

Depth of Outreach, Staff Productivity and Financial Sustainability on Microfinance Institutions in Kenya

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Microfinance institution contributes significantly to economic development and the financial inclusion of the underprivileged population. However, financial sustainability of these institutions remains a major challenge largely because of the low deposits and high demand for micro loans. Though previous studies have shown that financial leverage influences financial sustainability of microfinance institutions, the findings are inconclusive and debatable. This study sought to investigate whether depth of outreach moderated the relationship between financial leverage and financial sustainability among MFIs in Kenya. The study was grounded on positivist paradigm and explanatory research design. The hypothesis was tested with a panel dataset drawn from 30 MFIs over the period 2010 to 2018. The data was analyzed through descriptive and inferential statistics. To control for endogeneity of the predictor variable, the Generalized Method of Moments was used. The study established that financial leverage had a negative and significant effect on financial sustainability. Further, depth of outreach had a moderating effect on the relationship between financial leverage and financial sustainability. The study recommends that managers of MFIs should maintain a balance between financial leverage and depth of outreach to attain financial sustainability.

Keywords: Depth of Outreach, financial leverage, financial sustainability, microfinance institutions