CORPORATE GOVERNANCE PRACTICES IN MICRO-FINANCE INSTITUTIONS IN NAIROBI, KENYA

BY

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DECLARATION

STUDENT'S DECLARATION

I, hereby declare that this research project is my original work and has not been previously published or presented for award of degree in any other university or any other examination body. No part of this research should be reproduced without my consent or that of University of Nairobi.

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SUPERVISOR'S DECLARATION

The research project has been submitted for review with my approval as university supervisor.

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I dedicate this work to all of you and all the generations to come.

Thank you and God bless you abundantly.

ABSTRACT

Governance is about achieving corporate goals. For most MFIs, dual goals exist i.e. the social and economic perspectives. Good governance involves effective guidance of the board of MFIs to manage the management team by implementing the regulatory framework of the Microfinance Act of 2006 and developing systems and procedures. The regulators in Kenya have provided a clear directive which focuses on governance and management by introducing strict licensing and minimum capital requirements; capital adequacy rules; fiduciary responsibilities and standards regarding owners, directors and executive managers of MFIs; providing guidelines on risk management and related policies. Despite the efforts of the regulators, many of the MFIs have given very little attention to corporate governance and risk management, which affects their entire performance. MFIs face problems related with governance, emanating from internal and external factors that threaten their operational and financial sustainability. This study established that most stakeholders are outsiders. This study recommends that a competent and motivated board together with institutional capacity is critical to advancing CG in the microfinance sector.

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ACRONYMS AND ABBREVIATIONS

ACCA	Association of Certified Chartered Accountants
AMFI	Association of Microfinance Institutions
CG	Corporate Governance
CGAP	Consultative Group against the Poor
CEO	Chief Executive Officer
CLERP	Corporate Law Economic Reform Programme
CMA	Capital Markets Authority
CBO	Community Based Organizations
CSR	Corporate Social Responsibility
DTM	Deposit Taking Microfinance
IFAC	International Federation of Accountants
IAS	International Accounting Standards
MFIs	Microfinance Institutions
NGOs	Non-Governmental Organizations
NSE	Nairobi Stock Exchange
OECD	Organization for Economic Co-operation and Development
PSCGT	Private Sector Corporate Governance Trust
SACCOs	Savings and Credit Co-operatives
SPSS	Statistical Package for Social Sciences

CHAPTER ONE: INTRODUCTION

This chapter highlights the background of the study in regard to corporate governance, the history of corporate governance, best practices of corporate governance in the context of micro-finance institutions (MFIs), the problem statement, the objectives of the study, the research questions, the scope and the significance of the study.

1.1 Background of the Study

It has become increasingly evident that our continued prosperity as nations, communities, and even as dignified individuals, is closely linked with our ability to create, strengthen and maintain profitable, competitive and sustainable enterprises. The viable, competitive and sustainable modern enterprise requires an organization of basic resources (capital, material and human) concentrated in large aggregations giving the men and women entrusted to run those enterprises power over people, resources etc such that their decisions have great impact upon the society, the very lives of entire communities and can shape the future of nations. This explains why concepts such as business process improvement, re-engineering, total quality management, strategic management, corporate citizenship, corporate social responsibility (CSR) and business ethics have become buzzwords in the contemporary business world.

The importance of corporate governance lies in its contribution both to business prosperity and to accountability. Public companies are now among the most accountable organizations in society. They publish trading results and audited accounts; and they are required to disclose much information about their operations, relationships, remuneration and governance arrangements. But the emphasis on accountability has tended to obscure a board's first responsibility to enhance the prosperity of the business over time. Business prosperity cannot be commanded. People, teamwork, leadership, enterprise, experience and skills are what really produce prosperity. There is no single formula to weld these together, and it is dangerous to encourage the belief that rules and regulations about structure will deliver success (Noriza & Rosenberg, 2003).

Any definition of corporate governance needs to encompass fundamental values of transparency, accountability, fairness, and responsibility. The Association of Chartered Certified Accountants (ACCA) defines three main purposes of corporate governance, which are to ensure the board, as representatives of the organization's owners, protects resources and allocates them to make planned progress towards the organization's defined purpose, to ensure those governing and managing an organization account appropriately to its stakeholders, to ensure shareholders and, where appropriate, other stakeholders, can and do hold boards to account. Inherent in all three of these factors is the requirement to transparently disclose the corporate governance structure, processes and issues faced by the company. Organizations need to demonstrate their authentic commitment to these values in order to create and sustain the confidence of investors, stakeholders, and society as a whole. An ACCA policy paper published in 2008 contains ten principles which ACCA considers fundamental to all systems of corporate governance and risk management. These encourage organizations to structure their corporate governance to reflect fair and balanced management of the company and to remain responsive to changing market risks while also acknowledging, the important role that recognizing opportunities plays (ACCA Report, 2008).

In 1997, the Commonwealth Treasury went a little further in the context of the Corporate Law Economic Reform Program Paper (CLERP) No. 3, Directors' Duties and Corporate Governance, defining corporate governance as "the term used to describe the rules and practices put in place within a company to manage information and economic incentive problems inherent in the separation of ownership from control in large enterprises. It deals with how, and to what to extent, the interests of various agents involved in the company are reconciled and what checks and incentives are put in place to ensure that managers maximize the value of the investment made by shareholders" (p.3)

Corporate governance is about how an organization is directed and controlled. It is about the structures and processes in place to facilitate and monitor effective management of an organization, including mechanisms to ensure legal compliance and prevent improper or unlawful behaviour. However, as the Organization for Economic Co-operation and Development (OECD, 2006) definition below indicates, the emphasis on relationships is central to broader definitions of corporate governance. The OECD takes a broad view of corporate governance and defines it as the full set of relationships among a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance determined,

According to Tilahun and Kibre (2007) the term corporate governance has come to mean a process by which companies (where separation of ownership and control prevail) are directed and controlled. This separation of ownership from control (management) implies a loss of effective control by shareholder over managerial decisions. As a result of this separation between the two parties, a system of corporate governance controls is implemented to assist in aligning the incentives of the managers with those of the shareholders. Under this circumstance, the role of the state is very crucial. According to Thomsen (2008), costs stem from market-based contracts between the enterprise and its stakeholders (for example, employees, customers and debt holders), and from the practice of ownership. The argument is that these costs can be minimized depending on who owns the enterprise. Because owners may have different incentives to control management, the study of ownership is important in corporate governance literature (Thomsen, 2008).

The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society." Good corporate governance leads to development of a framework that provides adequate protection to the interests of stakeholders and reinforces the fiduciary responsibilities of those vested with the authority to act on behalf of the stakeholders. Corporate governance encourages companies and those who own and manage them to achieve their corporate objectives through a more efficient use of resources. Moreover, corporate governance framework should recognize the rights of stakeholders as established by law. Corporate governance is a significant factor in improving economic efficiency and growth. It has been empirically tested that good governance practices of a company gives a positive signal to investors. With the globalization of markets, international capital flows have become extremely valuable source of external financing.

1.1.1 Corporate Governance Concept

Corporate governance involves the following two dimensions, which are the responsibility of the board (or governing body/individual): 1. Performance -monitoring the performance of the organization and CEO. This also includes strategy setting organizational goals and developing strategies for achieving them, and being responsive to changing environmental demands, including the prediction and management of risk. The objective is to enhance organizational performance. 2. Conformance -compliance with legal requirements and corporate governance and industry standards, and accountability to relevant stakeholders (OECD, 2004). Increasingly, the concept 'corporate governance' is used in the public sector as well as the private sector. While there are some similarities between the two sectors in governance terms, there are also significant differences that shape the way government departments, authorities, corporations and even government business enterprises are organized and governed. For this reason 'public sector governance' is, for some, the preferred term.

Corporate governance is concerned with "*how* an organization is managed", it is important to understand that governing is not the same as managing. Broadly, governance involves the systems and processes in place that *shape, enable* and *oversee* management of an organization (AICD, 2003). Management is concerned with *doing* –with coordinating and managing the day-to-day operations of the business. This is tabulated in Table 1.1 below to illustrate the conceptual difference between governing and managing.

Table 1.1 Corporate Governance Management in Organizations

The Board	Management
The mind	The hands
Directors direct	Managers manage
Policy	Action

Source: (AICD, 2003, p.20)

However, whilst theoretically distinct, in practice an inflexible division between those who govern and those who manage may be impractical and inefficient or simply not relevant. For smaller organizations (particularly in the not-for-profit sector) with limited staffing and financial resources, board members may be called on to play a more hands on role. In the private sector, the separation of chair and CEO is a contested area and by no means a given in practice. There are some commonly accepted key principles or elements of good governance that are applicable to both the public and private sectors. The three most common are: accountability both internal and external; transparency/openness; and recognition of stakeholder/shareholder rights. Often to these are added: efficiency, integrity, stewardship, leadership, an emphasis on performance as well as compliance, and stakeholder participation or inclusiveness (Leblanc & Gillies, 2004).

Standards of corporate governance are determined by the measures which companies take for themselves, whether voluntarily or otherwise, to improve the way they are directed and controlled, and by the legal, financial, and ethical environment in which they work. However, the actions which corporations take to improve their internal governance cannot make up for deficiencies in the external framework, notably if an appropriate and enforceable legal system is lacking. This provides useful guidance for where the priorities for reform lie, especially as the study makes the point that poor corporate governance is a particular handicap for small firms. It is the growth potential of such firms which is crucial to improving the economic prospects of countries in the course of development (OECD, 2004).

1.1.2 Corporate Governance Practices

There is no universally accepted definition of corporate governance. It is a basically a set of relationships between a company's board, management, its shareholders and the society within an institutional framework. These relationships evolve into the corporate governance framework, which is "the system by which companies are directed and controlled". It is essential to recognize that every company operates within a 'unique' jurisdiction of its stakeholders including investors, creditors, employees, managers, and regulators. Good corporate governance seeks to create an institutional framework that encourages all participants to contribute towards better corporate performance aligned with good governance practices. As has been aptly described by Sir Adrian Cadbury in the preface to the World Bank publication 'Corporate Governance: A Framework for

Implementation' (September 1999): "Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. Corporate governance is about how companies are directed and controlled. Good governance is an essential ingredient in corporate success and sustainable economic growth. Research in governance requires an interdisciplinary analysis, drawing above all on economics and law, and a close understanding of modern business practice of the kind which comes from detailed empirical studies in a range of national systems (Independent Commission on Good Governance in Public Services, 2004).

It has become increasingly evident that our continued prosperity as nations, as communities, and even as dignified individuals, is closely linked with our ability to create, strengthen and maintain profitable, competitive and sustainable enterprises. The viable, competitive and sustainable modern enterprise requires an organization of basic resources (capital, material and human) concentrated in large aggregations giving the men and women entrusted to run those enterprises power over people, resources etc such that their decisions have great impact upon the society, the very lives of entire communities and can shape the future of nations.

They tend to fall into two categories. The first set of definitions concerns itself with a set of behavioral patterns: that is, the actual behavior of corporations, in terms of such measures as performance, efficiency, growth, financial structure, and treatment of shareholders and other stakeholders. The second set concerns itself with the normative framework: that is, the rules under which firms are operating-with the rules coming from such sources as the legal system, the judicial system, financial markets, and factor (labor) markets. A somewhat broader definition would be to define corporate governance as a set of mechanisms through which firms operate when ownership is separated from management. This is close to the definition used by Sir Adrian Cadbury, head of the Committee on the Financial Aspects of Corporate Governance in the United Kingdom: "Corporate governance is the system by which companies are directed and controlled" (Cadbury Committee, 1992, p.5).

The concept of corporate governance has also been defined as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value. The High Level Finance Committee Report on Corporate Governance (1999, p.10), the definition implies that investors of companies that adopt the Best Practices will be able to enjoy higher returns from their investment. A further definition has been offered by Cornelius and Kogut (2003), who states that a system of corporate governance consists of those formal and informal institutions, laws, values. and rules that generate the menu of legal and organizational forms available in a country and which in turn determine the distribution of power on how ownership is assigned, managerial decisions are made and monitored, information is audited and released, and profits and benefits allocated and distributed. On his part, Millstein (1998) describes corporate governance as the relationship between managers, directors and shareholders.

This constricted definition encompasses also the relationship of the corporation to stakeholders and society. The Millstein (1998) definition further states that, basically corporate governance concerns the means by which a corporation assures investors that it has in place well performing management who ensure that corporate assets provided by investors are being put to appropriate and profitable use. Corporate governance is now an international topic due to globalization of businesses. It is acknowledged to play a major role in the management of organizations in both developed and developing countries.

Nevertheless, Davies and Schlitzer (2008) note that corporate governance practices are not uniform across nations. In fact, the OECD (2004) acknowledges the lack of a single model of corporate governance practice that is applicable to all organizations even within one country. Consequently, every country adopts a unique set of corporate governance procedures that are based on factors such as the country's legal and financial system, corporate ownership structures, culture and economic circumstances.

1.1.3 Microfinance Institutions in Kenya

According to Khan (1996, p.23), the history of microfinance can be traced back as long to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of poverty. But it was at the end of World War II with the Marshall plan the concept had a big impact. Today the use of the expression microfinance has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Mohammad Yunus, started shaping the modern industry of microfinance.

According to Jallow (2011), microfinance institutions are financial services meant to empower people especially women. Their primary aim is to serve as finance institutions that give loans to their clients to set up small business enterprises that will help them sustain a good living. Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises. Microfinance services are provided by three types of sources: formal institutions, such as rural banks and cooperatives; semiformal institutions, such as nongovernment organizations; and informal sources such as money lenders and shopkeepers. Institutional microfinance is defined to include microfinance services provided by both formal and semiformal institutions. Microfinance institution is defined as institutions whose major business is the provision of microfinance services.

Microfinance industry in Kenya is under the umbrella of Association of Microfinance Institutions of Kenya (AMFI) Kenya. The Association is a member's institution that was registered in 1999 under the societies Act by the leading microfinance institutions in Kenya to build capacity of the microfinance industry. AMFI presently has 52 member institutions serving more than 2,000,000 poor and middle class families with financial services throughout the country. The main objective of AMFI is provision of general policy guidelines, adherence to ethical practices and direction to the association (AMFI, 2011). Microfinance as it is known today is the provision of a broad range of financial services such as deposits, loans, payments services, money transfer and insurance to the poor and low-income households, and their micro-enterprises. The Microfinance Act authorizes the Central Bank of Kenya to license, regulate, and supervise the activities of formally constituted deposit-taking microfinance institutions in Kenya. The Act itself simply empowers the Central Bank as regulator, but specific rules subsequently released by the bank serve to govern microfinance activity in practice. In particular, the Bank has imposed core capital requirements designed to ensure adequate liquidity of depository MFIs, and established minimum corporate governance standards and ownership limits (AMFI, 2010).

In spite of the growth within the formal financial sector, they still do not reach 60% of the Kenyan adult population (FinAccess, 2009). Therefore, even though there are a large number of competitors in the market, the market itself is still under served. This lack of access can be explained by both the high cost of accessing financial institutions as well as the difficulties faced by Banks, SACCOs and MFIs in reaching rural areas not adequately served by existing infrastructure.

The Capital Markets Authority (CMA) has developed various guidelines for good corporate governance practices by public listed companies in Kenya in response to the growing importance of governance issues both in emerging and developing economies and for promoting growth in domestic and regional capital markets. It is also in recognition of the role of good governance in corporate performance, capital formation and maximization of shareholders value as well as protection of investors' rights. These guidelines have been developed taking into account the work which has been undertaken extensively by several jurisdictions through many task forces and committees including but not limited to the United Kingdom, Malaysia, South Africa, Organization for Economic Cooperation and Development (OECD) and the Commonwealth Association for Corporate Governance. The Authority has also supported development of a code of best practice for corporate governance in Kenya issued by the Private Sector Corporate Governance Trust.

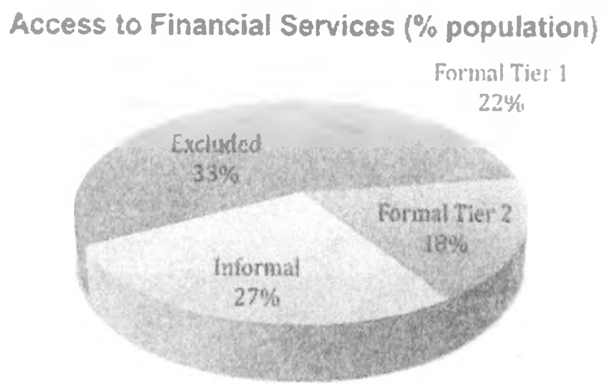


Figure 1.1 Access to financial services in Kenya

Source: (FinAccess, 2009)

MFIs normally combine a social mission provision of financial services to the lowest-income population possible with a financial objective that drives the institution to achieve self-sufficiency. The extent to which microfinance institutions seek to maintain the dual focus of profitability and outreach to poor clients is directly shaped by the composition of the boards of directors and by the priorities established by the board. These two objectives are not mutually exclusive, and that boards, through their strategic decisions and policies, can move institutions in the direction of achieving superior profitability and reaching an expanding clientele of low-income entrepreneurs.

1.2 Research Problem

Governance is a process that involves a system of check and balances between owners and other stake holders who set the standard and objectives of accountability of a given institution.Implementation and maintenance of good governance facilitates robust decision making and improves strategy, performance, compliance and accountability, and is characterized by ongoing monitoring and evaluation. Effective corporate governance helps an organization to achieve its objectives and desired outcomes and fulfill its obligations through sound Strategic and business planning, Risk management, financial management and reporting, human resource planning and control and compliance and accountability systems.

There are various studies undertaken in relation to the concept of corporate governance. The available studies do not directly address the corporate governance in Microfinance Institutions. Much of the existing research touch on corporate governance on companies listed at Nairobi Stock Exchange (NSE) and cooperative societies. Nandasaba (2010) has focused on corporate governance practices and performance of coffee farmer's cooperative societies in Bungoma, Otieno (2010) has also focused on corporate governance and firm performance in financial institutions for only the case firms listed in NSE and Kimanga (2010) has focused on corporate governance structures and practices at the Kenya revenue Authority. According to Mulili (2011) the international journal of business administration 'corporate governance practices in developing countries a case for Kenya' has examined the concept of corporate governance while focusing on public universities in Kenya.

Investigating corporate governance practices in microfinance institutions is important because of the significant resources they leverage in regard to poverty alleviation. The study is also warranted by the scarcity of empirical research about developing strong governance structures within MFIs, where commercialization might increasingly override other governance issues. MFIs have a dual mission of reaching poor clients and being financially sustainable, few MFIs are regulated, and several MFIs still depend on donor funding (Cull et al., 2004). Good corporate governance has been identified as a key bottleneck to strengthen the financial performance of MFIs and increase outreach of microfinance Rock et al. (1998), Labie (2001), Helms (2006), United Nations (2006), Otero and Chu (2002). However, except for the Hartarska (2005) study of East European MFIs, the influence of corporate governance on the MFIs' performance has not been empirically studied.

In its broadest sense, corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources with the aim being to align as nearly as possible the interests of individuals, of corporations, and of society. The incentive to MFIs and to those who own and manage them is to adopt internationally accepted governance standards that will assist them to achieve their aims and to attract investment. This proposal aims to analyze governance mechanisms on a wide range of performance and risk measures using a unique data set spanning in 52 MFIs. This research seeks to addresses these challenges with an emphasis on the impact of governance mechanisms through strategic decision making processes in microfinance institutions' (MFIs) dual missions of financial sustainability and providing banking services to micro-enterprises and low-income families.

1.3 Objectives of the Study

i. To establish the Corporate Governance practices adopted by Microfinance Institutions in in Kenya

ii. To determine the challenges of implementing corporate governance best practices in the Microfinance Institutions in Kenya.

1.4 Value of the Study

The microfinance sector has emerged as an important financial service provider that has occupied a central place in policy making and access to finance, particularly to the poor, low-income households and micro and small scale enterprises that were under- served or un-banked. Governance is about achieving corporate goals. For most MFIs, dual goals exist. One goal is to contribute to development. This involves reaching more clients and poorer population strata, the main outreach "frontiers" of microfinance (Helms, 2006; Johnson et al., 2006). Successful governance should ultimately alleviate two-sided adverse selection and moral hazard problems.

By carrying out this study the findings provided a first-stop shop of the benefits of good governance and application of risk management practices within MFIs. The findings of this study will help scholars, researchers and students of various fields in gaining more knowledge on the use, importance and need for sound corporate governance structures. Finally this study provides a framework for addressing CG issues which impact operations and institutional development of MFIs in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Corporate Governance

Corporate governance (CG) refers to the broad range of policies and practices that stockholders, executive managers, and boards of directors use to manage themselves and fulfill their responsibilities to investors and other stakeholders (Noriza, 2008). Over the past decade, corporate governance has been the subject of increasing stakeholder attention and scrutiny (Noriza, 2008). These concerns have given rise to a powerful shareholder movement. Shareholder activists, composed primarily of large multi-billion-dollar pension funds, religious and socially responsible investment groups, and other institutional investors are now using a variety of vehicles to influence board behavior, including creating corporate governance standards of excellence and filing shareholder resolutions. These investors are concerned with such issues as board diversity, independence, compensation, and accountability, as well as a broad range of social issues, e.g. employment ethics practices, environmental policies, and community involvement.

The concept of CG has also been defined as, "… the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, …"(High Level Finance Committee Report, 1999, p. 10). The definition implies that investors of companies that adopt the Best Practices will be able to enjoy higher returns from their investment. A further definition has been offered by Cornelius and Kogut (2003) who state that a system of corporate governance consists of those formal and informal institutions, laws, values, and rules that generate the menu of legal and organizational forms available in a country and which in turn determine the distribution of power on how ownership is assigned, managerial decisions are made and monitored, information is audited and released, and profits and benefits allocated and distributed. On his part, Millstein (1998) describes corporate governance as the relationship between managers, directors and shareholders. This constricted definition encompasses also the relationship of the corporation to stakeholders and society. No matter the definition, Millsten (1998) observes that basically corporate governance concerns the means by which a corporation assures investors that it has in place well performing management who ensure that corporate assets provided by investors are being put to appropriate and profitable use. It is therefore difficult to define the concept of corporate governance in a universally acceptable way because definitions vary from country to country due to culture, legal systems and historical developments (Ramon, 2001).

2.2 Corporate Governance Theories

Corporate governance is of growing importance, particularly with regards to the monitoring role of the board of directors. As a result, the theoretical perspectives that are relevant to this study are based on the governance structures and reporting practices that affect the value of the firms. This section reviews the theoretical perspectives of a board's accountability that is relevant for this study. It draws on agency theory, stewardship theory, stakeholder theory, social contract theory, legitimacy theory and resource dependency theory.

2.2.1 Agency Theory

Much of the research into corporate governance derives from agency theory. Since the early work of Berle and Means (1932), corporate governance has focused upon the separation of ownership and controls which results in principal-agent problems arising from the dispersed ownership in the modern corporation. They viewed corporate governance as a mechanism where a board of directors is an essential monitoring device to minimize the problems brought about by the principal-agent relationship. In this context, agents are the managers, principals are the owners and the board of directors act as the monitoring mechanism (Mallin, 2004). Furthermore, literature on corporate governance attributes two factors to agency theory. The first factor is that corporations are reduced to two participants, managers and shareholders whose interests are assumed to be both clear and consistent.

A second notion is that humans are self interested and unwilling to sacrifice their personal interests for the interests of the others (Daily, Dalton & Cannella, 2003). The firm is not an individual but a legal fiction, where conflicting objectives of individuals are brought into equilibrium within a framework of contractual relationships. These contractual relationships are not only with employees, but with suppliers, customers and creditors (Jensen & Meckling, 1976). The agency role of the directors refers to the governance function of the board of directors in serving the shareholders by ratifying the decisions made by the managers and monitoring the implementation of those decisions. According to the perspective of agency theory the primary responsibility of the board of directors is towards the shareholders to ensure maximization of shareholder value.

2.2.2 Stewardship Theory

In contrast to agency theory, stewardship theory presents a different model of management, where managers are considered good stewards who will act in the best of the owners (Donaldson & Davis, 1991). The fundamentals of stewardship theory are based on social psychology, which focuses on the behavior of executives. The steward's behavior is pro-organizational and collectivistic, and has higher utility than individualistic self-serving behavior and the steward's behavior will not depart from the interest of the organization because the steward seeks to attain the objectives of the organization (Davis, Schoorman & Donaldson, 1997). According to Smallman (2004) where shareholders wealth is maximized, the steward's utilities are maximized too, because organizational success will serve most requirements and the stewards will have a clear mission. He also states that, stewards balance tensions between different beneficiaries and other interest groups. Therefore stewardship theory is an argument put forward for firm performance that satisfies the requirements of the interested parties resulting in dynamic performance equilibrium for balanced governance.

2.2.3 Stakeholder Theory

Research into corporate governance also discusses the stakeholder theory in relation to firms' responsibility to the wider community. A stakeholder is any group of individuals who can affect or is affected by the activities of the firm, in achieving the objectives of the firm (Freeman, 1984). A similar view has been put forward by the World Business Council for Sustainable Development (1999), which also identifies stakeholders as the representatives from labor organizations, academia, church, indigenous peoples, human rights groups, government and non-governmental organizations and shareholders, employees, customers/consumers, suppliers, communities and legislators.

According to Ansoff (1965), a firm's objective could be achieved through balancing the conflicting interests of these various stakeholders. Therefore, a fundamental aspect of stakeholder theory is to identify the stakeholders an organization is responsible for. Any stakeholder is relevant if their investment is, in some form, subject to risk from the activities of the organization (Clarkson, 1995). The moral perspective of stakeholder theory is all stakeholders have a right to be treated fairly by an organization, and managers should manage the organization for the benefit of all stakeholders, regardless of whether the stakeholder management leads to better financial performance (Deegan, 2004).

2.2.4 Resource Dependency Theory

Lawrence and Lorsch (1967) link the resource dependency theory to corporate governance. They state that successful organizations possess internal structures that match environmental demand, which links to Pfeffer's (1972) argument that board size and composition is a rational organizational response to the conditions of the external environment. Furthermore, directors may serve to connect the external resources with the firm to overcome uncertainty (Hillman, Cannella Jr. & Paetzols, 2000), because coping effectively with uncertainty is essential for the survival of the company. According to the resource dependency role, the directors bring resources such as information, skills, key constituents (suppliers, buyers, public policy decision makers, social groups) and legitimacy that will reduce uncertainty (Gales & Kesner, 1994).

Thus Hillman et al. (2000) consider the potential results of linking the firm with external environmental factors and reducing uncertainty is the reduction of transaction cost associated with external linkage. This theory supports the appointment of directors to multiple boards because of their opportunities to gather information and network in various ways.

2.2.5 Social Contract Theory

Social contract theory is rooted in two opposing perspectives concerning human nature and justifications for the origin of the democratic political state. The social contract framework began in the seventeenth century with the individualist political theories of Hobbes (1651/1996) and Locke (1690/1980). These two social contract political philosophers argued for the primacy and advantages of political liberty, individual autonomy, self-interest, and individual rights over traditional expositions of political and economic obligations innately owed to sovereign and ecclesiastic authorities.

The social contract theory sees society as a series of social contracts between members of society and society itself (Gray, Owen & Adams, 1996). There is a school of thought which sees social responsibility as a contractual obligation the firm owes to society (Donaldson, 1983). Social contract theory was developed by Donaldson and Dunfee (1999) as a way for managers to make ethical decision making, which refers to macro-social and micro-social contracts. The former refers to the communities and the expectation from the business to provide support to the local community, and the latter refers to a specific form of involvement.

2.2.6 Legitimacy Theory

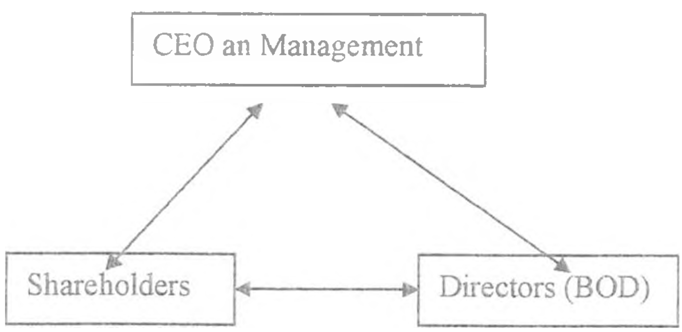
Another theory reviewed in corporate governance literature is legitimacy theory. Legitimacy theory is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially constructed systems of norms, values, beliefs and definitions" (Suchman, 1995). Legitimacy theory is based upon the notion that there is a social contract between the society and an organization. A firm receives permission to operate from the society and is ultimately accountable to the society for how it operates and what it does, because society provides the authority to own and use natural resources and to hire employees (Deegan, 2004). The emphasis of legitimacy theory is that an organization must consider the rights of the public at large, not merely the rights of the investors. Failure to comply with societal expectations may result in sanctions being imposed in the form of restrictions on firms operations, resources and demand for its products (Deegan, 2004).

Business operations face on-going change, as do the needs and expectations of stakeholders and society. Therefore, corporations have to manage their strategies and practices in order to retain their perceived legitimacy. Problems arise when organizations become out-of-date with societal values and understandings, or are confronted by a multiplicity of stakeholders with ambiguous, conflicting and inconsistent demands and different interpretations of what are the most appropriate organizational structures and practices (Wilmshurt & Frost, 2000). The studies of Pattern (1992), Deegan (2002) and Ogden and Clarke (2005) identified a range of strategic postures employed by managers (involving assertive, tactic and defensive techniques) to manage stakeholders' perceptions.

2.3 Corporate Governance Structures

Montgomery and Kaufman (2003) acknowledge that the corporate balance of power is delicate. The three principal actors in this power game are the shareholders, management and the board of directors. The interrelationship between them is key to effective governance. They depict this relationship as triangular relationship.

Figure 2.1 The Corporate Governance Triangle



Source: Montgomery and Kaufman, 2003

2.3.1 Shareholders

The money raised by shareholders is used by organizations to finance its operations and is known as capital. They do not have direct right in the property of the organization but have an ownership interest in the organization as a whole. They do not engage in daily management of the organization. Instead, they elect known directors, who collectively as a board represent them and oversee the management on their behalf. The shareholders control the long-term direction of the organization through the general meetings which in most type of organizations are held once a year. At the general meetings, they deliberate and vote on important issues such as election of directors and auditors. After appointing directors and auditors, they should satisfy themselves that an appropriate governance structure is in place. They are expected to remove directors if unhappy with their action. They should evaluate the performance of directors regularly. For them to be able to do this, they need to be properly informed about the company's activities in order to carry out their evaluation (PSCGT, 2002).

Ongore (2001) points out that one of the ways organizations report to their shareholders in through the annual audit reports. The reports are prepared with due regard to requisite disclosure requirements as per governing regulations. Many countries including Kenya have adopted the International Accounting standards (IAS), which have progressively been improving on disclosure requirements. Stock exchange requirements enhance the accounting standards disclosures. The power of shareholders is also determined by their awareness level, which is influenced by their education.

Some highly publicized business failures have led to a questioning of the credibility of the corporate reporting process. Audit committees are a common phenomenon in many organizations today to check on the accounting and reporting processes. An audit committee usually consists of a majority of independent and no-executive directors. Important attributes of committee members should include broad business knowledge relevant to the company's business; keen awareness of the interests of the investing publics; familiarity with basic accounting principles; and objectivity in carrying out their mandate and no conflict of interest (IFAC, 2001).

2.3.2 Board of Directors (BOD)

The board of directors acts as a fulcrum between the owners and controllers of a corporation and is a crucial a link between the shareholders who are providers of capital, and the managers who are the individuals who use that capital to create value (Monks and Minow, 2001, p.81). They are elected by the shareholders of the firm and have a fiduciary role in relation to fulfilling their responsibilities towards the shareholders they represent. Their duties and responsibilities involve hiring, firing, compensating employees and advising top management (Denis, 2001). The board is also responsible for making sure that the audited financial statements of the company represent a true and fair picture of the firm's financial position (Hill & Jones, 2004, p.386).

Boards can consist of a mix of inside and outside directors. Inside directors are those that are linked with the controlling shareholders and are those that hold senior positions in the firm. They are also referred to as executive directors. These directors are represented on the board because they possess intimate knowledge about company activities without which the board cannot perform its monitoring role. On the other hand, outside directors are not employees of the firm. They owe their position on the board due the specific expertise which they possess in areas that are valuable to firm. They usually represent industry, legal, accounting, management and academic experts among others. These professional directors are also referred to as non-executive or independent directors.

2.3.3 The Management

This comprises of the CEO and his senior management team. Their primary responsibility is performance. Top management and especially the CEO, is responsible to the board of directors for overall management of the corporation. Specific top management tasks vary from firm to firm and reflect an analysis of the mission, objectives, strategies and key activities of the corporation. Generally, effective top managers are people who see the business as a whole, who can balance the present needs of the business against future needs, who can make sound timely decisions (Johnson & Scholes, 2002).

Johnson and Scholes (2002) further note that there is a tendency for top management to draw to functional work. We can also have top managers perceiving only those aspects and responsibilities of their function that is compatible with their abilities, experience, and temperaments as their role. And, if the board of directors fails to state explicitly what it considers to e the basic responsibilities and activities of top management, the top management are free to define their jobs themselves. Therefore, important tasks can be overlooked until a crisis occurs.

The CEO delegates responsibility for performance to the employees. As such, every employee needs to be accountable for his or her expected contribution towards the successful delivery of outputs. Ideally, the CEO should enter into contract with senior executive officers who should in turn enter into performance contracts with their subordinates. This would ensure that individual responsibility for management decisions is established and that individuals are accountable for their actions in the organization (IFAC, 2001).

A fairly common practice especially at the US was to have the have the chairman of the board also serve as CEO. However, the recent thinking is that CEOs should not serve as chairman because of the potential for role conflict. It is difficult for the board to oversee top management if the chairman is top management. For this reason, law in Germany, the Netherlands and Finland separates the chairman and CEO roles. Similar laws are being considered in most countries of the world and the provision has been included in regulatory authority's guidelines like those by capital market authorities in Kenya (CMA, 2002). Demb and Neubauer (1992) note that one of the tenets of corporate governance is accountability, which of necessity requires some kind of an agent to monitor how the managers are performing. Recent agents have been developed including shareholders, legislative codes and regulatory mechanisms as well as the board of directors all of which are geared to ensuring accountability by influencing the top management.

Shareholders, especially institutional ones, have to be quite instrumental in corporate governance mainly due to the substantial proportion of shares that they hold in corporations, which justify the need for their representation on the boards hence, their ability to influence the top management. Roe (1994) observes that institutional investors have to demand to be informed of company activities beforehand while other such as pension funds and insurance companies are quite often instrumental in dislodging incompetent management teams.

Legislative codes and regulations are mechanisms that attribute corporate governance in that, that they are normally tailored to contain company excesses and to guarantee responsible corporate behavior. They include the rights of shareholders, and the various avenues of seeking legal redress in the event of the breach of he rights. Regulatory mechanisms cover such areas as employment conditions, environmental concerns, taxes, etc. Salmon (1993), in his review of the foregoing two channels, observes that they are riddled with inherent shortcomings in that they largely depend on the judicial system, act from outside the company and attempt to contain the corporate malpractice when it is too late to make any significant difference.

The governance role of board of directors regards the issue of the separation of company ownership and management of companies which has characterized the modern corporation, while the boards of directors have for a long time been identified as the representatives of shareholders. However, recent observers now concur that the current boards of directors do represent an array of other stakeholders as well. It is due to this representation that the board acts as a governance organ. It has also been observed that the boards of directors have advantage over the other channels of governance, in that they are internally recognized and bear legal authority to oversee the company. They are also in a position to take proactive steps to avert potentially harmful corporate behavior and are therefore potentially superior to other organs of governance (OECD, 2004).

The corporate governance framework, as asserted by Johnson and Scholes (2002), should ensure strategic guidance of the company, effective monitoring of management of the board and the board's accountability to the company and all shareholders. Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for the shareholders, while preventing conflicts of interest and balancing competing demands on the company.

In order for boards to effectively fulfill their responsibilities, they ought to have some degree of independence from management. Another important responsibility is to implement organizational systems designed to ensure that the corporation obeys applicable laws. In addition, boards are expected to take due regard of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers, and local communities. Observance of environmental and social standards is relevant in this context (Klapper & Love, 2004).

2.3.4 Risk Management and Internal Controls

Risk management generally encompasses the process of: identifying key risks to the bank; measuring exposures to those risks; monitoring risk exposures and determining the corresponding capital needs (i.e. capital planning) on an ongoing basis; taking steps to control or mitigate risk exposures; and reporting to senior management and the board on all the items mentioned (OECD, 2004).

Internal controls are designed, among other things, to ensure that each key risk has a process or other measure to help contain or control that risk and that such process or measure is being applied and works as intended. As such, internal controls help ensure process integrity, compliance and effectiveness. Internal controls help provide comfort that financial and management information is reliable, timely and complete and that the bank is in compliance with its various obligations, including applicable laws and regulations (OECD, 2004). In order to avoid actions beyond the authority of the individual or even fraud, internal controls also place reasonable checks on managerial and employee discretion. Even in MFIs, for example, key management decisions should be made by more than one person ("four eyes principle"). Internal control reviews should also determine the extent of an institution's compliance with company policies and procedures, as well as with legal and regulatory policies.

2.4 Corporate Governance in Microfinance Institutions

The experience of CG for deposit taking MFIs is drawn from best practices of any organization or share company, particularly commercial banks, which should be customized to features and environment and address the specific problems of these institutions. Corporate governance is the process by which a board of directors, through management, guides an MFI in fulfilling its corporate mission and protects the institution's assets over time (Mersland & Strom 2008).

Effective governance occurs when a board provides proper guidance to management regarding the strategic direction for the institution, and oversees management's effort to move in the direction of the approved strategy. The board carries out this function on behalf of a third party, referred to as shareholders in the case of for-profit corporations. Because of there are no owners in non-profit corporations, that third party in not as easily identified to include the corporation's clients, staff board, and donors. The fundamental to good governance is the ability of individual board of directors to work with each other to accomplish an effective balance between strategic and operational responsibilities (Otero, 2001). The interplay between board and management centers on this relationship between strategy and operation, and assumes that both of these components are essential for the successful evolution of the institution.

Good governance in the Kenyan deposit taking MFIs plays an important role in increasing outreach, improving transparency, accountability, sustainability, profitability, efficiency, effectiveness, responsibility and responsiveness to the changing environments. Effective governance depends on both forms- the structures and processes of control, and content-and the specific individuals involved, particularly in the leadership. The board, which plays a critical role in ensuring good governance of MFIs, has five major responsibilities, namely: Legal obligations: this includes understanding the regulatory framework of MFIs and compliance with bylaws, procedures, legal requirements which are clearly stated in the microfinance Act (Microfinance ACT, 2006).

Relationship between board and executives which mainly includes operational distance of the board from day to day operations, drawing on the institutional memory of the directors and making binding decisions as a board (Otero, 2001). Apart from this role, the board must ensure management accountability by bringing competent professionals as executives, establishing clear goals for their performance, monitoring performance closely, and confronting weaknesses when these surface (Otero, 2001). Setting policy and providing strategic direction consistent with the MFI, mission, vision and objectives. Fiduciary obligation to ensure that the financial solvency of MFIs is maintained. This is a very serious responsibility of board of especially in the Kenyan context of MFIs, as most MFIs are turning into deposit taking from the public. The board must be able to assess the risks associated with the provision of financial services. Board assessment of its own performance is a major responsibility which should be exercised on regular basis.

According to Van Greuning et al (2003), the key elements of sound corporate governance in an MFI include: A well articulated corporate strategy against which the overall success and the contribution of individuals can be measured. Setting and enforcing clear assignment of responsibilities, decision making authority and accountabilities that is appropriate for the risk profile. A strong financial risk management function (independent of business lines) adequate internal control system (including internal and external audit function) and functional process design with the necessary checks and balances. Corporate values, codes of conduct and other standards of appropriate behavior and effective system used to insure compliance. This includes special monitoring of the risk exposures of MFIs where conflicts of interest are expected to appear (e.g. relationships with affiliated parties). Financial and managerial incentives to act in an appropriate manner offered to the board of management and employees including compensation, promotion and penalties (i.e. compensation should be consistent with the MFIs objective performance and ethical values). Transparency and appropriate information flows internally and to the public.

2.5 Corporate Governance Best Practices

Corporate governance is a philosophy and mechanism that entails processes and structure which facilitate the creation of shareholder value through management of the corporate affairs in such a way that ensures the protection of the individual and collective interest of all the stakeholders. Sound corporate governance principles are the foundation upon which the trust of investors and lenders is built. Good corporate governance practices may have significant influence on the strategic decisions of a company, e.g. external financing, that are taken at board level. Therefore corporate governance variables like size of board, composition of board, skill set at board and CEO/Chair duality may have direct impact on capital structure decisions.

Corporate governance is generally associated with the existence of agency problem and its roots can be traced back to separation of ownership and control of the firm. Agency problems arise as a result of the relationships between shareholders and managers and are based on conflicts of interest within the firm. Similarly conflict of interests between controlling shareholders and minority shareholders is also at the heart of the corporate governance literature. The corporate governance has been a growing area of management research (OECD, 2004).

A comprehensive review of literature reveals that empirical work is mostly focused on the impact of corporate governance on firm's performance or examines the influence of ownership structure on firm value (Claessens, 2002). In the preceding study made by Cornelius (2005), in the broadest sense, corporate governance can be defined as the stewardship responsibility of corporate directors to provide oversight for the goals and strategies of a company and to foster their implementation. Corporate governance may thus be perceived as the set of interlocking rules by which corporations, shareholders and management govern their behavior. These rules refer to individual firm attributes and the factors that allow companies to maintain sound governance practices even where public institutions are relatively weak. Such factors may include a corporation's ownership structure, its relationships with stakeholders, financial transparency and information disclosure practices as well as the configuration of its managing boards.

Good corporate governance seeks to create an institutional framework that encourages all participants to contribute towards better corporate performance aligned with good governance practices. As has been aptly described by Sir Adrian Cadbury in the preface to the World Bank publication 'Corporate Governance: A Framework for Implementation' (September 1999): "Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society."

Good corporate governance leads to development of a framework that provides adequate protection to the interests of stakeholders and reinforces the fiduciary responsibilities of those vested with the authority to act on behalf of the stakeholders. Good corporate governance encourages companies and those who own and manage them to achieve their corporate objectives through a more efficient use of resources. Moreover, corporate governance framework should recognize the rights of stakeholders as established by law. Corporate governance is a significant factor in improving economic efficiency and growth. It has been empirically tested that good governance practices of a company gives a positive signal to investors. With the globalization of markets, international capital flows have become extremely valuable source of external financing.

It is essential for companies to observe good corporate governance standards in order to competitively operate in the global capital market and to attract long-term foreign capital. Foreign Direct Investment, which leads to the transfer of technology, is an important factor for economic progress of developing countries. Both the foreign and local investors give importance to good governance practices. In this regard both individual and institutional investors play a role although role of institutional investors is more significant. Therefore good corporate governance is likely to reduce the cost of capital, encourage more stable sources of financing and facilitate the broadening and deepening of local capital markets. Good governance is vital for the development of a healthy and competitive corporate sector (Klapper & Love, 2004). As a result a strong corporate sector boosts "sustained" and "shared" economic growth, i.e. growth that can withstand economic shocks and benefit all. It is expected that poverty alleviation and equitable distribution of wealth can be achieved in developing countries by encouraging long-term economic growth through a well-planned and well implemented approach to corporate governance.

2.6 Challenges of Implementing Corporate Governance Best Practices

Corporate governance is concerned with the processes, systems, practices and procedures as well as the formal and informal rules that govern institutions, the manner in which these rules and regulations are applied and followed, the relationships that these rules and regulations determine or create, and the nature of those relationships. It also addresses the leadership role in the institutional framework. Corporate Governance, therefore, refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission.

Corporate governance implies that companies not only maximize shareholders wealth, but balance the interests of shareholders with those of other stakeholders, employees, customers, suppliers, and investors so as to achieve long-term sustainable value. There is a need for effective and sound regulatory framework for various aspects of corporate governance. There is a need for legislative enactment or decree that establishes a regulatory agency, and indicates its functions, including its enforcement powers. ACCA recognizes that corporate governance evolves and improves over time. We accept that organizations in different sectors and across the world operate in diverse environments in terms of culture, regulation, legislation and enforcement. What is appropriate, in terms of governance, for one type of organization will not be appropriate to all organizations (OECD, 2004).

The regulatory process consists of setting the rules or standards, monitoring compliance and enforcement (Otobo, 1997). The regulatory challenge relate to capital adequacy standards for international banks, accounting and auditing standards for corporations, regulations governing business practices etc. A particular difficulty in Africa for example, in designing and implementing appropriate regulatory, enforcement and incentive regime is the lack of skills and institutional capacity to do so. The commitment of government and the leadership is an overriding factor in transition economies where environment conducive to corporate governance has to be created to ensure enterprise sustainability (Botha, 2001). Where there are companies with controlling shareholders the most effective governance mechanism is for the institution of a set of legal rules that control managerial behaviour and protect minority shareholders.

According to the World Bank's (2003) report on corporate governance, most developing and transition economies have failed to enforce laws, rules, and regulations regarding corporate governance consistently and evenly. This failure was perhaps not anticipated by the OECD principles, which implicitly assume that countries have an efficient legal and regulatory framework in place and those courts and securities regulators have the means and capabilities to enforce it. Practices such as self dealing and insider trading are widespread. Such offenses mostly go unpunished, even if stiff penalties apply in theory (World Bank, 2003). According to the report, auditing is another major area of weakness in corporate governance enforcement. Most countries delegate the setting of accounting and auditing standards to the accounting association (World Bank, 2003).

However, professional associations usually lack the means to impose effective sanctions on their members. Auditors have been given unqualified opinions, certifying that the accounts audited provide a true and fair picture despite the many defects noted. The penalties for such behavior are minor and enforcement is generally lax. In most countries especially in SSA the capacity to support the implementation of good corporate governance is undermined by the existence of weak monitoring and enforcement.

Government departments and independent regulators responsible for monitoring corporate governance do not as yet fulfill their roles as overseers. Many are generally weak and subject to external influence by politicians and lawmakers. Community watchdog organizations such as consumer bodies are not well developed in Africa (Botha, 2001). There is a need for legislative overhaul or decree that establishes a regulatory agency and indicates its functions, including its enforcement powers (Otobo, 1997).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter describes how the study was carried out, its justification for its application, the population of study, data collection methods and a description of the presentation of data.

3.2. Research Design

This was a descriptive study designed to gather data from Chief Executive Officers in Microfinance Institutions in Kenya in order to understand better corporate governance practices in those institutions and how strategic decision making processes can be adopted.

Descriptive investigations have a broad appeal to managers because their findings are conclusive and do help a great deal in managerial decision making while addressing issues like efficiency, adequacy of competitive strategies and their effectiveness in organizations. This is because they lead to better understanding of the phenomenon under study and helps to view issues and problems from the perspective of those being studied (Peil, 1995).

3.3. Population

The population of interest in this study was the Microfinance Institutions in Kenya. According to Association of Microfinance Institutions, there are 52 registered Microfinance Institutions in Kenya. In this study, the researcher will use census study of the 52 MFIs located in Nairobi. Census is the method where every member of the population is included in the enumeration.

According to Chandran (2004), census is a count or a survey of a population. A census is used as a method of enumeration only when there is need to have information on every individual or item in the population (Chandran, 2004). The target population was senior managers or their deputies among the 52 registered MFIs in Kenya. This is because they were the most appropriate to respond to the objectives of this study.

3.4. Data Collection

This study adopted the questionnaire as the instrument for data collection. The questionnaire was structured into two parts: the first part sought to gather demographic information on the organization bio data, and the second part sought opinions to know the corporate governance practices in the organization. This study targeted primary data which was largely qualitative.

The data was collected using a structured questionnaire designed along the objectives of the study. Sources used to gather secondary data were document analysis collected from published and unpublished company documents, subject-relevant literature and internal monthly journals/magazines from the MFIs. This was important in order to support the various findings of the study.

3.6 Data Analysis

Data obtained was subjected to quantitative analysis. Quantitative data is based on descriptive statistics using non-statistical techniques on subjective statements and explanation.

This study adopted statistical tools of analysis to analyze the data. This is because the data collected was largely descriptive in nature and was presented using frequency tables, percentages and pie charts. The information from various respondents was evaluated and documented as findings of study.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This study was designed to achieve two objectives. First, to establish CG practices adopted by MFIs in Kenya and their impact on performance and secondly to determine the performance implication practices of MFIs in their strategic decision making processes. To achieve these objectives, data were gathered using a structured questionnaire which was administered to respondents who held various senior designations which were: relation managers, chief internal auditors, Chief executive officers, operations manager, chairman supervisory board and Chief finance officer of the various MFIs located in Nairobi. These data were analyzed using Statistical Package for Social Scientists (SPSS). Frequency tables and percentages were used to display the results which are presented in tables, charts and graphs. Out of the targeted 52 MFIs to, all of whom the questionnaires were administered, 23 filled and returned the questionnaires resulting to a response rate of 44.2% which was considered adequate for analysis. This chapter presents the findings on the demographic profiles along the objectives of the study.

Table 4.1 Demographics

Demographic	Response		
		Frequency	Percent
Age of MFI (year of establishment)	Age		
	1990-1995	10	43.0
	1996-2000	5	22.0
	2001-2005	1	4.0
	2006-2010	2	9.0
	No response	5	22.0
	Total	23	100.0
Scope of Business	Nationwide	22	95.7
	Community based	1	4.3
	Total	23	100.0
Size (No of employees)	1-250	8	35.0
	251-500	4	17.4
	501-750	1	4.2
	Over 1000	6	26.0
	No response	4	17.4
	Total	23	100.0
Act under which MFI operate	Company's Act	7	30.4
	Banking Act	6	26.0
	MFI Act	5	21.7
	SACCO's Act	1	4.3
	Co-ordination Act	2	8.7
	Trust deed	1	4.3
	Insurance Act	1	4.3
	Total	23	100.0
Line Ministry	Ministry of Finance	22	96
	Ministry of agriculture	1	4
	Total	23	100.0
Ownership structure	Wholly locally owned	13	57
	Foreign owned	5	26
	Foreign locally owned	3	9
	No response	2	8
	Total	23	100 0
Nature of services	Banking	9	39
	Credit only	8	35
	Deposit taking MFI	2	9
	NGOs	1	4
	No response	3	13
	Total	23	100.0

Source: Research Data (2011)

4.2 Demographic Profiles

The study sought information on the demographics of the MFIs in order to form the background for the entire study. The information that was sought relate to year of establishment, scope of operation, size of MFIs(No of employees), Act of which the MFIs operate, Line Ministry, ownership structure and the nature of services offered. The finding regarding these demographics are presented in table 4.1

4.2.1 Scope of Business

This study also sought to find out whether the type of business the MFIs transacted was on a nationwide basis or community based. Table 4.2 shows that an overwhelming majority of the MFIs 95.7% were nationwide while only one was community based. This may be attributed to the fact that the outreach of microfinance services has grown tremendously during the last couple of decades.

4.2.2 Size

This research also sought to establish the number of employees from the targeted MFIs. From the findings in Table 4.3, 35.0% of the MFIs had 1-250 employees, 17.4% had 251-500 employees and 26% had over 1000 employees.

4.2.3 Acts of operations

This study sought to understand the various Acts that the MFI institutions operated from. 30.4% indicated that they operated under the Company's Act, 26% stated that they operated from the Banking Act 21.7% under the MFIs Act and 8.7% under the NGO co-ordination Act. This is supported by literature in that the majority of MFIs were originally NGOs with programmes targeting poverty alleviation without focusing on real banking environment.

4.2.4 Line Ministry

This study further sought to find out under which ministry. From Figure 4.1 below, 96% of the MFIs operated under the ministry of finance while 4% operated under the ministry of agriculture.

4.2.5 Ownership Structure

This study sought to establish the ownerships structure of the MFIs. From the findings in Figure 4.2, more than half (57) were wholly locally owned, 26% were foreign owned 9% were foreign locally owned and 8% did not indicate their ownership.

4.2.6 Nature of Services

This study sought to find out the nature of services offered in regard to the the different MFIs targeted. Figure 4.3 shows that 39% offered banking/MFI services, 35% were credit only organizations, 9% were either deposit taking MFIs or were involved in private funding and 4% were NGOs. It is clear from the findings that different MFIs have introduced different service, the majority favouring investment businesses and customers to open savings accounts in addition to their core business of accessing credit for social and economic empowerment targeted to the poor.

4.3 Corporate Governance Practices in MFIs in Nairobi

The first objective of the study was to establish the C.G practices in MFIs in Nairobi. To achieve this objective, respondents were presented with descriptive statements of the various C.G practices and were required to indicate in a 5-point scale the extent to which the statement apply to their institutions. The descriptive statements were adopted from the C.G code of best practices developed by OECD, CGAP and MFI Act No. 19 of 2006. These C.G best practices relate to the role and functions of the board:- board membership and committees: appointment, selection, disclosures and removals of directors: evaluation of the board and audit committees.

Good corporate governance seeks to create an institutional framework that encourages all participants to contribute towards better corporate performance aligned with good governance practices. Basically this is a set of relationships between a company's board, management, its shareholders and the society within an institutional framework. These relationships evolve into the corporate governance framework, which is "the system by which companies are directed and controlled.

4.3.1 Role and Functions of the Board

From the findings tabulated in Table 4.5, 70% of the respondents indicated that the board establishes a formal and transparent arrangement for shareholders to effect the appointment of independent auditors at each annual general meeting (a mean of 3.91), 61% stated that the board ensures that the institution will survive, thrive and continue as a viable going concern (mean 4.00); 57% of the respondents either stated that the board ensures that accounts are presented in line with International Accounting Standards (IAS); or the board identifies key risk areas and key performance indicators of the business and monitors these factors with a mean of 4.04 and 4.13 respectively) and 52% of the respondents stated that there is a clear separation of the role and responsibilities of the chairman and chief executive, which ensures a balance of power of authority and provide for checks and balances this had a standard deviation of (0.850).

The board of directors acts as a fulcrum between the owners and controllers of a corporation and is a crucial a link between the shareholders who are providers of capital, and the managers who are the individuals who use that capital to create value (Monks & Minow, 2001, p.81). They are elected by the shareholders of the firm and have a fiduciary role in relation to fulfilling their responsibilities towards the shareholders they represent. Their duties and responsibilities involve hiring, firing, compensating employees and advising top management (Denis, 2001).Boards can consist of a mix of inside and outside directors. Inside directors are those that are linked with the controlling shareholders and are those that hold senior positions in the firm. On the other hand, outside directors are not employees of the firm. They owe their position on the board due the specific expertise which they possess in areas that are valuable to firm.

Table 4.4 Role and Functions of the Board

Role and the functions of the board	Response	Frequency	Percent	Mean	Std Deviation
The board monitors and evaluates the implementation of strategies, policies, management performance criteria and business plans.	Not at all	0	0	4.17	0.778
	Less extent	1	4.3		
	Moderate extent	2	8.7		
	Large extent	12	52.2		
	Very large extent	8	34.8		
The Board ensures that the institution complies with the relevant laws, regulations and codes of best business practice	Not at all	0	0	4.21	0.850
	Less extent	1	4.3		
	Moderate extent	3	13		
	Large extent	9	39.1		
	Very large extent	10	44%		
There is a clear separation of the role and responsibilities of the chairman and chief executive, which will ensure a balance of power of authority and provide for checks and balances	Not at all	0	0	3.95	0.878
	Less extent	2	8.7		
	Moderate extent	3	13.0		
	Large extent	12	52 2		
	Very large extent	6	26.1		
There is a shareholders participation in major decisions of the Company.	Not at all			3.83	1.114
	Less extent	5	21.7		
	Moderate extent	1	4.3		
	Large extent	10	43.5		
	Very Large extent	7	30.4		
The board serves the legitimate interest of the shareholders and the corporation and account to them fully.	Not at all	0	0	3.91	0.996
	Less extent	3	13.0		
	Moderate extent	3	13.0		
	Large extent	10	43.5		
	Very large extent	7	30.4		
The board regularly reviews processes and procedures to ensure the effectiveness of its internal systems of control.				4.04	0.878
	Not at all	0	0		
	Less extent	2	8.7		
	Moderate extent	2	8.7		
	Large extent	12	52.2		

	Very large extent	7	30.4		
The board ensures that accounts are presented in line with International Accounting Standards.	Not at all	0	0	4.13	0.757
	Less extent	1	4.3		
	Moderate extent	2	8.7		
	Large extent	13	56.5		
	Very large extent	7	30.4		
The board establishes a formal and transparent arrangement for shareholders to effect the appointment of independent auditors at each annual general meeting	Not at all	1	4.3	3.91	0.900
	Less extent	1	4.3		
	Moderate extent	1	4.3		
	Large extent	16	69.6		
	Very large extent	4	17.4		
The board establishes relevant committees and delegate's specific mandates to such committees as is necessary.	Not at all	2	8.7	7.43	12.037
	Less extent	2	8.7		
	Moderate extent	3	13.0		
	Large extent	10	43.5		
	Very large extent	6	26.1		
The board identifies key risk areas and key performance indicators of the business and monitors these factors.	Not at all			3.88	0.902
	Less extent	3	13.0		
	Moderate extent	3	13.0		
	Large extent	13	56.5		
	Very large extent	4	17.4		
The board ensures that the institution will survive, thrive and continue as a viable going concern.	Not at all	0	0	4.00	0.738
	Less extent	1	4.3		
	Moderate extent	3	13.0		
	Large extent	14	60.9		
	Very large extent	5	21.7		

Source: Research Data (2011)

4.3.2 Board Membership and Committees

This study established that the findings were skewed either to a large extent or a very large extent in regard the statement. Hansmann (1996) argues that the difference between ownership types lies in who controls the organization and who receives the profit from it. In a shareholder firm, the shareholders control the organization, decide on how to distribute the profits, and are free to sell their privileges. The governance role of board of directors regards the issue of the separation of company ownership and management of companies which has characterized the modern corporation, while the boards of directors have for a long time been identified as the representatives of shareholders. However, recent observers now concur that the current boards of directors do represent an array of other stakeholders as well. It is due to this representation that the board acts as a governance organ. It has also been observed that the boards of directors have advantage over the other channels of governance, in that they are internally recognized and bear legal authority to oversee the company. Internal controls are designed, among other things, to ensure that each key risk has a process or other measure to help contain or control that risk and that such process or measure is being applied and works as intended. As such, internal controls help ensure process integrity, compliance and effectiveness

Table 4.3.2 Board Membership and Committees

Board membership and committees	Response	Frequency	Percent	Mean	Std Deviation
The organization is managed by a board which has at least two thirds of its members being non-executive	Not at all	2	8.7%	3.85	1.01
	Less extent	3	13.0%		
	Moderate extent	3	13.0%		
	Large extent	9	39.1%		
	Very large extent	6	26.1%		
An audit and credit committees has been constituted	Not at all	2	8.7%	3.64	1.13
	Less extent	3	13.0%		
	Moderate extent	4	17.4%		
	Large extent	9	39.1%		
	Very large extent	5	21.7%		
There is an assets and liabilities committee to drive the strategy for the institution in terms of the mix of assets and liabilities	Not at all	2	8.7%	3.68	1.17
	Less extent	3	13.0%		
	Moderate extent	4	17.4%		
	Large extent	8	34.8%		
	Very large extent	6	26.1%		
The chief executive officer and the chairperson of the board are not a member of the audit committee	Not at all	2	8.7%	3.77	1.19
	Less extent	3	13.0%		
	Moderate extent	3	13.0%		
	Large extent	8	34.8%		
	Very large extent	7	30.4%		
The committee elects a chairperson among themselves who is a non-executive director	Not at all	3	13.0%	3.76	1.13
	Less extent	2	8.7%		
	Moderate extent	4	17.4%		
	Large extent	8	34.8%		
	Very large extent	6	26.1%		
The quorum for meetings are at least two-thirds of the	Not at all	1	4.3%	3.86	1.255
	Less extent	3	13.0%		

committee members where at least one attendee must be a non-executive director	Moderate extent	3	13.0%		
	Large extent	6	26.1%		
	Very large extent	9	39.1%		
Every committee reports to the board at least every three months	Not at all	2	8.7%	3.64	1.22
	Less extent	4	17.4%		
	Moderate extent	3	13.0%		
	Large extent	8	34.8%		
	Very large extent	6	26.1%		
No person shall hold the position of a director in more than one institution, unless the institution are subsidiaries or holding company of the institution	Not at all	2	8.7%	3.50	1.34
	Less extent	4	17.4%		
	Moderate extent	3	13.0%		
	Large extent	7	30.4%		
	Very large extent	6	26.1%		
The Board has a balanced mix of Executive, Non-Executive and Independent Non-Executive Directors	Not at all	3	13.0%	4.50	4.07
	Less extent	3	13.0%		
	Moderate extent	3	13.0%		
	Large extent	9	39.1%		
	Very large extent	5	21.7%		
The terms of reference of each of committee are restricted and defined.	Not at all	2	8.7%	3.68	1.21
	Less extent	4	17.4%		
	Moderate extent	2	8.7%		
	Large extent	9	39.1%		
	Very large extent	6	26.1%		
There is a formal and transparent procedure in the appointment of directors to the board	Not all	1	4.3%	3.73	1.20
	Less extent	6	26.1%		
	Moderate extent	1	4.3%		
	Large extent	8	34.8%		
	Very large extent	7	30.4%		
The CEO is appointed by the board whose terms and conditions of service are determined by the board in the contract letter	Not at all			3.87	1.25
	Less extent	6	26.1%		
	Moderate extent	1	4.3%		
	Large extent	6	26.1%		
	Very large extent	10	43.5%		
The CEO is not appointed without the prior approval of the Central Bank (in case of deposit taking MFI)	Not at all	1	4.3%	3.59	1.26
	Less extent	7	30.4%		
	Moderate extent	2	8.7%		
	Large extent	6	26.1%		
	Very large extent	7	30.45		
The board formally reviews its composition and performance at least every year to ensure that the mix of membership is appropriate	Not at all			3.74	1.18
	Less extent	6	26.1%		
	Moderate extent	1	4.3%		
	Large extent	9	39.1%		
	Very large extent	7	30.4%		
The nominations committee recommends to the board qualified, competent fit and proper persons to be nominated	Not at all	1	4.3%	5.43	8.26
	Less extent	5	21.7%		
	Moderate extent	1	4.3%		
	Large extent	11	47.8%		

for election to the	Very large extent	5	21.7%		
Boards appointments are made that provide a mix of proficient directors each of whom is able to add value and bring independent judgment to bear on the decision-making process	Not at all	0	0	3.69	1.11
	Less extent	5	21.7%		
	Moderate extent	3	13.0%		
	Large extent	9	39.1%		
	Very large extent	6	26.15		
All persons offering themselves for appointment, as directors disclose any potential area of conflict that may undermine their position or service as director	Not at all	0	0	3.61	1.16
	Less extent	6	26.1%		
	Moderate extent	3	13.0%		
	Large extent	8	34.8%		
	Very large extent	6	26.1%		
All directors submit themselves for re-election at regular intervals and at least once every three years	Not at all	2	8.7%	3.48	1.38
	Less extent	5	21.7%		
	Moderate extent	3	13.0%		
	Large extent	6	26.1%		
	Very large extent	7	30.4%		
Service contracts of executive directors do not exceed three years but these are renewable with the approval of shareholders on the recommendation of the board	Not at all	2	8.7%	3.52	1.34
	Less extent	4	17.4%		
	Moderate extent	4	17.4%		
	Large extent	6	26.1%		
	Very large extent	7	30.4%		
All directors disclose in good faith to the board for recording and disclosure to the external auditors, any business of other interests that are likely to create a potential conflict of interest	Not at all	1	4.3%	3.61	1.20
	Less extent	4	17.4%		
	Moderate extent	4	17.4%		
	Large extent	8	34.8%		
	Very large extent	6	26.1%		
When a director resigns or is removed from office before the expiry of his term, he discloses to the external auditors and to the shareholders	Not at all			3.57	1.04
	Less extent	5	21.7%		
	Moderate extent	4	17.4%		
	Large extent	10	43.5%		
	Very large extent	4	17.4%		

Source: Research data (2011)

4.2.4 Appointment, Selection, Disclosures and Removal of Directors

From the findings in Table 4.7, respondents had varied answers on this statement with responses ranging from; the nominations committee recommends to the board qualified, competent fit and proper persons to be nominated for election to the board (48% agreeing to a large extent; with a mean=5.43); all directors disclose in good faith to the board for recording and disclosure to the external auditors, any business of other interests that are likely to create a potential conflict of interest (mean =3.56). In MFIs, the board is supposed to be better aligned if the CEO and chairman are different persons, and if the percentage of international directors increases. Independent boards are considered better able to monitor the CEO on the behalf of the owners.

As in most organizations' MFIs main strategic decisions made are those concern the vision and mission in terms of the target clients and financial services to be offered, geographic outreach, growth strategy in terms of new product development, choice of directors, lending policies and interest rates to be charged (Lapenu & Pierret, 2005). With the current competition these organization face, strategic decisions are becoming of more important and the involvement of boards in making these decisions is also very important. In this aspect, appointment, selection disclosures and removal of directors is an important aspect as any other especially in regard to CG. The diverse board is also necessary in order to bring different perspectives, experiences and expertise to the hiring and firing process, decrease (increase) the political power and increase level of intuition of the process which in turn brings effective strategic decisions and better performance.

Table 4.6 Appointment, Selection, Disclosures and Removal of Directors

Appointment, selection, disclosure and removal of directors	Response	Frequency	Percent	Mean	Std Deviation
There is a formal and transparent procedure in the appointment of directors to the board	Not at all	0	0	3.73	1.20
	Less extent	6	26%		
	Moderate extent	1	4%		
	Large extent	8	35%		
	Very large extent	7	30%		
The CEO is appointed by the board whose terms and conditions of service are determined by the board in the contract letter	Not all	6	26%	3.87	1.25
	Less extent	0	0		
	Moderate extent	1	4%		
	Large extent	6	26%		
	Very large extent	10	44%		
The CEO is not appointed without the prior approval of the Central Bank (in case of deposit taking MFI)	Not all	0	0	3.59	1.26
	Less extent	7	30%		
	Moderate extent	2	8%		
	Large extent	6	26%		
	Very large extent	7	30%		

The board formally reviews its composition and performance at least every year to ensure that the mix of membership is appropriate	Not at all	0	0	3.74	1.18
	Less extent	6	26%		
	Moderate extent	1	4%		
	Large extent	9	39%		
	Very large extent	7	30%		
The nominations committee recommends to the board qualified, competent fit and proper persons to be nominated for election to the board	Not at all	5	21%	5.43	8.26
	Less extent	1	4%		
	Moderate extent	0	0		
	Large extent	11	48%		
	Very large extent	5	22%		
Boards appointments are made that provide a mix of proficient directors each of whom is able to add value and bring independent judgment to bear on the decision-making process.	Not at all	0	0	3.69	1.11
	Less extent	5	21%		
	Moderate extent	3	13%		
	Large extent	9	39%		
	Very large extent	6	26%		
All persons offering themselves for appointment, as directors disclose any potential area of conflict that may undermine their position or service as director.	Not at all	0	0	3.61	1.16
	Less extent	6	26%		
	Moderate extent	3	13%		
	To a large extent	8	35%		
	Very large extent	6	26%		
All directors submit themselves for re-election at regular intervals and at least once every three years	Not at all	2	8%	3.48	1.38
	Less extent	5	21%		
	Moderate extent	3	13%		
	Large extent	6	26%		
	Very large extent	7	31%		
Service contracts of executive directors do not exceed three years but these are renewable with the approval of shareholders on the recommendation of the board.	Not at all	2	8%	3.52	1.34
	Less extent	4	17%		
	Moderate extent	4	17%		
	Large extent	6	21%		
	Very large extent	7	31%		
All directors disclose in good faith to the board for recording and disclosure to the external auditors, any business of other interests that are likely to create a potential conflict of interest	Not at all	1	4%	3.61	1.20
	Less extent	4	17%		
	Moderate extent	4	17%		
	Large extent	8	35%		
	Very large extent	6	26%		
When a director resigns or is removed from office before the expiry of his term, he discloses to the external auditors and to the shareholders	Not at all	0	0	3.57	1.04
	Less extent	5	21%		
	Moderate extent	4	17%		
	Large extent	10	44%		
	Very large extent	4	17%		

Source: Research data (2011)

4.2.5 Evaluation of the Effectiveness of the Board and Audit Committees

This study sought to find out the various responses on CG practices in relation to evaluation of the effectiveness of the board and audit committees where: 1 represents Not at all; 2- To a less extent; 3- To a moderate extent; 4- To a large extent and 5- To a very large extent. 57% of the respondents indicated that the board's meeting agenda clearly reflects our strategic plan or priorities to a large extent mean= 3.91; 53% of the respondents stated that their organization has a three to five-year strategic plan or a set of clear long range goals and priorities to a large extent; to a less extent, 9% indicated that board members are aware of what is expected of them.

Table 4.7 Evaluation of the Effectiveness of the Board and Audit Committees

Evaluation of the effectiveness of the Board and Audit Committees	Response	Frequency	Percent	Mean	Std Deviation
How would you describe the contributions or accomplishments of the Board over the past year?	Not at all	4	17.4%	4.05	.779
	Less extent	1	4.3%		
	Moderate extent	2	8.7%		
	To a large extent	11	47.8%		
	Very large extent	5	21.7%		
Our organization has a three to five-year strategic plan or a set of clear long range goals and priorities	Not at all	1	4.3%	3.91	.900
	Less extent	1	4.3%		
	Moderate extent	2	8.7%		
	To a large extent	12	52.2%		
	Very large extent	7	30.4%		
The board's meeting agenda clearly reflects our strategic plan or priorities.	Not at all	0	0	3.91	.900
	Less extent	2	8.7%		
	Moderate extent	3	13.0%		
	To a large extent	13	56.5%		
	Very large extent	5	21.7%		
The board gives direction to staff on how to achieve the goals primarily by setting or referring to policies	Not at all	0	0	3.87	.919
	Less extent	2	8.75		
	Moderate extent	4	17.4%		
	To a large extent	11	47.8%		
	Very large extent	6	26.1%		
The board ensures that the organization's accomplishments and challenges are communicated to members and stakeholders	Not at all	0	0	3.87	.815
	Less extent	2	8.7%		
	Moderate extent	5	21.7%		
	To a large extent	10	43.7%		
	Very large extent	6	26.1%		

The board has ensured that members and stakeholders have received reports on how our organization has used its financial and human resources.	Not at all	0	0	3.83	.937
	Less extent	1	4.3%		
	Moderate extent	6	26.1%		
	To a large extent	11	47.8%		
	Very large extent	5	21.7%		
It seems like most board members come to meetings prepared	Not at all	2	8.1%	3.87	9.19
	Less extent	5	21%		
	Moderate extent	0	0		
	Large extent	10	44.0%		
	Very large extent	6	26.1%		
There is a clear understanding of where the board's role ends and the Executive Director's begins	Not at all	0	0	3.74	1.01
	Less extent	4	17.4%		
	Moderate extent	3	13.0%		
	Large extent	11	47.8%		
	Very large extent	5	21.7%		
The board has developed formal criteria and a process for evaluating the Executive Directors	Not at all	0	0	3.87	.920
	Less extent	2	8.7%		
	Moderate extent	5	21.7%		
	Large extent	10	43.5%		
	Very large extent	6	26.1%		
The Chair is skilled at managing different points of view	Not at all	0	0	3.78	.109
	Less extent	4	17.4%		
	Moderate extent	4	17.4%		
	Large extent	8	34.8%		
	Very large extent	7	30.4%		
Is the board functioning properly; are meetings held regularly and run efficiently, do discussions allow for different viewpoints to be expressed	Not at all	0	0	3.61	.941
	Less extent	4	17.4%		
	Moderate extent	4	17.4%		
	Large extent	12	52.2%		
	Very large extent	3	13.0%		

Source: Research data (2011)

4.3 Challenges of Implementing Corporate Governance Best Practices

From the findings tabulated in Table 4.9 show that the various challenges highlighted were either not in existence or were to a less extent affecting MFIs. The highest mean 2.05 indicated that there was hardly a conflicting role of government. Corporate governance implies that companies not only maximize shareholders wealth, but balance the interests of shareholders with those of other stakeholders, employees, customers, suppliers, and investors so as to achieve long-term sustainable value. There is a need for effective and sound regulatory framework for various aspects of corporate governance. There is a need for legislative enactment or decree that establishes a regulatory agency, and indicates its functions, including its enforcement powers.

Table 4.8 Challenges faced in the Implementation of Corporate Governance Practices

Challenges faced in the implementation of corporate governance practices	Response	Frequency	Percent	Mean	Std Deviation
Lack of independence within the Board	Not at all	12	52.0%	1.86	1.256
	Less extent	5	21.7%		
	Moderate	3	13.0%		
	Large	2	8.7%		
	Very large extent	1	4.3%		
Political interference at the Board level	Not at all	9	39.1%	1.91	1.064
	Less extent	9	39.1%		
	Moderate	2	8.7%		
	Large	1	4.3%		
	Very large	2	8.7%		
Insufficient monitoring regimes by shareholders	Not at all	9	39.1%	1.73	.702
	Less extent	10	43.5%		
	Moderate	3	13.0%		
	Large	1	4.3%		
	Very large	0	0		
Conflicting roles of government	Not at all	7	30.4%	2.05	1.056
	Less extent	10	43.5%		
	Moderate	3	13.0%		
	Large	1	4.3%		
	Very large	2	8.7%		
	Not at all	12	52.2%	1.45	.511

Lack of commitment and leadership	Less extent	10	43.5%		
	Moderate	1	4.3%		
	Large				
	Very large				
Failure by boards to understand the risks the institution is taking	Not at all	10	43.5%	2.05	2.13
	Less extent	10	43.5%		
	Moderate	1	4.3%		
	Large	2	8.7%		
	Very large				
Boards allowing transactions that benefit a few at the expense of the many	Not at all	12	52.2%	1.50	.598
	Less extent	9	39.1%		
	Moderate	1	4.3%		
	Large	1	4.3%		
	Very large	0	0		
Management of conflict of interest and codes of ethics	Not at all	12	52.2%	1.55	.671
	Less extent	8	34.8%		
	Moderate	2	8.7%		
	Large	1	4.3%		
	Very large	0	0		
Incompetent audit committee	Not at all	12	52.2%	1.60	.796
	Less extent	8	34.8%		
	Moderate	1	4.3%		
	Large	1	4.3%		
	Very large	1	4.3%		
Corporate culture which fosters unethical behavior which discourages difficult questions from being asked	Not at all	9	39.1%	1.90	1.064
	To a less	9	39.1%		
	Moderate	2	8.7%		
	Large	1	4.3%		
	Very large	2	8.7%		
Influence by mission and vision of mother NGO	Not at all	10	43.5%	1.86	1.082
	Less extent	8	34.8%		
	Moderate	2	8.7%		
	Large	1	4.3%		
	Very large	1	4.3%		
Irregular board meetings placing huge responsibilities on management	Not at all	10	43.5%	1.72	.935
	To a less	10	43.5%		
	Moderate	1	4.3%		
	Large	1	4.3%		
	Very large	1	4.3%		
Incompetency of some board members in terms of diversified skills and effectiveness in guiding the senior managers.	Not at all	10	43.5%	1.59	.590
	To a less	11	47.8%		
	Moderate	1	4.3%		
	Large	1	4.3%		
	Very large	0	0		
The structure of ownership and governance making the role of	Not at all	8	34.8%	1.86	.940
	To a less	11	47.8%		
	Moderate	2	8.7%		

regulators much difficult	Large	1	4.3%		
	Very large	1	4.3%		
Lack of prudential guidelines for Microfinance Institutions	Not at all	6	26.1%	2.00	.925
	Less extent	12	52.2%		
	Moderate	3	13.0%		
	Large	1	4.3%		
	Very large	1	4.3%		
Lack of independence between the chairman of the board and the CEO	Not at all	8	34.8%	1.77	.751
	Less extent	12	52.2%		
	Moderate	1	4.3%		
	Large	1	4.3%		
	Very large	1	4.3%		
Lack of transparency and accountability	Not at all	6	26.1%	1.77	.528
	Less extent	15	65.2%		
	Moderate	1	4.3%		
	Large	1	4.3%		
	Very	0	0		

Source: Research data (2011)

4.4 Discussion

From the findings in Table 4.1 on demographics in relation to scope of business, Christen et al. (2004) reports an astonishing 500 million people served, mostly with savings accounts, while the Microcredit Summit, in their 2006-meeting in Halifax, Canada, celebrated the milestone of 100 million borrowers reached. Nevertheless, microfinance still only reaches a fraction of the world's poor (Robinson, 2001, Christen et al., 2004). Additionally, there is a special challenge related to reaching poorer segments and people living in less densely populated areas (Helms, 2006, Johnson et al., 2006). Most MFIs would want to be treated as NGOs and not banks (Nankin, 2006).

Still on demographics in relation to regulation and supervision of the microfinance sector; this has led to quality growth, broaden the funding base for MFIs eligible to mobilize and administer deposits, offer credit facilities and other financial services and initiate the process of integrating these institutions into the formal financial process. Omino, (2005) stated that the regulation of the sector enables authorities define procedures for their operations, entrance, exit and ultimately create an environment for fair competition and efficiency in the sector. On the other hand, supervision encompasses all means by which regulators enforce compliance with a given legal and regulatory framework. In supervising MFIs, the line ministries using risk based approach; must understand the risk profile of different financial institutions dealing with different products and clients while ensuring that they have the ability to assess the adequacy of the measures taken to mitigate these risks. This agrees with the world-wide trend of MFIs desire to introduce/offer more products leading to conversion to commercial banking (CGAP, 2006).

On CG practices in MFIs in Nairobi, this study establishes that strategic decision makers are often members of board of directors of organizations. This is because one of the roles of the board is formulating strategies for the organizations. From the governance perspective, in order for the board to make strategic decisions, its composition in terms of size and diversity should be taken into consideration. Good composition and execution of the board duties allows the members to bring their expertise and different perspectives to the organization and to aid strategic decisions.

In regard to appointment, selection, disclosures and removal of directors, a CEO/chairman duality may be a sign of CEO entrenchment that is, the opposite of independence, since then the CEO may pursue policies that give him private benefits. However, Brickley et al. (1997) did not find that firms with a CEO- Chairman split outperformed those with a CEO-chairman duality. On the other hand Oxelheim and Randoy (2003) found that firm performance was better in firms with international directors which they consider to be an indication of independence. For example, Mellahi

(2005) argues that, board members fulfill an advisory duty as they are expected to bring in knowledge and experience from their past managerial experiences and (and in some cases) membership on other boards. Also, Mellahi and Wilkinson (2004) find composition of top management teams and managerial succession to be particularly salient with respect to organizational failure or success. This study also agrees with these previous studies in regard to the responses given.

On the issue of evaluation of the effectiveness of the board and audit committees, these findings are supported by literature that states, at its best, the internal board auditor provides independent, objective assessments on the appropriateness of the organization's internal governance structure and the operating effectiveness of specific governance activities. This activity should be value enhancing. Policy papers for MFIs stress the importance of internal audit and recommend that the internal auditor reports directly to the MFI board (Steinwand, 2000). Thus, an MFI allowing their internal auditors to report directly to the board should show higher financial performance. Information variables could also include CEO experience and educational background as well as stakeholder representatives. A more experienced CEO is likely to bring better and more relevant information to the board's attention. Likewise, representatives of employees and customers should enhance the MFIs knowledge of its markets, and also, help to align the stakeholders to the MFI mission.

Lastly on challenges of implementing CG best practices, the literature on the performance of MFIs in regard to implementation of CG practices has generally not been concerned with the effect of ownership type. However, Hartarska (2005) in her study on corporate governance in East European MFIs included ownership type as an independent variable in her model. Similarly Cull et al. (2007) included ownership type as a control variable in their study on the influence of lending methodologies on performance. In none of these studies did ownership type have a significant influence on the performance of MFIs due to varying challenges. In another study Hartarska and Nadolnyak (2007) found that regulation affected neither social nor financial performance in MFIs.

This view of failure has found support amongst researchers arguing for effective governance within MFIs (Mersland & Strom, 2009) while others find the microfinance sector to have experienced some major failures where, among other reasons for these failures, the inadequacy of governance practices was to blame (Labie, 2001). In addition to weak governance practices, there has been a tremendous growth and institutionalization process experienced by some organizations that is providing an interesting area for further research (especially in SSA) aimed at improving internal control mechanisms, especially mechanisms linked to board action.

Accordingly, Mersland and Strom (2009) suggest that financial performance improves with local rather than international directors supported by an internal board auditor, while Hardy et al. (2003) argue for a better MFI regulation. MFIs in Kenya through the enactment of the MFI Act 2010 have led to commercialization of MFI operations as a key to sustainable business. The Act has freed MFIs to mobilize public deposits and manage professionally to make profits for sustainable businesses (AMFI, 2010). This is further supported by the fact that in the microfinance literature, the analysis of governance has evolved from a principal-agent theory to a more complex, multi-stakeholder one (Giovanna Pugliese, 2010).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this section, the researcher provides a discussion on the findings of the research as compared to the findings in the literature review, the summary of the study and recommendations for further improvement on identifying the measures to be taken to attract wide interest in open innovation in the academic field. The research is concluded on the basis of the conclusions drawn from the research questions

5.2 Summary

In regard to demographics, the findings established that an overwhelming majority of the MFIs (95.7%) were nationwide, 35% of the MFIs had 1-250 employees, 17.4% had 251-500 employees and 26% had over 1000 employees. In regard to operations, 30.4% indicated that they operated under the Company's Act, 26% stated that they operated from the Banking Act 21.7% under the MFIs Act. Another key findings was that 96% of the MFIs operated under the ministry of finance while more than half (57%) were wholly locally owned and of these 39% offered banking/MFI services, 35% were credit only organizations respectively.

Based on the first objective of this study which was to establish the Corporate Governance practices adopted by Microfinance Institutions in Kenya In regard to the role and functions of the board, 70% of the respondents indicated that the board establishes a formal and transparent arrangement for shareholders to effect the appointment of independent auditors at each annual general meeting (a mean of 3.91), 61% stated that the board ensures that the institution will survive, thrive and continue as a viable going concern (mean 4.00); 57% of the respondents either stated that the board ensures that accounts are presented in line with International Accounting Standards (IAS).

In regard to the appointment, selection, disclosure and removal of directors on CG practices in MFIs this study established that the nominations committee recommends to the board qualified, competent fit and proper persons to be nominated for election to the board (48% agreeing to a large extent; with a mean=5.43); all directors disclose in good faith to the board for recording and disclosure to the external auditors, any business of other interests that are likely to create a potential conflict of interest (mean =3.56). In regard to CG practices in relation to evaluation of the effectiveness of the board and audit committees where: 1 represents Not at all; 2- To a less extent; 3- To a moderate extent; 4- To a large extent and 5- To a very large extent. 57% of the respondents indicated that the board's meeting agenda clearly reflects our strategic plan or priorities to a large extent mean= 3.91; 53% of the respondents stated that their organization has a three to five-year strategic plan or a set of clear long range goals and priorities to a large extent. This study concur with the findings as well as related literature that good corporate governance seeks to create an institutional framework that encourages all participants to contribute towards better corporate performance aligned with good governance practices.

On the second objective of determining the challenges of implementing corporate governance best practices in the Microfinance Institutions in Ken a. Among the key challenges that this study established in regard to challenges while undertaking CG practices were management of conflict of interest and codes of ethics, boards allowing transactions that benefit a few at the expense of the many, lack of commitment and leadership and incompetent audit committees. However, 52% of all the respondents indicated that hardly were they challenges In addition from the findings tabulated in

Table 4.9 in the previous chapter they indicate that various challenges highlighted were either not in existence or were to a less extent affecting MFIs. The highest mean (2.05) indicated that there was hardly a conflicting role of government.

5.3 Conclusion

This study concludes that there is empirical evidence which indicates that MFIs (both for profit and not for profit) have large boards. However because of the dual objective of MFIs, this study This study concur with the findings as well as related literature that good corporate governance seeks to create an institutional framework that encourages all participants to contribute towards better corporate performance aligned with good governance practices. This supported by literature that the indicates that boards of these organisations should be large at least to meet the requirement suggested of eight members by various studies (Hartaska & Mersland, 2008). In this case the board composition will be fair in terms of both the size and diversity.

The most important implication of this study is that while the MFIs study is specific to Kenya, the conditions for 'successful' MFIs can be generalized to other donor-led MFIs elsewhere. A competent and motivated board together with institutional capacity is critical to advancing CG in the microfinance sector. The implication here is that sufficient flows of donor funds are not a guarantee for success. MFIs need good governance that ensures transparency of processes and clear lines of accountability amongst stakeholders in relation to MFI's mission. For this to happen, MFIs boards should be in positions to challenge and act as a check on executives, and have the relevant background experience. In addition, MFIs need to invest in up to date management information systems that are well supported by established business ethics. Considering that there were hardly challenges among the MFIs that were targeted in regard to CG practices, this is a good indication that MFIs in Kenya are on track and this policy should be replicated within other financial and non-financial institutions in the country.

5.4 Recommendations

From the above findings and conclusion the study recommends that in order for MFI to remain profitable while ensuring good corporate governance there is a need to keep up and to strengthen close ties to customers in order to overcome informational asymmetries. However, this should not necessarily be done through group lending as this approach increases costs. A viable MFI needs to be profitable while integrating good CG practices. Thus, as long as donors or governments are not willing to take on a long term obligation to subsidies, good financial performance needs to be accepted, even if this means lower outreach in the short term. Stronger competition among MFIs should be encouraged.

In regard to the second objective where the government hardly interferes with operations of MFIs the role of the state should thus be to foster competition in the MFI field. This is perhaps the major contribution the state can make for microfinance institutions. Some answers in microfinance governance have been found, more questions remain especially on outreach and more about financial performance. Consequently, the similarity of financial and outreach performance in community based organizations, MFI operating under the Act and those operating under Company Act, calls for an investigation into causes for this.

Furthermore, since stakeholders have intrinsic values, they should be viewed instrumentally, as factors potentially affecting the overarching goal of optimizing shareholders' interests especially in entrenching CG practices. By having them in the board, they become source of either organizational goodwill or retaliation. They also represent the diverse interests which may lead the organization to making effective strategic decisions which will in turn lead to better performance. Strategic decisions are the most important for the organization and they chart a direction of the organization. Therefore the groups which can affect that direction must be represented in the boards which imply that they are involved in the process of strategic decision making.

This study also emphasizes the fact that MFIs operate in countries ripe with corruption, where the legal frameworks are mixed, law enforcement is weak, and effective government regulation is uncertain. Therefore, there are good reasons to believe that the effects of some alternative governance mechanisms are more limited in most microfinance markets. Relevant literature expounds that increased levels of competition in microfinance markets induced efficient operations and reduced interest rates. However, as mentioned, competition in most markets is still weak. Adding to this is the challenge related to the lack of managerial capacity in the industry, which reduces managers' incentives to improve performance. Since no better options are available for the owners, managers can continue to produce slack results.

Increased use of incentive pay could solve some MFI governance challenges. However, aligning the interest of MFI managers too much with the interests of owners with economic incentives is problematic in financial institutions since this could induce managers to take higher risks at the expense of depositors and other debt holders.

5.5 Suggestions for Further Research

In regard to the recommendations given Viable MFI needs to be profitable. Thus, as long as donors or governments are not willing to take on a long term obligation to subsidies, good financial performance needs to be accepted, even if this means lower outreach in the short term. Some answers in microfinance governance have been found, more questions remain. This research finds it puzzling that stakeholders are virtually absent in MFI boards when so many MFIs are organized as non-profit organisations. Also, the similarity of financial and outreach performance in some of the MFIs calls for further investigation into causes for this.

Secondly, there is need to investigate expansion of the scope to cover new areas and clients considering MFIs already control a segment of the money market considered risky by main stream banks and the efforts of these MFIs in adopting best CG practices. Lastly, this study welcomes more studies to confirm or question our findings. Furthermore, this study calls for studies on how to adapt legal frameworks so as to allow well-performing MFIs to mobilize savings while integrating governance systems and understanding their effect in microfinance institutions.

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APPENDICES

APPENDIX I: Introductory Letter

Dear Sir/Madam,

To Whom It May Concern

RE: REQUEST FOR RESEARCH DATA IN MFIs.

I am a post graduate student at the University of Nairobi and I am currently conducting a research project in partial fulfillment of the requirements for the degree of Master of Business Administration (MBA). My topic of study is Corporate Governance in Microfinance Institutions in Nairobi, Kenya.

In order to achieve this, I will conduct interviews with one key staff in your organisation to gather the required data. Your views will be treated with utmost confidentiality and will only be used purely for academic purposes. This questionnaire will take about 10-15 minutes of your time.

Thank you in anticipation

Yours Faithfully

Anne Kerubo Mwasi
MBA Student
University of Nairobi.

Dr. Vincent Machuki
Supervisor
University of Nairobi

UNIVERSITY OF NAIROBI
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P.O. Box [illegible]
Nairobi, Kenya

DATE: [illegible]

TO WHOM IT MAY CONCERN

The bearer of this letter [illegible]

Registration No.: [illegible]

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

JUSTINE MAGUTU
ASSISTANT REGISTRAR
MBA OFFICE, AMBANK HOUSE

Appendix 2: Research Questionnaire

Section A: Organizational Profile

Please supply the required data by filling in the blanks where space is provided or by ticking

[√] against the most appropriate answer.

1. Name of the organization ____________________

2. Year of establishment____________________

3. Scope of business (Tick)

   Nationwide [ ]

   Community-based [ ]

4. Current number of employees in the institution (Tick)

   1-250 [ ]

   251-500 [ ]

   501-750 [ ]

   Over 1000 [ ]

5. The Act under which the institution operates ____________________

6. Line Ministry under which the institution operates ____________________

7. Ownership structure (Tick)

   Wholly locally owned [ ]

   Foreign owned [ ]

   Foreign-locally owned [ ]

8. Nature of services offered (Tick)

   Deposit Taking Microfinance [ ]

   Credit only Organization [ ]

   Other: [ ] (Please State) ____________________

Section B: Corporate Governance Practices

9. The following are corporate governance practices regarding the Role and Functions of the Board. To what extent do they apply to your organization? Please use the key below to tick[√] as appropriate where:

1- Not at all 2- To a less extent 3- To a moderate extent

4- To a large extent 5- To a very large extent.

Role and Functions of the Board	1	2	3	4	5
The board monitors and evaluates the implementation of strategies, policies, management performance criteria and business plans.					
The Board ensures that the institution complies with the relevant laws, regulations and codes of best business practice.					
There is a clear separation of the role and responsibilities of the chairman and chief executive, which will ensure a balance of power of authority and provide for checks and balances.					
There is a shareholders participation in major decisions of the Company.					
The board serves the legitimate interest of the shareholders and the corporation and account to them fully.					
The board regularly reviews processes and procedures to ensure the effectiveness of its internal systems of control.					
The board ensures that accounts are presented in line with International Accounting Standards.					
The board establishes a formal and transparent arrangement for shareholders to effect the appointment of independent auditors at each annual general meeting.					
The board establishes relevant committees and delegate's specific mandates to such committees as is necessary.					
The board identifies key risk areas and key performance indicators of the business and monitors these factors.					
The board ensures that the institution will survive, thrive and continue as a viable going concern.					

10. The following corporate governance practices relate to Board membership and Committees. To what extent do they apply to your organization? Please use the key below to tick[√] as appropriate where:

1- Not at all 2- To a less extent 3- To a moderate extent

4- To a large extent 5- To a very large extent.

Board Membership and Committees	1	2	3	4	5
The Board is managed by the a board which has at least two thirds of its members being non-executive					
An audit and credit committees has been constituted					
There is an assets and liabilities committee to drive the strategy for the institution in terms of the mix of assets and liabilities					
The chief executive officer and the chairperson of the board are not a member of the audit committee					
The committee elects a chairperson among themselves who is a non-executive director					
The quorum for meetings are at least two-thirds of the committee members where at least one attendee must be a non-executive director					
Every committee reports to the board at least every three months					
No person shall hold the position of a director in more than one institution, unless the institution are subsidiaries or holding company of the institution					
The Board has a balanced mix of Executive, Non-Executive and Independent Non-Executive Directors					
The terms of reference of each of committee are restricted and defined.					

11. The following corporate governance practices relate to Appointment, Selections, Disclosures and Removal of Directors in an institution. To what extent do they apply to your organization? Please use the key below to tick[√] as appropriate where:

1- Not at all 2- To a less extent 3- To a moderate extent

4- To a large extent 5- To a very large extent.

Appointment, Selections, Disclosures and Removal of Directors	1	2	3	4	5
Appointment, Selections, disclosures and removal of directors					
There is a formal and transparent procedure in the appointment of directors to the board					
The CEO is appointed by the board whose terms and conditions of service are determined by the board in the contract letter					
The CEO is not appointed without the prior approval of the Central Bank (in case of deposit taking MFI)					
The board formally reviews its composition and performance at least every year to ensure that the mix of membership is appropriate					
The nominations committee recommends to the board qualified, competent fit and proper persons to be nominated for election to the board					
Boards appointments are made that provide a mix of proficient directors each of whom is able to add value and bring independent judgment to bear on the decision-making process.					
All persons offering themselves for appointment, as directors disclose any potential area of conflict that may undermine their position or service as director.					
All directors submit themselves for re-election at regular intervals and at least once every three years					
Service contracts of executive directors do not exceed three years but these are renewable with the approval of shareholders on the recommendation of the board.					
All directors disclose in good faith to the board for recording and disclosure to the external auditors, any business of other interests that are likely to create a potential conflict of interest					
When a director resigns or is removed from office before the expiry of his term, he discloses to the external auditors and to the shareholders					

12. The following corporate governance practices relate to evaluation of the effectiveness of the Boards and the audit committees regarding the matters they should consider. To what extent do they apply to your organization? Please use the key below to tick[√] as appropriate where:

1- Not at all 2- To a less extent 3- To a moderate extent

4- To a large extent 5- To a very large extent.

Evaluation of the Effectiveness of the Board and Audit Committees	1	2	3	4	5
How would you describe the contributions or accomplishments of the Board over the past year?					
Our organization has a three to five-year strategic plan or a set of clear long range goals and priorities					
The board's meeting agenda clearly reflects our strategic plan or priorities.					
The board gives direction to staff on how to achieve the goals primarily by setting or referring to policies					
The board ensures that the organization's accomplishments and challenges are communicated to members and stakeholders					
The board has ensured that members and stakeholders have received reports on how our organization has used its financial and human resources.					
Has the board properly defined the vision for the institution and is it thinking strategically about the institution's future?					
How effectively does it use reporting mechanisms such as the AGM and the annual report to report to shareholders effectively?					
There is a clear understanding of where the board's role ends and the Executive Director's begins					
The board has developed formal criteria and a process for evaluating the Executive Director					
The Chair is skilled at managing different points of view					
Is the board functioning properly-are meetings held regularly and run efficiently, do discussions allow for different viewpoints to be expressed?					

Section B: Corporate Governance Challenges

13. The following relate to the challenges faced in the implementation of the corporate governance practices. To what extent does your organization face each one of the challenges? Please use the key below to tick[√] as appropriate where:

1- Not at all 2- To a less extent 3- To a moderate extent

4- To a large extent 5- To a very large extent

Challenges faced in the Implementation of Corporate Governance Practices	1	2	3	4	5
Lack of independence within the Board					
Political interference at the Board level					
Insufficient monitoring regimes by shareholders					
Conflicting roles of government					
Lack of commitment and leadership					
Failure by boards to understand the risks the institution is taking					
Boards allowing transactions that benefit a few at the expense of the many					
Management of conflict of interest and codes of ethics					
Incompetent audit committee					
Corporate culture which fosters unethical behavior which discourages difficult questions from being asked					
Influence by mission and vision of mother NGO					
Irregular board meetings placing huge responsibilities on management					
Incompetency of some board members in terms of diversified skills and effectiveness in guiding the senior managers.					
The structure of ownership and governance making the role of regulators much difficult					
Lack of prudential guidelines for Microfinance Institutions					
Lack of independence between the chairman of the board and the CEO					
Lack of transparency and accountability					
Any other Challenges that are not captured above	1	2	3	4	5

Thank you so much for your time and cooperation.

Appendix 3: AMFI Membership

1. AAR Credit Services
2. ADOK Timo
3. Aghakhan First Micro Finance Agency
4. Barclays Bank of Kenya
5. Biashara Factors Ltd.
6. BIMAS
7. Blue Ltd.
8. Canyon Rural Credit Ltd
9. Chartis Insurance
10. CIC Insurance
11. Co-operative Bank
12. ECLOF Kenya
13. Elite Microfinance
14. Equity Bank
15. Faulu Kenya DTM Ltd
16. Fusion Capital Ltd
17. Greenland Fedha Ltd
18. Jamii Bora
19. Jitegemea Credit Scheme
20. Jitegemee Trust Ltd
21. Juhudi Kilimo Co Ltd
22. K-rep Bank
23. K-rep Development Agency
24. KADET
25. Kenya Entrepreneur Empowerment Foundation (KEEF)
26. Kenya Post Office Savings Bank
27. Kenya Women Finance Trust (KWFT)
28. Kenya Women Holding
29. Kilimo Faida
30. Mega Microfinance Limited
31. MESPT
32. Micro Africa Limited
33. Microensure Advisory Services
34. Molyn Credit Limited
35. Muramati SACCO Society Ltd
36. Musoni Kenya
37. Oikocredit
38. One Africa Capital Limited
39. Opportunity International
40. Pamoja Women Development Program (PAWDEP)
41. Rafiki Deposit Taking Microfinance Ltd
42. Remu DTM Limited
43. Renewable Energy Technology Assistance Program (RETAP)
44. Rupia Limited
45. Select Management Services Limited
46. SISDO
47. SMEP DTM Limited
48. Swiss Contact
49. Taifa Option Microfinance
50. U & I Microfinance Limited,
51. Uwezo DTM Limited,
52. Yehu Microfinance Trust