

Original Research Article

The Effect of Equity Financing on Financial Performance of Licensed Microfinance Institutions in Kenya

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Abstract: This study examined the effect of equity financing on the financial performance of Licensed Microfinance Institutions in Kenya. Over the past few decades, microfinance has emerged as one of the effective sources of finance for socio-economic development in the world and is recognized as an essential tool of financial inclusion. However, the magnitude and the real socio-economic impact of MFIs are still debatable. A significant body of empirical research has questioned the ability of MFIs in the alleviation of poverty and reported their limited impacts on the ownership of assets and consumption. The theories used in this study were Stakeholder Theory and Capital Structure Theory. This study adopted both descriptive research design and correlational research design. The target population comprised of 13 LMFIs. Out of 192 respondents in the target population, 52 respondents were selected. Stratified and purposive sampling techniques were used to sample. Primary data were obtained directly from respondents using a closed and open-ended questionnaire. This data was then analysed using descriptive and inferential statistics (Pearson correlations and regression analyses). Reliability was measured by Cronbach's alpha test at a minimum threshold of 0.7. This data was analysed using multiple regression models. Statistical Package for Social Sciences Statistics version 27 was used in analysing correlations amongst the variables. Based on the findings of the study, it was concluded that equity financing significantly influenced the financial performance of Licensed Microfinance Institutions in Kenya. Therefore, this study recommends that for Licensed Microfinance Institutions to remain financially stable, Kenya Association of MFIs should formulate policies that would ensure all MFIs have a sound system of sourcing for their smooth running. This study further recommends that Licensed Microfinance Institutions should have alternative measures to stem any financial risks which would sabotage their smooth running. Kenya Association of MFIs should encourage all microfinance firms to embrace diversified sources of equity funding.

Keywords: Equity Financing, Financial Performance, Microfinance Institutions.

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BACKGROUND OF THE STUDY

Globally, the financial performance of MFIs has been a subject of concern as these institutions seek to balance their dual objectives: social outreach and financial viability. While MFIs have expanded access to credit for millions of low-income households, sustaining profitability remains a challenge due to high operational costs, small loan sizes, and high default risks (Meki & Quinn, 2024). According to Dabi (2023), achieving consistent financial performance depends largely on the capital structure, governance, and the mix between equity and debt financing. Well-managed MFIs that maintain an optimal balance between these financing

sources tend to record better profitability and long-term sustainability (Li *et al.*, 2022).

In developing countries, Microfinance Institutions (MFIs) serve as crucial sources for providing financial services to underprivileged individuals and small and medium enterprises (SMEs). The importance of MFIs and the risks associated with over-indebtedness among MFI clients (Kasoga & Tegambwage, 2024). Further research indicates that despite efforts to enhance competitive advantage by investing in assets, the loan performance of MFIs in Kenya continues to decline (Saeed, 2023).

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A significant factor contributing to the large number of unbanked adults and low financial inclusion globally is the reluctance of formal financial institutions to provide services to the poor, as these services are often not profitable (Kamran & Uusitalo, 2024). This has underscored the importance of microfinance, which has expanded to many countries, playing a crucial role in supporting those excluded from traditional banking systems (Ediagbonya & Tioluwani, 2023). Consequently, MFIs now operate in at least 120 countries worldwide and are perceived as a potential solution to the financial inclusion challenges faced by the unbanked population (Milana & Ashta, 2020).

Initially, most MFIs were socially driven, with their primary objective being the provision of financial services to the poor and unbanked (Chibueze, 2025). However, over time, achieving financial sustainability has become a key focus for policymakers, managers, and practitioners. Despite the concept of financial performance being relatively new and complex in the context of microfinance, studies suggest that efficient use of scarce resources can help MFIs achieve performance (Mia *et al.*, 2019).

Efficient and financially sustainable MFIs can alleviate poverty and reach the unbanked and economically disadvantaged populations more effectively than inefficient ones (Nourani *et al.*, 2021). Gustafsson *et al.*, (2019) emphasize that a sustainable institution produces outputs that are in sufficient demand to ensure a steady or growing rate of production. Singh (2019) also highlights that banks and MFIs are often judged based on their operational efficiency. Efficient MFIs are likely to offer better products and services at lower costs, thereby improving the well-being of the poor (Mia *et al.*, 2019).

Recognizing the growing importance of MFIs, the Central Bank of Kenya introduced the Microfinance Act in 2006 to reform the regulation and supervision of the industry, enhancing its performance, transparency, and outreach to the private sector. These policies, targeting both deposit-taking and non-deposit-taking MFIs, were part of Kenya's Vision 2030 economic blueprint. Despite these measures, many MFIs continue to underperform, and the Central Bank of Kenya aims to integrate the unbanked population into the formal banking system (Irungu, 2021).

Equity financing, as a component of capital structure, has emerged as a significant determinant of financial performance in MFIs. It refers to funds contributed by owners, investors, or shareholders, representing ownership interest in the institution (Ledgerwood & White, 2018). Equity financing provides a permanent capital base that can absorb losses and support operational expansion without the repayment obligations associated with debt. Globally, MFIs that rely more on equity funding have demonstrated stronger

balance sheets, greater liquidity, and improved profitability (Meki & Quinn, 2024). Conversely, institutions that depend heavily on debt often face financial distress during periods of economic instability due to repayment pressures and interest costs (Li, 2022).

In sub-Saharan Africa, microfinance institutions play a vital role in promoting economic empowerment, yet their financial performance remains fragile. Studies indicate that well-capitalized MFIs with higher equity-to-debt ratios achieve stronger financial outcomes compared to those with excessive leverage (Bogan, 2012; Kipesha, 2013). Dabi (2023) emphasizes that equity financing strengthens the resilience of MFIs by enhancing capital adequacy and reducing dependency on volatile external funding. However, limited access to equity markets and a narrow investor base constrain the ability of African MFIs to raise sufficient equity capital, thereby undermining their long-term financial performance.

In Kenya, licensed MFIs operate under the Microfinance Act of 2006 and are regulated by the Central Bank of Kenya (CBK) to ensure soundness and performance. Despite notable progress in governance and outreach, most licensed MFIs continue to face profitability challenges due to undercapitalization and inefficient capital structures (Odero & Mutswenje, 2021). Research findings remain mixed: Chemutai (2023) reported that equity financing negatively influenced short-term profitability of deposit-taking MFIs, possibly due to ownership dilution and delayed returns on investment, whereas Onsase and Irungu (2024) established a positive and significant relationship between equity capital and financial performance. Similarly, Nasubo, Cheboi, and Odunga (2025) observed that internal managerial capabilities moderate this relationship, suggesting that effective governance can amplify the benefits of equity financing.

Further, Mwanzia (2024) noted that equity financing strategies significantly influence growth and performance among micro, small, and medium enterprises in Kenya - insights that are equally relevant to MFIs, which share similar financing dynamics. These findings imply that while equity financing can enhance financial performance by improving liquidity and reducing financial risk, its effectiveness depends on the institution's strategic management, regulatory compliance, and market conditions.

Statement of the Problem

Financial performance is a crucial indicator of the performance and competitiveness of microfinance institutions (MFIs). Despite their growing role in advancing financial inclusion, many MFIs globally continue to struggle with maintaining profitability and long-term financial performance (Li, 2022). Studies have shown that the capital structure, particularly the proportion of equity financing, significantly influences

financial outcomes in financial institutions (Dabi, 2023; Meki & Quinn, 2024). Equity financing is generally associated with lower financial risk, higher liquidity, and stronger institutional resilience (Ledgerwood & White, 2018). However, excessive reliance on equity can dilute ownership and limit short-term returns, posing challenges for investors and managers seeking to balance profitability with stability (Meki & Quinn, 2024).

In the global context, MFIs have recorded mixed performance outcomes depending on their financing strategies. Institutions that effectively leverage equity capital have reported improved financial health and performance, while those with disproportionate debt exposure have faced liquidity constraints and increased default risks (Li *et al.*, 2022; Dabi, 2023). Yet, evidence remains inconclusive on the magnitude and consistency of equity financing's effect on financial performance, especially within regulated microfinance environments.

In sub-Saharan Africa, the financial performance of MFIs remains inconsistent due to high operating costs, limited access to affordable capital, and weak equity markets (Kipsha, 2013; Dabi, 2023). Many institutions rely heavily on donor funding and debt financing, which often increases financial vulnerability during economic downturns. Although equity financing has been identified as a stabilizing factor, its utilization remains limited because of investor risk aversion, inadequate regulatory incentives, and ownership structure challenges (Meki & Quinn, 2024). Consequently, there is a growing concern that the underutilization of equity financing may be contributing to the financial instability observed among African MFIs.

In Kenya, licensed microfinance institutions operate under the Microfinance Act of 2006 and are regulated by the Central Bank of Kenya (CBK). Despite regulatory oversight and periodic capital adequacy reviews, most licensed MFIs continue to experience fluctuating profitability and performance challenges (Odero & Mutswenje, 2021). Research on the impact of equity financing on financial performance in Kenya presents conflicting findings. For instance, Chemutai (2023) established a negative relationship between equity financing and profitability, suggesting that higher equity levels may reduce short-term earnings due to the cost of maintaining shareholder capital. In contrast, Onsase and Irungu (2024) found that equity financing positively and significantly affects the financial performance of deposit-taking MFIs, enhancing both liquidity and return on assets. Similarly, Nasubo, Cheboi, and Odunga (2025) demonstrated that internal management expertise moderates this relationship, implying that the efficiency of managerial decisions can strengthen or weaken the effect of equity capital on institutional performance.

These inconsistencies highlighted a research gap on how equity financing influenced the financial performance of licensed MFIs in Kenya within a regulated environment. While global evidence supports equity financing as a driver of financial performance, the local context suggests variability depending on internal and external institutional factors. Therefore, this study aimed to investigate the effect of equity financing on the financial performance of licensed microfinance institutions in Kenya, addressing the persistent uncertainty in empirical findings and contributing to policy and management strategies aimed at improving financial performance in the microfinance sector.

Objective of the Study

The study sought to establish the effect of equity financing on financial performance of licensed Microfinance Institutions in Kenya.

Research Hypothesis

H₀₁: There is no significant effect of equity financing on financial performance of licensed Microfinance Institutions in Kenya.

Theoretical Review

The study was anchored on the following theories: Stakeholder Theory and Capital Structure theory.

Stakeholder Theory

Stakeholder Theory, first articulated by Freeman (1984), posits that organizations should create value not only for shareholders but also for all stakeholders connected to their operations — including customers, employees, investors, regulators, and communities (Parmar *et al.*, 2010). The theory emphasizes that long-term organizational success depends on effectively balancing the interests of diverse stakeholders rather than focusing solely on profit maximization for owners.

In the context of licensed microfinance institutions (MFIs), stakeholders include shareholders, creditors, clients (often low-income populations), regulatory bodies, and the broader economy. These institutions are expected to generate sufficient financial returns for investors while promoting financial inclusion and social welfare for clients (Jan *et al.*, 2021). Thus, the financial performance of MFIs is closely linked to how well they manage and balance these competing stakeholder demands.

Equity financing, which involves raising capital through shareholders' contributions, directly relates to Stakeholder Theory because it engages multiple stakeholder groups in the value-creation process. Shareholders provide long-term capital, thereby sharing both the risks and returns of the institution (Meki & Quinn, 2024). By increasing equity levels, MFIs can enhance their financial stability, reduce dependence on

external debt, and improve their ability to serve clients sustainably (Li, 2022). From the stakeholder perspective, adequate equity capital ensures that MFIs can meet creditors' expectations for financial soundness while fulfilling their social mission of extending affordable credit to underserved populations (Dabi, 2023).

For investors and regulators, equity financing represents a critical safeguard that strengthens capital adequacy and institutional resilience (Ledgerwood & White, 2018). A well-capitalized MFI is better positioned to absorb financial shocks and maintain operations even in volatile economic conditions — an outcome that benefits clients, employees, and the community at large (Onsase & Irungu, 2024). Moreover, sustained financial performance achieved through strong equity capitalization enables MFIs to continue delivering microloans and financial literacy programs, thereby contributing to inclusive economic development (Nasubo, Cheboi, & Odunga, 2025).

However, the application of Stakeholder Theory to equity financing is not without challenges. One criticism of the theory is its difficulty in balancing competing stakeholder interests (Schätzlein *et al.*, 2023). For instance, while shareholders may demand high returns on their equity, management may prioritize reinvestment in institutional growth or social programs, creating tension between profitability and outreach (Siti Nazariah *et al.*, 2024). Ngunya (2021) observed that when MFIs focus excessively on satisfying investors, they may inadvertently reduce outreach to poorer clients, contradicting the social mission of microfinance. Similarly, equity dilution during capital expansion may lead to governance conflicts and diverging expectations among shareholders and managers.

In summary, Stakeholder Theory provides a valuable framework for understanding how equity financing affects the financial performance of licensed MFIs in Kenya. It highlights that effective equity management can enhance institutional stability and profitability, benefitting all stakeholder groups — from shareholders and creditors to clients and regulators. However, it also underscores the importance of maintaining a balance between financial and social objectives to ensure that the benefits of equity financing extend equitably across all stakeholders.

Capital Structure Theory

The Capital Structure Theory, proposed by Modigliani and Miller (1958), explains how a firm's financing decisions, particularly the mix between debt and equity, influence its overall value and financial performance. The theory posits that under perfect market conditions, the choice of capital structure (i.e., the proportion of debt and equity financing) does not affect a firm's value (Akeem *et al.*, 2014). However, in reality, factors like taxes, bankruptcy costs, and asymmetric information influence capital structure decisions,

impacting the financial performance of firms.

The study objective aligns with Capital Structure Theory by focusing on how MFIs' reliance on equity financing and their size affect their financial performance. In the context of MFIs, equity financing refers to raising funds by selling shares or retaining earnings, which has no mandatory repayment obligations, unlike debt. Larger MFIs may also have access to a wider range of capital sources, potentially improving their performance (Bhanot & Bapat, 2015).

Furthermore, the capital structure theory asserts firms balance the benefits of debt (e.g., tax shields) against the costs of financial distress. In this case, MFIs may lean toward equity financing to avoid the risk of insolvency that comes with excessive debt. At the same time, larger MFIs can afford to take on more equity or manage higher proportions of debt, improving their ability to sustain growth and service clients (Bayai & Ikhide, 2016).

Equity financing, particularly for MFIs, is often preferred over debt due to the lower financial risk it imposes. Unlike debt, equity financing does not require regular interest payments, reducing the risk of financial distress. MFIs relying on equity financing tend to be more financially sustainable, as they have greater flexibility in managing their funds and are less likely to face liquidity problems during periods of financial volatility. Equity also supports the institution's growth without diluting future earnings through interest payments (Lassoued, 2022).

Larger MFIs generally enjoy economies of scale, have greater bargaining power with investors, and have access to more diverse financing options, including equity. The size of an MFI significantly affects its financial performance, with larger institutions more likely to attract equity investors due to their perceived stability. Larger MFIs are also better positioned to leverage equity financing for long-term growth without over-relying on costly debt (Castellani & Cincinelli, 2015).

Mbugua (2010) argued that Capital Structure Theory, that firms prefer internal financing (retained earnings) first, followed by debt, and only turn to equity as a last resort. However, MFIs, particularly in developing markets like Kenya, may prefer equity over debt due to the high interest rates and risks associated with debt. MFIs with higher equity financing are generally more resilient during economic downturns and are less vulnerable to external shocks, such as interest rate hikes Mbugua (2010).

Parvin *et al.*, (2020) found that MFIs with higher equity financing exhibited greater financial performance, as they avoided the high costs of debt servicing. Their study also highlighted the importance of

firm size, noting that larger MFIs had easier access to equity financing due to their stronger financial track records. Onkware (2022) concluded that firm size influences capital structure decisions in MFIs, with larger institutions having more diversified capital structures. Larger MFIs were more likely to use equity financing to maintain financial performance and avoid the risks associated with high levels of debt.

While Capital Structure Theory provides valuable insights into the relationship between equity financing, firm size, and financial performance, there are notable weaknesses in its application to licensed MFIs. A major criticism of the Modigliani-Miller Capital Structure Theory is that it assumes perfect capital markets, where there are no taxes, bankruptcy costs, or information asymmetries (Myers & Majluf, 1984). However, in the real world, particularly in developing economies like Kenya, MFIs face significant barriers, including high transaction costs and limited access to capital markets. Chemtai (2023) argued that these imperfections make it difficult for MFIs to optimize their capital structure, as access to equity financing is often constrained by market inefficiencies and a lack of investor confidence.

While equity financing is considered a safer option compared to debt, it comes with the downside of ownership dilution. MFIs that rely heavily on equity financing may face challenges in maintaining control, especially if large external investors demand significant influence over operational decisions. Nguta (2021) found that some MFIs in Kenya faced governance issues after raising capital through equity, as new shareholders-imposed restrictions that affected the institution's social mission and financial performance.

While larger MFIs may have better access to equity financing, smaller MFIs often struggle to attract equity investors. Jepkorir (2022) pointed out that smaller MFIs are perceived as riskier by investors, limiting their ability to raise capital through equity. This creates a disparity in the financial performance of MFIs based on size, with smaller institutions facing greater financial constraints. Capital Structure Theory, which tends to emphasize optimal financial mixes, may not adequately address these disparities.

Capital Structure Theory provides a solid framework for understanding how equity financing and firm size impact the financial performance of licensed MFIs. Equity financing is a valuable tool for MFIs to avoid the risks associated with debt, while firm size plays a critical role in accessing capital and maintaining financial health (Jacob, 2023). However, the theory's assumptions of perfect market conditions, the challenges of ownership dilution, and the disparities between small and large MFIs limit its practical applicability in the context of microfinance institutions in Kenya. These limitations suggest that MFIs must carefully consider

their size, market conditions, and capital structure strategies to ensure long-term financial performance.

LITERATURE REVIEW

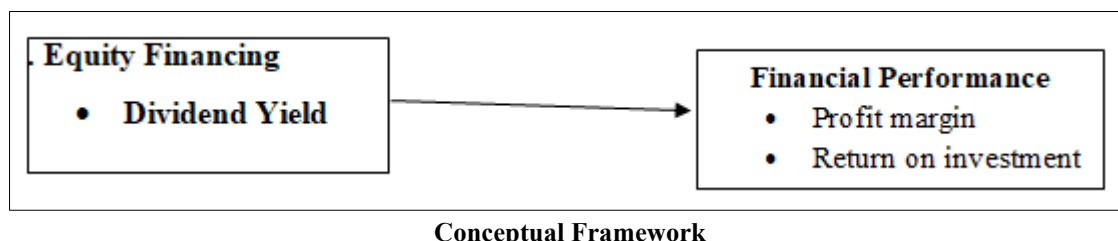
Said *et al.*, (2019) studied the effect of capital structure and legal status on the financial performance of MFIs in developing countries. Due to limitations of previous research on the performance of MFIs in general, and the relationship between capital structure and MFIs' performance in developing countries after the financial crisis, this study has been written to fill this gap by examining the effect of factors such as capital structure and legal status on MFIs' performance. A sample of 434 MFIs operating in developing countries from 2010 to 2014 was used. While multiple regression techniques were used to test the relationship between dependent variables and predictors, one-way analysis of variance was used to find differences in the mean value of performance of MFIs having different legal status. The results revealed that the performance of MFIs in developing countries was significantly and negatively affected by capital structure. Besides, the effect of legal status on MFIs' performance was very small Aza (2017) examined the effect of funding structure on financial performance of Micro Finance Banks in Nasarawa State. The study used a sample of four MFBs from the total population of seven in the state. The study used secondary data sourced from the certified annual reports of the banks. The data for the study were analyzed using OLS and fixed effect regression, and it was observed that there was no statistical evidence to suggest that funding structure has a significant effect on the financial performance of Micro Finance Banks in Nasarawa State. The study therefore recommended that the banks should optimize funding through mixed of loan deposit and debt as against only equity finance.

Lutf and Twaha (2019) investigated the performance of Micro-Finance Institutions (MFIs) in East Africa from the perspective of financial performance, using secondary data from the Microfinance Information Exchange covering the period from 2012 to 2017. Their study revealed that various factors both support and impede the financial performance of these institutions. They identified outreach and profitability as factors that enhance financial performance, while capital structure, efficiency, and portfolio quality were found to be hindrances. Specifically, the study highlighted that factors such as the number of active borrowers, deposit-to-GNP per capita, profit margins, and real yield on the portfolio contribute positively to financial performance. Conversely, factors like debt-to-equity ratio, donations, personnel expenses relative to the loan portfolio, loan loss rate, and portfolio at risk for more than 30 days were found to negatively affect financial performance.

Cheboi *et al.*, (2024) investigated the effect of financial structure on microfinance firms' financial performance. The study utilized panel data from 32

Microfinance Institutions (MFIs), resulting in 320 firm-year observations for the period of 2010-2019. The dataset was obtained from Mix Market, a global database that collects self-reported information from MFIs. The study used a battery of panel data regression methods to test the hypotheses. The regression analysis indicated a statistically significant negative association between debts and donations and the financial performance of MFIs in Kenya. In contrast, there was a positive

relationship between deposits and equity and the performance of microfinance firms in Kenya. Therefore, MFIs are strongly advised to prioritize internal financing in order to achieve financial performance. In addition, MFIs should avoid excessive dependence on donations and commercial funding, as these sources of funds often come with strict requirements and conditions that could impede their progress towards achieving financial stability.



RESEARCH METHODOLOGY

This study adopted a correlational research design. The design helped gather valid information regarding the research variables. The target population of a study is the entire population that a study specifies to draw research results and conclusions (Echessa, 2020). The target population was drawn from the 13 licensed microfinance institutions. The target population consisted of 192 employees, including branch managers,

credit analysts, operations officers, and loan officers, drawn from the 13 licensed microfinance institutions. The sample size comprised 52 respondents, where four respondents were drawn from each microfinance institution.

RESULTS AND DISCUSSIONS

Descriptive Statistics of Equity Financing

Table 1: Descriptive Statistics for Equity Financing

Statement	SD	D	N	A	SA	Mean	Std. Dev.
Institution utilizes equity financing as a source of funding	1 (2.1%)	2 (4.3%)	8 (17.0%)	24 (51.1%)	12 (25.5%)	3.94	0.897
Common shares, preferred shares, and retained earnings are types of equity instruments the institution commonly utilizes for financing	1 (2.1%)	3 (6.4%)	8 (17.0%)	24 (51.1%)	11 (23.4%)	3.87	0.932
The proportion of the microfinance institution's funding that comes from equity financing sources is average	2 (4.3%)	3 (6.4%)	10 (21.3%)	23 (48.9%)	9 (19.1%)	3.72	1.021
Institution manages well the shareholders' rights and expectations, including dividend distribution and governance structures	0 (0%)	2 (4.3%)	6 (12.8%)	25 (53.2%)	14 (29.8%)	4.09	0.784
Institution ensures transparency and disclosure practices related to equity financing, including financial reporting and investor communication	0 (0%)	1 (2.1%)	4 (8.5%)	25 (53.2%)	17 (36.2%)	4.23	0.712
Institution assesses and manages the risks associated with equity financing, such as dilution of ownership and potential conflicts of interest	0 (0%)	2 (4.3%)	8 (17.0%)	24 (51.1%)	13 (27.7%)	4.02	0.842
Overall Mean						3.98	

Source: Field Data 2024

Table 1 outlines the Descriptive Statistics for Equity Financing within the microfinance institution, offering insights into stakeholder perceptions and practices regarding this funding source. Respondents showed a notable agreement with the institution's utilization of equity financing, with 51.1% indicating agreement and 25.5% strongly agreeing. Similarly, common shares, preferred shares, and retained earnings were recognized as commonly utilized equity instruments for financing, garnering agreement from 51.1% of respondents and strong agreement from 23.4%.

However, opinions were divided on the proportion of funding sourced from equity financing, with 48.9% agreeing that it is average and 19.1% strongly disagreeing, resulting in a mean score of 3.72. The management of shareholders' rights and expectations, including aspects like dividend distribution and governance structures, was viewed positively by respondents, with 53.2% agreeing and 29.8% strongly agreeing. Transparency and disclosure practices related to equity financing, such as financial reporting and investor communication, also received favorable feedback, with 53.2% of respondents agreeing and 36.2% strongly agreeing. Additionally, the institution's approach to assessing and managing risks associated with equity financing, such as ownership dilution and conflicts of interest, was well-regarded by respondents, with 51.1% agreeing and 27.7% strongly agreeing. The

overall mean score of 3.98 suggests a generally positive sentiment towards equity financing practices within the microfinance institution, highlighting a strong alignment between stakeholder perceptions and the institution's strategies in this area.

The descriptive statistics provide valuable insights into the perceptions and practices surrounding Equity Financing within the microfinance institution. The data indicates a significant level of agreement and satisfaction among respondents regarding various aspects of equity financing, including the institution's utilization of equity as a funding source, management of shareholders' rights and expectations, transparency and disclosure practices, and risk assessment and management. The positive feedback received across different statements underscores effective governance structures and risk management practices within the institution concerning equity financing. The detailed breakdown of responses offers a comprehensive view of stakeholder perspectives, indicating a robust operational framework and adherence to best practices in managing equity financing activities, ultimately contributing to a holistic understanding of the institution's financial strategies and practices in the microfinance sector (Bitok *et al.*, 2021).

Inferential Statistics

Table 2: Regression Analysis of Equity Financing on Financial Performance

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
0.572	0.327	0.312	0.523

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.014	1	6.014	21.902	0.000
Residual	12.376	45	0.275		
Total	18.390	46			

Coefficients					
	B	Std. Error	Beta	t	Sig.
(Constant)	1.873	0.471		3.977	0.000
Equity Financing	0.553	0.118	0.572	4.680	0.000

Source: Field Data 2024

The analysis focusing on the impact of equity financing on financial performance reveals key insights into the relationship between these variables. The model summary indicates a moderate positive correlation between equity financing and financial performance, with an R value of 0.572. The R² value of 0.327 suggests that approximately 32.7% of the variability in financial performance can be explained by changes in equity financing.

The ANOVA results further support the significance of the relationship between equity financing

and financial performance. The high F-statistic of 21.902 with a p-value less than 0.001 indicates that equity financing is a significant predictor of financial performance. The coefficients in the model show a positive beta coefficient of 0.572, implying a moderate positive association between equity financing and financial performance. This suggests that as equity financing increases, financial performance is expected to improve, albeit to a lesser extent compared to debt financing. The model equation is:

$$\text{Financial Performance} = 1.873 + 0.553(\text{Equity Financing})$$

In conclusion, the analysis underscores the importance of equity financing in influencing financial performance. While equity financing significantly predicts financial performance and demonstrates a positive relationship, the explanatory power of equity financing is lower than that of debt financing and asset-based lending. These findings highlight the impact of different financing sources on financial performance and emphasize the need for a balanced approach to financial decision-making that considers the unique implications of each financing method on overall financial health and performance.

CONCLUSION

The study found a moderate positive effect of equity financing on financial performance in the simple linear regression ($R^2 = 0.327$, $\beta = 0.572$, $p < 0.001$). This suggests that equity financing contributes to financial performance. Therefore, the null hypothesis was rejected, and the study found that equity financing has a significant effect on the financial performance of Licensed Microfinance in Kenya.

RECOMMENDATIONS

This study recommends that Licensed Microfinance Institutions remain financially sustainable. The Kenya Association of MFIs should formulate policies to ensure that all MFIs have a sound system for sourcing to support their smooth operation. This study further recommends that Licensed Microfinance Institutions adopt alternative measures to mitigate financial risks that could undermine their smooth operation. The Kenya Association of MFIs should encourage all microfinance firms to embrace diversified sources of equity funding.

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