An assessment of subsidy dependence index for self sustainability of micro-finance institutions in Kenya: a case study of Kabete Constituency

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Abstract:

This study was carried out to identify the sustainability of Microfinance (MFls) institutions in Kenya in funding micro and small scale enterprises (MSE's) in Kabete Constituency. The Primary data was collected by use of questionnaires, which consist mostly of closed and open ended questions. An Interview was conducted on specific areas, through pre-determined questionnaires. The population target for the study comprises of all managers in MFI's in Kabete constituency and its environs. The sample for study was drawn by the use of stratified and purposive sampling technique. The findings indicate that most of the Microfinance institutions are retail Microfinance institutions catering mostly to the lower income groups in society. Only a few were wholesale MFI'S and insurance companies indicating the low penetration rate of the services they offer among the Kabete population. The findings also indicate that majority of the MFls rank their rate of interest as relatively fair while only a few consider the interest rates they charge on loans to be either low or high. Most micro finance institutions regard their spread as relatively moderate. Half of the micro finance institutions sampled had a good loan collection rate with very few having a high rate of loan defaulters. Sustainability of MFls in Kenya showed that all the respondents had experienced positive growth in their savings and loans growth rate. The increased savings and loans mean that there is still room for growth in the micro lending sector. Majority of the micro finance institutions reported a very high member ship of rural clientele indicating that people .from rural areas are the target market for most microfinance institutions. Majority of the microfinance institutions had a very high borrowing rate from women. Majority of the MFls sampled reported that, the average amount of money lent to each of their client is relatively low. Most MFI's target numbers rather than amounts with the rationale that huge numbers of people each depositing small amounts of money will eventually results in huge amounts of reserves which can then be lent out to other people for business expansion purposes at an interest. This enables the MFI's achieve self sustainability since as more people seek loans, more interest is paid to the institution enabling it to take care of its operational costs and reduce dependence on subsidies. All the managers interviewed were of the opinion that Microfinance institutions can achieve sustainability by employing a variety of measures.