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Elements of Organisation Performance in Microfinance Institutions in Kenya; A Case of Microfinance Institutions in Narok County

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ABSTRACT

The financial performance of microfinance organizations can be influenced by various internal and external factors, including corporate governance, interest rates, financial literacy, and inflation rates. Microfinance organizations are essential to the nation's economic expansion. Since microfinance banks are crucial to the economy's expansion, it is critical to identify the variables that influence their financial performance. The financial performance of microfinance banks, particularly those located in Narok County, is examined in this study concerning factors like financial literacy, interest rates, corporate governance, and inflation rate. The investigation will also try to ascertain how these factors affect how sound microfinance organizations operate financially. The research background, research problem, objectives, and research questions are all identified in the first chapter. The second chapter examines the research's theories and how they relate to the study's findings. The investigation makes use of the self-efficiency theory, monetarist theory, and efficiency structure theory. Examining current studies related to each research factor included in the study's objectives comes next. Reviewing the study gaps and a conceptual framework illuminating the relationship between the independent factor and dependent variable follows. The descriptive study design and the target population are introduced in the third part. There were 155 respondents in the research population, and the study chose 48 randomly from that group. The study aims to collect the necessary data from the participants via questionnaires. This section also explains ethical considerations the researcher will be contemplating throughout the investigation. The fourth chapter begins with the determination of the investigation's response rate. The findings provide a response rate of 87.5%, which was deemed acceptable for the study data collection procedure to commence. The study further looks into the general information relating to the study responders. The outcomes from the analysis of specific study variables revealed that 95.5% of the participants agreed that financial literacy affects the s financial performance of microfinance institutions active in Kenya. Most respondents, 76.2%, concurred that interest rates charged by microfinance institutions affect the financial performance of Microfinance institutions active in Kenya. An overwhelming proportion of the participants, 92.9%, agreed that corporate governance affects the financial performance of microfinance institutions operating in Kenya. Lastly, 69% of the responders agreed that the rate of inflation affects the financial performance of microfinance institutions active in Kenya. The regression analysis reveals a strong link between the study variable, with an R-value of 0.801 and R squared value of 0.642. The investigation's P-value was 0.000. The section wraps up with study constraints and a summary. The fifth chapter summarizes the outcomes as depicted in chapter four, provides a conclusion, and recommends various aspects that should be considered and done to minimize or improve the effects that the independent study variables have on the dependent variable. The section also provides insight for future research.

Keywords: The Association of Micro Finance Institutions – Kenya, Central Bank of Kenya, London Stock Exchange, Medium Enterprises, Micro Finance Institutions, Return on Asset, Return on Investment, Savings and Credit Co-operative Societies, Small and Medium Enterprises, United Kingdom, Financial Literacy, Financial performance, Inflation rate, Interest rates

INTRODUCTION

Issangu (2020) asserts that poverty is the fundamental problem facing most third-world nations. One of the organizations that can effectively offer remedies to end poverty in developing nations is microfinance institutions. Microfinance institutions are essential for alleviating poverty and promoting access to financial services in advanced and emerging countries (Issangu, 2020; Ertiro & Mohammed, 2022; King'ori et al., 2017). Microfinance institutions help the community by boosting income levels and lowering risks. They also encourage community members to work for themselves and enhance their well-being. The population segments with lower incomes rely on microloans the most.The primary goal of microfinance banks, as per Ertiro & Mohammed (2022), is to serve as catalysts for prosperity by facilitating and including the economically disenfranchised elements of the communities to achieve growth goals. These goals include reducing the percentage of the poor and disenfranchised, empowering lower-income and other disadvantaged groups to become economically autonomous, providing employment, starting new businesses, and encouraging the expansion and sustainability of existing businesses through capital injection. To keep providing economic and operational support to communities, microfinance institutions (MFIs) must remain viable. The most common performance and sustainable evaluation factors among the options are operating and economic self-sufficiency. Alemayehu & Lemma (2014) claim that most microfinance organizations rely on donations for funding. Per Hermes & Hudon (2018),

performance is the outcome of accomplishing the assignment given. Corporate performance refers to how members of the organization work to complete a task. The corporate performance demonstrates the scope of results in a procedure that has been attained compared to the firm's objective (El-Chaarani et al., 2022).

According to Daher & Saout (2013), Microfinance institutions have broadened their services to customers, moving beyond just offering micro-loans to creating new services and tapping into a bigger market of financially excluded customers. As per Fadikpe et al. (2022), there are four primary spaces to evaluate an MFI's performance that fall under the categories of social and financial performance: sustainability, outreach, portfolio quality, and efficiency. Microfinance institutions have historically been able to sustain their different purposes by receiving financing from non-profits (social performance) organizations like foreign donors, grants, contributions, the government, and subsidies (Issangu, 2020). However, the development and growth of the Microfinance sector cannot be supported solely by grants and subsidies, and several regulators and business people stress the long-term reliability of donor funding assistance. Due to this circumstance, organizations that focus on making a profit, such as commercial Microfinance banks, have emerged. Its objective is to be economically sustainable by generating profits.

A report by Goshwami et al. (2021) revealed that the international market for the microfinance sector, which was anticipated to be worth 156.7 billion U.S. dollars in 2020, is expected to increase at a compounded yearly expansion rate of 11.9 percent to hit 304.3 billion us dollars by the year 2026. The main goal of the International Microfinance sector is to provide microcredit to low-income earners and jobless individuals who may not have access to conventional financial products. Per a World Bank research report from 2017, a microfinance institution is an example of a revolutionary type of developmental action that bypasses states as the primary players and instead relies on market dynamics to offer solutions via various companies that combine social and financial objectives. According to an investigation by Shkodra (2019) on the performance of microfinance banks in Kosovo, the banking system's efficiency plays a crucial role in allocating resources to the economy effectively and ensuring economic growth. As stated in the report, economic development creates a favorable climate for Microfinance banks.

Another element that helps deliver the most outstanding solutions to clients, including adequate funding, dependable services, and affordable funding, is fostering rivalry in the financial sector. As a result, strategies designed to advance economic progress are crucial for deciding the expansion and effectiveness of microfinance institutions worldwide. Ibrahim & Mohamed's (2020) study in sub-Saharan Africa found that most MFIs struggle to balance making a profit to support themselves and helping many impoverished individuals. According to the investigation, African microfinance institutions use a modern strategy to alleviate poverty, empower women, and promote financial education, resulting in sustainable growth for the country.

The central bank of Kenya oversees 12 Microfinance institutions in Kenya. All 12 Microfinance institutions are Association of Microfinance Institutions members (AMFI). To strengthen the capabilities of the Kenyan Microfinance Sector, the Association for Microfinance Institutions of Kenya (AMFI-K), organization, was founded and incorporated in 1999 under the Societies Act. Activities of AMFI-K are directed by a comprehensive plan that is updated every five years. Using member-driven initiatives and communications tactics to engage more members and provide microfinance solutions to guarantee inclusion, this strategy offers a clear roadmap toward achieving comprehensive functional and economic self-sustainability. In particular, this study attempts to examine the following variables that have an impact on Microfinance institutions' financial performance in Kenya: financial literacy, interest rates, corporate governance, as well as the macroeconomic component of inflation.

Financial performance

King'ori et al. (2017) claim that an institution's financial performance measures how well its objectives, policies, and activities have been performed. It relates to financial stability and can be contrasted with related businesses in the identical sector. One of the critical indicators of achievement is a firm's financial performance, which determines a firm's competitive advantage, corporation possibilities, senior management commercial interests, and the dependability of current and potential clients.

Financial success allows businesses to compensate employees more, offer customers high-quality goods and solutions, and promote a positive workplace culture (Wondirad, 2020). A firm's financial performance accurately measures how effectively it can employ its assets in its critical financial operations to produce revenue. The term can likewise be utilized to compare similar businesses in related industries of the marketplace. A financial performance analysis evaluates the organization's solvency, cash flow capacity, predicted earnings, and financial status. Researchers employ techniques to analyze financial data to assess a firm's financial health and performance.

Financial literacy

The prosperity and welfare of people, households, societies, and businesses correlate with financial literacy. Financial training with financial literacy as its primary goal can assist people in making plans for the coming decades contributing to a sustainable, active lifestyle both throughout their working careers and after they retire. The development of successful family budgeting, including the creation of investment programs, the managing of borrowing, and the formulation of planned investment choices for oneself and one's family, can all be aided by comprehensive financial training. Additionally, it gives individuals extra chances to invest, reinvest and save money, enables them to buy products and other offerings for less, and promotes the growth of better clients.

Microfinance companies have been intensely interested in delivering or sponsoring financial awareness initiatives in the past years. Financial education offers both short-term and long-term benefits compared to cost. Corporate image and marketplace dominance are the most evident. The ability to personalize the institution among customers who have a wide range of financial solution firms to choose from is made possible by financial education.

Interest rates

According to Adair & Berguiga (2017), interest rates can be described as the expense associated with borrowing money. As a result of the emergence of the COVID-19 issue, the Russia-Ukraine conflict, fluctuations in market supply, and movements in market demand, price fluctuations are predicted in the actual market. These aspects play a role in the cycle that influences borrowing costs. According to Kar & Swain (2014), borrowing costs impact all facets of economic operation, particularly the movement of commodities, services, and monetary resources within a country and throughout the globe. They draw attention to the relationship between borrowing costs and the present worth of money.

According to Shkodra (2019), the cost of borrowing creates a high discounting rate, which raises the cost of borrowing and motivates borrowers to increase their savings. On the other extreme, a low cost of borrowing results in prospective cash flows with a reduced discounting rate. According to the investigation, three primary factors are inflation, the amount of public debt, and the risk involved in determining borrowing costs, including those for savings microfinance institutions. The price of the borrowing floor is determined by inflationary pressure. No MFIs may offer loans at a cost less than the anticipated inflation rate for the same time frame.

Corporate Governance

Corporate governance, as per Mostepaniuk (2017), relates to private as well as public organizations; it includes laws, regulatory requirements, and acknowledged industry practices that together regulate the connection among company managers and business people on the one hand, and individuals who invest funds in corporate entities, and a market economy. Since it is believed to aid MFIs) in accomplishing their financial and social objectives, good corporate governance is regarded as a foundational component of sustainability for MFIs (Iqbal et al., 2019).

Rate of Inflation

The inflation rate must be considered when discussing the financial well-being of MFIs in the Kenyan economy. As per Swaleh & Wekesa (2020), the inflation rate is the continuous or average increase in the price of goods or services in a macroeconomic environment. Cost-push inflation impacts the overall quality of services by increasing overhead expenses, notably salaries and operating costs. Since customers' purchasing power is reduced by rising inflation, MFIs see increases in wages and operating expenses and a decline in company performance. Inflation's effects on client buying power, society's financial uncertainties, and monetary credibility show significant economic hurdles for businesses. With such essential repercussions for businesses and consumers, understanding inflation in its entirety becomes crucial.

Objectives of the Study

Microfinance institutions greatly support the economic operations of the underprivileged throughout underdeveloped nations' cities and remote areas. According to research, African Microfinance institutions are significant players in the financial industry. They are in an ideal situation to expand and serve the hundred thousand prospective customers who do not already have access to traditional financial solutions. The majority of MFIs manage a dual bottom line. They attempt to expand their socioeconomic influence and business ability to maintain their current financial operations. Regrettably, a lot of MFI has failed to achieve sustainable development. This inability has been attributed to several factors, though not all definitively.

One of the topics that have lately drawn the interest of many scholars around the globe is the performance of MFIs. When borrowers started to fall behind on their payments amid the coronavirus outbreak, some states undertook significant action to safeguard MFIs (Zetterli, 2020). Due to the discrepancies between MFIs and traditional financial institutions, a customized technique was necessary. MFIs maintain close connections with customers to evaluate and guarantee each customer's readiness and capacity to pay back, while most lenders depend heavily on asset-based borrowing. As the COVID-19 pandemic's quarantines accompanying fall in economic activities took hold, analysts predicted that MFIs' performance measures, particularly solvency and capital adequacy, would quickly deteriorate (Siddiqui et al., 2020). The cumulative effects of the crisis on MFIs account balances, however, appear to have been variable dependent on MFI attributes, state aid, and particular market conditions, among various factors, according to an international evaluation of MFIs in July 2021.

According to research by the Central Bank of Kenya (2021), the success of microfinance organizations is a prerequisite for institutions' stability. However, only if the organizations can attain a solid financial performance will the beneficial effects of microfinance banks on the well-being of the underprivileged be preserved. The performance of MFIs employing sizable and advanced MFIs in different nations has been the subject of numerous research, including those by (Alemayehu & Lemma, 2014; Hermes & Hudon, 2018, and Issangu, 2020), among many others. Nevertheless, the significance of the variables influencing MFIs' success varies across investigations. Some criteria have been determined to be important in the specific country or relevant to a group of MFIs, while others are not. Furthermore, research conducted in Kenya has not thoroughly examined every element determining MFI success.

As a result, the primary goal of this investigation will be to identify the variables that influence the financial performance of MFIs in Narok County, Kenya, particularly when the effects of COVID-19 and the Russia-Ukraine conflict are wreaking havoc on the nation's economic performance. Four variables were found after a review of pertinent publications (financial literacy, interest rates, corporate governance, and rate of inflation).

Objectives

General Objective:

To determine elements that affect the financial performance of microfinance institutions in Kenya, with microfinance institutions in Narok County as the primary focus.

Specific objectives:

i. To investigate the effects of financial literacy on the financial performance of microfinance institutions in Kenya
ii. To analyze how interest rates charged by microfinance institutions affect their financial performance in Kenya
iii. To examine the effects of corporate governance on the financial performance of microfinance institutions in Kenya
iv. To assess the impact of inflation rates on the financial performance of microfinance institutions in Kenya

Significance of the Study

Several parties participating in Kenya's microfinance organizations will gain from this investigation. This includes:

First of all, the findings of this investigation will be helpful to the management of microfinance organizations since they will help them comprehend some of the components influencing their financial success. To maintain sustained expansion of their organizations, managers will be prepared to make pertinent judgments about how well to avoid specific elements that could negatively impact their financial success. The findings of the investigation will also be helpful to the Narok County government and other decision-makers concerning their upcoming choices. The County administration will be enabled to determine how to best direct its resources to support the overall expansion and long-term viability of microfinance institutions in the area. In conclusion, the investigation's outcomes will also be helpful to other academics because they will serve as a source of reference, offer ideas for potential research, and add to the body of already extensive information on the subject.

LITERATURE REVIEW

Efficiency Structure Theory

According to the efficiency structure theory, increased management concentrations increase profitability. According to Byers et al. (2012), the "balanced portfolio concept" proposed a different angle for examining financial performance. The hypothesis contends that the asset allocation makeup of the microfinance institution, its investors' returns, and its net cash are a consequence of the top managers and the company's policy-making judgments'. According to the hypothesis, both internal and external influences affect financial performance. "Scale efficiency and the X-efficiency concepts" are the two hypotheses that make up the efficiency structure idea. According to the scale-efficiency argument, microfinance institutions see lower operating expenses due to increased size. Companies expand quickly as a consequence of lower costs and more profits. According to the X-efficiency concept, microfinance institutions with better governance and procedures may control expenses and boost earnings. The present survey's evaluation of the corporate governance notion will benefit from this idea.

Monetarist theory

The sustainability of the financial sector remains at stake if the central bank decides not to interfere during an economic meltdown, according to monetarists, who see it as a manifestation of the banking collapse. According to Friedman & Schwartz (1964), collapses of banking institutions occur when people are in a panic. The failure of a bank system causes the supply of money to decline and lowers public trust, which advances the situation. Therefore, a financial meltdown generally happens whenever monetary institutions become unsustainable or illiquid, which leads to large-scale acquisitions, mergers, and the necessity for government aid. The monetarists propose expanding the supply of money as a solution to the problem, counteracting the monetary contraction by re-inflation and the cost of borrowing of the economy. As a result, inflationary pressure has been acknowledged as a macroeconomic phenomenon contributing to financial catastrophe. Since rising inflation ultimately results in higher interest rates, the money supply and inflation are connected. This hypothesis will support ongoing research that aims to evaluate the ideas of inflation and interest rates.

Self-efficacy theory

Self-efficacy is the conviction that one has the skills necessary to do their work efficiently when they see opportunities for some of their efforts to produce outcomes. People with solid self-efficacy will work hard, have fewer uncertainties, engage in operations, and search for additional objectives Taufik and others (2017). People with high degrees of self-efficacy feel confident in their ability to control and arrange their finances effectively. Their self-assurance inspires them to operate at their best. Financial management is applied in this circumstance, even if strategic planning is employed to establish the goal. Strategic planning significantly impacts how well a person does while preparing financial objectives. Personal financial management is described by

Gitman & Bacon (1985) as a technique to control a person's money to attain personal financial happiness. The planning procedure can assist people in taking control of their financial situation. Every person and household has unique requirements for budgeting money to meet necessities and particular objectives. Good financial planning, management, and monitoring will result from solid financial literacy knowledge. It is determined that this hypothesis is pertinent because it describes financial literacy.

Empirical Literature Review

Financial Literacy and Financial performance

Financial literacy is thought to be the most significant aspect of the elevation of the disadvantaged population and bringing them into the official baking sector, as per an investigation by Sayankar & Mali (2022) on the implications of financial knowledge on microfinance institutions' performance in Baroda. The investigation also shows that financial literacy helps people develop their independence, which enables it possible to achieve financial security. Secondary data were used in the investigation to examine Baroda's financial inclusiveness and financial awareness. The survey's conclusions showed that improving MFIs' financial performance requires factors like training provided by the microfinance organization to clients. The report suggested that the government implement regulations that give microfinance consumers financial education.

Jemal (2019) researched the influence of financial education on the financial performance of medium-sized businesses in Hawasa, Ethiopia. Based on the survey, financial knowledge is defined as the capacity to employ understanding and talents to efficiently control financial resources for the survival of a successful institution. The investigation used an explanatory research design and a descriptive survey design. The research population consisted of 2,139 medium-sized businesses in Hawasa City. The sample size of 276 was calculated using Yamane's formula utilizing a stratified random sampling procedure. According to the investigation outcomes, "budgeting, debt management, accounting, and saving literacy" all favor financial success and influence M.E.s' financial results. According to the findings of the study, business owners with solid saving literacy can outperform businesses with inadequate saving literacy. It also suggested that the state prepare financial training sessions for company owners to generate the most knowledgeable and competitive entrepreneurs in the marketplace.

Quintiliani et al. (2018) investigated the influence of financial education on the financial performance of SMEs. According to the report, financial education is a strategic aspect suitable for promoting the expansion of SMEs since business people with sufficient financial education are ideally positioned to adjust their enterprises to a continuously dynamic economic situation. The investigation used a descriptive research design with 162 Italian textile and apparel SMEs as its sample. Additionally, the investigation used two years of secondary data from 2011 to 2013. The survey's conclusions showed a correlation between the financial success of SMEs and financial awareness capabilities. According to the study, SME stakeholders should not undervalue the impact of financial knowledge on their overall success. According to the survey, knowledge, and comprehension are crucial to fostering trust. There is no economic security without trust. Thus persistence, a systematic, all-inclusive approach, and the utilization of cutting-edge technology and creative, user-friendly ways. The components mentioned above of a comprehensive, successful, and long-term endeavor in financial awareness and training should be included.

According to Esiebugie et al. (2018), financial literacy is a person's capacity to reach wise judgments about utilization and resource management. The purpose of the investigation was to look into how financial knowledge affected the performance of firms in the Nigerian state of Benue. The investigation used a cross survey design. With 250 individuals as the target population, 154 were chosen to employ the stratified proportionate sampling approach to reflect the sample size. The investigation results showed that financial knowledge is a crucial indicator of how well SMEs perform in Nigeria. According to the report, governmental organizations, microfinance organizations, and banking institutions should establish financial training initiatives to raise public knowledge of issues that need improvement, such as more efficient funding avenues for new firms.

2.2.2 Interest rates charged by MFIs and financial performance

The impact of borrowing costs on the financial performance of SACCOs in Kenya was the subject of research by Wamukota & Otuya (2021). The study defined interest rates as the cost incurred by the borrowers for using funds obtained from banking institutions or as a payment made on borrowed money and financial success as a gauge of how well a company utilizes its resources to generate income. Among all the materials examined, the survey's secondary data assessment showed a significant correlation between borrowing costs and financial success.

According to a study by Ndegwa et al. (2019) on the impact of borrowing costs on the performance of MFIs in the Imenti North Sub-County, MFIs are compelled to offer higher rates than commercial banks since their operating expenses are higher. The investigation used a descriptive research approach with 14 microfinance organizations as its target population in the Imenti North sub-county. A sample size of 42 people was considered and was randomly chosen from the targeted segment of the population using a survey approach. For the research, the survey included primary and secondary data. The investigation's conclusions showed a relationship between liquidity and the cost of borrowing that MFI charges that is favorable. According to the report, MFIs should charge lending rates comparable to corporate banks to boost loan demand. This indicates that the borrowing costs MFIs charge substantially impact their financial success and that a rise in borrowing rates causes the MFIs to have more liquidity.

A study investigating the impact of interest rates on the operational efficiency of microfinance banks in the Mena Region was conducted by Adair & Berguiga (2017). According to the investigation, the lending borrowing costs should allow MFIs to offer long-term financial solutions to plenty of low-income customers without requiring any kind of subsidies. The research population included nine Mena nations. Secondary data was used in the

investigation from 2004 to 2012. There was a cross-sectional analysis done in the research. The survey's conclusions showed that operational costs influence regional interest rates charged by MFIs.

Financial sustainability calls for MFIs to be prepared to recover lending costs from the overall revenue earned by the existing loan portfolios, thereby raising interest rates and lowering operating expenses. According to a study by Kar & Swain (2014), lending rates have a difficult balance between achieving financial sustainability, expanding accessibility, and serving impoverished people. The investigation sought to examine the impact of interest rates on the profitability of microfinance institutions worldwide. The study used secondary data collected over a six-year timeframe, from 2003 to 2008, from microfinance organizations in 71 different nations. According to research results, lending rates charged by MFIs are positively correlated with their financial results and recommended that governments impose interest limitations to safeguard the poor from being taken advantage of by lending institutions.

2.2.3 Corporate governance and financial performance

El-Chaarani et al. (2022) found that enhanced crisis response resulted from efficient corporate governance structures. The goal of the investigation was to ascertain how corporate governance, in the context of the COVID-19 epidemic, affected the financial success of bankers in the Mena nations. The research design used for the investigation was descriptive. Twenty nations from the Mena area members of the World Bank made up the research population. According to the investigation's outcomes, corporate governance and financial results of businesses in the Mena region are positively correlated.

Another survey by Kyere & Ausloos (2020) looked into how corporate governance affected the financial results of UK-based organizations. According to the research, effective corporate governance should incorporate reliable internal controls for handling different interest parties, which will help to cut down on expensive agency fees. Multi-regression methods were used in the research's descriptive character and research questions. The sample size comprised 252 companies publicly traded on the London Stock Exchange in 2014. The investigation also showed a positive correlation between financial success and corporate governance.

According to Olayiwola's (2018) research on the impact of corporate governance on the financial results of publicly traded corporations in Nigeria, good corporate governance increases accountability and transparency, guarantees the impactful and productive utilization of scarce resources, produces competitive and effectively controlled businesses, and draws and keeps investors. All the corporations listed on the Nigerian Stock Exchange were included in the survey's population, which was quantitative in design. Using the purposive selection method, the researcher chose ten businesses as the sample size. The investigation used data from the selected sample companies between 2010 and 2016. According to the researcher's outcomes, there are significant positive correlations between corporate governance factors and the financial success of firms publicly trading on the Nigerian stock marketplace.

A study analyzing the impact of corporate governance on the financial performances of Kenya's listed insurance organizations was conducted in 2013 by Wanyama & Olweny. According to the investigation, corporate governance is the structure and procedure utilized to steer and handle the firm's business dealings to improve economic success and corporate financial reporting with the final goal of maximizing long-term shareholder real worthwhile placing other stakeholders' interests into consideration. Forty-five listed insurance companies in Kenya were the survey's population, and this number also served as the survey's sample size. According to the investigation's outcomes on board size and membership, the makeup of the board, CEO dualism, and gearing ratio, board size may have a negative and positive impact on the financial success of listed insurance firms. Board diversity and makeup have positive and negative effects on the financial results of listed insurance companies, different CEO duality factors also may have either favorable or unfavorable impacts on the economic success of listed insurance organizations, and gearing of the institution may have both positive and detrimental effects on the financial success of listed insurance companies.

2.2.4 Inflation rate and financial performance

Walde & Makori (2022) looked into macroeconomic factors and the financial results of deposit-taking MFIs in the Kenyan economy in connection to the rate of inflation and financial results. The study claims that macroeconomic parameters, including savings and investment, rate of inflation, GDP, exchange rates, interest rates, and employment, are significant drivers of economic success, which are also carefully watched by banking institutions, investors, and governments. The investigation used a causal research design to identify the association between the dependent and independent factors. Thirteen MFIs made up the research target population and the sample size. The study's outcomes revealed that the inflation rate has a moderately statistically substantial positive impact on the financial health of deposit-taking Microfinance Institutions. The analysis suggested that for the managing committee members of microfinance institutions to change their lending services in alignment with the local consumer price index, they must also constantly check the inflationary pressures within the local economy.

Moyo & Tursoy (2020) an investigation to ascertain the impact of consumer price index and exchange rate fluctuations on the financial success of commercial bankers in South Africa. The research defined inflation as a consistent rise in prices of commodities and services throughout a particular economy. Overall results of the investigation showed a clear detrimental association between the rate of inflation, exchange rate fluctuations, and the financial success of banking institutions in South Africa. The best four outperforming banking institutions in South Africa were the target population for the survey's descriptive survey methodology, which served as the sample size.

Inflation is described as a rise in the prevailing price of commodities over time in a given economy or nation by an investigation conducted by Batsinda & Shukla (2019) concerning the implications of the inflation rate and the financial performance of commercial banking institutions in the Rwandan economy. A descriptive survey methodology was used in the investigation, and the survey target group comprising 26 responders served as the sample size. Overall results of the research showed how various forms of inflationary pressure influence banking institutions' performance. According to the report, banking institutions in the Rwanda economy ought to work to reduce inflationary pressure and make money by using innovative and slightly elevated solutions.

An additional investigation conducted by Ali & Ibrahim (2018) analyzing the relationship between inflation pressure and firm profitability showed that the inflation rate considerably impacts firms' earnings by influencing the number of expenses and sales quantity. The investigation combined quantitative methodologies and a causal connection methodology to investigate how rising prices affect business success as measured by gross income. Fifty (50) operational manufacturing corporations listed on Bursa, Malaysia's primary market as of June 2016, made up the survey's sample size. Overall outcomes of the study demonstrated a strong positive favorable correlation between gross income and inflation index. Accordingly, the rate of inflation influences earnings by affecting the connection between costs and pricing, the overall amount of expenses, and the overall quantity of sales.

2.3 Summary and Research Gaps

Numerous research has been done investigating various variables affecting the overall financial result of MFIs within the Kenyan economy and other jurisdictions. Sayankar & Mali (2022) claim that consumers' financial knowledge significantly impacts the financial results of MFIs in Baroda (Vadodara city), India. On the one side, this assessment focused on how financial awareness affects the overall profitability of MFIs organizations throughout Vadodara city, India. The current study will be conducted within the Kenyan economy, particularly inside Narok County's MFIs. Additionally, Jemal (2019) looked into how financial education to clients affected the overall business results of medium-sized businesses in Hawasa city of Ethiopia. The current investigation mainly concentrates on MFIs in Narok County, Kenya, as opposed to the previous research by Jemal (2019), which focused on medium-sized firms in Hawasa City in the Ethiopian economy.

According to Quintiliani et al. (2018) investigation, there is a significant statistically positive correlation between financial awareness components such as cost of training, economic behavior, and risk control, among others, and the financial success of SMEs. This analysis's emphasis lies around how financial awareness affects SMEs' success. The overall focus of the current investigation will be on MFIs institutions. Esiebugie et al. (2018) also researched financial results and education within Nigerian economic boundaries. While the present investigation will concentrate on MFIs institutions within Kenya's Narok County, the latter was based on businesses inside the Nigerian economy.

An examination of the empirical research revealed a strong connection between borrowing costs and the financial success of SACCOs. A study exploring the influence of lending rates and overall business results of SACCOs within the Kenyan economy was conducted by Wamukota & Otuya (2021). The assessment concentrated mainly on SACCOs, while the current research focuses on Narok County's MFIs. Ndegwa et al. (2019) aimed to investigate how borrowing costs affected the financial success of MFIs across Kenya's Imenti North Sub-County. The initial research examined MFIs in the Imenti North sub-county in Kenya, but this current research will be focused on those MFIs in Narok County. Kar & Swain (2014) further tried to look into how the profitability of MFI around the world was affected by the borrowing costs they charged. The research concentrated on the MFI in various jurisdictions, whereas the current investigation will be focused on the MFI in Kenya, specifically Narok County.

El-Chaarani et al. (2022) investigated how corporate governance affected the overall financial success of bankers doing business inside the Mena Countries. This present research mainly concentrated on MFIs existing in Narok County, within Kenya's economy, while the initial examination targeted the deposit-taking bankers located inside the Mena Zone. An additional study by Kyere & Ausloos (2020) also looked into the overall impact of corporate governance and financial profitability for UK-based businesses. In contrast, the present survey focused mainly on MFIs in Narok County, Kenya, while the previous paper centered on firms allowed to operate within the United Kingdom. The third independent factor remained the subject of an empirical research question, and considered results from the analysis showed a significant favorable association connecting the factor and financial results.

Olayiwola (2018) looked into how corporate governance affected the financial results of publicly traded companies on the Nigerian stock exchange. The research mainly focuses on MFIs operating in Narok County, Kenya, whereas the previous survey concentrated on companies publicly trading on the Nigerian stock exchange. In contrast, the ongoing research concentrated on the MFIs in Narok County, Kenya, and the previously stated research focused on the publicly traded firms in Nigeria. Wanyama & Olweny (2013) also explored the impact of corporate governance and financial results of publicly trading insurance corporations throughout the Kenyan economy. This investigation focused on publicly trading insurance firms in Kenya, while the present investigation focuses on MFIs in Narok County.

According to empirical research, there is a strong correlation between the final survey factor and financial results. Macroeconomic factors and associated effects on the overall financial success of deposit-taking Microfinance organizations within Kenya's economy were investigated by Walde & Makori (2022). The present research aims at looking into inflationary pressures and associated effects on the financial results of Microfinance institutions within Narok County in Kenya, notably as opposed to the previous analysis by Walde & Makori (2022), which concentrated mainly on a few macro-economic variables, notably GDP, employment and lending rates.

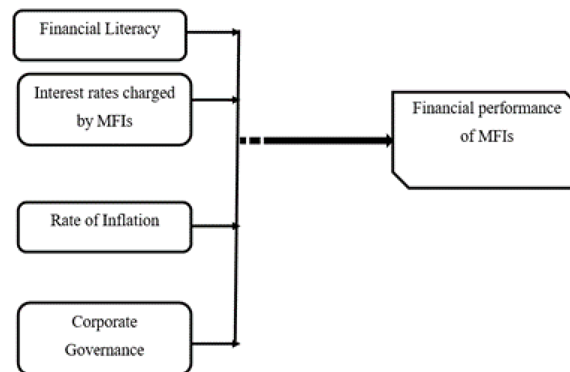
Further investigation conducted by Moyo & Tursoy (2020) looked at rising prices' overall impact on the financial sustainability of South African banking institutions. In contrast to the present research, which primarily concentrates on MFIs operating in the Kenyan economy, specifically Narok County, the previous survey targeted bankers operating in South Africa. An additional, related study on the overall impact of the rising rate of inflation on bankers'

earnings was conducted by Batsinda & Shukla (2019). Whereas the present research will concentrate mainly on MFIs operating in Kenya's economy, particularly within Narok County, previous research focused on bankers operating in Rwanda. In the final empirical review, Ali and Ibrahim (2018) also looked into the connection between company profitability and the indicators of the rate of inflation in Bursa, Malaysia. In contrast, the present research concentrated on MFIs operating in Kenya, specifically Narok County, and the study mentioned above focused on MFIs operating in Bursa, Malaysia.

Conceptual Framework

Dickson et al., 2018) defines conceptual framework as a structure that the researcher believes will best describe the natural course of the topic under investigation. The theoretical review, empirical research, and other significant concepts can be linked to the conceptual framework to enhance and systemise the researcher's knowledge (Peshkin, 1993). It explains how the statement of the problem will be explored. The conceptual framework depicts an integrated approach to an issue under investigation (Liehr and Smith, 1999). Based on the literature review discussed above, the relationship between the variables can be depicted by the diagram below to guide the research.

Figure 1 : Conceptual Framework



Operationalisation of variables

Table 1: Operationalisation of variables

Variables	Indicators	Measurement
Financial Performance	• Improved output of services • Positive ROI • Positive ROA • Self-reliance	Likert scale (5 – 1) where: (5-Great extent, 4- Moderate Extent, 3-Neutral Extent, 2- No extent & 1- No effect).
Financial literacy	• Expenses of training clients • Risk control initiatives • Financial capability • User perceptions towards MFIs products & services	Likert scale (5 – 1) where: (5-Great extent, 4- Moderate Extent, 3-Neutral Extent, 2- No extent & 1- No effect).
Interest Rates	• Borrowing costs shifts • Money market forces • Monetary policies • Rate of inflation	Likert scale (5–1) where: (5-Great extent, 4- Moderate Extent, 3-Neutral Extent, 2- No extent & 1- No effect).
Corporate Governance	• Board of Directors formation • Size of the Board of Directors • Openness and accountability • Effectiveness of BOD	Likert scale (5 – 1) where: (5-Great extent, 4- Moderate Extent, 3-Neutral Extent, 2- No extent & 1- No effect).
Rate of Inflation	• Consumer price index • Increasing supply of money • Regulations & Policies • Labour unions demanding a wage rise	Likert scale (5 – 1) where: (5-Great extent, 4- Moderate Extent, 3-Neutral Extent, 2- No extent & 1- No effect.

RESEARCH METHODOLOGY

Research Design

A descriptive study will be utilized as the primary research methodology to comprehensively explore the selected research factors affecting the financial performances of the MFIs operating in Narok County, Kenya. With the descriptive method, the investigation will attempt to capture the essence of the research's purpose, course of action, and outcomes, concerning the underlying factors. This methodology was ideal since the overall results of the descriptive research methodology always reveal individual responses' ideas and feelings concerning individual factors that influence the research. Using the descriptive research approach, reliable data can be comfortably acquired using interviews, surveys, observations, and case studies.

Descriptive research is highly logical, Mugenda & Mugenda (2013), making it easier for the researcher to analyze the data required to prove a connection between the investigation variables.

Target Population

As per Saunders et al. (2009), a research population can be described as a comprehensive grouping of each factor being investigated in a research study; the author further reveals that it includes the inclusion of the total number of respondents intended for the investigation. Workers from the ECLOF Kenya Narok Branch and Kenya Women Microfinance Bank will be chosen, categorized, and grouped to respond to the survey's questions. For this project, 155 workers from the MFIs mentioned above in Narok County will be employed to represent the study population.

Table 2: Target Population

Participants	Frequency	Percentage
Credit officers	30	18.75
Departmental Heads	20	12.50
Section Heads	30	18.75
Support Staff	80	50
Total	**155**	**100**

Sample and sampling techniques

The research aims to employ a simple random sampling technique. According to Mugenda & Mugenda (2013), a sample can be described as a portion of the entire research target population to be examined to make generalizations regarding the whole research target population. Saunders et al. (2020) explained the sampling technique as the process whereby a researcher selects a sample depending on the knowledge or experiences of the target population under the survey. According to Mugenda & Mugenda (2013), when the investigation target population is less than ten thousand (10,000) volunteer responders, a sample limit of any percentage between 10 % and 30 % can be considered as an adequate representation of the fundamental research intended population. The investigation used 30 % to determine the sample size of the calculated study population.

Table 3: Sample size

Participants	Frequency (30%)	Percentage
Credit officers	30×0.3= **9**	18.75
Departmental Heads	20×0.3=**6**	12.50
Section Heads	30×0.3=**9**	18.75
Support Staff	80×0.3=**24**	50
Total	**48**	**100**

Data Collection Instrument

The researcher aims to provide all the study volunteer responders with uniform surveys. This research will incorporate a combination of open-ended and closed-ended surveys. The research instrument will be tested first using respondents who will not participate in the investigation before the actual data gathering. Any improvements will be made as applicable.

RESEARCH FINDINGS AND DISCUSSION

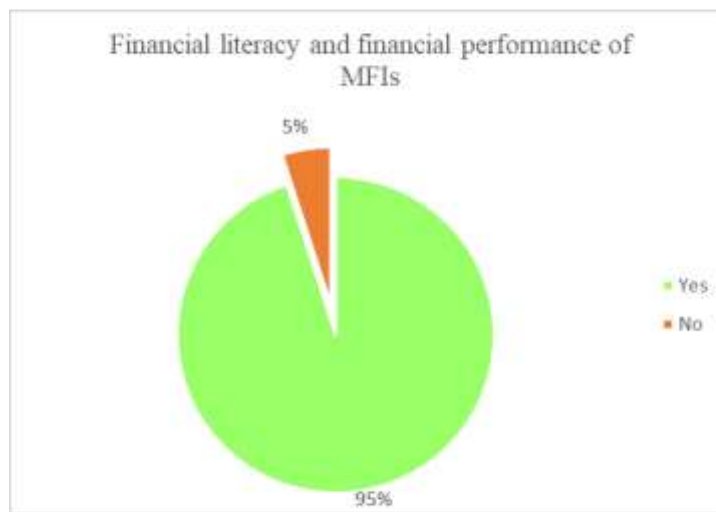
Participants' opinion on whether financial literacy affects financial performance

An overwhelming number of respondents (95%) believed that financial literacy affects the financial performance of MFIs, whereas only 5% were of the contrary opinion. From these outcomes, it can be concluded that financial literacy is an important variable to consider when evaluating the financial performance of MFIs in Kenya.

Table 4: Financial literacy and financial performance

Opinion	Frequency	Proportion (%)
Yes	40	95
No	2	5
Total	**48**	**100**

Figure 2: Financial literacy and financial performance



The investigator issued some statements concerning the study variable to supplement these findings. The aim was to determine the extent of the effect of financial literacy on the financial performance of MFIs in Kenya. From the research findings, a large proportion of the responders concurred to a large extent with the claims made by the statements issued. The outcomes achieved an average mean of 3.61 and a standard deviation of 3.34. This outcome leads to the conclusion that financial literacy affects the financial performance of MFIs. The standard deviation is used to show the variations of the claims from the mean.

Table 5: Extent of the influence of financial literacy on financial performance

Statements	Great Extent	Moderate Extent	Neutral Extent	Low Extent	No Extent	Mean	Std. Dev.
The cost involved in educating MFIs clients impacts their financial performance.	17 40.5%	11 26.2%	0 0%	11 26.2%	3 7.1%	3.67	3.43
Financial literacy initiatives help MFIs risk management initiatives, thus influencing their financial performance.	12 28.6%	14 33.3%	0 0%	13 31%	3 7.1%	3.45	3.21
Increasing clients' financial knowledge and skills help increase awareness concerning services offered by MFIs and thus their financial performance.	15 35.7%	13 31%	3 7.1%	9 21.4%	2 4.8%	3.71	3.42
Shifts in consumer attitudes towards services offered by MFIs can be attributed to a lack of financial literacy, and this affects the financial performance of MFIs.	11 26.2%	15 35.7%	5 11.9%	11 26.2%	0 0%	3.62	3.28
Average Mean						3.61	3.34

Participants' opinion on the effect of interest rate on financial performance

A large proportion of responders (76.2%) believed that interest rates charged by MFIs affect their financial performance, whereas only 23.8% were of the contrary opinion. From these outcomes, it can be concluded that interest rates charged by MFIs are a critical variable to consider when evaluating the financial performance of MFIs in Kenya.

Table 4: Interest rate charged and financial performance

Opinion	Frequency	Proportion (%)
Yes	32	76.2
No	10	23.8
Total	**48**	**100**

Figure 3: Interest rates charged and financial performance

To supplement the conclusion drawn from table 10 and figure 8, the investigator issued four statements to determine the effect of interest rates charged by MFIs on their financial performance. The investigation achieved an average mean of 3.61 and a standard deviation of 3.34. From these findings, the researcher concluded that interest rates charged by MFIs affect their financial performance.

Table 5: Extent of the effect of interest rates on financial performance

Statements	Great Extent	Moderate Extent	Neutral Extent	Low Extent	No Extent	Mean	Std. Dev.
Shifts in the national interest rates as a result of monetary policy regulations impact the financial performance of MFIs	14 33.3%	17 40.5%	1 2.4%	8 19%	2 4.8%	3.79	3.47
Demand and supply of money within the economy influence the financial performance of MFIs	15 35.7%	11 26.2%	7 16.7%	5 11.9%	4 9.5%	3.67	3.39
Unfavorable (for instance, high-interest rates) enacted by the CBK affect the financial performance of MFIs.	14 33.3%	10 23.8%	4 9.5%	9 21.4%	5 11.9%	3.45	3.24
The rise in the prices of goods and services in the economy affects the interest rates charged by the MFIs, which can affect the financial performance of MFIs both positively and negatively.	15 35.7%	12 28.6%	0 0%	10 23.8%	5 11.9%	3.52	3.32
Average Mean						**3.61**	**3.36**

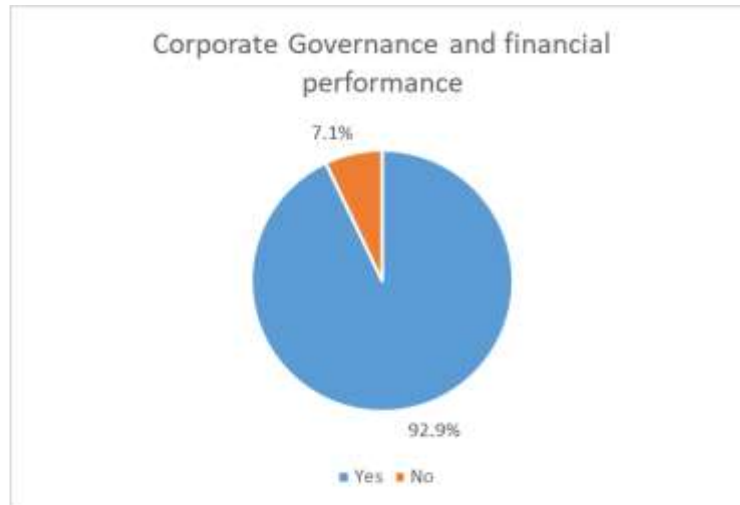
Responders' opinion on the impact of corporate governance and financial performance

The investigator issued a Yes or No question concerning the influence of corporate governance and the financial performance of Microfinance institutions. The investigator wanted to know how many participants believed that corporate governance does affect the financial performance of the MFIs. A large percentage of the participants (92.9%), as depicted in table 12 and figure 9, concurred that corporate governance affects the financial performance of MFIs, whereas only 7.1% were of contrary opinion.

Table 8: Corporate governance and financial performance

Opinion	Frequency	Proportion (%)
Yes	39	92.9
No	3	7.1
Total	**48**	**100**

Figure 3: Corporate governance and financial performance



Four claims issued by the researcher supplemented this outcome. The claims were meant to determine if corporate governance affects the financial performance of MFIs. The finding revealed to a great extent that most responders concurred with the shares issued. The findings achieved an average mean of 3.85 and a standard deviation of 3.19. The researcher thus concluded that corporate governance affects the financial performance of MFIs to a great extent.

Table 9: Extent of the effect of corporate governance on financial performance

Statements	Great Extent	Moderate Extent	Neutral Extent	Low Extent	No Extent	Mean	Std. Dev.
BOD structure can positively or negatively influence the financial performance of MFIs.	17 40.5%	10 23.8%	2 4.8%	8 19%	5 11.9%	**3.98**	**3.36**
A MFIs comprising many BOD members can negatively affect their financial performance.	11 26.2%	16 38.2%	4 9.5%	8 19%	3 7.1%	**3.79**	**3.25**
An MFI with transparent and accountable members will likely experience high financial performance.	12 28.6%	13 31%	3 7.1%	7 16.7%	7 16.7%	**3.88**	**3.11**
The effectiveness and efficiency within which the MFIs offer their services to their clients may have a positive impact on their financial performance.	9 21.4%	17 40.5%	0 0%	10 23.8%	6 14.3%	**3.74**	**3.03**
Average Mean						**3.85**	**3.19**

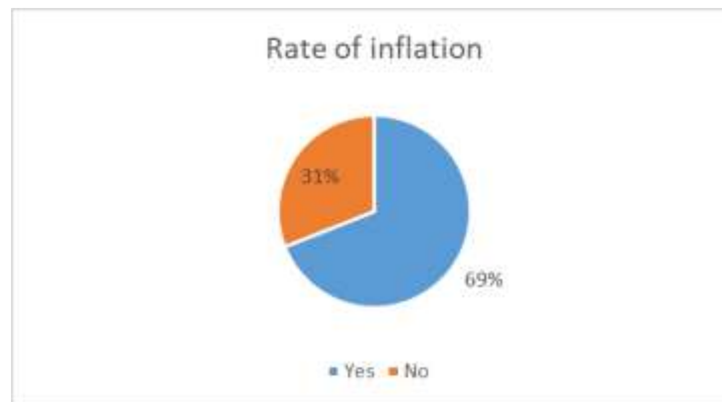
Responders' opinion on the effect of the rate of inflation on financial performance

This analysis revealed that a large percentage of the responders, 69% were of the idea that the rate of inflation affects the financial performance of MFIs, whereas only 31% were of contrary opinions

Table 6: Rate of inflation and financial performance

Opinion	Frequency	Proportion (%)
Yes	29	69
No	13	31
Total	**48**	**100**

Figure 4: Rate of inflation and financial performance



The investigator also issued statements concerning the rate of inflation and financial performance. The statements aimed to determine the extent of the effect of the independent variable on the dependent variable. The findings revealed that in all the statements issued, respondents seemed to agree to a large extent that the inflation rate affects the financial performance of MFIs. The outcome achieved an average mean of 3.46 and a standard deviation of 3.19. The standard deviation indicates the variation from the mean. Thus the research concluded that the rate of inflation influence the financial performance of microfinance institution operating in Kenya.

Table 7: Extent of the effect of the rate of inflation on financial performance

Statements	Great Extent	Moderate Extent	Neutral Extent	Low Extent	No Extent	Mean	Std. Dev.
The MFIs can use CPI to determine the prices of goods and services in the economy; thus, it enables them to set strategies to improve their financial performance.	12 28.6%	15 35.7%	0 0%	13 31%	2 4.8%	**3.52**	**3.26**
Increased money supply within the economy is positively related to the financial performance of microfinance institutions in Kenya.	11 26.2%	14 33.3%	3 7.1%	10 23.8%	4 9.5%	**3.43**	**3.18**
Policies and regulations aimed at curbing the rate of inflation in the economy also positively affect the financial performance of microfinance institutions	9 21.4%	18 42.9%	0 0%	9 21.4%	6 14.3%	**3.36**	**3.14**
Demand by a labor union to raise wages due to rising inflation affects the financial performance of microfinance institutions.	6 14.3%	21 50%	7 16.7%	5 11.9%	3 7.1%	**3.74**	**3.03**
Average Mean						**3.46**	**3.19**

Regression analysis

The investigation used the SPSS version 28.0.0.1 to analyze the relationship between the independent and dependent variables. According to the regression analysis outcome, the R-value is 0.801, indicating a good level of prediction. This analysis indicated a strong relationship between the predictors and the dependent variable. The R-squared of the model is 0.642. The R-squared value shows that Financial Literacy, interest rates charged, corporate governance, and inflation rate predicts or explains 64.2% of the variations experienced in the financial performance of microfinance institutions.

Table 8: Model Summary

Model	R	R-Square	Adjusted R Square	Std. Error of the Estimate
1	0.801[a]	0.642	0.586	0.436

a. Predictors (constant) Financial Literacy, the Interest rate charged, corporate governance, and inflation rate.

b. **Dependent variable:** Financial performance of MFIs.

ANOVA Analysis

According to table 13, the F-value indicates that the model was a good fit. This can be attributed to the F-value of 34.221 and the P-Value of 0.00, which is less than the P-value of 0.05.

Table 9: ANOVA analysis

Model 1	Sum of Squares	df	Mean Square	F	Sig
Regression	21.08	4	5.270	34.221	0.00[b]
Residual	15.83	103	0.154		
Total	**36.91**	**107**			

a. **Predictors (constant):** Financial Literacy, the Interest rate charged, corporate governance, and inflation rate.

b. **Dependent variable:** Financial performance of MFIs.

Regression Coefficients

Table 10: Coefficients of regression

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-10.84	.179	.614	4.857	.000
Financial literacy	.319	.082	.556	7.865	.004
Interest rates charged	.218	.083	-.236	-2.816	.006
Corporate Governance	.198	.082	.142	1.719	.034
Rate of inflation	.021	.063	.223	2.503	.011

As per the output from the SPSS latest version, the investigation equation can be written as $Y = -10.84 + 0.319X_1 + 0.218X_2 + 0.198X_3 + 0.021X_4$. This equation indicates that Microfinance institutions' financial performance at constant zero decreases by -10.84. Additionally, Ceteris paribus at zero, a unit decrease in financial literacy culminates in a 31.9% (0.319) decrease in the financial performance of Microfinance institutions. In similar circumstances, a unit decrease in interest rates charged by microfinance institutions will result in a 21.8% (0.218) decrease in their financial performance. Furthermore, decreasing corporate governance performance by one unit will decrease the financial performance of microfinance institutions by 19.8% (0.198). In conclusion, a unit decrease in the inflation rate will result in a 2.1% (0.021) decrease in the financial performance of MFIs. The above analysis shows the effect of each independent variable in decreasing order. Therefore, at a 5% level of significance and 95% confidence interval, the independent variables (Financial literacy, Interest rate charged, corporate governance, and rate of inflation) are relevant in explaining the link between the independent and dependent variables, as their level of significance is below 5%.

Summary of findings

The investigation issued 48 surveys, of which only 42 were completed and returned. This provided an 87.5% response rate, considered favorable for the data collection procedure. The investigation also achieved a two-thirds gender rule enshrined in the Kenya constitution 2010. A large proportion of the participants ranged from 23 to 41 years. Most of the study participants were well learned, with a large proportion having 1-10 years of work experience.

Effect of financial literacy on the financial performance of MFIs

To begin, the investigation's first research-specific objective was to determine the effect of financial literacy on the financial performance of microfinance institutions operating in Kenya. The main focus was channeled to MFIs active in Narok County. To answer the research question concerning the objective mentioned above, the researcher posed a question to the responders and issued claims concerning the variable. The outcomes from the posed question revealed that an overwhelming proportion of the responders, 95%, agreed that financial literacy influences the financial performance of MFIs in Kenya. In comparison, 5% were of the contrary opinion. The claims' outcomes revealed that most respondents concurred with the claims. This is evident from the average mean of 3.61 and a standard deviation of 3.34. The regression analysis revealed that a unit decrease in financial literacy results to 31.9% (0.319) decrease in the financial performance of microfinance institutions.

Effect of interest charge by MFIs on their financial performance

In addition, the investigation sought to determine the influence of interest rates charged by MFIs on their financial performance. The investigator also posed a question to the responder to get their opinion concerning the effect of the independent variable on the dependent variable. The findings showed that 76.2% of the respondents believed that interest rates charged by microfinance institutions affect their financial performance, whereas only 23.8% disagreed. The opinion that interest rates charged by MFIs affect their financial performance was supplemented by the four statements issued concerning the study variable. The outcome from the statements showed a mean of 3.61 and a standard deviation of 3.36. This implies that a majority of the responders concurred with the statements issued. The regression analysis outcome revealed that a unit decrease in the interest rate charged results to a 21.8% (0.218) decrease in the financial performance of microfinance institutions.

Effect of Corporate governance on the financial performance of MFIs

Furthermore, to objectively answer the third study, the researcher posed a question to the responders concerning the study's independent and dependent variables and issued four assertions relating to the same. The findings revealed that an overwhelming proportion of the responders, 92.9% agreed that corporate governance influences the financial performance of microfinance institutions active in Kenya, whereas only 7.1% were of contrary opinion. The assertions revealed that most participants concurred with the claims, represented by an average mean of 3.85 and a standard deviation of 3.19. The regression analysis revealed that a unit decrease in the corporate governance performance results to 19.8% (0.198) decrease in the financial performance of Microfinance institutions.

Effect of rate of inflation on the financial performance of MFIs

In conclusion, the findings from the fourth specific variable revealed that 69% of the respondents agreed that the rate of inflation affects the financial performance of microfinance institutions operating in Kenya. In contrast, only 31% do not agree that the inflation rate affects the financial performance of MFIs. The statements issued showed that a large proportion of the responders concurred with the issued assertions. These findings were represented by an average mean of 3.46 and a standard deviation of 3.19. the regression analysis revealed that a unit decrease in the rate of Inflation results to 2.1% (0.021) decrease in the financial performance of microfinance institutions.

Conclusion

From the study findings, it can be concluded that financial literacy, interest rates charged by MFIs, corporate governance, and rate of inflation are among significant variables that cannot be overlooked in the determination of the financial performance of microfinance institutions. The cost involved in training clients of microfinance institutions eats into the firm's profitability and, thus, to an extent, affects their financial performance. MFIs clients' perception was also found to be a significant factor in determining the uptake of microfinance services and, thus, to a great extent, affect their financial performance. Fluctuations in borrowing costs within the economy, shifts in demand and supply, monetary policy initiatives by the CBK, and the rate of inflation were found to affect the financial performance of microfinance institutions to a great extent. Corporate governance issues such as the structure of the board of directors, the size of the board, the openness and accountability of the board, and the effectiveness of the committee were found to affect the financial performance of microfinance institutions to a great extent. The consumer price index, increasing supply of money, regulations, policies, and labor unions' demand for wage rise can be used by microfinance institution players to gauge the rate of inflation within the economy and devise strategic measures to curb its effect on their financial performance. The investigation also found out that, ceteris paribus at zero, the financial performance of Microfinance institutions increases by -10.84. Taking each independent variable into account, a unit decrease in financial literacy decreases the financial performance of microfinance institutions by 31.9% (0.319). Similarly, a unit decrease in the interest rate charged by microfinance institutions decreases their financial performance by 21.8% (0.218). Additionally, a unit decrease in similar circumstances of the corporate governance issues will result in 19.8% (0.198) decrease in the financial performance of microfinance institutions. In conclusion, under similar circumstances, a unit decrease in the rate of inflation will lead to a 2.1% (0.021) decrease in the financial performance of Microfinance institutions. From these outcomes, the investigation concluded that financial literacy, interest rates charged by microfinance institutions, corporate governance, and inflation rate affect the financial performance of microfinance active in Narok County and within the country.

Recommendations

The investigation recommends the following:

1. Microfinance institutions should invest heavily in training their customers about their products and services. This will help increase consumer awareness and help eradicate poverty among the underprivileged members of the community. The regulator should also develop policies, providing mandatory training by all microfinance institutions active in Kenya.
2. The CBK should develop monetary policies to protect microfinance institutions' operational efficiency. This will enable microfinance institutions to remain sustainable for an extended time. The regulator should also establish policies to protect consumers against exploitation by microfinance institutions.

3. The microfinance institutions should comprise a BOD that is open and accountable, incorporates the right size, and is effective and efficient in addressing matters affecting the performance of the microfinance institutions.

Recommendation for future research

This investigation looked into selected variables that influence the financial performance of microfinance institutions. Future research can concentrate on the effect of the coronavirus pandemic on the various indicators of the operational sustainability of microfinance institutions active in Kenya.

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