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**Effect of Financial Accountability Practices on Financial Sustainability of
Micro Finance Institutions in Garissa County, Kenya**



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Effect of Financial Accountability Practices on Financial Sustainability of Micro Finance Institutions in Garissa County, Kenya

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Abstract

Purpose: This study aimed at establishing the effect of financial accountability practices on financial sustainability of micro finance institutions in Garissa County, Kenya. Specifically, the study aimed at establishing the effects of financial reporting practices, risk assessment practices, financial structure accountability practices and monitoring activities on financial sustainability of micro finance institutions in Garissa County.

Methodology: The study was grounded in three key theories: Accounting Theory, Agency Theory, and Stewardship Theory. It adopted a descriptive research methodology and focuses on eight microfinance institutions in Garissa County. The target population includes 210 employees from departments such as Audit, Finance, and Accounting, along with operational staff, middle-level supervisors, and departmental heads. The study uses a census approach to select all 210 respondents. Both descriptive and inferential statistical methods are utilized for analysis. The analysis was conducted using SPSS version 24 and Microsoft Excel to generate both descriptive and inferential statistics. Tables and figures were employed in displaying the results of the study.

Findings: The study established that financial accountability practices comprising of financial reporting practices, risk assessment practices, financial structure accountability practices and monitoring activities positively and significantly affects financial sustainability of micro finance institutions in Garissa, Kenya. This is demonstrated by beta values of 0.176, 0.211, 0.436, and 0.306, along with significant values of 0.019, 0.007, 0.000, and 0.001, respectively. The results bears the implications that increasing each of the financial accountability practices with one unit results to increase in financial sustainability with respective beta values. The study concluded that enhancing the financial accountability practices leads to enhanced financial sustainability of micro finance institutions in Garissa County.

Unique Contribution to Theory, Practice and Policy: The study provided recommendations to the management of the MFIs to enhance financial accountability practices such as financial reporting practices, risk assessment practices, financial structure accountability practices and monitoring activities.

Key Words: *Financial Reporting Practices, Risk Assessment Practices, Financial Structure Accountability Practices and Monitoring Activities and Financial Sustainability*

Background of the Study

The concept of microfinance has witnessed a rise in organized endeavors to combat poverty as noted by Owolabi (2020). The concept of providing financial services to the poor is based on the belief that there are sustainable Microfinance Institutions (MFIs) that tackle social problems such as hunger, unemployment, and poor living conditions (Khan & Rahaman, 2017). Simataa (2019) highlighted that having no MFIs is simpler than sustaining ineffective ones. Therefore, maintaining financial sustainability (FS) ensures the ongoing provision of financial services. Among various financial entities, MFIs have been proposed as the most effective way to reach and support the poor, fostering socio-economic growth (Chikwira, Vengesai, & Mandude, 2022). While MFIs initially focused on offering micro-credit to small businesses, the demand from the impoverished has grown over time, compelling MFIs to expand their offerings from micro-credit to micro-finance. The primary objective attributed to MFIs is the alleviation of poverty. Niaz (2022) emphasize that this goal isn't solely achieved by providing financial services to vulnerable individuals, but also by ensuring these services are utilized for productive activities, leading to asset building, demand stability, risk mitigation, and positive socio-economic growth. Originally aimed at extending loans to the vulnerable, MFIs were initially measured by their outreach, considering both breadth and scope (Mersland & Strom, 2010). In the early 1980s, microfinance heavily relied on subsidized capital, often provided by the host country's government or international development organizations (Bateman & Chang, 2012). To address this sustainability challenge, MFIs adopted a profit-oriented approach, aiming to reinvest income for providing micro-credits without relying on external sources (Ashenafi, 2018). However, this shift towards commercial goals drew criticism and was seen as a deviation from their social mission

In Western nations, aside from their financial sustainability and addressing the economic requirements of low-income individuals, microfinance institutions (MFIs) also play a role in enhancing women's empowerment, establishing assets, reducing risks, aiding vulnerable demographics, and fostering employment opportunities (Hasan et al., 2022). Additionally, they participate in diverse socio-economic development endeavors. Formerly labeled as having a dual role, MFIs can now be seen as fulfilling multiple roles to address developmental needs and achieve long-term objectives. These institutions are now adapting commercial strategies to cater to the socio-economic needs of their illiterate and poverty-stricken clients (Hussain et al., 2018). Microfinance institutions in Asia often adopt a set of financial accountability practices aimed at ensuring transparency, prudence, and responsible financial management. These practices contribute to the overall sustainability of MFIs and their ability to fulfill their social and economic missions (Bongasu, 2020). The MFIs prioritize transparent financial reporting. They adhere to international accounting standards and provide clear and comprehensive financial statements that reflect their financial health. Moreover, microfinance institutions (MFIs) implement strong internal control mechanisms to protect financial assets and deter fraudulent activities. Regular internal and external audits are conducted to verify the accuracy and reliability of financial information. Auditing practices enhance accountability to both internal and external stakeholders.

Pakistani MFIs employ a comprehensive range of financial accountability practices to ensure their own sustainability and the well-being of their borrowers (Naseer & Siddiqui, 2021). These practices, encompassing internal controls, external oversight, technological advancements, and a focus on social performance, are crucial for building trust, mitigating risks, and promoting financial inclusion in Pakistan's dynamic microfinance landscape. However, the MFIs face challenges such as low financial literacy among borrowers, limited access to technology in rural areas, and the need for further regulatory refinement are some key areas for improvement.

Over the past decade, the microfinance sector in Africa has gained recognition as a potent intervention to assist the poor in reducing poverty while maintaining financial viability (Mrindoko & Pastory, 2022). MFI's dedication to development and poverty alleviation has positively impacted disadvantaged populations worldwide at various levels. However, Miled et al., (2022) argues that these organizations cannot be viewed as sole solutions to the multifaceted problems associated with poverty and social exclusion. External interventions are also crucial for the success of MFIs in poverty alleviation alongside other objectives. Hasan et al., (2022) emphasize the need for financial accountability in achieving microfinance goals. Microfinance institutions (MFIs) in Nigeria have implemented various financial accountability practices to ensure transparency, sustainability, and responsible financial management. These practices according to Bananuka and Namusobya (2020) are essential for building trust among stakeholders, complying with regulatory requirements, and fostering long-term viability. Due to the ever-changing landscape of the financial industry, microfinance institutions (MFIs) in Nigeria prioritize implementing strategies to manage risks effectively. This encompasses the processes of recognizing, evaluating, and addressing different types of risks such as credit, operational, and market risks. Successful risk management plays a pivotal role in bolstering financial stability and fortitude. In Kenya, the financial accountability practices of Microfinance Institutions (MFIs) play a critical role in determining their financial sustainability. These practices encompass transparent reporting mechanisms, robust internal control systems, and adherence to regulatory frameworks. MFIs in Kenya often implement stringent measures to ensure accurate financial reporting, including regular audits conducted by independent firms. Additionally, many MFIs prioritize client education on financial management to enhance transparency and accountability in their operations. This is aimed at building trust among stakeholders, attract investment, and ultimately contribute to their long-term sustainability while fostering financial inclusion in Kenya's diverse economic landscape.

Problem Statement

The microfinance industry holds a significant role within Kenya's financial system. Despite the evident, significance and rapid expansion of the microfinance industry. The industry faces challenges related to financial performance and sustainability. These obstacles hinder microfinance institutions from effectively fulfilling their mission to serve the people and communities they aim to support. One of the primary challenges impacting the financial viability

of Microfinance Institutions (MFIs) is the implementation of financial responsibility. This research aims to explore the effect of financial accountability practices on the financial sustainability of microfinance institutions in Garissa County, Kenya. Financial accountability, encompassing practices such as transparent financial reporting practices, sound financial management, and adherence to regulatory standards, is a key component of responsible microfinance operations. Understanding how financial accountability impacts the sustainability of MFIs can lead to the development of better strategies for these institutions, inform policymaking, and contribute to the broader understanding of financial sustainability in the microfinance sector. Financial sustainability is especially pertinent due to the remarkable growth of microfinance services in the region and the significant role MFIs play in improving the livelihoods of the local population. However, despite these success stories, challenges related to financial accountability practices have surfaced. The problem emerges from many factors, including inadequate transparency, weak financial management, and a lack of adherence to regulatory standards among some MFIs operating in Garissa County. This situation has raised concerns about the continued effectiveness of these institutions in serving their target clients and achieving their mission, especially in the face of changing economic and regulatory landscapes. The problem is further worsened by the potential impact on the local communities that rely on these institutions for access to financial services. Without addressing these challenges, the financial sustainability of MFIs in the region is at risk, and it may negatively affect their clients' access to essential financial resources.

Objectives of the Study

- i. To investigate the implications of financial reporting practices on financial sustainability of micro finance institutions in Garissa County, Kenya.
- ii. To determine the effect of risk assessment practices on financial sustainability of micro finance institutions in Garissa county, Kenya
- iii. To explore the effect of financial structure accountability practices on financial sustainability of micro finance institutions in Garissa County, Kenya.
- iv. To examine the effect of monitoring activities on financial sustainability of micro finance institutions in Garissa county, Kenya.

LITERATURE REVIEW

Theoretical Review

Accounting Theory

In 1961, Burne introduced the accounting theory aimed at addressing management issues related to recording transactions. This theory focuses on accounting practices across different companies and outlines principles for accounting management strategies (Agburuga, 2019). These principles provide guidelines for documenting non-accounting transactions in all types of organizations. Each company utilizes this theory to influence various factors that aid accounting managers in making

decisions. It serves to rationalize the necessity of applying accounting practices in both business and non-business organizations. Accounting theory provides the foundation for financial accountability by providing a set of principles and rules for recording and reporting financial information (Ram & Tapria, 2019). These principles and rules are designed to ensure that financial information is accurate, reliable, and transparent. Accrual accounting, a fundamental concept in accounting theory, entails recording financial transactions at the time they occur, irrespective of the timing of cash inflows or outflows. This is important for MFIs because it allows them to track their financial performance over time and make informed decisions about lending and investing (Augustine & Adeniyi, 2018). Another important principle of accounting theory is the principle of consistency. The principle of consistency means that MFIs should use the same accounting methods from year to year. This makes it easier to compare financial information from different years and to track trends. The principle of disclosure is also important for financial accountability (Nkundabanyanga et al., 2017). The principle of disclosure means that MFIs should provide all relevant information about their financial performance to borrowers and other stakeholders. This information should be accurate, reliable, and transparent. By following the principles and rules of accounting theory, MFIs can improve their financial accountability and increase their chances of financial sustainability. Financial reporting practices are inherently linked to Burne's accounting theory as they serve as the practical application of the principles outlined therein. Through financial reporting, Microfinance Institutions (MFIs) implement Burne's principles to ensure accurate recording and reporting of transactions, adhering to the principle of accrual accounting to reflect financial activities in a timely manner.

Agency Theory

Jensen and Meckling (1973) proposed agency theory. Agency Theory delves into the relationships between principals and agents, particularly relevant in the microfinance sector where external investors, borrowers, and managers each possess distinct interests and motivations (Buchanan et al., 2014). Microfinance institutions, driven by their mission to alleviate poverty through financial inclusion, often become a nexus of conflicting interests. On one hand, there are external investors who seek financial returns, while on the other, there are borrowers, primarily from economically marginalized backgrounds, who seek access to credit for income generation. Agency Theory paints a canvas where the institution's managers become the intermediaries or agents, entrusted with the task of maximizing the institution's performance and balancing the demands of both investors and borrowers (Boučková, 2020). The theory postulates that inherent conflicts can arise due to the divergent goals of these stakeholders (Eisenhardt, 2015). Managers, as agents, might be inclined to pursue objectives that serve their own interests, potentially deviating from the institution's overarching mission. This might involve favoring immediate financial profits over lasting sustainability, or presenting performance inaccurately to satisfy investors while neglecting the authentic requirements of borrowers. This divergence between the interests of principals (investors

and borrowers) and agents (managers) can give rise to what is known as the "principal-agent problem."

Mitigating this agency problem within microfinance institutions necessitates an orchestrated interplay of mechanisms (Boshkoska, 2019). Transparent reporting and financial disclosure mechanisms are crucial, fostering accountability and ensuring that the actions of the agents align with the interests of both borrowers and investors. Furthermore, performance metrics need to be designed with care, focusing not only on financial metrics but also on social impact and borrower welfare, to prevent managers from chasing superficial profitability at the expense of the institution's long-term viability and societal mission. The concept of financial sustainability in this context is intricately woven into the Agency Theory narrative (Beal, 2021). It entails striking a balance between generating enough revenue to cover operational costs and capital requirements while maintaining the affordability and accessibility of financial services for the marginalized communities being served. This equilibrium hinges on the prudent management of funds and resources, which should not only cater to investor expectations but also be channeled towards the empowerment and upliftment of borrowers. In essence, the Agency Theory lens serves as a perceptive tool for understanding the complex dynamics inherent in microfinance institutions (Ashenafi, 2018). It underscores the need for harmonizing the aspirations of diverse stakeholders, emphasizing the role of transparent governance, responsible management, and meaningful metrics. By navigating the delicate interplay of agency relationships, microfinance institutions can aspire to fulfill their dual mandate: creating sustainable financial outcomes while uplifting the socio-economic conditions of the communities they serve.

Stewardship Theory

Stewardship theory, as articulated by Davis, Schoorman, and Donaldson (1997), originates from the realms of psychology and sociology. It centers on the protection and enhancement of shareholders' assets through effective management of the firm, as outlined by Keay (2017). This approach is believed to enhance the steward's effectiveness. Stewardship theory highlights the importance of top management functioning as stewards and ensuring their interests are in harmony with those of the organization. This perspective posits that the success of the organization brings fulfillment and motivation to these stewards. Madison (2014) contends that while agency theory sees employees or citizens purely as economic entities driven by self-interest, Donaldson and Davis contend that stewardship theory recognizes the importance of frameworks that enable stewards, granting them independent confidence. This independence allows employees or supervisors to operate with greater autonomy in order to maximize shareholder profits. Nevertheless, according to Subramanian (2018), executives and directors are driven by a desire to advance their own professional paths by presenting themselves as capable overseers of their corporations. Meanwhile, Chrisman (2019) suggest that managers channel finances back to investors to cultivate a favorable reputation for potential future financial ventures. Keay (2017) further highlight that when owners are directly involved in managing the company, the costs

associated with mitigating organizational issues, such as information disparities and moral hazards, are lower. This alignment stems from owners' interests naturally converging with growth prospects and threats. Consequently, stewardship theory contrasts with agency theory by not emphasizing the necessity of incurring oversight or agency costs, including the establishment of internal audit functions. Nonetheless, Madison (2014) also acknowledge that a synergistic approach, blending both theories, yields enhanced returns, necessitating a delicate equilibrium for management. In this context, stewardship theory corroborates the notion that managers within microfinance institutions (MFIs) function as stewards, considering the interests of shareholders, suppliers, investors, customers, and employees.

Financial Sustainability of MFIs

Financial sustainability is a cornerstone for the long-term viability and effectiveness of Microfinance Institutions (MFIs), constituting a fundamental connection with financial accountability (Memon et al., 2021). It embodies the institution's ability to maintain its operations, fulfill its mission, and generate revenues while ensuring transparent and responsible financial practices. This synergy between financial sustainability and accountability underscores the multifaceted facets of revenue efficiency, sufficient liquidity, loan disbursement and recovery, and prudent cost management. At the heart of this nexus lies revenue efficiency, a principle that mandates the optimization of resources to maximize revenue generation (Hossain & Khan, 2022). MFIs must strike a balance between interest rates and operational costs, ensuring that their services remain accessible to their target beneficiaries without compromising profitability. This balance serves as a testament to financial accountability, whereby MFIs are ethically committed to utilizing their financial resources judiciously and transparently, maintaining clear records of income and expenditure. Sufficient liquidity represents another vital aspect in the framework of financial sustainability. A well-managed liquidity position empowers MFIs to fulfill their obligations, both in terms of client demands and operational necessities (Bayai & Ikhida, 2019). Financial accountability calls for a meticulous display of liquidity management strategies, showcasing the institution's prudence in maintaining adequate cash reserves and managing potential liquidity risks. This ensures that clients' financial needs are met while safeguarding the institution's stability. The intertwined strands of disbursement and recovery of loans epitomize the intricate relationship between financial sustainability and accountability. MFIs must effectively channel funds to deserving clients, offering loans that align with borrowers' capacity to repay. This duality underscores financial accountability by necessitating thorough assessments of borrowers' creditworthiness, thereby mitigating the risk of loan default. In the same vein, the institution's proactive approach to loan recovery underscores its commitment to maintaining a healthy loan portfolio, ultimately enhancing its financial sustainability.

Cost management occupies a pivotal role in the financial sustainability narrative. Prudent allocation of resources, careful budgeting, and streamlined operations lead to optimal cost structures, a reflection of financial accountability. MFIs must transparently outline their cost

structure, disclosing administrative expenses and demonstrating a clear understanding of the costs associated with their services (Githaiga, 2021). This commitment to cost management not only bolsters the institution's financial resilience but also underscores its ethical obligations towards its stakeholders. In essence, the financial sustainability of MFIs operates as a symbiotic relationship with financial accountability. The harmonious interplay of revenue efficiency, sufficient liquidity, loan disbursement and recovery, and cost management creates a cohesive environment that encapsulates an MFI's commitment to both its financial longevity and ethical integrity. As these elements intertwine, they weave a narrative of responsibility, transparency, and prudence – a narrative that underscores the enduring impact of MFIs on the communities they serve.

Conceptual Framework

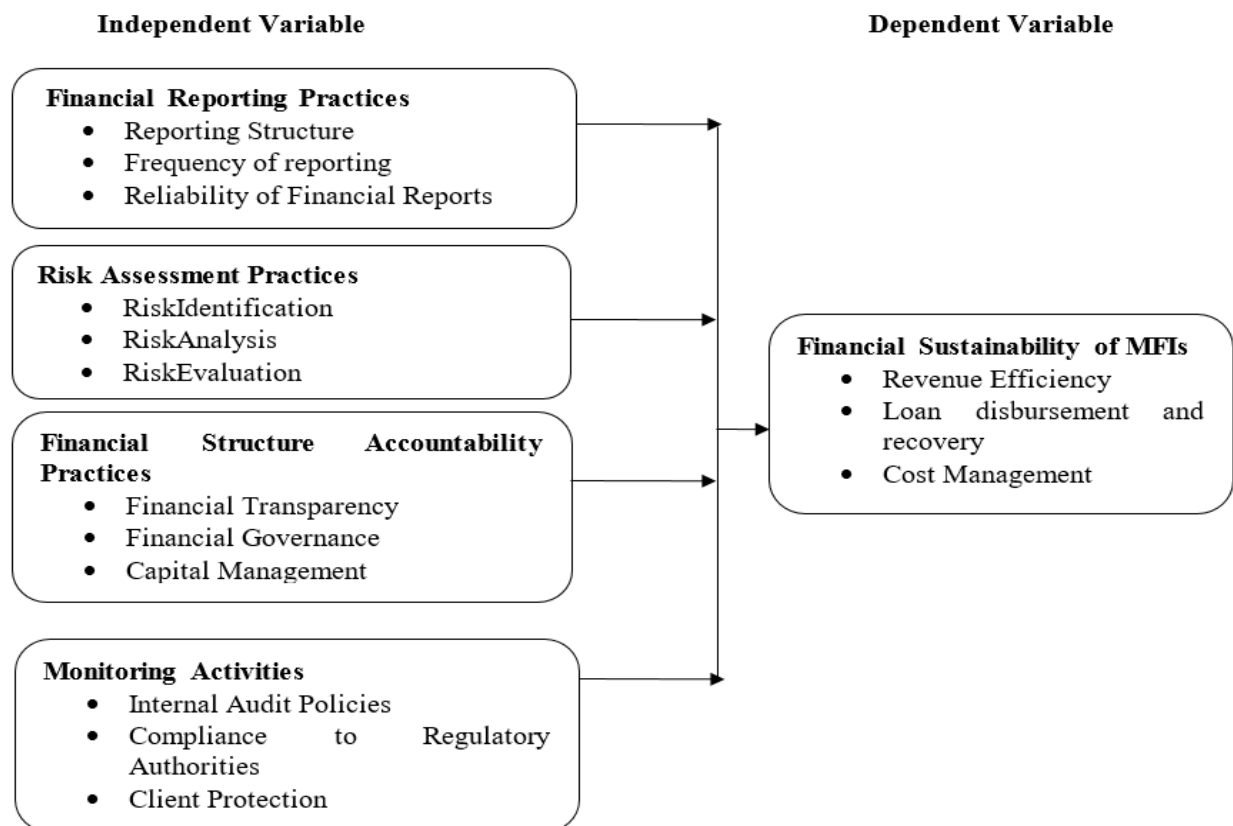


Figure 1: Conceptual Framework

Research Methodology

Research Design

In the study, the researcher used a descriptive research methodology. A variety of analysis techniques are incorporated into the design, such as the use of questionnaires, interview schedules, and/or observation techniques for data collection. The fact that this design aids in identifying the current situation and in establishing parameters against which actual events and situations can be

compared to ascertain the associations between various variables, further supports its appropriateness.

Target Population

According to Willie, (2022), target population alludes to the gathering of individuals or study subjects similar in one or different ways and structures the investigation's theme in a detailed survey. The research targeted eight microfinance institutions operating in Garissa County. In this study, the employees working in departments of; Audit, finance & Accounting, including operational staff, middle level supervisors and departmental heads are in a better position as they are the ones who take part in the decision making process of the institution. All 210 employees of the Sacco were targeted.

Sampling Technique and Sample Size

Given that the study's population only consisted of two hundred and ten employees working in departments of Audit, finance & Accounting, including operational staff, middle level supervisors and departmental heads, a census method was utilized. According to Groves *et al.*, (2011), a census approach offers a way to study small groups because it guarantees that every member is fully involved. The research disregarded the use of sampling design and technique because a census technique is the most appropriate for this study.

Data Collection Instruments and Data Collection Procedure

The research made use of primary data. To collect primary data, the study employed a questionnaire containing closed-ended questions. A likert scale, ranging from 1 to 5, was used in the questionnaire; 5 represented "Strongly Agree," 4 "Agree," 3 "Neutral," 2 "Disagree," and 1 "Strongly Disagree." Willie (2022), who noted that questionnaires are suitable for obtaining pertinent information from the intended population with regard to the variables under study, supports the use of questionnaires. The questionnaire for this study was split into two sections, one covering the study's variables and the other the respondents' demographics. To improve both the ease and precision of the data gathered from respondents, the questionnaire is broken up into sections (Vogt, 2010).

Data Analysis

Data analysis refers to a sequence of interconnected procedures applied to collected data, aiming to condense and transform it to address the research query (Cooper & Schindler, 2019). Once data collection is complete, the acquired information underwent a process of refinement to ensure consistency, precision, and comprehensiveness. Before the final analysis, the data was organized, coded, and tabulated. Both descriptive and inferential statistical methods were used for the analysis. Descriptive statistics, including measures such as standard deviation, means, and percentages, were utilized to clearly summarize the characteristics of the data. Meanwhile, inferential statistics, such as regression and correlation analyses, go beyond the data's surface to

draw broader inferences. Both SPSS version 24 and Microsoft Excel was employed to generate these descriptive and inferential statistics. To determine the relationship between the independent variables and the dependent variable, use a multivariate regression model outlined below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Whereby; Y = Financial sustainability of MFIs

α = Constant (representing the current status of Financial sustainability of MFIs)

β_1 - β_4 =Coefficients of independent variables X_1 , X_2 , X_3 and X_4

X_1 = Financial reporting practices

X_2 = Risk assessment practices

X_3 = Financial structure accountability practices

X_4 = Monitoring Activities

ε = Error term

Results

The study issued 210 questionnaires for the purposes of gathering data from the target respondents. 156 questionnaires were returned having being fully filled. This represented a response rate of 74.3%. The response rate was considered sufficient for the study. This was according to Marshall and Rossman (2021) who posited that a response rate exceeding 70% is considered appropriate for analysis and for making inferences. The adoption of a drop and pick data collection approach contributed significantly to the response rate.

Descriptive Findings and Analysis

Financial Reporting Practices

According to the results outlined in table 1, respondents agreed with the statements that the reporting structure for financial matters within the microfinance institution is well-defined and easily understandable (mean=4.41, std.dev=0.206), that roles and responsibilities related to financial reporting are clearly outlined within the institution(mean=4.29, std.dev=0.217) and that financial reports are generated and shared on a regular basis in accordance with established schedules(mean=4.19, std.dev=0.112). Respondents further agreed with the statements that the frequency of financial reporting strikes a balance between providing up-to-date information and avoiding information overload(mean=4.04, std.dev=0.301) and that the financial reports provided by the institution are accurate and free from significant errors(mean=4.19, std.dev=0.426). On average, all respondents were in agreement with statements on financial reporting practices as shown by average response of 4.224 and a standard deviation of 0.252. The results concurs with Adeyemi and Olarewaju (2019) who noted that a crucial aspect of financial reporting practices in

MFIs is the focus on financial sustainability, which goes beyond profitability to include elements like outreach, client impact, and risk management.

Table 1: Financial Reporting Practices

Financial reporting practices	Mean	Std.Dev
The reporting structure for financial matters within the microfinance institution is well-defined and easily understandable	4.41	0.206
Roles and responsibilities related to financial reporting are clearly outlined within the institution	4.29	0.217
Financial reports are generated and shared on a regular basis in accordance with established schedules	4.19	0.112
The frequency of financial reporting strikes a balance between providing up-to-date information and avoiding information overload	4.04	0.301
The financial reports provided by the institution are accurate and free from significant errors	4.19	0.426
Average	4.224	0.252

Risk Assessment Practices

The results outlined in table 2 shows that respondents agreed with the statements that the microfinance institution has a well-defined process for identifying potential financial risks (mean=3.96, std.dev=0.584), that the institution employs a systematic approach to recognize emerging risks that could impact its financial stability(mean=4.17, std.dev=0.218) and that the microfinance institution conducts thorough analyses of identified risks to assess their potential impact(mean=3.76, std.dev=0.706). Respondents further agreed with the statements that quantitative techniques are employed to evaluate the potential financial losses linked to identified risks(mean=3.81, std.dev=0.697), that the microfinance institution considers both the potential rewards and potential losses while evaluating risks(mean=3.86, std.dev=0.606) and that the institution's risk evaluation process is adaptable to changes in the financial environment(mean=4.04, std.dev=0.216). All respondents agreed with the statements on risk assessment practices as shown by average response of 3.933 and standard deviation of 0.505. The results are in tandem with Kipchumba and Jagongo (2018) who highlighted that risk Assessment remains an unwavering pillar, ensuring that the transformative flame of microfinance continues to burn brightly, even amidst the challenges and uncertainties that lay ahead.

Table 2: Risk Assessment Practices

Risk Assessment Practices	Mean	Std.Dev
The microfinance institution has a well-defined process for identifying potential financial risks	3.96	0.584
The institution employs a systematic approach to recognize emerging risks that could impact its financial stability	4.17	0.218
The microfinance institution conducts thorough analyses of identified risks to assess their potential impact	3.76	0.706
Quantitative techniques are employed to evaluate the potential financial losses linked to identified risks	3.81	0.697
The microfinance institution considers both the potential rewards and potential losses while evaluating risks	3.86	0.606
The institution's risk evaluation process is adaptable to changes in the financial environment	4.04	0.216
Average	3.933	0.505

4.5.3 Financial Structure Accounting Practices

The results outlined in table 3 shows that respondents agreed with the statements that respondents were in agreement with the statements that the microfinance institution provides clear and accurate financial information to its stakeholders(mean=4.23, std.dev=0.216), that the microfinance institution discloses its financial performance indicators to the public(mean=4.34, std.dev=0.223) and that the microfinance institution has a well-defined financial governance structure in place(mean=4.11, std.dev=0.259). Respondents further agreed with the statements that financial decisions are made through a transparent and accountable process involving relevant stakeholders(mean=4.22, std.dev=0.263), that the microfinance institution effectively manages its capital resources to ensure financial stability (mean=4.24, std.dev=0.214) and that capital adequacy assessments are regularly conducted to determine the institution's ability to withstand financial shocks(mean=3.93, std.dev=0.601). All respondents on average were in agreement with the statements on Financial Structure Accounting practices as shown by average response of 4.178 and std.dev of 0.296. According to Sekabira (2022), aspects of financial structure accountability such as financial transparency, financial governance, and capital management creates a resilient MFI that can navigate challenges and seize opportunities, safeguarding its financial health.

Table 3: Financial Structure Accounting practices

Financial Structure Accounting practices	Mean	Std.Dev
The microfinance institution provides clear and accurate financial information to its stakeholders	4.23	0.216
The microfinance institution discloses its financial performance indicators to the public	4.34	0.223
The microfinance institution has a well-defined financial governance structure in place	4.11	0.259
Financial decisions are made through a transparent and accountable process involving relevant stakeholders	4.22	0.263
The microfinance institution effectively manages its capital resources to ensure financial stability	4.24	0.214
Capital adequacy assessments are regularly conducted to determine the institution's ability to withstand financial shocks	3.93	0.601
Average	4.178	0.296

4.5.4 Monitoring Activities

The results outlined in table 4 shows that respondents agreed with the statements that the microfinance institution has well-defined internal audit policies in place(mean=4.39, std.dev=0.106), that the institution's internal audit helps identify financial discrepancies and irregularities(mean=4.07, std.dev=0.494) and that the microfinance institution consistently adheres to all relevant financial regulations(mean=3.85, std.dev=0.809). Remarkably, respondents were in agreement with the statements that the institution promptly updates its practices to align with changes in financial regulations (mean=4.16, std.dev=0.239), that the microfinance institution has clear policies in place to protect the interests of its clients(mean=4.33, std.dev=0.201) and that the institution provides transparent information to clients regarding interest rates and terms(mean=3.64, std.dev=0.932). All respondents agreed with the statements on monitoring activities as shown by average response of 4.073 and standard deviation of 0.464. The results concurs with Eniola and Akinselure (2016) who established that monitoring practices have a significant relation to financial performance.

Table 4: Monitoring Activities

Monitoring Activities	Mean	Std.Dev
The microfinance institution has well-defined internal audit policies in place	4.39	0.106
The institution's internal audit helps identify financial discrepancies and irregularities	4.07	0.494
The microfinance institution consistently adheres to all relevant financial regulations	3.85	0.809
The institution promptly updates its practices to align with changes in financial regulations	4.16	0.239
The microfinance institution has clear policies in place to protect the interests of its clients	4.33	0.201
Average	4.073	0.464

Financial Sustainability of MFIs

The results outlined in table 5 shows that respondents agreed with the statements that the MFI's strategies for diversifying income sources positively impact its financial sustainability(mean=4.28, std.dev=0.387), that the MFI's efforts to enhance fee-based services contribute to its financial sustainability(mean=3.84, std.dev=0.803) and that the MFI's loan approval process is efficient and aligns with its financial sustainability goals(mean=4.32, std.dev=0.213). Consequently, respondents agreed with the statements that the MFI's measures to assess borrowers' creditworthiness contribute to timely loan recoveries(mean=3.97, std.dev=0.696), that the MFI's cost management strategies positively influence its financial sustainability(mean=3.91, std.dev=0.628) and that the MFI's use of technology and automation helps optimize its cost structure(mean=4.13, std.dev=0.163). An average response of 4.075 and std.dev of 0.482 shows that all respondents agreed with the statements on Financial Sustainability of MFIs. According to Memon *et al.*, (2021) financial sustainability embodies the institution's ability to maintain its operations, fulfill its mission, and generate revenues while ensuring transparent and responsible financial practices.

Table 5: Financial Sustainability of MFIs

Financial Sustainability of MFIs	Mean	Std.Dev
The MFI's strategies for diversifying income sources positively impact its financial sustainability	4.28	0.387
The MFI's efforts to enhance fee-based services contribute to its financial sustainability	3.84	0.803
The MFI's loan approval process is efficient and aligns with its financial sustainability goals	4.32	0.213
The MFI's measures to assess borrowers' creditworthiness contribute to timely loan recoveries	3.97	0.696
The MFI's cost management strategies positively influence its financial sustainability	3.91	0.628
The MFI's use of technology and automation helps optimize its cost structure	4.13	0.163
Average	4.075	0.482

Inferential Statistics

Correlation Results

The study utilized correlation analysis to determine if there were any relationships between the study variables. The findings, as presented in table 6, indicate a positive and significant correlation between financial reporting practices and the financial sustainability of microfinance institutions in Garissa County, Kenya. This is evidenced by a correlation coefficient of 0.223 and a significance level of 0.013. These results suggest that improving financial reporting practices contributes to

better financial sustainability for microfinance institutions in Garissa County, Kenya. The results concurs with Adeyemi and Olarewaju (2019) who noted that a crucial aspect of financial reporting practices in MFIs is the focus on financial sustainability, which goes beyond profitability to include elements like outreach, client impact, and risk management. The findings also demonstrate that risk assessment procedures and the financial sustainability of microfinance institutions in Kenya's Garissa County have a positive and significant correlation. A correlation value of 0.296 and a significant value of 0.006 demonstrate this. The findings suggest that improving risk assessment procedures improves the microfinance institutions' financial sustainability in Kenya's Garissa County. The results are in tandem with Kipchumba and Jagongo (2018) who highlighted that risk Assessment remains an unwavering pillar, ensuring that the transformative flame of microfinance continues to burn brightly, even amidst the challenges and uncertainties that lay ahead.

The findings also demonstrate that financial sustainability of microfinance institutions in Kenya's Garissa County and Financial Structure Accounting practices have a positive and significant correlation. A correlation value of 0.512 and a significant value of 0.000 demonstrate this. The findings suggest that improving Financial Structure Accounting procedures improves the financial viability of microfinance organisations in Kenya's Garissa County. According to Sekabira (2022), aspects of financial structure accountability such as financial transparency, financial governance, and capital management creates a resilient MFI that can navigate challenges and seize opportunities, safeguarding its financial health. The findings demonstrate a strong and positive relationship between the financial sustainability of microfinance institutions in Kenya's Garissa County and their monitoring efforts. A correlation value of 0.342 and a significant value of 0.000 demonstrate this. The findings suggest that improving monitoring initiatives improves the microfinance institutions' financial sustainability in Kenya's Garissa County. The results concurs with Eniola and Akinselure (2016) who established that monitoring practices have a significant relation to financial performance.

Table 6: Correlation Analysis

		Financial reporting practices	Risk assessment practices	Financial Structure Accounting practices	Monitoring Activities	Financial Sustainability of MFIs
Financial reporting practices	Pearson Correlation Sig. (2-tailed)	1				
Risk assessment practices	Pearson Correlation Sig. (2-tailed)	0.311 0.109	1			
Financial Structure Accounting practices	Pearson Correlation Sig. (2-tailed)	0.106 0.196	0.241 0.312	1		
Monitoring Activities	Pearson Correlation Sig. (2-tailed)	0.217 0.124	0.139 0.082	0.184 0.244	1	
Financial Sustainability of MFIs	Pearson Correlation Sig. (2-tailed)	0.223 0.013	0.296 0.006	0.512 0.000	0.342 0.000	1
	N	156	156	156	156	156

Multiple Regression Analysis

A multiple regression model was used in the study to evaluate the relationship between the independent and dependent variables. The study adopted a 0.05 significance level in the analysis. Multiple regression analysis results into generation of three outcomes: model summary, ANOVA and model coefficient. The model summary results outlined in table 7 shows that the R-Value was 0.746. This implies existence of a moderately high relationship between financial accountability practices (financial reporting practices, risk assessment practices, Financial Structure Accounting practices and monitoring activities) and financial sustainability of micro finance institutions. The R-Square value, representing the coefficient of determination was 0.557 implying that 55.7% of variations in financial sustainability of micro finance institutions can be accounted by financial

reporting practices, risk assessment practices, Financial Structure Accounting practices, and monitoring activities.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.746 ^a	0.557	0.486	0.22653

a. Predictors: (Constant), Financial reporting practices, Risk assessment practices, Financial Structure Accounting practices and Monitoring Activities

Using the ANOVA, the statistical significance of the model relating the independent variables to the dependent variable was evaluated. According to table 8 results, the significant value was 0.016. When the value was less than 0.05, it was suggested that the model's assessment of the relationship between the independent and dependent variables was statistically significant.

Table 8 ANOVA (Model Significance)

Model		Sum of Squares	df	Mean Square	f	Sig.
1	Regression	134.912	4	33.728	12.983	0.016 ^b
	Residual	392.272	151	2.598		
Total		527.184	155			

a. Dependent Variable: Financial Sustainability of MFIs

b. Predictors: (Constant), Financial reporting practices, Risk assessment practices, Financial Structure Accounting practices and Monitoring Activities

The coefficient results presented in table 9 shows that financial reporting practices positively and significantly affects financial sustainability of micro finance institutions in Garissa County, Kenya (beta=0.176, sig=0.019<0.05). The results bear the implications that increasing financial reporting practices with one unit leads to 0.176 units increase in the levels of financial sustainability of micro finance institutions in Garissa County, Kenya. The results tallies with Muhunyo and Jagongo (2022) who highlighted that reporting activities bear substantial influence on financial performance of firms thus contributing to sustainability. The results also shows that risk assessment practices positively and significantly affects financial sustainability of micro finance institutions in Garissa County, Kenya (beta=0.211, sig=0.007<0.05). The results bear the implications that increasing risk assessment practices with one unit leads to 0.211 units increase in the levels of financial sustainability of micro finance institutions in Garissa County, Kenya. The results are consistent with Matata (2020) who established that risk assessment bears a great effect on organizational performance and that the more effective the risk assessment, the higher the performance.

The results further shows that Financial Structure Accounting practices positively and significantly affects financial sustainability of micro finance institutions in Garissa County, Kenya (beta=0.436,

sig=0.000<0.05). The results bear the implications that increasing Financial Structure Accounting practices with one unit leads to 0.436 units increase in the levels of financial sustainability of micro finance institutions in Garissa County, Kenya. The results concurs with Sekabira (2022) who established that aspects of financial structure accountability such as financial transparency, financial governance, and capital management creates a resilient MFI that can navigate challenges and seize opportunities, safeguarding its financial health. The results finally shows that monitoring activities positively and significantly affects financial sustainability of micro finance institutions in Garissa County, Kenya (beta=0.306, sig=0.001<0.05). The results bear the implications that increasing monitoring activities with one unit leads to 0.306 units increase in the levels of financial sustainability of micro finance institutions in Garissa County, Kenya. The results are consistent with Eniola and Akinselure (2016) who established that monitoring practices have a significant relation to financial performance.

Predictors	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.847	0.101		8.386	0.000
Financial reporting practices	0.176	0.159	0.119	1.107	0.019
Risk assessment practices	0.211	0.109	0.154	1.936	0.007
Financial Structure Accounting practices	0.436	0.124	0.364	3.516	0.000
Monitoring Activities	0.306	0.106	0.254	2.887	0.001

The optimal regression model becomes:

Financial sustainability of MFIs = 0.847 + 0.436(Financial Structure Accounting practices) + 0.306 (Monitoring Activities) + 0.211(Risk assessment practices) + 0.176(Financial reporting practices)

Conclusion

The study findings lead to conclusions that financial reporting practices positively and significantly affect financial sustainability of micro finance institutions in Garissa County, Kenya. The study findings also lead to conclusions that risk assessment practices positively and significantly affects financial sustainability of micro finance institutions in Garissa County, Kenya. The study findings further lead to conclusions that financial structure accountability positively and significantly affect financial sustainability of micro finance institutions in Garissa County, Kenya. The study findings finally lead to conclusions that monitoring activities positively and significantly affects financial sustainability of micro finance institutions in Garissa County, Kenya.

Recommendations for the Study

The study provided recommendations to the management of MFIs in Garissa County, Kenya to enhance their financial reporting practices since the practice leads to enhanced financial sustainability. The study also provides recommendations to the management of MFIs in Garissa

County, Kenya to enhance their risk assessment practices since the practice leads to enhanced financial sustainability. The study further provides recommendations to the management of MFIs in Garissa County, Kenya to enhance their financial structure accountability since the practice leads to enhanced financial sustainability. The study finally provides recommendations to the management of MFIs in Garissa County, Kenya to enhance their monitoring activities since the practice leads to enhanced financial sustainability.

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