dealing with the clients incurred risks, such as recovering defaulted loans from the clients shares, or guarantors or the collaterals. The deposit taking clients operate under competitive market environments which exposes them to competition risks such as interest rate risk, foreign currency risk, and investment portfolio risk. The interest rate risk is incurred when the market interest rates changes leading to institutions financial loss. The foreign exchange risk is the probability of the organization losing its earnings due to fluctuations in currency value as noted by Savina, Stepanov *et. al*. (2015) and the Investment portfolio risk refers to longer-term decisions on savings rather than short-term liquidity or decisions on cash management. Therefore, the strategic value creation is essential in highly competitive times, creating new products, processes, new organizational forms, and business models. The consequence of these is seen in the implementation of new capabilities to the long-term competitiveness as the maintenance and the ability to conduct a dialogue with employees and clients and the development of the ability to integrate their knowledge in processes, products, services and business strategies (Ayuso *et al.,* 2006). These capabilities require processes that encourage communication and openness to change in identifying future risks (Ayuso *et al*., 2006). The management skills to perceive risks, opportunities and other changes that could influence operations are required, and these mainly achieve the realization of changes in routines, decreasing organizational vulnerability (Teece, 2007).

The clients livelihoods sustainability can be negatively affected by the institutions operational risks which include; The human resources (staffing) risk according to Lascelles, Mendelson and Rozas (2014), information technology (IT) risk which is the ability of the unexpected loss due to inadequate technology and information systems according to Lamrani & Tkiouat (2017), fraud risk as noted by Lamrani & Tkiouat (2017) which is the risk of the earnings or capital as a result of deliberate deception by an employee or client as indicated by Fernando (2008), the regulation and legal compliance risk which according to World Bank (2016) and Lascelles, Mendelson &Rozas (2014) is the risk of loss resulting from noncompliance with the country's regulations and laws.

The current deposit taking microfinance institutions are more concerned with addressing the issues on how to advance their clients' loyalty, the techniques or strategies to use and how to develop a sustainable relationship (Simonet, 2011). This is so because the clients' have been the centre of every function of the microfinance institutions (Chikako & Hamu, 2021). Therefore, building a concrete bond with the client through redressing the clients' concerns and occasionally assessing the clients' needs is very significant in maintaining a strong relationship in order to avoid the client relationship management risk which occurs as a result of poor management of the clients (Lascelles, Mendelson & Rozas, 2014).

The financially related risks include the financial and the liquidity risks. The financial risks include first the credit risk which is the threat to earnings or capital due to borrowers' delay and nonpayment of loan obligations due to adverse conditions, financial difficulties, lack of proper financial analysis and loan support (Kalu *et al.*, 2018). This is worsened by the fact that most of the MFIs clients suffer from inadequate literacy and the MFIs offer, loans without any collateral, i.e. unsecured loans that pose a great risk to the institution. Credit risk includes both transaction risk and portfolio risk (Pagadala, 2017, Manan & Shafiai, 2015). Credit is whereby the financial institution provides some finances to the client, under specific terms and conditions, in hope of a repayment with interest within a specified period (Essendi, 2013).The interest paid on the loan borrowed by the client becomes the microfinance institution profit which they use for its operations (Wandera, 2017). A credit becomes a risk when the borrower fails to repay the loan as per the stipulated terms and conditions (Kalu *et al.*, 2018) due to failure of the business. Since the MFIs build their portfolio from the clients' savings, their capital as well as external borrowing, they offer loans to their clients in confidence of getting returns. In case of delay or lack of repayment, the MFIs are expected to take responsibility for their lenders. Therefore, the MFIs should be up to the game in terms of its activities to prevent credit loss.

Another financial risk is the transactional risk which refers to the risks on individual loans while portfolio risk is the threat inherent in the composition of the overall loan portfolio. According to Agene (2011), a credit risk portfolio is deterioration in loan portfolio quality that results in loan losses and high delinquency management costs. Delinquency, in this case, is the amounts overdue on loan. The reason for delinquencies is directly related to the nature of governance and include; a weak Management information system (MIS), lack of screening of the borrowers for

track record information on their borrowing history, lack of clients appraisal before lending, failure to communicate about product and methodology and finally lack of immediate strong overdue follow-up system to control and manage overdue.

The impact on the MFIs clients' delinquencies adversely affects the institutions in the following manner. First, the institution loses the interest income which is obtained from the loan repayments. When the clients are unable to repay the loan, the MFIs does not only lose the clients' savings but also the interest income which contributes to its profitability and sustainability. Secondly, the MFIs' **g**rowth is hampered by the fact that the institution concentrates its attention on the loan overdue recovery. Mainly this diverts the MFIs expansion and growth focus, therefore, hampering its growth as well as the clients' growth. Finally, the MFIs Loses credibility and reputation from its peer MFIs and as such may loosen their association. Such MFIs lose out also on their staff and new clients in fear of nonperformance (Agene, 2011).

Liquidity is an important aspect in deposit taking microfinance institutions for their survival as noted by Mebounou *et al. (*2015) as well as that of their clients. Therefore, when a financial institution is experiencing liquidity, it means that it is able to have immediate access to available funds, at reasonable costs, without causing unacceptable losses (Agbada &Osuji, 2013; Lalon, 2015). equally means that they are not able to meet their cash requirements or payment obligations on time (Savina, Stepanov *et. al.*, 2015; Craig & Dan (2011).This indicates that when the deposit taking MFIs clients are not able to repay their loan due to their own liquidity, then the institutions are not able to issue more loans to the qualified clients. This leads to the unfriendly means of recovering the defaulted loans. The deposit taking microfinance institutions depend on short-term money market which results in liquidity risks and shortages and therefore inefficient liquidity management definitely would led to the failure of the institution (Saleh & Afifa, 2020). Further they argue that liquidity risks can also be experienced when the deposit taking MFIs clients withdraw excessive funds from their savings (Saleh & Afifa, 2020). This mainly leads to a negative relationship between the performance of the deposit taking MFIs and clients livelihoods sustainability hence the crafting of more alternatives, by the deposit taking MFIs such as increased interest rates and loan processing charges so as to increase liquidity.

Deposit taking MFIs risk mitigation process

The pre and post mitigation of the deposit taking microfinance institutions risks, especially those incurred by the clients, is crucial for their livelihoods' sustainability. Bahamid *et al.,* (2017) defines risk mitigation as an organized and comprehensive method tailored towards organizing, identifying and responding to risk factors in order to achieve project goal. Scholars such as Goldberg & Palladini (2010) and Steinwand (2000) posits that the risk mitigation process includes; first identifying the risk profile which helps in offering information on the nature of the risks the institution is exposed to. Secondly, prioritizing the risks as per their effect in the institution, then assessing the extent of the effect of the risk and finally defining the most important risks to deal with as a matter of priority. The third step is to design policies and procedures to mitigate those risks. The Fourth step is to assign responsibilities. The fifth step is to test the effectiveness of the process and evaluate the results and finally improve the adopted policies when necessary.

More so, Hong (2019) argues that a systematic way of dealing with the risk includes identifying, measuring and mitigating the deposit taking MFIs risk. He further posits that the risk management process constitutes of identifying, assessing and prioritizing risks, developing strategies to measure the risks, designing the policies (indicate the direction of an institution) and the procedures (indicated on how to implement and follow the policies) to mitigate the risks, implementing and assigning responsibilities, testing the effectiveness, evaluating results and finally revising the policies and procedures. Oluyombo & Olabisi (2008) assert that the influence of risks on deposit taking MFIs varies considerably; hence, every single risk needs to be handled according to its appropriate importance. In this case, risk prioritization can be very helpful for deposit taking MFIs.

Liquidity risk is a very serious endeavor in deposit taking MFIs, thus Oguntoyinbo (2011), asserts that a sensible microfinance approach to dealing with such a serious challenge involves engaging in group lending, character referencing, and continue building up of clients' credit history, to establish realistic and workable loan arrangements. Kamarka (2008) argues that in order to control and reduce bad debt, it is important for the deposit taking MFIs to provide screening mechanisms for acquiring relevant information about potential borrowers such as the borrower's loan repayment history. Most of the MFIs encourage peer group lending or joint

reliability groups and therefore are on high alert on the borrowers who skip a repayment installment. Another way of reducing bad debt according to Kamarka (2008) is by offering an insurance cover for various risks faced by the borrowers in their lives such as death and livelihoods collapse, due to the failure of crops as a result of climate change.

According to Kombo *et al.,* (2011), financial institutions should realize that risks are an unavoidable part of their operations and therefore, their main business along with others should be to mitigate and manage them. In order to pre mitigate the credit risk, different microfinance institutions employ different techniques. For example the MFIs in Pakistan pre mitigate the risks through credit terms, clients' appraisals, collection policy and credit risk control (Ahmed &Malik 2015). The MFIs in Uganda mitigate their credit risk through the process of identifying the risk, do appraisals, monitoring and mitigation (Kalu *et al*. 2018). Most of the Kenyan deposit taking MFIs manage their credit risk by setting loan limits, standardize loan terms, zero tolerance to delinquency, group-based lending, client's securitization and credit products (Murigi & Thuo 2018).

Awareness of the existence of risks in the microcredit sector is a first step towards controlling and reducing these risks (Micro world, 2010). More so, the financial institutions should equally be proactive enough in minimizing the probability of risk occurrence. Where risk is inevitable the financial institution should be able to minimize its impact. Kombo *et al.,* (2011) continue to argue that if the risks are not well managed, deposit taking MFIs are likely to fail to meet their social and financial objectives, therefore, threatening their clients' livelihoods sustainability. When the institution risks are poorly managed there are the likelihood of financial losses, loss of confidence by the donors, investors, lenders and borrowers, who are the clients of the organization.

The process of managing risk helps reduce the likelihood of the scale and occurrence of loss. Risk management is about detection and prevention of a problem. The MFIs credit officer/loan managers take a risk every day by lending money to the clients without any fixed collateral, business records credit history, and cash flow statement (Lamichane, 2020).Though, the clients have much responsibility towards the wellbeing of their families, are involved in frequent decision making as well as contribute towards the welfare of their communities, they need to be

able to honor the agreed terms of loan repayment. The deposit taking MFIs adopt the risk management methods that entail the screening of the clients and monitoring the clients' businesses.

The screening of the clients before issuing the loans is significant in getting the necessary information to warrant granting of the loan (Ndab, 2018). The provision of information by the clients serves as a reference point, by the MFIs, on the best decision to take in case a client default on loan repayment. After granting the loan, there is need to supervise the borrowers business in order to mitigate the unforeseen credit default risk as noted by Murigi & Thuo (2018) due to economic shocks affecting the client's ability to service loan repayments (Afrah *et al.*, 2021).The MFIs try to help their clients through monitoring, supervision and advising on business management (Msigwa, 2013) in order to help them to avoid any credit risk which may lead to default and deteriorated livelihoods sustainability.

The MFIs clients tend to be concentrated in one geographical area as noted by Murdoch (2020) and therefore may experience similar economic shock which may lead to non –performing loans / loan default before its maturity (Wandera, 2017). In cases where the clients businesses are not performing due to factors beyond their control, the clients cut down their expenditures and sell their items in order to repay their loans (Mahmud & Reily 2021).They accept and recognize that they have a responsibility of adhering with the agreed terms of loan repayment. Therefore, the loss experienced from the risk is not great enough to warrant spending money to avoid it.

Apparently, most of the microfinance institutions adopt the group lending model on offering loans in that they lend to the groups which disburses the loans to the willing member with a low interest (Dasgupta & Gupta, 2021). The joint liability model according to Hearth (2018), is equally used by microfinance institutions, due to the degree of trust or social capital that exists among members of the group to offer a loan to either an individual or a group whereby the repayment records have to be produced first before a loan is issued either to a group or an individual (Reddy et al 2020).

The essence of the arrangement is in order to encourage a joint liability, whereby each member understands and monitors the loan repayment status of the every other in their planned meetings. This leads the members to high commitment on the interest of each other because the failure

especially in lack of payments leads to financial burden to the other members. This relational lending system helps create a friendly environment, develop a culture of trust among the group members and ensure the interest of each member is understood through frequent meetings (Bandiera *et al.,* 2022). This relational aspect leads the group members towards the sustainable individual income growth (Mou *et al.,* 2020). Subsequently, the members are empowered on self-discipline on the right usage of the finances, as well as business and product advancement for their livelihood sustainability (Gomera & Oreku, 2020; Pamuk *et al.,* 2020). The frequent interaction of the group members encourages them to share valid information of the resources they have without fearing each other a indicated by Jafarinead *et al.*(2021) as well as improve on their financial performance a noted by Possner, Bruns, & Musshoff, 2022) by identifying loan performance issues thus lessen the occurrence and severity of poverty (Loke *et al*., 2020, Mushtaq, Rizwan, & Bruneau, 2019).This help in mitigation of the credit risks since the clients have a responsibility of monitoring each other's loan repayment behavior

2.3.5 Deposit Taking Microfinance Institutions Loaning Acquisition Processes on Clients' Livelihoods Sustainability

World Bank (2020) data discloses that globally, nearly 500 million people have accessed the microfinance loan service successfully. The provision of microcredit by the MFIs helps create employment chances and enhance business growth (Kumari 2021). In order to achieve their poverty alleviation mission, the microfinance institutions have set systems on the eligibility criteria of their clients on loan requisition, that includes clients business type, location, size, average income and personal profile, including client relationship with other financial institutions. The system is meant to ensure that the clients will achieve outstanding business performance that translates to excellent loan repayment performance (Abeyseker, 2020). However, Bvuma and Maverick (2020) and Tustin *et al*., (2006) notes that young businesses are small, income generated is below the poverty line, poor capital is invested, and there is hardly any asset. Equally, Pingle V., (2005) found out that in situations of dire poverty, young businesses help in income generation but whether these businesses can also provide sustainable livelihoods, depends on whether the owners are able to develop and nurture their businesses and if their capabilities are appropriate for succeeding as an entrepreneur.

The MFIs assign a loan officer the task of informing and explaining to the clients the lending policies for the MFI, he/she initiates and oversees the whole process of group formation, trains the clients, who are the borrowers, on how to manage their businesses based on new business trends and income in order to guarantee timely payment of the loan through follow-ups and reduce group social disbursement (Siwala and Ritchie, 2011). The provision of knowledge through education by the MFIs to their clients enables them to access intellectual resources that will in return help support their businesses (Ojwang & Shau, 2021).

The loan officer records the financial debits in a loan book called passbooks then later transfers to a ledger book. This method is a replicator of the Grammen –style of financial credit procedures. Since the MFIs group consists of twenty five members, the group members create subgroup of five members, who then are offered the loans by the loan offices (Dasgupta & Gupta, 2021, Bandiera *et al.*, 2022). The clients are also informed, by the loan officer, on the interest charged on the disbursed loans. Most of the MFIs clients believe that the interest charges on the borrowed finances are low but the fact is that the loans are given at high interest rates since they are calculated cumulatively over the loan tenure. The fact is that the MFIs relies on these loan interests for their survival and the risk involved in MFIs loan is higher, since the borrowers are low income earners and the rate of default is higher (Mushtaq, & Bruneau, 2019). As a result most of the MFIs have changed their original mission (D'Espallier & Mersland, 2017).

The MFI credit/Loan officer also physically witnesses the willingness of each individual member as noted by Charles & Mori (2017) to get the right information on proper loan assessment procedures and also gets a chance of physically meeting and understanding the members, as well as verifying their properties. The screening process involves the MFIs information on each member's business income progress. The success of a continuous micro-lending practice as well as proper financial relationship between the microfinance and their clients, is determined by a proper assessment and screening of the clients before the disbursement of the loans to the groups. The assessment includes a reflection of the client's previous borrowing and repayment conduct according to Anuradha (2020) and a verification of the clients business /project status. The assessment process involves sharing of the information which informs on the ability and willingness of the client to repay the loan (Gomera, Oreku, & Shau, 2021, Shema, 2022, Gomera

& Oreku, 2020).The assessment is an important aspect since it facilitates proper financing and loan repayments.

According to Aslam *et al.,* (2020), there are three elements considered efficient by the MFIs in loan acquisition process; The first element entails loan size, the interest rates, the value of the collateral for the loan and the loan repayment schedule The second element includes screening criteria, borrowers qualification and merit, while the last element includes the grace period, the incentive for early payments and penalties for delayed payments.

In fact the process of getting income as well as saving, savings influence clients' borrowing behaviour as noted by Rokhim *et al.* (2016) and increases their purchasing power, enhances their livelihood sustainability and improves their living conditions (Mersland and Strøm 2012). This is because there is usually a positive relationship between the required loan size and the level of income (Quayes 2012). This discovery needs to be evaluated further to ascertain whether the client's level of income equals the livelihood sustainability of those clients. The loan officer also gets information on the previous loan repayment record. Though the information given by the members may not be fully adequate according to Ojwang & Shau (2021) to warrant the awarding of the loan to the group by the loan officer, it is adequate to begin with. Consequently the clients are also informed of the repayment schedule and the acceptable forms of collateral requirements by the MFIs. The MFIs encourages and accepts three forms of collaterals; the social, the chattel and the conventional. The social collateral includes the client's savings; the chattel collateral includes the household goods or personal belongings and the conventional security such as the legal charge (tittle deeds) and logbooks (Kumari, 2022).

The group lending model is popular in all the microfinances in the world and has grown to two hundred and fifty million customers according to Mou *et al.* (2020) because besides meeting for financial matters, the system also creates a social platform for the members, whereby self-confidence is developed, financial literacy training is offered and capabilities are nurtured and managed among group members (Daher & Le Saout, 2015). Mainly the group members constitute people of different age, marital status, different occupation and all these cement the joint liability, which is informal collateral as indicated by Charles & Mori (2016), since they have diverse perception on issues. The microfinances offer the social networking among its

clients through the provision of social capital and favorable loan credit terms and conditions (Mata and Ibrahim, 2020). The group members' meets often (as per the group agreement) to add to their shares as agreed by the group and then disburse the loan funds to the willing members at a low interest rate (Dasgupta & Gupta, 2021). The empowerment of the poor people aims at helping them manage their small businesses as well as improving in their livelihoods. This in return leads to improved living standards and livelihoods sustainability.

The challenge with the group lending model is that it becomes difficult to identify the qualified borrower and the amount of burden they can take adequately (Parthasarthy, 2018). Secondly because of the adverse selection, the financial sources lack information about the riskiness of their borrowers, thus a high interest rates are charged to all borrowers without reference to their risk profile (Kumari, 2020).

Effect of micro borrowing to MFIs clients' livelihoods sustainability

Micro borrowing is meant to financially boost the small and medium micro enterprisers towards the achievement of their livelihoods sustainability. In Kenya according to Central Bank of Kenya 2020 survey report on micro small and medium enterprises (MSME) access to Bank credit, the microfinance institutions received credit applications worth Ksh.50 billion in both 2019 and 2020, out of which Ksh.2 billion (4 percent) were approved. In all the categories; the micro enterprise category, small enterprise category and medium enterprise category, the trade and agriculture sectors received the most credit from microfinance bank, since most of their clients projects fall in those two categories.

2.3.6 Deposit Taking Microfinance Loan Repayment Mechanisms on Clients' Livelihoods Sustainability

The microfinance institutions encourage the repayment of the loan borrowed by their client's through equated monthly installments (EMIs).This is where the borrowed loan is distributed equally throughout the repayment period as per the agreed loan contract. The microfinance provides loans to the individual customers who have a lending history but in most cases provides group leading only (Aragoʹn *et al.,* 2020). In most cases the clients with good loan repayment history have strong financial performance and so earn high profits and therefore can meet all deadlines mentioned in the contractual loan agreement (Khan *et al.,* 2021).

The MFIs success has been attributed by their financial services inclusion with minimum affordable entry requirement, simple application procedure, short processing periods, tapered interest rates, lack of collateral instead they use alternative methods, such as, the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken (Murray & Boros, 2002 as cited in Election et al., 2013).

In order to avoid the loan defaults, the MFIs constantly review and update client records as noted by Wandera (2017), do credit appraisal as indicated by Kalu *et al.* (2018 and Ahmed & Maliki (2015) as well as offer credit controls according to Joseph (2017) through measuring and monitoring internal control as posited by Murigi & Thuo (2018) as well as supervise the clients business in order to assess the progress (Msigwa, 2013).

In case of the clients defaulted loans, the MFIs resort to recovering the lend finances from the clients committed collaterals. In cases where loan is secured by the group, the conventional collaterals such as the tittle deeds are used to recover the borrowed finances. The MFIs usually use legal enforcement in order to collect group collaterals in cases of defaulted loan repayment (Wamalwa& Jagongo, 2018, Bashabe, Kalu, & Amu, 2017). The group collateral calls for a shared responsibility and in case of a default the credit risk is shared among /transferred to the members. In case of individual loan default, the microfinance recovers the borrowed finances together with the interest from either the Chantel collaterals, such as household assets or business assets as noted by Zergaw (2019) or from social collaterals such as the individual savings. This aspect therefore calls for a product structure that integrates credit evaluation policy to manage the loan management procedures (Wara *et. al.*, 2018).

Though it is advocated by Parvin, *et. al.*(2020) that financing higher loan size to microenterprises will decrease the possibility of loan delinquency and loan default in some cases, Afrah, *et. al.*, (2021) and Jote (2018) argue that the small entrepreneurs may be unable to repay their loans due economic shocks, short tight repayment schedules, high interest rates and lack of the grace repayment period. This sometimes leads to poor business performance accompanied by lower profitability that affects prompt loan repayment leading to portfolio default (Mahmud & Reily, 2021, Maiti, *et. al.* (2020). The size of the loan has some association with loan default (Kodongo

and Kendi, 2017). This has been supported Ezihe, Oboh and Hyande (2018) who argue that the smaller the loan, the more chances of default due to lack of greater yields/profit among other factors.

Despite the screening of the clients at the time of enrolling for a loan whether they have an outstanding loan with any other financial institution, the microfinance institutions do not have the mechanisms of detecting and preventing multiple borrowing (Boiwa and Bwisa, 2014). For example the clients whose loan repayment is due and has no finances may opt to borrow from unregulated online micro finance institutions, such as M-Shwari, which do not seek for any collateral. This increases the repayment burden for the clients and in most cases the client end up defaulting as well as being affected negatively both physical as well as psychosocial wellbeing (Engel and Pedersen, 2019). In order to curb this menace, all the microfinance institutions, both regulated and unregulated, need to form a joint partnership specifically to monitor and prevent multiple borrowing.

The insistently huge microcredit interest rates raised strong debate within the microfinance industry (Hudon, *et. al.,* 2020). According to Central Bank of Kenya (2020) MSME Fin Access Business Survey Report, the interest rates charges on MSME loans by Microfinance institutions ranged between 12.3 percent and 22 percent compared to 2017 where it ranged from 19.0 percent to 19.9 percent. The highest reported rate was charged on micro enterprises at 33 percent and the lowest stood at 15 percent for medium sized enterprises. Microfinance institutions had recorded 25.7 billion SMSE deposits out of 49 billion SMSE total customer deposits from all the financial institution in Kenya by 2020 (MSME Survey Data, 2020 and 2020 BSD Annual Report).This shows the significance of MFIs in financial empowerment of their clients.

Apparently, the microenterprises equally may face challenges such as small-scale economies, lack of proper planning, unsuitable business location, poor or lack of managerial skills, lack of technical expertise, business management knowledge and financing enormously low-value-added products and services ((Abagissa, 2021, Berns, *et al.,* 2021). When the MFIs fail to balance between the loan delinquency and loan default through balancing loan size and the collateral as indicated by Ngonjani and Mapesa (2018) then client's livelihoods sustainability cannot be guaranteed. However, in cases where clients' businesses perform poorly and there is

the failure on loan repayment as per the loan contractual terms, scholars argue that the MFIs lending capacity will equally be affected and the default customer will not get a chance of progress thus the collateral serves as a compensation for the repayment of the borrowed loan (Ahamed, 2021, Chowdhury *et al.,* 2021, Kamara, 2020).

2.3.7 Effects of Deposit Taking MFIs Prudential Regulations on Clients' Livelihoods Sustainability

Deposit taking MFIs clients' livelihoods sustainability is made possible by ensuring that the prudential regulations are adhered on to the latter. To assess just but a few Central Bank of Kenya prudential regulations (2013), the MFIs governance are required to maintain a positive image within the industry and the economy as a whole. Therefore they ought to take into account the legitimate interests of their depositors in decision making and strategy as well as deal with them, when offering microcredit services such as training, in a responsible, accountable, fair and transparency manner. Clients' inclusivity in decision making is essential in achieving their livelihoods sustainability.

There has been renewed interest in the governance of modern corporations both in developed and developing countries as noted by Hermes & Lensink (2011) for the enhancement of the organizations performance particularly concerning accountability (Mersland & Strøm, 2013, Benedetta *et al.*, 2015, Varottil, 2014). Studies done by Mersland *et al.*, (2011a) and Varottil, (2012) posit that one of the major reason for the collapse of high-profile several large corporations between 2007 and 2008, is lack of proper regulations. The institutions scandals of various forms have maintained a public and political interest in the regulation of their governance with the international regulators influencing the development and implementation of appropriate regulatory controls. The deposit taking microfinance institutions policies are debated and formulated within the 'transnational policy spaces' according to Stone (2017) and are based on financial inclusion as noted by Cordeiro (2020). Therefore, they ought to create meaningful values that shape strategic decision-making and builds a culture of sustainability by developing sustainable policies that would enhance the environmental, social and financial performance, reinforcing desirable behavior (Chartered Institute of Personnel and Development (2012). They also articulate the values and the beliefs that underpin their objectives of poverty alleviation through sustained livelihoods (Eccles *et al.*, 2012).

The deposit taking microfinance institutions need to be accountable for their social economic and environmental functions as indicated by Eccles *et al.* (2014) and Loannou & Hawn (2015) as they respond to both internal and external challenges that affect their mission of poverty alleviation through sustained livelihoods. Therefore, they endorse minimal conditions of institutional acceptability which must be complied in order to gain social status and avoid stigmatization especially when they auction their clients for failing to repay the borrowed loan (Wijen, 2014 Maequis & Qian, 2014). Just like any other institution will comply with laws and regulations in a substantive way, as they maintain their relevance by meeting the micro credit demands of their clients (Desai, 2016, Malesky &Taussig, 2017). In this case, the regulatory body comes in to manage and prevent the risks which they are involved in especially when dealing with their clients (Hadizatou, 2021). Input from the regulatory bodies is important especially in ensuring that the interest rates are maintained as low as possible, in this case, the regulatory body comes in as arbitrators between the clients and the institution management to solve the agency problems such as the inability of the clients in controlling the management decisions which affects their operations in a great way (Machingambi, 2020). The clients' interest needs to be protected since they do not have a direct engagement with the organization (Tchuigoua, 2015).

In the governance framework of the deposit taking MFIs, the regulation process cannot be undermined as indicated by Varottil (2012) and therefore qualified and dedicated regulators needs to be employed (Sinclair, 2012). Vetrive & Chandra (2010) posit that since most of the microfinance institutions engage in deposit-taking which means they mobilize household savings, they, therefore, become intermediaries between the clients and their savings. To protect the depositors and ensure financial soundness then prudent financial regulations becomes a necessity. In fact the major role of Central Bank of Kenya, which is the MFIs regulatory body as noted by Hearth (2018) and Bosire *et al*. (2014), is to conduct onsite evaluation of the financial condition and compliance with statutory and prudential requirements of the microfinance institutions licensed under the Microfinance Act (CBK Annual Report, 2022). When the set laws are broken, the regulatory body comes in to take collective measure and at the same time ensure that the financial institution does not go bankrupt (Buck & Schliephake, 2013, Vollmer & Wiese, 2013). Studies done by Hermes, Lensink & Meesters (2018) and Cull, Demirgüç-Kunt &

Morduch (2014) indicates that the effectiveness of MFIs is determined by well-developed and regulated formal financial systems. Therefore, the laws and the regulations formulated and implemented by both the regulatory body and the microfinance institutions as noted by Ahmed *et al.* (2018) should ensure that while the MFIs operate safely, the clients' livelihoods are maintained at a sustainable level.

The government of Kenya through Central Bank of Kenya is involved in the governance of the microfinance institutions through offering prudential regulations for the MFIs which give the MFIs an upper hand in terms of earning trust from its clients (Mersland, 2007). In order to reform the regulation and supervision of the microfinance industry microfinance Act 2006 was formulated with an aim of enhancing the performance, transparency, and outreach to the private sector as posited by Bosire *et al.* (2014) ,at the same time, defending depositors' interests, through licensing and supervision (Ochanda, 2012,Erambo, 2015). Therefore the Central Bank of Kenya acts a strong moderating factor, though it all depends on how the organizations responds to the internal and external environment as noted by Tarullo (2019) especially when recovering the defaulted loans by the clients. Regulations demand a meeting of certain standards which in turn increases the cost of operation which necessitates a requirement of a higher return on capital. As a result, the institution increases the interest rates on the clients as well as a higher disbursed loan minimum (Muwamba, 2012). This results into reduced income growth and client empowerment hence limiting the improvement in their standards of living. The regulations are both prudent and non-prudent where prudent regulations ensure the financial soundness of the MFIs hence protecting the clients from getting losses by providing a legal framework governing financial operations with an aim of reducing risks resulting from instability. Non prudential regulations are concerned with the institutions business operations and majorly serve to protect the consumer from exploitation. If these regulations are properly designed and executed they will result into the improvement of the clients' living standards by protecting them from exploitation hence reaping maximum benefits (Siwale and Okoye, 2017).

The prudential regulations according to CBK guidelines (2013) allows the institutions to develop and implement their own loan classification system that are based on internal risk rating methodologies but offers guidelines on five categories of loans that include the normal, the watch, the sub-standard , the doubtful and the loss. The normal and the watch loan are regarded as performing loans while the loans classified as sub-standard, doubtful and loss are considered

as non- performing loans (NPLs). In normal loan the borrow exhibits strong potential financial soundness therefore the repayment of loan is not threatened. In watch loans the borrower exhibit potential weaknesses such as deteriorating economic conditions or adverse trends in the borrower's financial position which may, if not checked, jeopardize repayment capacity meaning that the risk potential is greater than when the loan was originally granted. The sub-standard loans are usually protected by the current sound net worth and paying capacity of the borrower but the repayment is not usually sufficient to service the debt. The regulatory body permits the institution to have the loan repaid through other secondary sources such as collateral, sale of fixed assets, refinancing or additional capital injections for repayment. Doubtful loans have all the weaknesses inherent in a substandard loan plus the added characteristic that the loan is not well secured due to the fact that the debt exceeds the customers approved limit for more than 360 days and the account has been inactive for more than 360 days meaning that the account is not in a position to meet all the outstanding interest. The CBK prudential guidelines (2013), in this case allows the MFIs to pursue the loan repayment through legal action or any other means that will result in repayment of the debt or in its restoration to current status.

The Central Bank of Kenya prudential guidelines (2013) acknowledges that the independent, competent and qualified internal and external auditors, as well as other internal control functions (including the compliance functions), are vital to the corporate governance process in order to achieve a number of important objectives such as enhancing clients livelihoods to sustainable levels.

Basically having internal processes that advocates for active participatory management and the richness of interactive relationships with the clients as noted by Jesus, Villamar & Dionisio (2021) warrants the performance of the deposit taking MFIs in ensuring the clients' livelihoods sustainability. In this regard, information sharing is essential for any positive progress. Therefore, the study here in focused on the internal functions of the deposit taking MFIs in ensuring internal sustainability thus clients' livelihoods sustainability.

Sustainable livelihoods requires a quality financial monitory oversight as indicated by Hussain & Ahmed (2020) and therefore the MFIs governance has a role of ensuring that the internal and external audits and reporting is carried out appropriately in order to win public confidence and attract more clients (Klein, 2002; Peasnell, Pope & Young, 2005). As such those in management

can be able to evaluate their performance from the audit reports generated, as well as visionarize the direction of the institution in the achievement of the clients' livelihood sustainability objective.

The internal audit is a systematic, objective appraisal of the diverse operations and controls within the organization to determine; whether the financial and operating information is accurate and reliable, the risk to the enterprise are identified and minimized, the external regulations and acceptable internal policies are followed, the satisfactory operating criteria are met, the resources are used efficiently and economically and the organizational objectives are effectively achieved (Hong 2019). Therefore, the internal audit enhances the accountability in an organization by providing financial status information as noted by Mustari *et al. (*2020) as well as reviewing the effectiveness and efficiency of the institution activities. This is done by controlling the internal systems, through monitoring their procedures, in order to ensure compliance with the set prudent regulations which protect the interests and wellbeing of the clients in their strive for stable livelihoods (Bananuka *et. al.,* 2018).

The deposit taking MFIs internal audit, according to Ofei & Owusu (2021) has a systematic and controlled strategies which enables the evaluation of risks and mitigation thus help in accomplishing the institutions objective of ensuring, as far as possible and practical, the logical and efficient conduct of its business, thereby, enhancing performance (Alflahat, 2017, Farouk & Hassan, 2014). Furthermore, the objectives which constitute the main audit functions of the deposit taking MFIs are to understand the various risks faced by MFIs clients, to appreciate the role of a robust control environment in mitigating risks, to describe various components of the control environment and distinguish between them, to evaluate internal checks within their organizations, to understand the scope and role of internal audits, to assess the existing organizational policies, to evaluate the management information system of their organizations, to formulate internal audit plans, to conduct internal audits, to control fraud and to report the findings systematically (Hong 2019). Therefore, the deposit taking MFIs governance internal auditors plays a significant monitory and advisory role (Mersland & Strøm, 2009; Sinclair, 2012). This helps the governance to monitor its achievements in poverty alleviation through sustained clients' livelihoods (business and income growth, increased assets and improved living standards).

2.4 Conceptual Framework

Independent variables Moderating variable Dependent variable

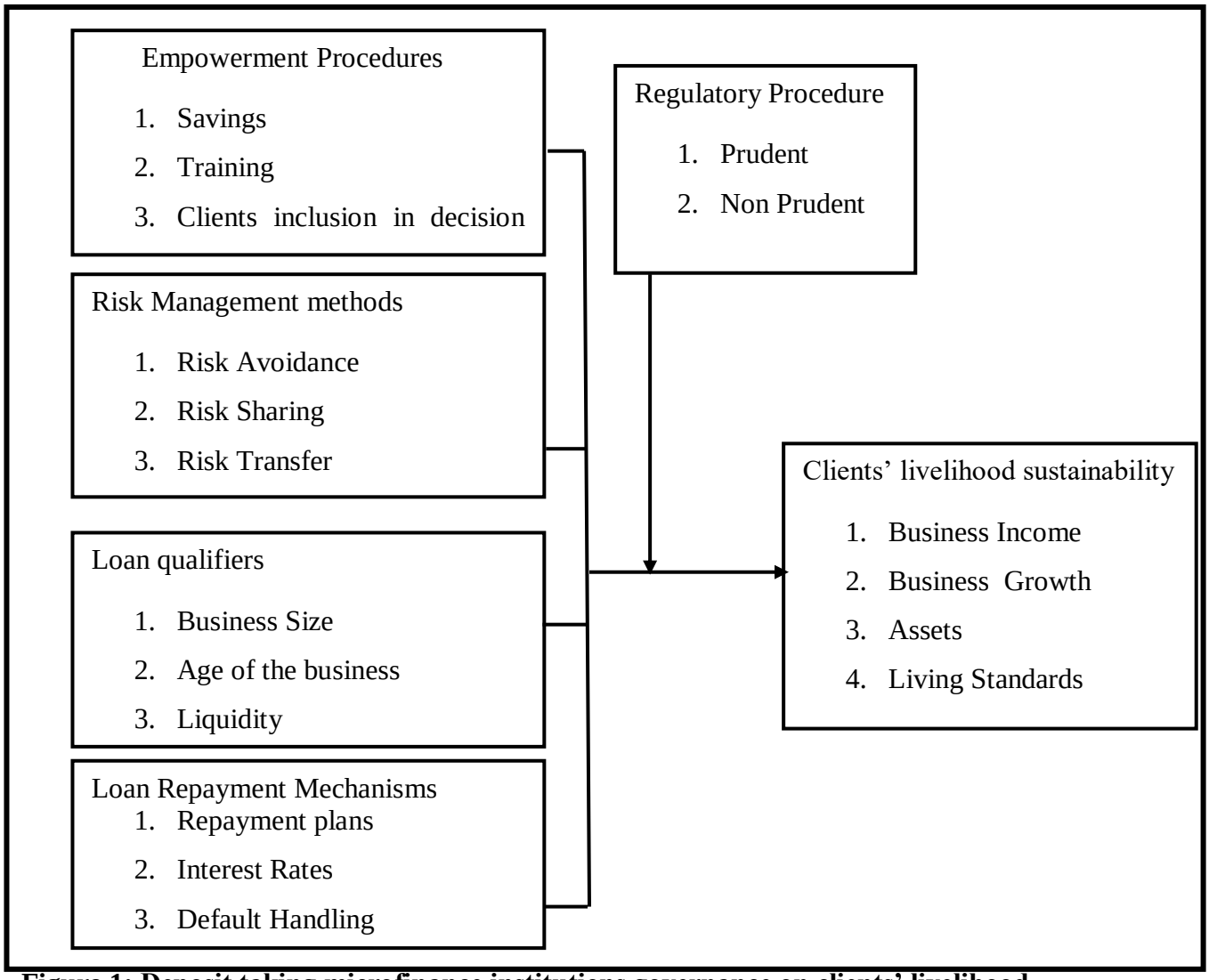


Figure 1: Deposit taking microfinance institutions governance on clients' livelihood sustainability

Source: Author (2020)

The MFIs clients' livelihoods sustainability was dependent on the internal managerial functions, the loan qualifiers, and loan repayment mechanism. The clients' livelihoods sustainability was measured by their business income, business growth and the living standards. The clients' empowerment procedure was measured by training and savings as the empowerment methods. The risk management methods constituting of the risk avoidance, risk sharing and risk transfer. The loan acquisition process entailed the client's business size, the age of the business and

liquidity. The loan repayment mechanism considered the loan repayment plans, the interest rates and the default handling.

2.5 The Study Gaps

According to the literature reviewed on MFIs institutional financial performance the main focus has been on efficiency, institutional sustainability and profitability (Erasmus & Xianzhi, 2013, Kipesha 2012, Nyamsogoro 2010 & Kiiza *et al.*, 2004) and not on the client's sustainability. The MFIs financial performance has always been measured using the variables of depth outreach and breadth outreach (Schreiner, 2002). The studies that have focused on depth outreach have found out that the MFIs end up reaching out to the relatively well-off clients rather than the poorest in an attempt to become sustainable (Navajas *et al*., 2000). Also the credit risk encountered by the deposit taking microfinance institutions leads them to changing their outreach strategies in order to keep their operations ongoing (Beisland, D'Espallier & Mersland, 2017).

This reveals a gap in the mission drift of the MFIs and therefore a lack of reduction on absolute poverty levels. The MFIs assume that when the institutions are sustainable then automatically the poor are equally sustained thus the clients have sustained livelihoods meaning that the poverty levels are reduced.

Empirical evidence has attributed the closure of many MFIs in India in 2010, Pakistan in 2010, Bosnia and Herzegovina in 2009, Nigeria in 2005 and Kolar in 2009 to dysfunctional mechanisms (Cull, Demirguc- Kunt, & Morduch, 2007; Ayuso & Argandona, 2007, CGAP, 2005).

The literature reviewed by Abdelaziz, Mehdi &Mayaki (2013), also portrayed the main gaps of the MFIs in Africa especially Kenya and Senegal at micro levels as volunteer-led which is not ideal governance quality, lack of staff training and skills, poor portfolio management, lack of internal control, poor management information systems, misappropriation of funds, scarcity of human resources, and financial sustainability.

The literature on Consultative Group to Assist the Poor (CGAP) and the Microfinance Information Exchange Market (MIX) (2012), compiled information on financial performance reported the main gaps are lack of data in Africa. This portrays a gap in the deposit taking microfinance institutions operational procedures that entails and not limited to clients'

empowerment procedures, the risk managements methods and more so the upkeep of the updated portfolio that informs on the clients savings, loan qualifiers and loan repayments mechanisms.

The study by Maitrot (2014) revealed a gap in deposit taking microfinance client's empowerment in that the deposit taking MFIs sometimes neglect the clients' recruitments and follow up procedures. Abagissa, (2021) posits that the deposit taking MFIs lack managerial skills, technical expertise and business management knowledge. This reveals a gap in training aspect of the deposit taking MFIs clients' empowerment procedure.

According to the literature reviewed by Steinwand (2000) and Goldberg &Palladini (2010), the main gap identified is that MFIs are faced with risks that threaten their social mission and long term sustainability. The financial risks incurred by the MFIs include credit risks which is the threat to earnings or capital due to borrowers' delay and nonpayment of loan obligations due to adverse conditions. Equally inefficient liquidity management led to the failure of the institutions since they depended on short-term money market which results in liquidity risks and shortages (Saleh & Afifa 2020).

This is worsened by the fact that most of the MFIs clients suffer from inadequate literacy and the MFIs offer, loans without any collateral, i.e. unsecured loans that pose a great credit risk to the institution as noted by Pagadala, (2017) and Manan & Shafiai (2015) yet they constitute the highest percentage of the clients (Barry, 2022).

The client's loan acquisition process has gaps that have been identified. The deposit taking loan officer is entrusted by the institution to offer loans to the clients, a process that involves information gathering. Ojwang & Shau, (2021) posits that the information offered by the microfinance clients may not be fully adequate to warrant the loan dispensation. Also a study on narrowing the gap, the United Nations Environment Program, Finance Initiative for the Bill & Melinda Gates Foundation (2008), found out that, MFIs in Africa lack operational and reporting standard. This leads to information asymmetry. There is also a gap in the screening mechanisms since Kamarka (2008) argues that in order to control and reduce bad debt, it is important for the deposit taking MFIs to provide screening mechanisms for acquiring relevant information about potential borrowers such as the borrower's loan repayment history. The information is important because according to Lamichane, (2020), the MFIs clients are usually without any fixed

collateral, business records credit history and cash flow statement due to their poor and illiterate status. The group lending model is identified by Parthasarthy, (2018) as having a challenge as it does not help in identifying the qualified borrowers and the amount of the money they can take adequately. More so this strategy mainly used as a risk mitigation measure by the microfinance institutions, utilizes both internal and external embarrassing and violence among the group members, who does not repay their loan portion, in order to safeguard the maintenance of high repayment rates (Engel and Pedersen 2019).

It has also been noted that the deposit taking MFIs face loan delinquency and loan default (Parvin *et al.*,2020),due to short tight repayment schedules, high interest rates and lack of the grace repayment period (Jote, 2018). This reveals a gap in the loan repayment plans of the deposit taking MFIs.

There is also a gap on loan acquisition in that according to Ezihe, Oboh and Hyande (2018),the smaller the loan, the more chances of default due to lack of greater yields/profit. Apparently, the microenterprises equally may face challenges such as small-scale economies, lack of proper planning, unsuitable business location as indicated by Abagissa (2021) and financing enormously low-value-added products and services (Berns *et al.*, 2021). Equally, Kamara (2020) posit that the collateral system of loan repayment serves as compensation and default on loan repayment, according to Wamalwa & Jagongo (2018) and Bashabe, Kalu, & Amu (2017) leads to use of legal enforcement and sometimes informal or forceful means as noted by Maitrot (2014) in order to recover payments through t group collaterals such as household assets or business assets from the group members (Zergaw, 2019). Due to lack of enough knowledge on their clients' challenges, they sometimes end up using informal and unfriendly means to recover payments from them (Maitrot, (2014). This reveals a gap on training on the loan repayment plans. The study by Kalu *et al.,* (2018) reveals lack of proper financial analysis and loan support. (Kalu *et al.,* 2018) and Kihanga, (2020), Arhin *et al.,* (2019) posits that the deposit taking MFIs lacks proper monitoring of their clients implementation of the loan borrowed. This poses a gap in loan qualifier.

Table 2.1: Research gaps

Author	Topic	Variable	Findings	Research knowledge gap
Maitrot, M. (2014).	The Social Performance of Microfinance Institutions in Rural Bangladesh:	Empowerment procedure	Neglect the clients' recruitments and follow up procedures.	Deposit taking MFIs Clients training and livelihoods sustainability
Beisland, D'Espallier & Mersland (2017).	The commercialization of the microfinance industry:	Empowerment procedure	Lack of enough knowledge about the clients wellbeing	Deposit taking MFIs Clients training and livelihoods sustainability
Abagissa (2021)	The assessment of micro and small enterprises performance and challenges in Addis Ababa, Ethiopia	Empowerment procedure	lack of managerial skills, lack of technical expertise, business management knowledge	Deposit taking MFIs programs to facilitate the MFIs clients
(Rooyen, Stewart &Wet (2012)	Impacts of MFIs on Rural livelihoods	Empowerment procedure	Cultural obstacles in women empowerment	Deposit taking MFIs Property/financial ownership by the women
Erasmus & Xianzhi, (2013), Kipesha, (2012), Nyamsogoro, (2010) & Kiiza *et al*., (2004).	MFIs institutional financial performance	MFIs Risk management method.	Lack of focus on client's livelihoods sustainability by MFIs	MFIs poor risk management methods
Olomi & Mori, (2012), Njenga, (2013)	Microfinance institutions' performance	MFIs Risk management method.	Lack of proper risk management strategies by the MFIs	MFIs poor risk management methods
Steinwand (2000), Goldberg & Palladini (2010).	Managing risk and creating value with microfinance.	MFIs Risk management method.	Existence of Internal and external risks.	Prudential regulations and deposit taking MFIs clients livelihoods sustainability.
Navajas *et al*.,	The Impact of	Risk	MFIs targets	Prudential

(2000).	Microfinance on Poverty Reduction: Empirical Evidence from Malaysian Perspective.	management method	well-off clients for their sustainability.	regulations and deposit taking MFIs clients livelihoods sustainability.
Ojwang & Shau (2021).	The challenges of financial communication on the growth of SMEs In Tanzania	Loan qualifier	Informal information given by the clients may not be fully adequate may not be adequate for a loan qualification	Loan qualifiers procedures knowledge by the deposit taking MFIs clients.
Kamarka (2008).	Microfinance in India	Loan qualifier	Lack of proper screening before issuing of the loan to the client	Loan qualifiers procedure knowledge by the clients.
Parthasarthy, 2018.	Decoding the various micro finance and money lending models in India.	Loan qualifier	Group lending model inadequacy in identifying the qualified borrower and the amount of burden they can take adequately	Loan lending models used by the deposit taking MFIs.
Saleh & Afifa (2020).	The effect of credit risk, liquidity risk and bank capital on bank profitability	Liquidity	Inefficient liquidity management due to short-term money market which results in liquidity risks and shortages.	Assessment of client's liquidity.
Kalu *et al*., (2018).	Credit risk management and financial performance of microfinance institutions in Kampala, Uganda	Loan qualifier	lack of proper financial analysis and loan support.	Loan qualification procedures by the deposit taking MFIs and clients livelihoods sustainability.

United Nations Environment Program (2008).	Narrowing the gap in MFIs.	Governance and Loan qualifier	Lack of operational standards in Africa.	Deposit taking MFIs governance and clients' livelihoods sustainability.
Ezihe, Oboh, and Hyande (2018).	Loan repayment among small-holder maize farmers in Kanke local government area of Plateau state, Nigeria	Loan Repayment Mechanism	Smaller the loan Leads to default	Default handling by the deposit taking MFIs management.
Abagissa, 2021	The assessment of micro and small enterprises performance and challenges in Addis Ababa, Ethiopia	Loan Repayment plan	Lack of proper planning, unsuitable business location.	Loan repayment plans by the deposit taking MFIs.
Berns *et al.*, (2021).	Delegated monitoring in crowd funded microfinance: evidence from Kiva	Loan Repayment plan	Financing enormously low-value-added products and services	Loan repayment plans by the deposit taking MFIs.
Parvin *et al*., (2020)	Factors determining the loan repayment performance of a government microcredit program for the handloom weavers in Bangladesh,	Loan Repayment plan	-loan delinquency and loan default	Causes of loan delinquencies and loan defaults
Jote (2018).	Determinants of loan repayment: the case of microfinance institutions in gedeo Zone, SNNPRS, Ethiopia	Loan Repayment	-High interest rates and lack of the grace repayment period	Interest rates and clients livelihoods sustainability
Zergaw (2019).	Factors affecting credit risk management practices, the case of selected private commercial banks in Kenya.	Loan Repayment	law enforcements for the group collaterals collection for defaulters	Prudential regulations and clients livelihoods sustainability

Kihanga (2020), Arhin *et al*., (2019).	Group lending versus individual lending on SMEs loan repayment performance in Tanzania:	Loan Repayment	Lack of Clients monitoring on the use of the loan borrowed.	Clients project assessment and their livelihoods sustainability
Maitrot (2014)	The Social Performance of Microfinance Institutions in Rural Bangladesh	Loan Repayment	The MFIs use informal and occasionally forceful means to recover payments from the clients	Use of collateral as deposit taking MFIs clients loan security and clients livelihoods sustainability
Abdelaziz, Mehdi, & Mayaki (2013).	Microfinance in Africa; Overview and Suggestions for Action by Stakeholders.	Loan repayment mechanism.	Poor portfolio management, lack of internal control .	Benefits of Prudential regulations on clients livelihoods sustainability

2.6 Chapter Summary

The Chapter takes into account both the theoretical and the empirical reviews. The theories discussed are the agency theory, the resource dependence theory, and the stakeholder's theories. The research assessed the literatures on the effect of governance on clients' livelihoods sustainability. The clients' empowerment strategies variables such as training, savings and the client's representation in decision making were considered for the study. Microfinance institutions are exposed to various risks such as financial risks (liquidity and credit risks) and governance risks such as the strategic risks, business risks, market risks and operational risks which require a strategic risk management process to counter them. As such the MFIs considers the use of securities such as collaterals, guarantors and clients shares to secure the unpaid loans. The loan acquisition and the repayment require proper processes in order to prevent the default by borrowers (deposit taking MFIs clients).The prudent regulations plays a significant role in ensuring the wellbeing of the clients is taken care of. The chapter has also summarized the research gaps.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

The chapter presents the research philosophy, the research design for the study, the study site /context or the area of study, the target population, the sample size determination, sampling techniques data collection tools, piloting/pre-testing, and the fieldwork, the validity and reliability of the information collected, the data analysis method and the ethical considerations.

3.2 Research Philosophy

The ontology of the study according to Blaikie (2010) is the study of being that deals with the nature of reality. Blaikie (2010) further argues that ontology is a system of belief that reflects an interpretation by an individual about what constitutes a fact. In this study both the primary and secondary data was considered as important part of the study in order to arrive at the fact as it is in conjunction with the relationship between the deposit taking MFIs governance and the clients' livelihoods sustainability. The study considered subjectivism ontological position which asserts that social phenomena and their meanings are continually being accomplished by social actors. This means that social phenomena emanate from the perceptions and resulting actions of those social actors concerned with their existence. From the study, this meant that the deposit taking MFIs governance (client's empowerment procedures, risks management methods, loan qualifiers and loan repayment mechanisms) are applicable and practical as long as the clients are conscious of their existence and are able to accomplish their objective.

On the other hand, objectivism ontological position, that posit that social entities exist in reality as long as the external social actors are concerned with their existence (Saunders, Lewis, & Thornhill, 2012).This philosophical approach applied in the study since the deposit taking MFIs governance exists for their clients livelihoods sustainability and therefore are concerned of their existence because of the mission they have for them. More so, the objectivism ontological position has it that social phenomena and their meanings have an existence that is independent of social actors (Bryman, 2012) meaning that the perception and the actions of the deposit taking MFIs clients' are independent of the MFIs corporate practices. For example, when the deposit taking MFIs clients acquire loans, the MFIs do keep on following up on how they invest. In fact, what they look forward for is the repayment of the amount borrowed by their clients and not

necessarily their livelihoods sustainability. The study applied this objectivism ontological position by getting the MFIs clients data on their livelihood sustainability, as well as information on the governance issues from the microfinance institutions managers.

The study adopted the pragmatism research philosophy with an understanding that there are many different ways of interpreting the world and undertaking research, that no single point of view can ever give the entire picture and that there may be multiple realities (Saunders, Lewis & Thornhill, 2012). Therefore in order to understand the relationship that exist between the deposit taking MFIs and their clients livelihoods sustainability, information was sourced from both the clients and those in management using different tools. The pragmatic question was whether there was a relationship that existed between the MFIs' governance with the clients' livelihood sustainability.

In finding knowledge on what is known to be true, the researcher objectively relied on objective information drawn from both the primary data from the MFIs clients and the managers and the secondary data from the previously undertaken research. The study adopted the objective epistemology since the main assumption here is that the reality on the correlation between deposit taking MFIs governance and the clients' livelihoods sustainability exists independently of the individual mind (Moon & Blackman, 2014).This means that the MFIs main goal is to enhance sustainable livelihoods among their clients and so the work towards achievement of the same while the MFIs clients borrow the loans in order to enhance their businesses that would translate to increased income and livelihoods sustainability. Therefore at the back of the MFIs clients they work towards achieving their livelihoods sustainability. The methods applied by both the microfinance institutions and the clients in achievement of their goal is not a combined endeavor but and individual endeavor. Being conscious of this philosophical element of the study, the researcher collected data from the primary source to determine the relationship that exists between the deposit taking MFIs' governance and their clients and compared it with the empirical reviews to ascertain the reality. The aspects of validity, the scope of the study and the methods of acquiring the information were also put into consideration.

3.3. Research Design

The study adopted mixed method research approach which involved collection of quantitative data first then the qualitative data was collected in order to understand the opinions of both the clients and the deposit taking MFIs on clients' livelihoods sustainability. The descriptive research design was adopted for the quantitative approach. This involved measuring the study's variables as they were and existed naturally with a focus of describing the individual variables in order to understand the relationship between deposit taking microfinance governance and the clients' livelihood sustainability thus gain an idea of the variables of interest in the way that they exist naturally (Gravetter & Forzano 2018). This helps the researcher to capture the naturally occurring events. In this study, the descriptive research design helped to gain insights on MFIs governance and the clients' livelihood sustainability.

The interview was used for the qualitative approach of the study.

3.4. Study Context

The study was carried out in Kenya within Nakuru County which is the 32nd county of the 47 counties in Kenya. Nakuru County is located along the Nairobi - Kisumu highway, about 165 km northwest of Nairobi, the capital city of Kenya. Nakuru County borders seven other counties and covers an area of 7,462 km^{2}. The population census carried on 24th August 2019 found out that Nakuru County had a population of 2,162,202. The population constitutes of 1,084,835 (50.1%) female, 1,077,272 (49.8%) males and has a total of 616,046 households (KNBS 2019) out of which the total deposit taking MFIs depositors are 1,954,111 (CBK, Annual Report 2022).

Nakuru County is a cosmopolitan county that constitutes the population that emerges from all the major ethnic groups of Kenya. The County Integrated Development Plan (NCIDP), 2013-2017 indicates that the main economic activity in Nakuru County is agriculture that entails large scale farming, daily farming, and horticulture.

3.5. Target Population

The research targeted the deposit taking microfinance branch managers and their clients from the 10 licensed deposit taking microfinance institutions (Central Bank of Kenya, directory of licensed microfinance bank ,2017)), found in Nakuru East, Nakuru West and Naivasha Sub

Counties in Nakuru County. The total number of MFIs depositors (clients) was 1,954,111 (CBK, Annual Report 2022).

Table 3.1: Banking sector access to financial services - Number of deposit accounts - December 2022

	Peer	**Dec 2021**		**Dec 2022**				
Microfinance Banks	Group	< 100,000	>100,000	Total	<100,000	>100,000	Total	% change
Kenya Women Microfinance Bank Limited	Large	1,034,157	9,868	1,044,025	1,018,358	9,868	1,028,226	-1.5
Faulu Microfinance Bank Limited	Large	359,041	8,503	367,544	278,831	7,172	286,003	-22.2
Rafiki Microfinance Bank Limited	Large	97,569	1,849	99,418	63,937	1,726	65,663	-34.0
SMEP Microfinance Bank Limited	Medium	554,307	2,026	556,333	549,070	1,946	551,016	-1.0
Sumac Microfinance Bank Limited	Medium	12,379	575	12,954	14,100	574	14,674	13.3
Choice Microfinance Bank Limited	Small	8,350	113	8,463	8,475	54	8,529	0.8
Total				2,088,737			1,954,111	

Source: CBK supervision annual report

3.6. Sample Size Determination

The research employed a multi-stage sampling technique to determine the sample size.

First Nakuru County was purposively selected because of its diversity and cosmopolitan status. Second, the Nakuru east, Nakuru West and Naivasha Sub Counties within Nakuru County were randomly selected. Third, purposive sampling was used to sample the 10 MFIs branch managers from the 10 selected MFIs in Nakuru East, Nakuru West and Naivasha Sub Counties in Nakuru County since each MFI branch is managed by one branch manager. This was aimed at getting qualitative data from the people who are involved in the day to day running of the MFIs. This led to ten (10), respondents from management level of the 10 microfinance institutions. Fourth, the 10 clients each from the ten selected MFIs were randomly sampled to offer qualitative data. This was meant to get more qualitative information from the clients regarding their livelihoods sustainability. Fifth, the researcher preferred to use Cochran's Formula (Cochran, 1977) as shown below to identify the clients for the quantitative part of the study;

$$n_0 = \frac{Z^2 pq}{e^2}$$

ηo is the sample size.
Z^2 is the standard normal deviation at the required confidence level.
P is the proportion in the target population estimated to have the characteristics being measured.
Q is 1-p.
e^2 is the error term.
$n = \frac{(1.96)^2 (0.59) (0.41)}{0.04^2} = 580.8$
The sample size was then divided among the 10 MFIs i.e. $\frac{580.8}{10} = 58.08$

Every MFI institution had 58 of its clients sampled for quantitative part of the study. The researcher systematically sampled the 58 clients, who attended each microfinance institution for the service, at interval as per the microfinance client's population. In order to avoid duplication of the client i.e. one client being sampled twice due to the fact that he/she has membership for two or more microfinance institutions, the clients were asked to name their main microfinance institution which they got loans from.

3.7. Sampling Techniques

3.7.1. Sampling for the Quantitative Component of the Study

The study used a multi stage sampling technique. First, Nakuru County was selected purposefully because it has the majority, that is, 10 out of the 14 licensed Microfinance Banks according to central bank. Second, the three sub counties that is, Nakuru East, Nakuru West and Naivasha Sub counties in Nakuru County were randomly selected from the 11 sub counties in Nakuru. Third, all the ten licensed microfinance institutions in the sub counties were considered for the study. Finally, 580 clients were sampled through the use of Cochran's Formula (Cochran, 1977) whereby the n^{th} case in the population framework was selected (Mugenda & Mugenda 2003). Since in systemic sampling the first unit is selected randomly and the remaining units of the sample are selected at a fixed intervals (Kothari, 2014), the first client, in the study, was selected from each of ten MFI clients, then every 4^{th} client, who got to the MFIs for a service was selected.

3.7.2 Sampling for the Qualitative Component of The Study

For qualitative information purposive sampling was used for the selection of the branch managers within the ten selected microfinance institutions within, Nakuru West and Naivasha Sub Counties in Nakuru County, since they are directly involved in the management of the MFIs. Also ten clients were randomly sampled from each of the ten MFIs within the sampled sub counties (Nakuru East, Nakuru West and Naivasha) in Nakuru County for qualitative information.

3.8. Data Collection Tools

In order to collect the primary data, both the quantitative data collection and the qualitative data collection tools were prepared. The quantitative data collection tool was prepared first as the main questionnaire for the study, followed by the qualitative data collection tool that was meant to add on to the information acquired from the quantitative data.

3.8.1. The Quantitative Data Collection Tool

The quantitative primary data collection tool was the main instrument for the study and so, the questionnaire constituting of structured questions was used to collect information from the sampled MFIs' clients (Appendix I). The selection of the nature of the questions was informed by an assumption that the clients would not wish to have something that would consume most of their time since there was no prior appointment with them. The primary data collection was important for the study in order to inform the relationship that exists between the deposit taking MFIs and their clients' livelihoods sustainability.

3.8.2. Qualitative Data Collection Tool

In order to get the qualitative information from the both the 10 branch managers (Appendix III) and the 10 clients (Appendix II) from the selected MFIs in Nakuru East, Nakuru West and Naivasha Sub Counties within Nakuru County, it was deemed right to use two different interview/discussion guide, one for the branch managers and the other one for the clients with different semi structured questions which were used to inform the discussion through face to face interview. The qualitative data was required in order to offer a deeper understanding of the information gotten from the quantitative analysis.

3.9. Piloting of the Research Tools

In this study, a pilot study was conducted among 50 clients of Kenya Women Finance Trust deposit taking microfinance institution in Kericho County due to its proximity and similarity of

deposit taking MFIs to those in Nakuru East, Nakuru West and Naivasha Sub Counties in Nakuru County. Also, the choice of different respondents from those in Nakuru East, Nakuru West and Naivasha Sub Counties in Nakuru County ensured that the respondents in the actual study did not have prior knowledge or exposure to the questions in the research instruments. As such, the responses provided in the pilot study were not premeditated. The aim of the pilot study was to test the validity and reliability of the research instruments in order to obtain the required results (Moura, Pedro & Cordeiro, 2020).

3.9.1 Validity of the Research Instrument

In this study, content, face and construct validities were used to ascertain the research instruments' validity. According to Bujang, Khee and Lee (2022), validity refers to the degree to which study' results actually represent the phenomenon under study. This helps to address challenges or ambiguities that are present in the questions which may become a barrier to attaining the study objectives. To assess the content validity, the content of the research instruments was assessed to check the representation of the construct concepts. This covered all relevant parts of the deposit taking MFIs clients' empowerment procedures, the risk management methods, the loan qualifiers and the loan repayment mechanisms and clients' livelihoods sustainability. On the other hand, face validity was ascertained through the use of the researcher's supervisors who assessed the research instruments and using their expertise, identified whether the items in the instruments were suitable to achieve the objectives of the study. As such, there were amendments to the questionnaire. For instance, the questionnaire items were separated to ensure that the deposit taking MFIs managers had their own questionnaire while the clients, had their own questionnaire. Additionally, some questions were added, dropped, reviewed or edited. For instance, on the deposit taking MFIs clients' questionnaire, it was deemed important to add the question on which deposit taking MFIs the clients belonged to in order to avoid duplication of the client i.e one client being sampled twice due to the fact that he/she has membership for two or more microfinance institutions, as well as enable the researcher make inferences on the functions of the deposit taking MFIs..

Finally, construct validity was also tested to ensure that the research instruments measured the effect of microfinance governance practices on clients' sustainability in Nakuru County, Kenya. This was attained using the factor loading approach where, 0.4 was the minimum acceptable

factor loading for the measurement of the constructs. The items on the research instruments that did not meet the threshold were either removed or reviewed for completeness

3.9.2 Reliability of Research Instruments

This study used the Cronbach's Alpha Coefficient to determine the reliability of the study's research instruments. Moura *et al.* (2020) explain that reliability assesses the extent to which a research instrument measures the consistency of the items to be measured. There should be similar results attained when the items are measured. In this study, the researcher sought to measure the internal consistency of the items on the research instruments to ascertain that the items ranged within a scale in the research instruments to measure similar constructs. The reliability index held a minimum threshold of 0.7 of the Cronbach's Alpha coefficient.

The participating respondents in the pilot test were given the research instruments to provide their answers and they were picked after a day. The data was cleaned, coded and through the SPSS computer software, the data was analyzed. Research principles such as consent, confidentiality and anonymity were adhered to.

3.10. Data Collection Procedure

The researcher got an introductory letter from the university offering intentions of the visit to the clients and the branch managers.

The researcher used research assistants to help collect data from the ten MFIs sampled clients (58 clients from each of the selected ten MFIs). The researcher assistants were trained first before embarking on the process of data collection on data collection ethics. However, the researcher first sought permission from the branch managers who gave out permission to carry out the research. Therefore, the researcher gave out the questionnaire to each client after informing them of the intentions of the research and allowed the respondents a few minutes to respond to the questions. Due to COVID -19 challenges, the researcher ensured that all the ministry of health protocols was well observed. The researcher also interviewed privately one of the clients from each of the MFIs as well as the branch managers from the ten deposit taking MFIs in Nakuru County in order to get the qualitative data for the study.

3.11. Data Analysis Methods

This study used descriptive statistics for demographic and descriptive analysis whereby frequencies and distribution tables were used. Inferential statistics were also used in order to get the bivariate findings of the study. Therefore, cross-tabulation and chi-square test of

independence was used to check if the results of cross tabulation were statistically significant. Simple regression was used to test the relationships between the variables. The collected data was coded and checked for any errors and omissions, classified and tabulated by use of the procedures, within the Statistical Package for Social Sciences (SPSS) and STATA. The significance of the correlation coefficient and for all the questions of the study was determined by the achievement of the significance level of <0.05 (Mugenda & Mugenda, 2003).

For the qualitative data, the study used narrative qualitative analysis method for the ten MFIs clients' respondents whereby the researcher listened to the respondent response to the posed questions, as per their own personal experiences and recorded down what they said. For the branch managers, the researcher used content qualitative analysis method whereby the frequency of the ideas was noted and recorded.

Objective 1

To determine the effect of empowerment procedures on clients' livelihood sustainability in deposit taking MFIs in Nakuru County, Kenya. Cross tabulation analysis was done to where the relationship between clients' livelihoods sustainability and different variables was tested. Variables included are summarized in the table below.

Table 3: 2 Variables used in Cross Tabulation Analysis

Variable	Description	Measurement	Expected Sign
Living Standards	A change observed in the clients living standards	Binary	+
Gender	The gender of the respondent	Binary	+
Age	Age of the respondent	Categorical	+
Education	Level of education of the respondent	Categorical	+
Membership	Duration the respondent has been a member of the MFI	Categorical	+
Savings	Changes in savings of the respondents over time	Categorical	+
Client rep	Client representation on the board	Binary	+
Training	Trainings received by the client	Binary	+
Decision	Impact of trainings on decision making	Categorical	+

Objective 2

To assess the effect of clients' risk management methods on clients' livelihood sustainability in deposit taking MFIs in Nakuru County, Kenya. Cross tabulation analysis was done to where the relationship between clients' livelihoods sustainability and different variables was tested. Variables included are summarized in the table below

Table 3: 3 Variables used in Cross Tabulation Analysis

Variable	Description	Measurement	Expected Sign
Living Standards	A change observed in the clients living standards	Binary	+
Loan Borrowing	If the respondent has ever borrowed a loan	Binary	+
Mode of Borrowing	If the member borrowed as an individual or as a group	Binary	+/-
Collateral	Type of collateral used	Categorical	+/-
Guarantors	If guarantors were used to secure the loan	Binary	+/-
Amount	Changes in amount borrowed over time	Categorical	+/-
Savings	Changes in savings over time	Binary	+

Objective 3

To evaluate the effect of loan qualifiers and clients' livelihood sustainability of deposit taking MFIs clients in Nakuru County, Kenya, a multiple regression model was estimated. The model was specified as follows;

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \ldots\ldots\ldots\ldots \beta_n Xn + e$
Y= MFIs Clients Living standards
α = the constant term
$B_1 - \beta_n$ = Regressions coefficients
X_1 ……. Xn are the independent variables
e = the error term
The variables included in the model and their expected impact is summarized in the table below.

Table 3: 4 Variables included in the Multiple Regression model

Variable	Description	Measurement	Expected Sign
Living standards	A change observed in the clients living standards	Binary	+
Education	Level of education of the respondent	Categorical	+
Membership	Duration the respondent has been a	Categorical	+

	member of the MFI		
Project size	The size of the income generating project initiated by the client	Binary	+
Project age	The age of the income generating project initiated by the client	Categorical	+
Project progress	How the client assesses the progress of their income generating projects	Binary	+/-
Savings	Changes in savings of the respondents over time	Binary	+
Project assessment	If the MFI assess the progress of client projects	Binary	+
Asset liquidation	How easy client assets can be transformed into cash	Binary	+

While entering into the model, the categorical variables were converted into binary form where the level of education was collapsed to basic and advanced, membership was categorized into short term members and long term members, depending on the number of years with below 5 being short term and project age being categorized into young and mature businesses.

Objective 4

To evaluate the effect of loan repayment mechanisms and clients' livelihood sustainability of deposit taking MFIs clients in Nakuru County, Kenya, a multiple regression model was estimated. The model was specified as follows;

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \ldots\ldots\ldots\ldots \beta_n Xn + e$

Y= MFIs Clients Living standards

α = the constant term

$B_1 - \beta_n$ = Regressions coefficients

X_1 ……. Xn are the independent variables

e = the error term

The variables included in the model and their expected impact are summarized in the table below

Table 3: 5 Variables included in the Multiple Regression model

Variable	Description	Measurement	Expected Sign
Livelihood Sustainability	A change observed in the clients living standards	Binary	+
Gender	The gender of the respondent	Binary	+/-
Education	Level of education of	Categorical	+

	the respondent		
Membership	Duration the respondent has been a member of the MFI	Categorical	+
Savings	Changes in savings of the respondents over time	Binary	+
Repayment	Timely loan repayment	Binary	+
Action	Action taken by the institution in case of default	Categorical	+/-
Repay Asses	How clients' asses their loan repayment	Binary	+/-
Assets	Ownership of assets by clients	Binary	+
Business income	Increase in business income	Binary	+

While entering into the model the categorical variables were converted into binary form where level of education was collapsed to basic and advanced, membership was categorized into short term members and long term members depending on the number of years with below 5 being short term and action being categorized into guarantors and confiscation of household goods.

Objective 5

To establish the effect of interaction between deposit taking MFIs moderating factors and governance practices and clients' livelihoods in Nakuru County, Kenya, a variable called governance was generated from the four independent variables i.e. Empowerment procedure, risk management methods, loan qualifiers and loan repayment mechanisms. An analysis of variance was then done to assess the effect of the moderating variables on the generated variable. Finally a regression analysis was carried out to ascertain the effect of the moderating variable on deposit taking MFIs governance functions.

The analysis involved the governance variables (Empowerment procedures, Risk management, Loan qualifiers and Loan repayment procedures) (X) and governance variables interacting with regulatory procedures Z (X*Z).

3.12. Ethical Consideration

Since professional ethics is of essence, efforts were made to obtain consent from the relevant authorities such as St. Paul's University for identification purposes, the National Commission for Science, Technology and Innovation (NACOSTI) and the MFIs managing directors to help collect information from the MFIs governance staff, as well as the MFIs clients. Confidentiality and anonymity were assured to all the respondents as the researcher indicated that the study and the findings therein were used only for academic purposes. Also, the respondents were informed not to indicate their names or any other form of identifier on the questionnaires.

3.13. Chapter Summary

The study was to determine the relationship which exists between the independent variables; MFIs empowerment procedures, MFIs risk management methods, the MFIs loan qualifiers and MFIs loan repayment mechanisms, with the dependent variable, the clients' livelihood sustainability. The researcher adopted the pragmatism research philosophy whereby the variables causal relationship information was drawn from both the MFIs clients and the management. For objectivity purposes, the researcher compared the information collected from the secondary source with the primary source information.

The study was out carried within Nakuru County, in Kenya, targeting the three Sub Counties out of the eleven Sub Counties in Nakuru County. The target population of the study in the three Sub Counties was 150,000 out of 1.5 million MFIs stakeholders in Nakuru County, constituting of the clients and those in top management level from the ten microfinance institutions. The study adopted a multistage sampling technique in which a systemic sampling technique was employed for the clients and purposive random sampling was used for the managers from each of the ten MFIs. The formula was used to determine the sample size since the population is infinite.

To determine the relationships between the dependent and independent variables, a descriptive research design was adopted. To collect the primary data, a questionnaire was used. The validity of the instrument was assessed by conducting a pilot study from the non-sampled MFI and the reliability of the research instrument was exposed to Cronbach's Alpha method to compute the correlation of the items with each other and a Cronbach coefficient of 0.75 was adopted. Pearson correlation coefficient was used to test the strength and direction of the relationships between the independent and dependent variables and therefore multiple regression analysis was used to ascertain the effect of the independent variables on the dependent variable. The analytical model

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \ldots\ldots\ldots\ldots \beta_n Xn + e$ was used for objective one, three and four. Cross tabulation analysis was done for objective two. The researcher sought consent from the relevant authorities such as St. Paul's University for identification purposes, the ministry of science and technology and the MFIs managing directors before embarking on the data collection.

CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of data regarding microfinance governance which are deposit taking MFIs; empowerment procedures, risk management methods, loan qualifiers and loan repayment mechanisms and clients' livelihoods sustainability in Nakuru County, Kenya. The chapter presents the study's reliability and validity of the instrument, the response rate, the respondent's characteristics, the descriptive analysis, the diagnostic tests, and the regression analysis.

4.1.1. Validity of Research Instruments Test Results

In this study, content, face and construct validities were used to ascertain the research instruments' validity. According to Bujang, Khee and Lee (2022), validity refers to the degree to which a study' results actually represent the phenomenon under study. This helps to address challenges or ambiguities that are present in the questions which may become a barrier to attaining the study objectives. To assess the content validity, the content of the research instruments was assessed to check the representation of the construct concepts. This covered all relevant parts of empowerment procedure, risk management methods, the loan qualifiers, the loan repayment mechanisms and the clients' livelihood sustainability. On the other hand, face validity was ascertained through the use of the researcher's supervisors, who assessed the research instruments and using their expertise, identified whether the items in the instruments were suitable to achieve the objectives of the study. As such, there were amendments to the questionnaire whereby some questions were added, dropped, reviewed or edited. For instance, on the MFI clients' questionnaire, it was deemed important to add the question on which MFI the clients belonged to in order to ascertain that clients from different deposit taking MFIs were used for the study

Finally, construct validity was also tested to ensure that the research instruments measured the effect of deposit taking microfinance institutions governance on clients' livelihoods sustainability in Nakuru County, Kenya. This was attained using the factor loading approach where, 0.4 was the minimum acceptable factor loading for the measurement of the constructs. The items on the research instruments that did not meet the threshold were either removed or reviewed for completeness.

The findings on the validity of the research instrument are s recorded in Table 4.1 below.

Table 4.1: Validity Test Results

Variables	Initial	Factor Loading	Comment
Empowerment Procedure	1.000	.781	Accepted
Risk Management methods	1.000	.748	Accepted
Loan Qualifiers	1.000	.845	Accepted
Loan Repayment Mechanisms	1.000	. 481	Accepted
Clients Livelihoods Sustainability	1.000	.542	Accepted

Source: Pilot data (2020)

Table 4.1 indicates that the deposit taking MFIs' ; empowerment procedure had a factor loading value of 0.451, risk management methods had a factor loading value of 0.758, loan qualifiers had a factor loading value of 0.843, loan repayment mechanism had a factor loading value of 0.792, and clients' livelihood sustainability had a factor loading value of 0.521. All the variables showed factor loadings of above 0.4 thus, the instruments were deemed valid to be used in the study.

4.1.2. Reliability of Research Instruments Test Results

This study used the Cronbach's Alpha Coefficient to determine the reliability of the study's research instruments. Moura *et al.* (2020) explains that reliability assesses the extent to which a research instrument measures the consistency of the items to be measured. There should be similar results attained when the items are measured. In this study, the researcher sought to measure the internal consistency of the items on the research instruments, to ascertain that the items ranged within a scale in the research instruments to measure similar constructs. The reliability index held a minimum threshold of 0.7 of the Cronbach's Alpha coefficient.

The participating respondents in the pilot test were given the research instruments to provide their answers and they were picked after a day. The data was cleaned, coded and through the SPSS computer software, the data was analyzed. Research principles such as consent, confidentiality and anonymity were adhered to**.**

The results of the reliability of the research instrument are as indicated in Table 4.2 below.

Table 4.2: Reliability Test Results

Variables	Cronbach's Alpha Coefficient Value	Comment
Clients' empowerment procedure	0.793	Accepted
Risk management methods	0.732	Accepted
Loan qualifiers	0.824	Accepted
Loan repayment mechanisms	0.781	Accepted
Clients livelihoods sustainability	0.913	Accepted

Source: Pilot data (2020)

Table 4.2 shows that deposit taking MFIs'; Clients empowerment procedure had a coefficient value of 0.784, risk management methods had a coefficient value of 0.732, Loan qualifiers had a coefficient value of 0.825, loan repayment mechanism had a coefficient value of 0.778 and clients' livelihoods sustainability had a coefficient value of 0.904. All the variables showed a Cronbach's Alpha coefficient value of above 0.7. Thus, holding to the minimum threshold of 0.7 (Mugenda & Mugenda, 2003) held by this study, the instruments were deemed reliable to be used in the study.

4.1.3 Response Rate

The sample population consisted of 10 MFIs branch managers who were interviewed and 580 MFI clients who were given questionnaires to fill out. Out of 580 respondents, 10 clients (one from each of the selected MFIs), were interviewed after responding to the questionnaire. All the MFIs branch managers and the 10 clients were interviewed giving a response rate of 100% each. On the other hand, of the 580 MFI client questionnaires that were handed out, 535 were returned and from these, 35 were rejected, 45 were returned having not been filled. These findings are indicated in Table 4.3.

Table 4.3: Percentage distribution of the clients' response rate

Item	Response	Percentage (%)	Number
Client questionnaires	Returned and properly filled	86.2	500
	Rejected	6.0	35

	Returned Empty	7.8	45
Total		**100.0**	**580**

Source: Research Data (2020).

According to Kraska, Brent & Neuman (2020), a response rate of 70% and above is considered to be very good. Since the response rate of this study was above the threshold of 70%, it was deemed to be very good in ensuring the adequacy of data for analysis and reporting.

4.2 Demographic Analysis

4.2.1 Characteristics of Respondents

The researcher sought to find out the background characteristics and the findings were recorded in Table 4.4.

Table 4.4: Percentage distribution of MFI clients according to background characteristics

Item	Response	Percentage (%)	Number
Gender	Male	30.0	150
	Female	70.0	350
Age	18-20	0.4	2
	21-30	15.0	75
	31-40	31.8	159
	41-50	31.6	158
	51-60	16.4	82
	61-70	4.6	23
	>70	0.2	1
Education	Informal	49	245
	Primary	43.2	216
	Secondary	7.2	36
	Tertiary	0.6	3
Years as an MFI member	1-5 Years	49.0	245
	6-10 Years	43.2	216
	11-20 Years	7.2	36
	>20 Years	0.6	3
Total		**100.0**	**500**

Source: Research Data (2020).

Results show that among the MFI clients, 30% were male while 70% were female. This implies that there are more female clients in the MFIs. These findings correspond to those by Women's World Banking Report as presented by Barry (2022) who found out that in Kenya, there are more female engaged in financial institutions due to increased empowerment programs focusing on women. Similarly, a study done by women empowerment global perspectives (2006), posits

that the microfinance institutions targets women within the poor households since they are generally credit –worth, responsible for using their finances for livelihoods activities (Aseanty &Hassan, 2013) thus can be used as perfect channel for reaching out to other women through poverty eradication programs (Kulkarni, 2011). Correspondingly, studies by Périlleux and Szafarz (2015), D'Espallier *et al.* (2017) and Hermes *et al*. (2011) indicates that, the female borrowers are the main priority of the microfinance institutions, and therefore various programs offered by the microfinance institutions mainly target the female clients. This study also, shows that the MFIs are an inclusive endeavor of all the poor people despite their gender. This revelation informs on the importance of recognizing that there are men who are poor and are therefore excluded in accessing the financial services and have a right of inclusion for the same.

In regards to age, 63.4% of the respondents were aged between 31 and 50 years while 21.2% were above the age of 50 years and only 15.4% of the respondents were below 30 years. The results shows that majority of the poor people are in their productive years and are socially and financially excluded and therefore requires both social and financial empowerment to improve or begin income generating projects that will lead to sustainable livelihoods.

On assessment of the educational level of MFIs client, the results revealed that majority of the respondents had not attended formal education at 49% with 43% having primary education, 7.2% secondary education and only 0.6% having attained tertiary education. The study coincides with the study done by USAID (2015) who found out that the people who live in extreme poverty lack both income and assets and typically suffer from interrelated, chronic deprivations, including hunger and malnutrition, poor health, limited education, and marginalization or exclusion. The results imply that MFIs aims at improving the living standards of those who cannot access decent employment due to lack of or limited formal education which is as a result of lack of funds to facilitate their education.

In regard to the duration of membership existence of the MFIs clients, the findings indicated that 49 % of the respondents had been members of the MFIs for 1-5 years, 43.2% had been members for 6-10 years, 7.2% had been members for 11-20 years, and 0.6% had been members of the MFIs for more than 20 years. This implied that the MFIs have attracted the most productive group in the society who according to the results have been clients at the MFIs long enough to get an understanding of the how MFIs management functions and how they affect their

livelihoods. The consistency of those above six years MFIs membership has also attracted many more (49%) to MFIs membership.

4.3. Descriptive Analysis

4.3.1 MFIs Clients' Livelihood Sustainability

In this study, the dependent variable was the MFIs clients' livelihood sustainability. The study adopted Bhuiyan *et al*., (2012) sustainable livelihood measures that entail financial capital indicators; income growth, business growth, loan repayment mechanisms, the human capital indicators; empowerment and educational level, the physical indicators; increased assets and improved livelihoods. Data from 500 client respondents were analyzed and recorded.

4.3.1.1 Income Growth and Loan Repayment Mechanism

Table 4.5 below shows the findings on clients' income growth and loan repayment mechanism.

The findings posit that 62.0% of the respondents felt that their savings increased since they joined the microfinance institution. The increase in savings is an indication of improved livelihoods. The findings correspond with those of Mersland & Strøm (2012), who revealed a positive impact on living conditions on those who accessed the microfinance institutions. Among the respondents, 91.8% indicated that they had borrowed loans from MFIs and 68.4% indicating that they increased the amount borrowed whenever they re-borrowed. This is an indication of business growth that leads to increase income, which enables them to repay the increased borrowed finances.

Table 4.5: Percentage distribution by income growth and loan repayment mechanisms and risk management

Variable	Response	Percentage (%)	Number
Changes in savings since joining the MFI.	Increased	61.8	309
	Decreased	2	10
	Constant	36	180
	Fluctuates	0.2	1
Borrowed Loans.	Yes	91.8	459
	No	8.2	41
Trend on the amount borrowed.	Increased	68.4	314
	Decreased	4.8	22
	Remained Constant	26.8	123
Assessment of loan repayment.	I pay at ease	10.2	47

	I struggle to repay	73	335
	I sometimes fail to repay	16.8	77
Repaying on Time?	Yes	77.4	355
	No	22.6	104
If yes, what action was taken by MFI?	Group Asset was auctioned	13.2	61
	Household goods Auctioned	64.6	297
	Funds were recovered from my guarantors	22.2	101
Have you ever failed to repay on time	Yes	90.8	454
	No	8.2	46
What percentage is the loan repayment Interest rate?	Between 10-14 percent	19.2	96
	Between 15-20 percent	60.6	303
	Between 21-30 percent	20.2	101
Gauge Institutional behavior on Loan Repayment Interest Rate.	Remains constant until completion of the loan repayment	100	500

Source: Research Data (2020).

Though the results indicated that most of the MFIs clients increased the amount borrowed, the results on self-assessment on loan repayment mechanism indicated that 73% of the respondents struggle to repay the loans. Though they struggle to repay 77.4% of the MFIs clients indicated that they repay their loans on time. On assessment of the failure to repay the borrowed loan and the action taken to the borrowers (MFIs Clients) by the MFIs, 22.6% of the respondents indicated that they had failed to repay their borrowed loans on time, out of which, 90.8% indicated a complete failure to repay their loans (default) and of these 13.2% indicated that group assets were auctioned to recover the loan, while 64.6% indicated that their household goods were auctioned. However, 22.2 % indicated that on failure to pay the loans the microfinance institution recovered their money from the guarantors. This is an indication that the MFIs have diverse ways of recovering back the borrowed money from their clients.

Further in order to enquire on the view about recovering the defaulters' loans from the guarantors a key informant (who was in the process of paying a loan of a defaulter) said:

> The microfinance institutions should invent other ways of recovering their money other than loading us with the burden. It is very painful to pay the money I never spent yet am also struggling with my loan repayment with huge interest rates. I swore to myself not to

> ever guarantee any again. In fact, after I am done with the loan repayment I am quitting from the Microfinance institution for another institution. (MFIC3)

Further the researcher sought to understand from the management on what could be the consequences of client's failure to repay the loan and how that translates on the MFIs end. The following was the response;

> In management we are keen on loan repayments because we rely on the interest paid for our operations, so when the client is unable to pay the borrowers monies, we get on to the terms of agreement and recover the finances accordingly. For example if the client had secured the borrowed finances with the shares, we get the shares back to the institution, if the security was guarantors, then we tax the guarantors into the repayment of the borrowed finances by the guaranteed person, if the security was pegged on the collateral, then we asks the authorized auction bodies to help us auction that client. We do this because we do not want the institution to suffer the credit risk. (MFIM 1, 5, 8, 9).

The views from the respondent are backed up by the views of Maitrot (2014) who posit that despite the negative long term and short term impacts on client's projects. The MFIs use informal and occasionally forceful means to recover payments from the clients. Sometimes they use asset and social relations forms to recover their payments.

All the respondents indicated that the MFIs repayment rate remained constant until completion of the loan repayment. However on loan repayment interest rates 60.6 % of the respondents indicated loan repayment interest rate was between 15 to 20%, while 19.2 % posit that it was between 10-14% and 20.2% indicated that the repayment interest rate ranged between 21-30%.This is in line with the Central Bank of Kenya (2020) MSME Fin Access business Survey Report (2020), that indicates that the interest rates charges on MSME Loans by Microfinance institutions ranged between 12.3 percent and 22 percent. This means that although the interest rates fall within the regulatory body requirements, the repayment interest rates are high enough to affect the MFIs clients' livelihoods sustainability.

4.3.1.2. Client Empowerment Procedures

The table 4.6 below shows the findings on microfinance institutions clients' empowerment procedure.

Table 4.6: Percentage distribution of client empowerment and loan qualifiers

Variable	Response	Percentage (%)	Number

Training by Institution	Yes	76.8	384
	No	23.2	116
If yes, when?	When joining the institution	19.37	74
	Before issuing a loan	80.63	308
Area of Training	Loan taking and repayment procedures	19.37	74
	Business Management	80.63	308
Income Generating Project ownership	Yes	100	500
If yes, how do gauge its progress	Very good	8.8	44
	Good	91.2	456
Assessment of the project by MFI	Yes	45.6	228
	No	54.4	272

Source: Research Data (2020).

The findings indicate that 76.8% of the respondents were trained by the MFIs and of these, 80.63% indicated that the training was done before they were issued with a loan and the trainings majorly focused on business management. The finding corresponds with Chaudhry, (2018) and Cumming & Fischer (2017) findings that proper training help in gaining better knowledge that helps improve on production, sales and profits in business ventures thus enhancing survival in business sector. Similarly Masouras, Maris & Kavoura (,2020) found out that he training helps the clients develop critical thinking and problem solving skills that helps them in interacting well with their group members, as well as their family members. The training at the time of loan issuance is very important in educating the recipients on financial management and investments, aimed at ensuring prudent investment of the loan received. Additionally, all the clients indicated that they had started an income-generating project which was progressing well. The findings correspond with Shetty &Hans (2015) who posits that education and training leads to increased skills and literacy, which leads to livelihood sustainability. However, 54.4% of the respondents indicated that the MFIs did not assess the progress of their projects, meaning that the MFIs did not have a reliable monitoring and evaluation system.

On further enquiring on the contentment of the clients of the nature of the training carried on by the microfinance institutions, the nature of the programs they would wish to be trained on as well as the assessment of their projects, a discussion was set with a key informant (a client of one of the deposit taking MFI and he said:

> The leaders of the microfinance institutions need to keep on assessing our business activities as many times as there can be in order to get information on how we are progressing. They also need to keep on training us on what to do when the business environment is not favorable. Informing us only on loan process is not enough. I would like to hear more about how to manage my small project, (MFIC1).

Another female key informant said:

> Am completely contented by the way the staffs from the microfinance institution train us. However, I would recommend that whenever the clients groups are meeting they avail themselves in order to hear about the progress of our businesses and the challenges that we encounter. In fact I would be happy if I see a microfinance staff visit my business and enquire on the progress. Then can advise on the way forward' (MFIC2).

The information from the informants coincides with Maitrot (2014) who argues that the MFIs neglect clients' recruitment and follow-up procedures.

Further the researcher sought to understand why the microfinance institutions capitalize much on training before issuing a loan and the response was as follows;

> It is important before we engage the clients on finances, we inform on the MFIs saving and borrowing terms and conditions. Therefore, we inform them on the clients' financial obligations to MFIs and the benefits accrued therein when joining the institution. During borrowing of finances, we like to remind them on the terms of borrowing before we enter into a contractual agreement before we issue the loan. We ensure that they understand the terms clearly before they agree on them (MFIM 2, 3, 7).

4.3.1.3 Business Growth, Assets, Decisions and Improvement of Living Standards

The study sought to understand the clients' association of business growth, loan received, assets acquisition and the ease of liquidation and effect of the MFI on decision making and how their livelihoods had improved. The findings are as recorded in table 4.7 below.

Table 4.7: Percentage distributions of Business growth, Assets, Decisions and Improvement of Living Standards

Variable	Response	Percentage (%)	Number
Growth of business associated with loan received	Yes	75.6	378
	No	24.4	122
Assets	Yes	100	500
Asset Liquidation	Yes	82	410
	No	18	90
Improved decision	Yes	79.96	399

making	No	20.04	100
Living standards	Greatly improved	61.2	306
	Constant	38.8	194

Source: Research Data (2020)

The findings show 75.6% of respondents associate the growth of their businesses with the loans received from the MFIs. The findings corresponds with Kalu & Nenbee, (2016) findings that the MFIs helps their clients in mobilizing voluntary savings, ensuring safety, flexibility, and accessibility, which can have the strongest impact on the growth and performance of Small Micro Enterprises. All the respondents had acquired some assets of which 82% noted that their assets could be easily liquidated to repay borrowed loans when the need arises The findings correspond to Shetty &Hans (2015) who argues that access to microfinance institutions services leads to increased access to productive assets and household property. Similarly, the findings also correspond with Haque, *et al.,* (2021) findings that the MFIs clients who borrowed loans had an average increase of their household assets.

In regard to decision making ability, 79.96% of the respondents felt that their access to microfinance financial services helped to improve their decisions making on various issues at home. The finding corresponds with Kapila *et al.,* (2016) findings that the Micro credit offered by the MFIs helps their clients, who are mainly women, to increase their ability in decision-making power over every aspect of their lives. The empowered decision making ability for women is very important since they play a pivotal role in household's congruence and continuity through making informed and sound choices, while investing and managing funds. Similarly, these findings are in line with the findings of Quayes (2012) who highlights that empowerment was positively correlated to living standards aspects, which are embodied in the clients' livelihood sustainability. Supporting the findings of Quayes (2012), Wanjiku & Njiru (2016) found out that there was a strong association between MFIs client empowerment and their livelihood sustainability.

In regard to the living standards, 61.2% of the respondents indicated that their living standards had greatly improved since joining the MFIs. Having in mind that majority of the MFIs members are women, then it implies that most of the women who had accessed MFIs micro credit services had their livelihoods enhanced thus their living standards. These findings correspond with Akhter (2018) findings that microfinance institutions are a tool for enhancing women status.

4.3.1.4. Descriptive Moderating Variable

Table 4.8: Percentage distribution of moderating variables

Variable	Response	Percentage (%)	Number
Empowerment procedures	Yes	76.8	384
	No	23.2	116
Risk management methods	Yes	45.6	459
	No	54.4	41
Loan qualifiers	Yes	100	500
	No	0	0
Loan repayment mechanism	Yes	77.4	355
	No	22.6	104

Source: Research Data (2020)

The findings show that 76.8 % and 77.4 % of the respondent indicated that the regulatory procedure had moderating effect on the deposit taking MFIs empowerment procedures and loan repayment mechanisms. All the respondents 100% indicated that the regulatory procedures had a moderating effect on the deposit taking MFIs Loan qualifiers and 54% of the respondents indicated that the regulatory procedures did not have a moderating effect on the deposit taking MFIs risk management methods. The findings corresponds with Machingambi (2020) who argue that the regulatory body comes in as arbitrators between the clients and the institution management to solve the agency problems such as the inability of the clients in controlling the management decisions which affects their operations in a great way. Correspondingly, Tchuigoua (2015) posit that the clients' interest needs to be protected since they do not have a direct engagement with the organization.

4.4. Inferential Analysis

4.4.1. Effect of Empowerment Procedures on Clients' Livelihood Sustainability in Deposit Taking MFIs.

A cross tabulation analysis was used. The relationship between clients' livelihood sustainability and different empowerment variables was tested. Significant correlation was established between clients' livelihood sustainability and savings, client representation, training time and topic trained.

Table 4.9: Effect of savings on clients' livelihoods sustainability

	Clients' livelihood sustainability	
	%	**Total**

		Greatly improved	Constant	
Savings	Increased	57.6	42.4	100
	Decreased	40.0	60.0	100
	Constant	68.3	31.7	100
	Chi Square = 8.07	**Df= n-1**	**P Value = 0.0447**	

There was a significant relationship between savings and clients' livelihood sustainability (P Value = 0.0447) as shown in table 4.8 above. 57.6% of those who increased their savings and 68.3% of those who maintained their savings reported a positive improvement in their clients' livelihood sustainability while 60% of those who reduced their savings reported no improvement in their livelihoods. Savings allow individuals to invest in profitable ventures without much straining hence improving their standards. Savings also eases access to credit which can be used for investments. It also increases the credit rating of individuals leading to access to higher amounts of loans that an individual can borrow from the MFIs hence meaningful investments can be done. Saving cushions individuals in times of difficulties hence the living standards of individuals who save more are not negatively affected during the times of economic crisis. Savings also allow the clients to enjoy greater financial security due to availability of cash set aside for emergencies. This provides a fallback should something unexpected happen and also allows an individual to take risks or try new things which are more profitable. This is in line with the findings of Michael and Sandra (2013) who note that younger respondents who indicate a willingness to save and plan are far more likely to have greater wealth later in life. Correspondingly Abdullah, Zainudin, Ismail, Haat &Zia-Ul-Haq, (2021) found out that the financial support programs of the microfinance institutions helps in the accumulation of finances for future financial stability. (Kalu & Nenbee, (2016) also noted that the MFIs help in mobilizing voluntary savings, ensuring safety, flexibility, and accessibility, which can have the strongest impact on the growth and performance of SMEs). However, according to Karlan *et al*. (2014) simultaneous saving and borrowing is bad economics for MFI clients because borrowing is usually at high interest rates while saving at much lower interest rates.

Table 4.10: Client representation in management vis-a-vis clients' livelihood sustainability

	Clients' livelihood sustainability %	Total

		Greatly improved	Constant	
Client representation in	Yes	65.0	35	100
management	No	57.5	42.5	100
Chi Square = 3.01	**Df = n-1**	**P Value = 0.0828**		

Client representation in the management had a significant relationship with their livelihood sustainability (P Value = 0.0828). 65% of clients who were represented in management reported to have improved living standards. Representation in management helps in advocating for the rights of the clients and therefore this promotes improvement in their livelihoods.

Further on Enquiring on the importance of clients inclusion in management decision making the following key informants had this to say;

> The microfinance institutions are client focused since their mandate is to help the poor person improve on their living standards through enhanced livelihoods. Therefore, if the MFIs wants to deliver on their mandate then they should accept that client's inclusion in form of representation in decision-making at management level is of crucial importance. We normally have clients' representation in decision making organ of our institution because we recognize the importance of receiving the primary information from the primary source. As such we are able to first, monitor the progress of our clients, second, to get an understanding of their feelings in terms of our service delivery, third we are able to monitor our performance through the feedback that we receive from them, and lastly we are able to formulate policies that best suit our clients. (MFIM.2, 3, 6, 10)

Decisions on interest rates, loan recovery and collateral are pertinent to the livelihood sustainability of the clients and if they have a voice in management then their needs can be considered hence improving their living standards. These findings agree with those of Béal and Sabadie (2018), who found out the clients' representation in the management, helped the management members in the governance of the organizations with the lens of client's livelihood sustainability. This is because the voice of the client is listened to as they express openly service improvement and suggestions as well as their complaints. The act of having a client's representation in the management makes the clients to be more committed since they have strong feelings of firm ownership. Mori and Mersland, (2011) also noted that customers' representation in the management is associated with duality and good financial performance.

Table 4.11: Effect of Training on clients' livelihood sustainability

	Clients' livelihood sustainability %	Total

		Greatly improved	Constant	
Training	Yes	61.7	38.3	100
	No	59.5	40.5	100
	Chi Square = 0.19	**Df=n-1**	**P Value = 0.6649**	

Training has a positive relationship with improved clients' livelihood sustainability with 61.7% who received training having improved their livelihoods. However, the relationship is not statistically significant (P Value 0.6649). Regardless of the relationship being insignificant there is an indication that access to training improves the clients' livelihood sustainability because training increases the knowledge of the client in terms of investment and management of finances. This can be seen with the significant relationship between clients' livelihood sustainability and the time and topic of training. The findings are in line with Masouras, Maris & Kavoura, (2020) who notes that training the clients is important because it helps the clients develop critical thinking and problem solving skills that helps them in interacting well with their group members as well as their family members. Kimball and Lussier, (2021) notes that training acts as an eye-opener on how to go about the daily business affairs for the small micro entrepreneurs since workforce skills enhancement is key to the competitiveness of SMEs. Technical skills training equally helps the clients to identify the skills that are important for production as noted by Baporikar (2021) thus maximize on profits.

Table 4.12:**Timing of training on clients' livelihood sustainability**

		Clients' livelihood sustainability %		
		Greatly improved	**Constant**	**Total**
When trained	When joining the institution	51.4	48.6	100
	Before issuing a loan	64.3	35.7	100
	Chi Square = 4.23	**Df= n-1**	**P Value = 0.0398**	

The time of training had a significant influence on the clients' livelihood sustainability (P Value= 0.0398) with majority who were trained when joining the institution and before being issued with a loan (51.4% and 64.3% respectively), reporting improvement in their livelihoods. Greater impact is seen when clients are trained before being issued with a loan and this may be explained

by the fact that the trainings are majorly on how to manage the finances hence greater impact. Training before loan issuance opens up the mind of the client on different investment portfolios, financial management and keeping proper records which enhances prudent use of funds hence improving the living standards of the client. This is in line with the findings of Chaudhry, (2018) who notes that proper and timely training help in gaining better knowledge that improves production, sales and profits in business ventures (Cumming & Fischer 2017) thus survival in business sector.

Table 4.13: Effect of training content on clients' livelihood sustainability

		Clients' livelihood Sustainability %		
		Greatly improved	**Constant**	**Total**
Training topic	Loan taking and repayment procedures	51.4	48.6	100
	Business management	64.3	35.7	100
Chi Square = 4.23	**Df= n-1**	**Prob = 0.0398**		

As indicated in table 4.13, 51.4% of clients who were trained on loan taking and repayment procedures reported improved livelihoods. Additionally, 64.3% of clients who received training on business management had greatly improved their livelihoods. Training content has a significant relationship with clients' livelihoods sustainability (P Value = 0.0398). Training on business management has more impact on living standards probably because proper business management leads to increased returns, which in turn, leads to quality life in terms of health, nutrition, education among others, hence improving the living standards of the clients. This is in line with the findings of Ahmad, et,al.,, (2017) who echoes by arguing that the microfinance institutions clients improve their business management skills and knowledge through the interactive/participative training techniques, used by their trainers, that involve action as well as adult learning methods that involve beginning from known to unknown. All the above mentioned skills enhanced through trainings are essential in improving the living standards of the clients. Training the clients mainly on business management is a common way of supporting the client's ongoing and new businesses as noted by Baráth, Nazir & Andre, (2017). Entrepreneurial skills training also helps the clients recognize the economic opportunities available for their actions as posited by Kibet, (2020). Karlan and Martin (2011) also notes that business training

may increase the value mothers place on education more generally, thus leading to higher schooling. Equally, Erwin *et al*., (2016) demonstrates that training participation in training increases both knowledge and performance.

Table 4.14: Effect of improved decision making resulting from access to financial services on clients' livelihoods sustainability

		Clients' livelihoods sustainability %		
		Greatly improved	**Constant**	**Total**
Improved decision making as a result access to financial services	Yes	61.4	38.6	100
	No	60.0	40.0	100
Pearson Chi2 = 0.07 Df= n-1 Prob = 0.7968				

As indicated in table 4.14 above 61.4% of clients who felt that access to financial services from the MFI had led to improved decision making reported to have improved their livelihoods. On the other hand, 60% of those who felt that access to financial services did not have an impact on their decision making also reported to have improved their livelihoods. There is no significant relationship between clients' livelihoods sustainability and improved decision making resulting from access to finances from the MFI. This is true because decision making is a function of several factors and cannot be attributed to access to finance only. However, majority of the clients believe that their improved decision making is associated with access to financial services as indicated in the descriptive statistics. This shows the impact that the MFI has had on the clients through financial support and trainings by building their capacity and empowering them to make better decisions. This is in line with the findings of Kapila *et al*., (2016) that the Micro credit offered by the MFIs helps their clients, who are mainly women, to increase their ability in decision-making power over their every aspect of lives. The empowered decision making ability for women is very important since they play a pivotal role in household's congruence and continuity through making informed and sound choices, while investing and managing funds.

4.4.2. Assessment of the effect of clients' risk management methods on clients' livelihood sustainability in deposit taking MFIs in Nakuru County, Kenya.

The objective was analyzed using cross tabulation analysis where the relationship between living standards and different variables was tested. Significant correlation was established between living standards and mode of borrowing.

First the study sought to evaluate the effect of loan borrowing on deposit taking microfinance institutions clients' livelihoods sustainability in Nakuru County, Kenya, and the results are shown in table 4.15 below.

Table 4.15: Effect of loan borrowing on clients' livelihoods sustainability

	Clients' livelihoods sustainability %		
Loan Borrowing	**Greatly Improved**	**Constant**	**Total**
Yes	69.0	31.0	100
No	65.1	34.9	100
Chi-square = 0.41; df =n=1 p-value = 0.5233			

As shown in Table 4.15, 69% of those who had borrowed loans reported to have greatly improved livelihoods as compared to 65% of those who had not borrowed loans. However, the difference is not statistically significant (P Value =0.5233), which means that access to a loan in itself is not a good predictor of clients' livelihood sustainability. Borrowing may be a temporary measure of enhancing business which in return helps maintain living standards but may not be able to ensure sustainable livelihoods. This is because the borrowed loan has to be re-paid with high interest rates that are associated with repayment of loans, which may leave the client in a worse of position than before. This is in line with the findings of Karlan *et al*. (2014) who noted that simultaneous saving and borrowing is bad economics for MFI clients because borrowing is usually at high interest rates, while saving at much lower interest rates. Again, the loan borrowed may be diverted for other purposes such as health, consumption etc. that are not necessarily meant for improving living standards. Therefore, the findings are equally in line with Karaivanon *et. al.,* (2020), who notes that, borrowed finances that do not go towards the intended purpose, leading to moral hazard.

Secondly, the study sought to assess on how the mode of loan borrowing in MFIs affects the living standards and the results are shown in table 4.16 below.

Table 4.16: Relationship between mode of borrowing and clients' livelihoods sustainability

		Clients' livelihoods sustainability		
		Greatly improved	**Constant**	**Total**
Mode of Borrowing	Individual	65.1	34.9	100
	Group	55.1	44.9	100
Chi Square = 5.05	**Df= n-1**	**P Value = 0.0247**		

As shown in table 4.16, 65.1% of clients who borrowed individually reported to have improved their livelihoods as compared to 55.1% who borrowed as a group. The relationship between borrowing mode and clients' livelihoods sustainability was significant (P Value = 0.0247). This is because those who borrow individually are focused on individual growth while those who borrow as a group, are focused on communal growth which does not translate into individual progression. When a client borrows individually, it is easier to make decisions, manage the resources and even repay the loan. It is also important to note that group borrowing also increases transaction costs and as a result, reduces the amount received by the borrower (group). This may have a negative impact on the group member because they have to repay more in order to meet the transaction cost. This means that their income is used for the wellbeing of the group and not their own (individual) wellbeing. This aspect makes it appealing for the microfinance institution clients to consider individual borrowing than group borrowing, an aspect that the microfinance advocates. This is in line with the findings of Kodongo and Lilian, (2013) who noted that individual lending is preferred by microfinance institutions whose goals are to reach out to the poor as it minimizes transaction costs and maintains market share. They note that MFIs in Kenya prefer individual lending as compared to group lending to avoid poor information networks among group members that affect monitoring of loan usage. This aspect makes it appealing for the microfinance institution clients to consider individual borrowing than the group borrowing, an aspect that the microfinance advocates. The same is echoed by Savita, (2007) who also argues that group borrowing encourages additional costs resulting from group formation, training on group dynamics, supervision and increased frequency of installment payments hence increasing the interest rates associated with group loans. Correspondingly, Giné et al., (2010), argues that joint liability brought about by group lending is likely to penalize good credit risk customers, hence hindering optimal utilization of the borrowed funds. However, the results are in

contrast to the findings of (Attanasio et al., 2014), who found a positive effect of access to group loans on food consumption and entrepreneurship, with the likelihood of owning an enterprise increasing by 10 per cent, for households who were offered group loans and enterprise profits increasing over time. Most of the MFIs clients' groups borrow the loans then lend to their group members who repay their loans at individual level. This system helps the members of the group to invest the borrowed finances in worth businesses that will help them repay on time and at the same time offer them some profit, meaning their livelihoods improves thus improving the living standards. However, when the MFIs clients group borrows a loan they are able to buy an asset for example public transport bus and do a group business that helps the group to repay the loan at ease and again share the accrued profits, which means improved livelihoods as well as living standards for the group members.

Further the study assessed on the type of the collateral used and the effect they have on deposit taking microfinance institutions clients living standards and the results are as stipulated in table 4.17 below.

Table 4.17: Effect of type of collateral used and clients' livelihoods sustainability

		Living standards %		
		Greatly improved	**Constant**	**Total**
Collateral	Social collateral	55.0	45.0	100
	Chattel collateral	65.0	35.0	100
	Conventional collateral	58.5	41.5	100
Chi Square = 3.79	**Df=n-1**	**P Value = 0.1501**		

As indicated in table 4.17 clients using any form of collateral reported an improvement in their living standards. Though majority of the clients preferred securing the borrowed amounts using household and business goods. Thus, the highest number who reported to have experienced an improvement in their livelihoods used chattel collateral at 65%. However, there was no significant relationship between type of collateral used and living standards (P value =0.1501). Chattel collateral is preferred because it is favorable to both the lender and borrower as the lender can easily recover the borrowed loan from the household goods or personal belongings of the borrower as per the contractual agreement. Additionally, Chattel loan services have comparatively low processing fees, which make the lending process easier and more accessible to customers. On the customers' side, the good that is used to insure the loan may be of a less

value than the loan hence an advantage to them. It also makes it easy for an individual to access loans as it does not have many legal formalities. The insignificant relationship means that the collateral that one uses to secure loan does not in any way affect the client's living standards. For example, when a client secures a loan using business goods, in the event of default the client is forced to close the business and stagnate in living standards if that client relies wholesomely on the business. On another side the living standards may improve because the client does not have to use other household resources to repay the loan but improve on the household status.

The study further assessed the effect of the use or lack of use of guarantors by the deposit taking microfinance institutions as loan security on clients' living standards and the results are as shown in table 4.18 below.

Table4.18: Use of guarantors and clients' living standards

		Living standards		
		Greatly improved	**Constant**	**Total**
Guarantors	Yes	58.2	41,8	100
	No	62.9	37.1	100
Chi Square =1.05	**Df = n-1**	**P Value = 0.3044**		

As shown in table 4.17, 62.9% of clients who did not use guarantors reported to have improved living standards as compared to 58.2% who used guarantors to secure loans. This could be because all the income acquired by the borrower is used to repay the loan borrowed, which is the borrower's first priority, in order to maintain a cordial relationship with the guarantor. This means that the borrower may not have much finances left to plough back to the business meaning that their livelihoods either remains constant as noted from the results or deteriorates. Additionally, majority of MFIs grant loans basing on the savings made by the clients and in most circumstances they don't request for alternative security and if need be, they request for the chattel security. The improvement of the living standards or otherwise is dictated by the way one manages the acquired loan in order to balance business efficiency/ improvement versus loan repayment and not the nature of the security attached to the borrowed finances. In fact, the attached security acts as a catalyst to the borrower to be cautious in loan repayment and has no relationship whatsoever with better or worse living standards of the borrower This is in line with the findings of McGill & Howell (2013), who notes that, in most cases lenders have little contact

with guarantors and therefore are very cautious when issuing loans to people who use guarantors. They note in their findings that lenders had little contact with the guarantors thus could not be able to evaluate their repayment ability versus the security guaranteed. Therefore, the lender, instead use intermediaries who failed to communicate the guarantors' special disadvantage and the improvidence of the transaction. However, the relationship between type of loan security and living standards was not significant (P Value = 0.3044).

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Table 4.19: Borrowing status and clients' livelihoods sustainability

		Clients' livelihoods sustainability %		
		Greatly improved	**Constant**	**Total**
Amount borrowed	Increased	59.4	40.6	100
	Decreased	54.2	45.8	100
	Remain constant	67.2	32.8	100
Chi Square = 3.00	**Df = n-1**	**P Value = 0.2235**		

Clients who reported to have maintained (67.2%) or increased (59.4%) the amount of loan borrowed reported an improvement in their livelihoods. This means that majority of the MFIs clients' businesses had greatly improved, leading to increased livelihoods, which translate to increased savings. Since the maximum amount one can borrow is mainly dictated by the savings one has, then it means the higher the amount the higher the borrowing and the more improved living standards due to better utilization of the borrowed amount of finances. This is in line with Haque, Siwa, Ghazali, Said & Bhuiyan ,(2021) and Murdoch *et al.*, (2007) who posit that the MFIs clients who borrowed loans had an average increase of their household assets since the microfinance institutions offered them an opportunity to meet their predetermined standards that enabled them achieve financial households and microenterprises need. However, the relationship between amount borrowed and clients' livelihoods sustainability was not significant (P Value =0.2235). This implies that whether a client borrows more or less than the original amount, it has no effect on their livelihoods. The relationship between the amount borrowed and the clients' livelihoods sustainability can only be positive if the amount borrowed is geared towards improvement of their livelihoods. As is the case with the study result, it means that the clients borrow finances and deviate the purpose of borrowing which may not directly or immediately

affect their livelihoods. For example, some clients borrow for consumption purposes, which may not explicitly affect the livelihoods. This is in line with Bylander *et al.*, (2019) who warns against the negative impacts of borrowing noting that it may lead to unbearable amount of debts. However, the findings of Imai *et al.*, (2012) note that borrowers contributed more to their family incomes more than non-borrowers. This implies that in order to convert small borrowers into large borrowers for improved livelihoods, it is necessary to enhance the knowledge and skill in financial management of the borrowers (Akhter & Cheng, 2020).

4.4.3. Evaluation of the Effect of Loan Qualifiers and Clients' Livelihood Sustainability of Deposit Taking MFIs Clients in Nakuru County, Kenya.

A linear regression was carried out using STATA 2015 software to test the relationship between loan qualifiers and clients' livelihood sustainability. The model was significant with Prob > F of 0.007 meaning that the model had a strong explanatory power for the relationship.

The result reveals that the project age has a significant negative impact on livelihood sustainability at 5% significance level. The results indicate that as a unit increases in the project age, it leads to a decrease in livelihood sustainability by 11.4 percent. This is contrary to expectation as young income generating projects require more financial capital investment and may not be profitable until they reach the breakeven point. However, this may be explained by the fact that older businesses may have huge loans to service hence negatively affecting the living standards of the client. This is in contrary to the findings of (Bvuma and Marnewick, 2020 and Tustin *et al*., 2006) who noted that at the beginning of business venture for the poor people, the young businesses begin small and the income generated is below the poverty line since much of the income is devoted to loan repayment and usually there is no assets that acts as security. Pingle, (2005) found out that in situations of dire poverty, young businesses help in income generation but whether these businesses can also provide sustainable livelihoods, depends on whether the owners are able to develop and nurture their businesses and if their capabilities are appropriate for succeeding as an entrepreneur.

Table 4.20: Regression analysis between loan qualifiers and clients' livelihood sustainability

Living standards	Coef.	Std.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Membership	.048	.1	0.48	.63	-.148	.244	
Project size	-.041	.06	-0.68	.495	-.158	.076	
Project age	-.114	.056	-2.06	.04	-.223	-.005	**
Project progress	.171	.071	2.40	.017	.031	.311	**
Savings	-.049	.023	-2.13	.034	-.094	-.004	**
Project assessment	-.095	.048	-1.99	.048	-.188	-.001	**
Asset liquidation	.026	.059	0.44	.663	-.09	.142	
Constant	1.666	.264	6.30	0	1.147	2.186	***

Mean dependent var	1.388	SD dependent var	0.488
R-squared	0.042	Number of obs	500
F-test	2.668	Prob > F	0.007

**** p<.01, ** p<.05, * p<.1*

Project progress has a significant positive effect on clients' livelihoods sustainability at 5% significance. The results indicate that a unit change in the progress of the project leads to a 17.1 percent increase in livelihood sustainability of the client. When there is a positive growth in the project the savings increases and the credit rating of the individual is improved hence one can assess more credit to invest more which in return lead to improved living standards. Additionally, a positive progress in the income generating project means more income generated from the project resulting into clients' livelihoods sustainability. This is in line with Mole and Namusonge, (2016) who posits that most small business projects use self-financing and family resources as the main source of capital, sometimes they resort to traditional banking like merry go rounds and table banking and when the business is small, it falls back on these sources of credit out of desperation making it difficult to survive, but as the business grows, it increases the chances of accessing credit through formal channels including MFIs.

Savings had a significant negative impact on living standards with respect to loan qualification at 5% significance level. The results indicate that a unit increase in savings leads to a 4.9 percent decrease in the livelihood sustainability of the client. Savings as an indicator for a loan qualification can negatively impact living standards and the effect is twofold; less /fewer savings

may lead to poor credit rating hence low access to financial services, which in turn affect the living standards negatively. On the other hand, more savings may lead to high credit rating resulting in award of huge loans which may be challenging to repay for the client. Both dimensions will result to a negative impact on the living standards of the client. This is in line with the findings of Karlan *et al*., (2014) who noted that simultaneous saving and borrowing is bad economics for MFI clients because borrowing is usually at high interest rate while saving at much lower interest rate hence having a net negative gain. Savings also takes a large portion of income hence compromising consumption. For individuals to save, they must sacrifice consumption in anticipation of a better future, this affects the level of the current living standards.

Assessing project progress by the MFIs, gives a clear picture to the MFIs about the status and ability of a client hence determining the amount of loan that the client can comfortably pay. Project progress assessment had a significant negative effect on living standards at 5% significance level. This implies that a unit increase in the number of times the project is assessed leads to a decrease in the livelihood sustainability of the clients by 9.5 percent. Assessment may lead to the MFIs denying the clients loan based on the progress of the project hence affecting the living standards negatively. Additionally, the business progress may make the MFIs to give a high credit rating to a client and hence be given a huge loan which they may not be able to pay comfortably. This is in line with the findings of Wrenn, (2007) who noted that the longer the village banks were in existence the more likely it was that the projects would have positively impacted on the lives of clients. This was because of constant monitoring and issuance of subsequent loans on increasing basis due to the progress of the project which leads to greater impact and increased income. If the income is used wisely clients can experience greater impact on their livelihood assets. An organization will compromise its existence and survival if it does not track and document the progress and impact. Frequent assessment of progress encourages the clients to properly utilize funds received by sticking to the intended purpose for fear of being blacklisted by the MFI if they reallocate the funds.

4.4.4.: Relationship between Loan Repayment Mechanism and Clients' Livelihood Sustainability in Deposit Taking MFIs in Nakuru County, Kenya.

A linear regression was carried out using STATA 2015 software to test the relationship between empowerment procedures and clients' livelihood sustainability. The model was significant with Prob > F of 0.000 meaning that the model had a strong explanatory power for the relationship.

Table 4.21: Regression analysis between loan repayment mechanism and clients' livelihood sustainability

Livelihood Sustainability	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Gender	-.043	.025	-1.70	.09	-.093	.007	*
Membership	.008	.053	0.15	.883	-.097	.113	
Savings	.017	.013	1.33	.185	-.008	.042	
Repayment	-.017	.03	-0.57	.572	-.076	.042	
Action	-.005	.014	-0.38	.704	-.034	.023	
Repay Asses	.269	.024	11.43	0	.223	.315	***
Assets	.001	.009	0.11	.912	-.017	.019	
Business income	-911	.025	-36.75	0	-.96	-.862	***
Constant	1.325	.111	11.94	0	1.107	1.543	***
Mean dependent var		0.544	SD dependent var			0.499	
R-squared		0.740	Number of obs			500	
F-test		139.519	Prob > F			0.000	

**** p<.01, ** p<.05, * p<.1*

Gender of the client had a significant negative impact on livelihood sustainability as related to loan repayment at 10% significance level. This implies that a household being headed by a female reduces livelihood sustainability by 4.3 percent as compared to a male headed household. As indicated in the descriptive statistics, majority of the MFIs clients were female with low education levels. This implies that most of the clients are unemployed and may have no or limited alternative sources of income. The lack of alternatives results into difficulties in loan repayment hence reduction of their credit worthiness which makes it hard for them to access credit and therefore leading to poor living standards. This is in line with the findings of (Meinzen *et al*., 2014) who noted that even if an individual is motivated to undertake sustainable actions, if they lack the resources to do so, it is difficult to achieve the goal. The ability to access resources

is often highly gendered, with men having an advantage over women, as they enjoy more rights which are embedded in customary and statutory legal institutions.

Clients who repay their loan with ease have a high likelihood of having higher living standards than those who find it difficult to repay their loans. Prompt and ease repayment of loans improves livelihood sustainability by 26.9 percent. The ease of loan repayment is positively related to living standards at 1% significant level. Easy repayment of loan increases an individual's credit rating and therefore eases of access to credit facilities and if this credit is put into good use it has the potential of improving the living standards. Easy repayment can also mean that the individual has other sources of income, which makes it easy for them to repay credit without struggling. Loan repayment is associated with resource availability which may include land or non-farm income, access to training and other factors which are associated with higher living standards. This is in line with the findings of Endris and Kassegn, (2022) who noted that age, family size, education land size, livestock size, additional income and training, before taking loans were found to have statistically significant influences on the loan repayment rate.

Contrary to expectations, improved business income had a significant negative relationship with clients' living standards at 1% significant level. The results indicate that a unit increase in business income leads to a decrease in livelihood sustainability by 91 percent. Possible explanation to this could be that the client could be servicing a credit facility from the MFI and therefore the improved income does not directly translate to improved living standards. Additionally, living standards do not solely depend on increase in business income, as the income may be re-invested back to expand the business or allocated to serve some other pressing needs like education. This is in line with the findings of Tang (2006) who noted that for the whole sample, income was not significantly related to quality of life, when this path was examined alone. When all variables were controlled, income was negatively related to quality of life.

4.4.5 The Interaction between Deposit Taking MFIs Moderating Factors and Governance Functions and Clients' Livelihoods Sustainability in Nakuru County, Kenya.

The study sought to understand what effect the deposit taking MFIs regulatory procedures had on the relationship between the independent variables and the clients' livelihood sustainability. To conduct the test, an analysis of variance (ANOVA) was conducted followed by a regression analysis to ascertain the interaction. The analysis involved the deposit taking MFIs governance variables (empowerment procedures, Risk management, Loan qualifiers and Loan repayment procedures) (X) and governance variables interacting with regulatory procedures Z (X*Z).

Table 4.22: Anova Results

```
                Number of obs =       500    R-squared     =  0.8620
                Root MSE      =  .175031    Adj R-squared =  0.8608
```

Source	Partial SS	df	MS	F	Prob>F
Model	94.697213	4	23.674303	772.76	0.0000
empowerme~p	28.369314	1	28.369314	926.01	0.0000
riskmgt	.02355156	1	.02355156	0.77	0.3810
loanquali~r	.01601301	1	.01601301	0.52	0.4700
loanrepay~t	49.303859	1	49.303859	1609.35	0.0000
Residual	15.164787	495	.03063593		
Total	109.862	499	.22016433		

The findings in the table above indicates that an adjusted R was 0.8608, implying that 86.08% of all variations in the clients' livelihood sustainability, can be explained by empowerment procedures, risk management practices, loan qualifiers and loan repayment mechanisms of the deposit taking MFIs. The results indicate that the moderating variable has a positive significant interaction with empowerment procedures and loan repayment mechanisms, adopted by the deposit taking MFIs.

To further ascertain the effect, a regression model was used to ascertain the relationship between the governance functions and the interacting term, which is regulatory procedures and internal governance functions (empowerment procedure, risk management, loan qualifiers and loan repayment mechanisms). The results are presented in the table below.

Table 4.23: Regression results

Interaction	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
: base 0	0	.	.	.	.	.	
Empowerment	.651	.021	30.43	0	.609	.693	***
: base 0	0	.	.	.	.	.	
Risk management	-.018	.02	-0.88	.381	-.057	.022	
: base 0	0	.	.	.	.	.	
Loan Qualifiers	-.02	.028	-0.72	.47	-.075	.035	
: base 0	0	.	.	.	.	.	
Loan Repayment	.764	.019	40.12	0	.727	.802	***
Constant	-.428	.038	-11.37	0	-.502	-.354	***

Mean dependent var	0.674	SD dependent var	0.469
R-squared	0.862	Number of obs	500
F-test	772.763	Prob > F	0.000

*** p<.01, ** p<.05, * p<.1*

The findings confirm that there is a positive significant relationship between the regulatory procedures and empowerment procedures and loan repayment mechanisms used by the MFIs which in turn positively affects the living standards of the clients. The coefficient indicates that 65.1% of variations in the clients' livelihoods sustainability can be explained by the effect of regulatory procedures on empowerment procedures implemented by the deposit taking MFIs. Additionally, 76.4% of variations in the deposit taking MFIs clients' livelihood sustainability can be explained by the effect of regulatory procedures on loan repayment mechanisms employed by the MFIs.

This is an indication that the MFIs empowerment procedures and the loan repayment mechanisms adhere to the set prudential regulatory policies which in turn ensures stable clients' livelihoods. The findings are confirmed by Bananuka *et. al.,* (2018) who thought that the internal mechanisms should ensure compliance with the set prudent regulations which protect the interests and wellbeing of the clients as they strive for stable livelihoods. Equally, Ahmed *et al*., (2018) asserts that the laws and the regulations formulated and implemented by both the regulatory body and the microfinance institutions, should ensure that while the MFIs operate safely, the clients' livelihoods are maintained at a sustainable level.

However though not significant, the regulatory procedures seem not to affect the risk management practices and loan qualifiers methods used by deposit taking MFIs. This can be explained by the fact that the prudential policy guideline grants deposit taking MFIs some autonomy in developing and implementing their own loan classification system that are based on internal risk rating methodologies (CBK guideline, 2013).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the summary of findings, conclusions and recommendations are presented. This study aimed at evaluating the impact of different aspects of MFIs (empowerment procedures, risk management methods, loan qualifiers and loan repayment mechanism) on client' livelihoods sustainability in Nakuru County, Kenya. Specifically, the study focused on determining the effect of empowerment procedures on clients' livelihood sustainability, assessing the effect of clients' risk management methods on clients' livelihood sustainability, evaluating the effect of loan qualifiers and clients' livelihood sustainability and establishing the relationship between loan repayment mechanism and clients' livelihood sustainability in deposit taking MFIs in Nakuru County, Kenya.

5.2 Summary of Findings

The study targeted the ten microfinance institutions in Nakuru County, Kenya. The reported findings in this study were obtained from five hundred respondents who were clients in the microfinance institutions and ten microfinance managers.

In the descriptive statistics, there was an indication of improved decision making among clients with 80% noted to have improved their decision making probably resulting from the empowerment activities from the MFIs and 75.6% of the clients associated their business growth with the loans received from the MFIs. 82% of the clients had assets that could be easily liquidated possibly because these assets give ease access to loans. Majority, 80.63% of the clients had received trainings before being issued with a loan and the trainings focused on business management. 61.8% clients indicated to have increased their savings and 68.4% had increased borrowing since joining the MFIs, however, 73% struggle to pay the loans. On further inquiry majority noted that the MFIs auctioned their household goods to recover the loan, whenever they failed to repay.

The first objective of the study focused on the effect of empowerment procedures on clients' livelihood sustainability in Nakuru County, Kenya. The objective was analyzed using cross tabulation analysis and the results indicate that savings, timing and content of client training had a significant effect on the living standards at 5% significance level with 57.6% of those who had

increased their savings and 64.3% of those who had been trained on business management, before receiving a loan, reporting to have greatly improved livelihoods. Client representation in the management was not significant at 5% significance level but had a significant effect on the clients' living standards at 10% significance as 65% of those who were represented in management noted an improvement in their livelihoods sustainability. This may be because the client will work for the interest of the MFI and not of other clients, because of the preferential treatment they receive as a client representative. Since it was noted that 49% of the clients did not have formal education and 43.2 had primary level education, the likelihood is that the client may not represent others well in management, in relation to prudent decision making. On the other hand, having more savings enables clients to invest in other income generating activities; it also enables them to access higher loans hence improving their living standards. Clients who receive trainings are in a position to make informed decisions, which result into proper allocation of resources hence improved income. This will result to a positive impact on their livelihoods sustainability.

The second objective of the study focused on assessing the effect of risk management methods on clients' livelihood sustainability in Nakuru County, Kenya. Cross tabulations were used to assess the effect of different risk management parameters on the living standards of the clients. Mode of borrowing and savings were seen to have an effect on the clients' living standards. 65.1% of those who borrowed individually reported to have experienced improved standards as compared to 55.1% of those who borrowed in groups. On the other hand, 57.6% of those who increased their savings reported to have improved livelihoods. Clients who borrowed individually, had better living standards than those who borrowed as a group. This was attributed to the increase in transaction costs associated with group lending. On the other hand, clients with increased savings had better living standards compared to those with decreased savings. Savings cushioned individuals in time of crisis hence reducing the shocks on the individual's living standards.

The third objective of the study focused on evaluating the effect of loan qualifiers and clients' livelihood sustainability in Nakuru County, Kenya. A multiple regression model was used and the results indicated that clients' assessment of the project progress, had a positive impact on clients' living standards at 5% significance level. However, project age, assessment of the project

progress and savings had negative impact on living standards at 5% significance levels. This could be due to the high valuation charges MFIs puts on clients' after evaluating their project progress or the clients' savings and issuing a huge loan which becomes problematic to repay hence affecting the living standards negatively.

The fourth objective of this study focused on establishing the relationship between loan repayment mechanism and clients' livelihood sustainability in Nakuru County, Kenya. A simple regression was used where assessment of loan repayment by the client had a positive effect on living standards at 1% significance level, while gender of the client and business income had a negative effect on living standards at 1% significance level. Business income may come as a result of investment generated from loans and therefore, it doesn't directly translate to improved livelihoods. Gender influences access to vital productive resources and with many MFI clients being women, they may have a limited access to these resources hence making it difficult to improve their living standards due to limitations in investment options and autonomy of decision making.

The fifth objective of the study focused on establishing the interaction between moderating factors and deposit taking MFIs governance and clients' livelihoods in Nakuru County, Kenya. Regression analysis was used whereby, the coefficient indicated that 65.1% of variations in the primary stakeholders' livelihood sustainability can be explained by the effect of regulatory procedures on empowerment procedures, implemented by the MFIs. Additionally, 76.4% of variations in the MFIs livelihood sustainability can be explained by the effect of regulatory procedures on loan repayment mechanisms, employed by the MFIs.

5.3 Conclusions of the Study

MFIs are important catalysts in the improvement of livelihood sustainability of individuals hence contributing to national development. However, MFIs ought to focus on their clients' livelihood sustainability since their mission is to enhance the living standards of their clients thus alleviating poverty. Therefore, the evaluations of the study focused on different aspects of microfinance institutions (MFIs) and their effect on clients' livelihood sustainability in Nakuru County, Kenya. Based on the summary findings, the study made several conclusions;-

First, the study findings indicated that 78.4% of MFI clients are middle aged women (21–50 years) 92.2% having a maximum of primary level education. It is also noted that MFIs are greatest promoters of education through trainings with 76.8% of the members being trained and this has resulted into improved decision making by 79.96% of the clients aiding them to establish income generating projects to supplement their incomes. Therefore, the study concludes that training of the clients of various programs by the microfinance institutions, increased their ability and capacity in dealing with their businesses thus helping them to improve their livelihoods.

Second, the findings from the study indicated that empowerment procedures play a greater role in improving the livelihood sustainability of clients through savings with 57.6% noting to have greatly improved their living standards after increasing their savings and 64.3% of those who received training on business management before being issued with a loan having greatly improved their livelihoods. Therefore, conclusions were made that the training that clients were given on loans and the clear communication on the different aspects of the loans taking and repayment helped in enhancing the clients' livelihood sustainability. Additionally, client representation in management has a slight impact on sustainability of the livelihoods of other clients with 65% of the clients reporting improved livelihoods though the relationship was not significant at 5% but significant at 10% .

Third, the study found out that the clients risk management methods had an effect on livelihood sustainability. The mode of borrowing had a great significance to living standards. 65.1% of clients who borrowed individually reported improved living standards as compared to 55.1% who borrowed as a group. Individual borrowing contributed significantly to better living standards than group borrowing. The study concludes that majority of clients prefer borrowing individually than in groups because it is easier and less costly and leads to livelihoods sustainability because of lack of joint liability.

Fourth, in regards to the loan qualifiers and clients' livelihood sustainability of deposit taking MFIs clients in Nakuru County, Kenya. Savings and assessing clients' investment progress were seen to have a negative impact on living standards. Therefore, conclusions were made that assessments should be objective and comprehensive if they are to achieve intended objectives.

Further, savings alone cannot influence the living standards, but how the savings are put into use and managed is more important to ensure livelihoods sustainability.

Fifth, the study found out that, loan repayment mechanism had a statistically significant relationship with primary stakeholders' livelihood sustainability in Nakuru County, Kenya. Assessing the ease of loan repayment had positive effect on living standards, while gender and business income, had a negative impact on living standards. The study concludes that while majority of the microfinance institutions are female clients whose gender role is mainly influenced by cultural prescribed gender roles, the current gender legal right need to be sensitized, in order to pave way for households' sustainable livelihoods, through improved access to productive resources. Since loan repayment is associated with resource availability which may include land or non-farm income, access to training and other factors which are associated with higher living standards, loan repayment ease increases an individual's credit rating thus access to credit facilities. Ease of loan repayment can also mean that the individual has other sources of income which makes it easy for them to repay credit without struggling.

Sixth, the study found out that, the moderating variable had a positive significant interaction with empowerment procedures and loan repayment mechanisms not with the risk management procedures and loan qualifiers methods adopted by the MFIs. Therefore, the study concludes that while the prudential regulations policies grants deposit taking MFIs autonomy in developing and implementing their own loan classification system that are based on internal risk rating methodologies (CBK guideline, 2013), the internal mechanisms needs to be monitored too in order to defend the clients livelihoods wellbeing.

5.4 Recommendations of the Study

From the conclusions drawn in this study, there were several recommendations and policy implications made to the MFIs policy makers, in line with the objectives of the study.

First, the study concluded that the majority of clients had primary level education. The study recommends to the MFIs policy formulators, that education level of microfinance institutions members should be put into consideration to enhance successful management of funds received. There is also need to empower women more so as to be at per with their male counterparts for sustainable livelihoods.

Second, trainings were seen as a pillar in ensuring members make informed decisions hence improving their livelihood sustainability. Therefore, the study recommends that the MFIs governances need to focus on vibrant empowerment programs so that they do not only have the training for the clients on loan taking and repayment when they join the institutions, but also introduce continuous livelihood sustainability programs.

Third, the study found out that individual borrowing had a positive effect on living standards as compared to group borrowing. Therefore, the study recommends that, policies should be put in place by the MFIs governance to safeguard the interests of individual borrowers and offer more favorable borrowing terms that may include security that is easily affordable by the clients. Attempts could also be made to reduce bureaucracy and hence transaction costs associated with group borrowing, so as to make it easier for clients to access loans in groups without compromising their living standards.

Fourth, this study found out that assessing client project progress had a negative and significant effect on clients' livelihood sustainability in Nakuru County, Kenya. The study, therefore, recommends that the MFIs governance should consider involving experts in monitoring the client's projects in order to get a better understanding on their progress as well as offer guidance and insights on product-market treads. This would help in improving the livelihoods of the clients and achieve livelihoods sustainability. Other factors should be considered together with assessing the progress. in order to achieve livelihoods sustainability. Strategies on disseminating knowledge to the clients on the market treads need to be put in place.

Fifth, this study found out that MFI empowerment procedures had a statistically significant relationship with primary stakeholders' livelihood sustainability in Nakuru County, Kenya. The empowerment programs mainly focus on training clients when joining the institutions on loan taking and repayment procedures. This study recommends that the MFIs governance should strengthen their policies on empowerment programs to allow inclusion of more diversified programs that helps the clients to counter the current internal and external business environmental challenges. The institutions should consider expanding their focus on empowerment and livelihood sustainability programs. There is also a need for introducing more

empowerment programs that focuses mainly at empowering all the employees at different management levels, in order to enhance their ability of focusing on and enhancing the clients' livelihoods sustainability.

Sixth, the study found out that loan repayment mechanism had a statistically significant but negative relationship with clients' livelihood sustainability. Savings and income had a negative impact on livelihood sustainability. Therefore, this study recommends that the MFIs governance should focus more on capacity building for the clients in terms of financial management and investments so as to ensure proper utilization of savings and income generated from their business. In this concern, any policy intervention should aim at, among other factors, ensuring proper financial advice to the clients to ensure that sustainable livelihoods for the clients are attained. Again, the prudential policy regulations should ensure that the deposit taking MFIs internal mechanisms (loan qualifiers and risk management) are always audited in order to ascertain the direction of the clients' livelihoods sustainability.

5.5 Suggestion for Further Research

Since the main mission of the MFIs is to warrant the enhancement of the client's livelihoods sustainability consequently improving the living standards thus eradicate poverty, the study suggests further research on other factors other than the ones covered in the study, which aids MFIs clients' livelihoods sustainability such as effects of climate change and market fluctuations on MFIs clients livelihoods sustainability.

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APPENDICES

APPENDIX I: Questionnaire for the MFI clients

Dear Respondent,

My name is Catherine Karimi and I am currently doing my Ph.D. in Development Studies at St. Paul's University Limuru. My research area is on Microfinance corporate governance practices on primary stakeholders' sustainability in Kenya, Nakuru County. The questionnaire has 21 questions which will take less than 10 minutes to complete. I am kindly requesting for your assistance by responding to all the items attached as honestly as possible. All responses will be treated with the utmost confidentiality. Please DO NOT WRITE YOUR NAME ANYWHERE IN THE QUESTIONNAIRE.

Please tick the box provided to show your consent to be part of the research. ☐

Thanks in advance

Questionnaire number ---------- interview date ----------

A		Response	Codes
Respondents status			
1.	What is the name of your MFI institution?	Kenya Women Finance Trust (KWFT)	**1**
		Small and Micro Enterprise Program (SMEP)	**2**
		Faulu Kenya Deposit-taking Microfinance Limited	**3**
		Rafiki Deposit-taking Microfinance Limited	**4**
		Uwezo Deposit-taking Microfinance Limited	**5**
		Century Deposit-taking Microfinance Limited	**6**
		Sumac Deposit-taking Microfinance Limited	**7**
		Musoni Kenya Microfinance Limited -	**8**

		Choice Deposit-taking Microfinance Limited Remu Deposit-taking Microfinance	**9** **10**
2	Kindly indicate your gender	Male Female	1 **2**
3	What is your age?	Between 18 - 20 Years Between 21-30 years Between 31- 40years Between 41 -50 Years Between 51- 60 years Between 61- 70 Years	**1** **2** **3** **4** **5** **6**
4.	What is the highest level attained?	Informal education Primary Secondary Diploma Degree	**1** **2** **3** **4** **5**
5.	For how long have you been a member of the microfinance?	Between1-5 years Between 6-10 Years Between 11-20 Years Above 20 Years	**1** **2** **3** **4**
Clients' Empowerment			
6.	Since you joined the microfinance how has been your savings?	Increased Decreased Constant Fluctuates	**1** **2** **3** **4**
7.	Is there a client representation on your institution management?	Yes No	1 2
8a	Has your institution ever trained you?	Yes No	1 2

b	If yes, when were you trained?	When joining the institution Before issuing a loan After issuing a loan	**1** **2** **3**
c	What were you trained on?	Financial management Loan taking and repayment procedures Project management Business management	**1** **2** **3** **4**
d	Has your access to microfinance empowerment services helped improve your decision making on issues at home?	Yes No	1 2
Risk Management Methods			
9a	Have you ever borrowed a loan from your institution?	Yes No	**1** **2**
b	If yes do you borrow individually or as a group?	Individual Group	**1** **2**
c	Does the MFI request for collateral?	Yes No	**1** **2**
d	If Yes, which type of collateral?	Social collateral Chattel collateral Conventional collateral	**1** **2** **3**
e	Do you secure your loan using guarantors?	Yes No	**1** **2**
f	Did you increase, decrease or remain constant on the amount borrowed whenever you re-borrowed?	Increased Decreased Remained constant	**1** **2** **3**

g	Why did you increase/decrease/remain constant on you loan re borrowing	Specify---------- ---------- ---------- -----	
Loan Qualifiers			
10 a	Do you have an income generating project?	Yes No	**1** **2**
b	What is the size of the business	Small Medium Large	**1** **2** **3**
c	If yes how old is the business?	Young (<2 years) Average (2 -5 years) Mature/Old (>5 years)	**1** **2** **3**
d	How do you gauge its progress	Very Good Good Worse	**1** **2** **3**
e	If good, do you associate the growth to the loan received from the MFI?	Yes No	**1** **2**
f	Has the institution ever assessed your project/business progress?	Yes No	**1** **2**
g	Do you have assets?	Yes No	**1** **2**
h	If yes, can the assets be liquidated to repay your loan?	Yes No	**1** **2**
Loan Repayment mechanisms			
11a	If you have ever borrowed a loan do you repay on	Yes No	**1** **2**

	time?		
b	Have you ever failed to pay on time?	Yes No	**1** **2**
c	If Yes, what action was taken on you by the institution?	Served with a reminder note Given more time to repay the loan Funds were recovered from my guarantors Sued to the legal authorities My household goods were auctioned	**1** **2** **3** **4** **5**
d	How would you assess yourself on loan repayment?	I pay at ease I struggle to repay I sometimes fail to repay	**1** **2** **3**
12a	What percentage is the loan repayment interest rate?	Between 1 - 5 percent Between 6 - 10 percent Between 11 - 20 percent Between 21 - 30 percent	**1** **2** **3** **4**
b	How would you gauge the institution behavior on loan repayment interest rate?	Remain constant until completion of the loan repayment Can increase the loan percentage without notifying the clients Can increase the loan percentage and notify the client Can decrease the repayment loan without informing the client Can decrease and notify the client	**1** **2** **3** **4** **5**
c	How does your institution calculate loan repayment interest rates?	The percentage is constant The percentage is on reducing balance I do not know	**1** **2** **3**
Client livelihood sustainability			
13a	Have you been able to		

	purchase a property such as land, car, house, households on your own after joining the institution?	Yes No	**1** **2**
b	If yes which assets	Land Car House Households	**1** **2** **3** **4**
c	How do you asses the growth of your business since joining the MFI?	Positive Constant Negative	**1** **0** **2**
d	Has the growth been influenced by your membership to the MFI?	Yes No	**1** **2**
e	Has your business income improved	Yes No	**1** **2**
f	If yes, is it as a result of the loan acquired from the MFI?	Yes No	**1** **2**
g	How would you rate your living standards after joining the institution	Greatly improved Constant Worse	**1** **0** **2**
Regulatory Procedures			
14a	Are there any regulations governing the MFI empowerment procedures?	Yes No	**1** **0**
b	Are there any regulations governing the MFI risk management procedures?	Yes No	**1** **0**
c	Are there any regulations	Yes	**1**

	governing the MFI Loan qualifiers?	No	**0**
d	Are there any regulations governing the MFI loan recovery procedures?	Yes No	**1** **0**

Thank you for your time

APPENDIX II: Key Informant Discussion Guides

Discussion Guide 1: For the Deposit Taking MFIs Clients

Instructions

- The interview is carried out away from other people.
- Confidentiality is an important part of assurance to the interviewer.
- The main objective is to understand the relationship between the MFIs governance practices and the primary stakeholder's livelihoods sustainability.

Questions

1. What is your view on loan repayment recovery (of the defaulters) from the guarantors?
2. What is your view on the nature of the training carried out by the microfinance institution?
3. What would you want to be trained on?
4. How would you want your microfinance assess to your project or business?

APPENDIX III: Discussion guide 2: Deposit Taking Microfinance Managers

Instructions

- The interview is carried out away from other people.
- Confidentiality is important as part of assurance to the interviewer.
- The main objective is to understand the relationship between the MFIs governance practices and the primary stakeholder's livelihoods sustainability.

Questions

1. What is your view on the client's inclusion in MFIs institution management?
2. What are the causes of the clients' credit risks?
3. How do you deal with clients' credit risks?
4. How do you deal with defaulters?
5. Why do you emphasize on when training your clients before they join the institution as well as before issuing the loans to them?

Research permit

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