

**THE EFFECT OF CAPITAL STRUCTURE ON PROFITABILITY OF
MICROFINANCE INSTITUTIONS IN KENYA**

BY

ADELA IRENE ADHIAMBO

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**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN
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ABSTRACT

The challenges faced by microfinance institutions in their capital structure satisfied the conduct of this study, which assessed the impact of capital structure on the profitability of MFIs in Kenya. It has closely examined the impact of equity and debt on the profitability of MFIs. The study adopted a cross-sectional design for survey research. The study used research questionnaires to collect data. The instrument was pre-tested to collect data. To facilitate data analysis, the software package Statistical Package for Social Sciences was used. Both descriptive and inferential statistics formed a data analysis. The null hypotheses were tested at a confidence level of 95%. The results of the analysis were presented in tables. The study found that equity did not materially affect the profitability of MFIs. However, leverage had a significant impact on reported profitability. In addition, it has been shown that the capital structure generally has a significant impact on the profitability of MFIs. The study concluded that the equity ratio of MFIs is increasing. The study concluded that leverage is the last funding option for MFIs. The study recommended that owners of MFIs contribute more capital in emergency situations or that the source of funding is available only through capital injection. The study also recommended that more debt be used to finance the activities of MFIs.