



## **Influence of Financial Leverage on Financial Sustainability. A Case of a Microfinance Institution in Kenya**

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### **Abstract**

Microfinance institution plays a crucial role in economic development and financial inclusion. Financial sustainability is the key dimension to microfinance institutions growth. Which further indicate the importance of which Financial sustainability is. Therefore, the present study investigated the effect of financial leverage on MFI financial sustainability. The specific objective was to establish the effect of financial leverage on the financial sustainability of MFIs. The study was guided by agency theory and life-cycle theory. The study adopted an explanatory research design where a panel approach was used as well as the positivist paradigm. The study adopted the census approach method. Panel data was drawn from 30 MFIs for a period between 2010 and 2018 from mix market database using the data collection schedule. The study used both descriptive and inferential statistics to analyze data with the help of STATA software. Fixed effect model based on Hausman test ( $X^2 = 45.41, p = 0.000 \leq 0.05$ ). Based on the findings of the study financial leverage ( $\beta_1 = 0.27, p - value = 0.001$ ), the study had a positive and significant effect on the financial sustainability of MFIs. The study recommended MFIs managers to engage in the prudent use of financial leverage so that they enhance their overall profitability and boost investor confidence in their strategic decision-making resulting in financial sustainability. The results have an implication to business managers and policymakers given the vital role in service delivery and the challenges hindering the sector from the realization of financial sustainability in the economy.

**Keywords:** Financial Leverage, Financial Sustainability, Microfinance Institutions, Microfinance Information Exchange.