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ABSTRACT

Microfinance banks are the key micro financing institutions for mobilization of financial resources for various development activities and where instability in the Microfinance banks exists. Financial restructuring is key in turning it round to stability and profitability. This study investigated the influence of debt and equity restructuring on profitability of microfinance banks in Kenya. Loanable funds Theory and market timing theory. A descriptive research design was adopted. This study was based on 13 microfinance banks in Nairobi County. This study covered a 5 year period from 2016 to 2020. The research adopted the use of secondary data. The secondary data was obtained from CBK registry comprising of audited financial statements submitted by the microfinance banks. This study used autocorrelation tests, heteroscedasticity tests, multicollinearity tests, normality assumptions and Hausman test to evaluate the data collected before the actual analysis. The findings indicated that a positive and significant effect of Debt Restructuring and equity restructuring on the profitability of microfinance banks in Nairobi County. This implied that an increase in equity restructuring and Debt Restructuring leads to a significant increase on the profitability for the microfinance banks in Nairobi County. The study recommended that the Microfinance Banks management should formulate a mechanism to raise their lending capacity by periodically increasing their minimum member deposits. This will increase the liquid cash for lending which is the core activity of the Microfinance Banks.

Key Words: *Debt, Equity Restructuring, Profitability, Banks*

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INTRODUCTION

Profitability is an essential measure of the financial health, competitiveness, efficiency, cost effectiveness and productivity of a business enterprise. Invariably, profitability is very instrumental in determining the growth and sustainability of microfinance institutions (MFB). Evidently, MFBs that experience sound financial performance exhibit high profits, portfolio quality and operational efficiency as well as improved competitive edge (Quayes, 2015). Additionally, good financial performance of microfinance institutions leads to realization of MFBs' profit maximization objective, reduction in the dependency rate, improved competitive edge and promotion of entrepreneurial ventures as well as economic development in a country (Bassem, 2012; Otieno et al., 2016). As a result of sound profitability, MFBs are able to improve the welfare of people through wealth creation and poverty reduction. Profitability of microfinance banks is heavily dependent on a number of financial related factors. A good performing microfinance industry is vital in sustaining the stability of the micro banking system.

A profitable microfinance industry is key in maintaining the stability of the microbanking system. Low profitability weakens the ability of microfinance institutions to absorb positive shocks that may be either internally or externally caused. This would eventually affect solvency of the company. Profitability reflects how MFBs are run within the environment that they operate which then represents the capabilities of the institution in terms of efficiency, risk management capabilities, competitive strategies, and quality of management and levels of capitalization among others. The role of the microfinance industry is to promote small scale investments that generate sufficient revenues from unrealized market activities while yielding a return on the investment (Muriu, 2011). A profitable MFB can therefore be defined as its capacity to cover all of its expenses by its revenue and to generate a margin to finance its growth. In other words, it can be referred to as the capacity of a microfinance institution to carry out its activities without the need for subsidies in the form of concessional loans or donations (Ayayi & Sene, 2010).

In Africa, Microfinance institutions were entirely financed originally by grants, donor's subsidies and low-interest loans (Zeller & Mayer, 2002), and also they ensured that their financial services are accessible to majority of the poor by charging the lowest cost to their financial services. In Africa most of Microfinance depends on donors, government and development agents for support as they make minimum or no profits (Armendariz & Morduch, 2005). In 1990's as a result of financial reforms in East Africa, The emergency of Microfinance resulted with the aim of efficient and effective financial systems which are sustainable and contribute to reduced poverty and enhance economic growth to the poor and low-income earners. Since then, there have been significant growth of MFB's in East Africa. some of examples to show the significant growth of MFB's in East Africa are, in Kenya the number of MFB's have increased to 22 MFB's 1.3 million having loaned 1.9 billion in 2012 and Rwanda with 24 MFB's 0.8 million having loaned 0.87 billion as per Market information Exchange (2016).

The Kenyan microfinance sector is one of the most vibrant in Sub-Saharan Africa. It includes a diversity of institutional forms and a large branch network to serve the poor (FSD Kenya, 2012). The microfinance act (2006) and the microfinance regulations (2008) set out the legal, regulatory and supervisory framework for the microfinance industry in Kenya (Association of Microfinance Institutions, 2013). The need for microfinance in Kenya has been driven by a series of interrelated constraints on the development of a banking and finance sector. These key constraints have been the structure and composition of the Kenyan banking and finance sector; a lack of the appropriate regulation and governance required for quality improvements in banking and finance and the conservative

commercial business practices of profit focused banking institutions (Alastair, 2015).

Microfinance institutions in Kenya deliver services to rural or otherwise very inaccessible customers (Ouma, 2015). They offer financial services which are personalized to the unique limitations and needs of deprived and small businesses. One of their key advantages over commercial banks is their flexibility, their more forgiving nature and their ability to offer tailor made education, training and support to their clients. Most of the microfinance institutions do not require borrowers to pledge their assets as collateral thus allowing entrepreneurial individuals to have access to small loans for business start-up. Although the 2006 Microfinance Act in Kenya allowed deposit taking MFBs (DTMs), such MFBs appeared in the country in 2009 when Kenya

Women Finance Trust and Faulu Kenya which were the two pioneering MFBs transformed to deposit taking (Central Bank of Kenya - CBK, 2013). DTMs are licensed by the CBK to mobilize savings from and offer credit services to the general public, thus promoting competition, efficiency and access (CBK, 2015). Currently, CBK has licensed 13 microfinance banks and 9 microfinance institutions with importance being placed on savings and credit facilities for the poor hence stressing the need for comprehensive advancement of microfinance institutions as dynamic components for employment, investment and economic growth (CBK, 2021).

Statement of the problem

MFBs play a significant role in socio economic transformation of the society because their advantages range from provision of easily accessible credit, poverty alienation up to issue of employment creation (Arsyad, 2015) and the general delivery of financial services to the poor households with limited access to some financial institutions like commercial banks (Obamuyi, 2007). However, the profitability of microfinance institutions has received a general global displeasure despite the fact that international and national development programs have been giving high priority on sustainable microfinance for many years.

The overall profitability of the microfinance banks declined significantly by 131 percent, with a combined loss before tax of Ksh.1.4 billion for the year ended December 31, 2020. The microfinance banks reported a combined loss before tax of Ksh.622 million in December 31, 2019. Three institutions reported profits, while the remaining ten institutions registered losses. The poor performance of the sector was largely attributed to the reduction in financial income by 7.6 percent or Ksh.0.85 billion, with a corresponding increase in expenses by 3.0 percent or Ksh.382 million. The increased expenses related to financial costs aimed at attracting deposits, and additional provisions made by the sector to comply with the requirements of the newly implemented International Financial Reporting Standard. Consequently, the sector reported a lower return on assets and equity ratio at positive 2.0 percent and positive 13.8 percent, comparing unfavorably with positive 0.9 percent and positive 5.5 percent as reported in the previous year, respectively

Previous studies show few Microfinance banks are profitable in Kenya. The reasons for this can be linked to they find it hard to attract capital or funds at larger costs due to higher risks and this brings in a burden of higher interest and large average loan size to the poor people since they cannot afford the higher costs, thus meaning that the profitability of Microfinance banks is compromised.

Several studies conducted on financial restructuring on profitability of MFBs have been found to have scanty information which cannot be relied on for better improvement on MFBs profitability and the little available empirical studies have contradictory results. Thus, the limited information on MFB financial restructuring have subjected most MFBs to bankruptcy (Simeyo et al., 2009); Tehulu, (2013). Further, most studies on financial restructuring and MFB profitability have not been done in Kenya where MFBs have many profitability problems

making them face threats of eminent financial distress. Therefore, to fill this gap, this study investigated the influence of debt and equity restructuring on profitability of microfinance banks in Kenya.

Objectives of the Study

The general objective of the study was to investigate the influence of debt and equity restructuring on profitability of microfinance banks in Kenya. The specific objectives were;

- To examine the influence of debt restructuring on profitability of Microfinance banks in Kenya.
- To determine the influence of equity restructuring on profitability of Microfinance banks in Kenya.

The study was guided by the following hypotheses

- **H_{01}**: There is no significant relationship between debt restructuring and profitability of Microfinance banks in Kenya.
- **H_{02}**: There is no significant relationship between equity restructuring and profitability of Microfinance banks in Kenya.

LITERATURE REVIEW

Theoretical review

Loanable funds Theory

Economists Ohlin and Viner proposed the loanable funds theory in 1937. According to this theory, rate of interest is determined by the demand for and supply of loanable funds. The loanable funds doctrine extends the classical theory, which determined the interest rate solely by saving and investment, in that it adds bank credit (Lindner, 2013).

The total amount of credit available in an economy can exceed private saving because the bank system is in a position to create credit. Hence, the equilibrium (or market) interest rate is not only influenced by the propensities to save and invest but also by the creation or destruction of fiat money and credit (Bibow, 2011). According to this approach, the interest rate is determined by the demand for and supply of loanable funds. The term loanable funds includes all forms of credit, such as loans, bonds, or savings deposits (Thomas, 2018).

According to loanable funds theory, equilibrium rate of interest is that which brings equality between the demand for and supply of loanable funds (Jakab & Kumhof 2015). The equilibrium interest rate is determined at a point where the demand for loanable funds curve intersects the supply curve of loanable funds. Loanable funds is the sum total of all the money people and entities in an economy have decided to save and lend out to borrowers as an investment rather than use for personal consumption (Thomas, 2018). The theory of loanable funds uses a classical market analysis to describe the supply, demand, and interest rates for loans in the market for loanable funds.

If the bank system enhances credit, it will at least temporarily diminish the market interest rate below the natural rate. Wicksell had defined the natural rate as that interest rate which is compatible with a stable price level. Credit creation and credit destruction induce changes in the price level and in the level of economic activity. This is referred to as Wicksell's cumulative process (Lindner, 2013). The theory is based on the following simplifying assumptions; That the market for loanable funds is one fully integrated (and not segmented) market, characterized by perfect mobility of funds throughout the market; That there is perfect competition in the market, so that each borrower and lender is a 'price-taker' and one and only one pure rate of interest prevails in the market at any time. The forces of competition are also supposed to clear the market pretty fast, so that the single rate of interest is the market-clearing (or the equilibrium) rate of interest (Bibow, 2011).

The theory is relevant to the study on the debt and equity restructuring to generate more credit for lending which is the key role of the Microfinance Banks's. Since the supply of loanable funds is based on savings and the demand for loanable funds is based on borrowing, the interaction between the supply of savings and the demand for loans determines the real interest rate and how much is

loaned out. The equilibrium interest rate is determined at a point where the demand for loanable funds curve intersects the supply curve of loanable funds. This thus provides key structure during restructuring in debt, equity and loans of the Microfinance Banks's.

Market Timing Theory

The market timing theory was postulated by Baker and Wurgler (2002). The theory of market timing states that the organisations capital structure is the cummulative results of the past financing decisions that were based on different market conditions, also referred to as timing of equity market (Baker & Wurgler, 2002). Equity market timing concept holds it that a firm issues ordinary shares when their market value is high and re-purchases them when their martek value has declined (Baker & Wurgler, 2002). Timing the debt market on the other hand refers to a situation where firms issue more debt capital if the prevailing interest rates are low and as insists goes to, the firm progressively reduces debt financing (Zavertiaeva & Nechaeva, 2017). This implies debt market timing depends on rates of interest charged and not the mispricing of equity shares.

The market timing theory being comparatively newer when compared to pecking order and trade-off theories, has made the timing of markets to be the core aspect that informs firms financing decisions (Mabrouk & Boubaker, 2020). According to Mabrouk and Boubaker, (2020), the market timing model does not appear to contradict the trade of theory as bot h models predicts that a firm issues more equity finance when the market value of shares is high. Baker and Wurgler (2002) argue that managers can minimize the cost of capital via market timing suggesting market rates have an influence on pecking order. However, in contrast to the trade-off and pecking order theories, equity timing issuance has a short term impact on capital structure (Hovakimian, 2006). In the market timing theory, firms issue debt or equity according to the best time condition in order to raise more finance but at a lower cost of capital in a bid to increase the value of the firm (Baker & Wurgler, 2002).

In summary the Baker and Wurgler (2002) theory of market timing argues that managers identify a window of opportunity where the issue of equity shares have lower costs due to misprizing's. Going by this argument therefore, managers tend to issue new equity shares when their market value is high relative to their book value and historical valuations. Further, the researchers argue, firms would prefer more equity finance compared to equity in those periods equity shares are overvalued. The opposite is also true. Although a number of studies have been conducted in developed markets on market timing perspectives (Zavertiaeva & Nechaeva, 2017; Mabrouk & Boubaker, 2020), very few have considered the developing markets (Muhammad & Yet, 2020).

However, any theory with time varying costs and benefits is likely to generate time varying corporate issuing decisions. This is true whether decision makers are behavioral or rational. The empirical evidence for this hypothesis is at best, mixed. Mahajan and Tartaroglu (2008) themselves show that an index of financing that reflects how much of the financing was done during hot equity periods and how much during hot debt periods is a good indicator of firm leverage over long periods subsequently. Therefore, the effect of market timing disappears after only two years. Beyond such academic studies, a complete market timing theory ought to explain why at the same moment in time some firms issue debt while other firms issue equity. As yet nobody has tried to explain this basic problem within a market timing model. The typical version of the market timing hypothesis is thus somewhat incomplete as a matter of theory.

The very few studies that observe market timing in these firms fail to concur if equity market timing can explain their behaviour. It is in this context therefore that this study sought to establish the effects of equity and debt restructuring on the profitability.

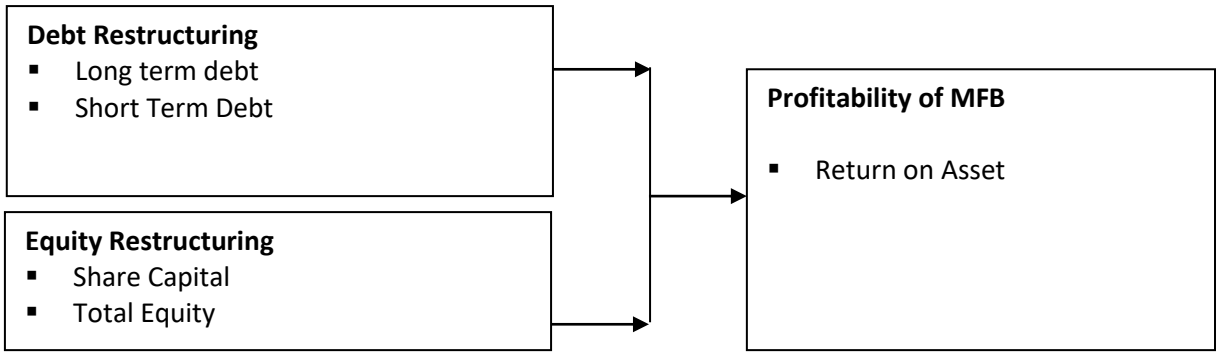

Figure 1: Conceptual framework

Empirical Literature

Kibet (2015) carried out a study to establish whether there was a relationship between debt restructuring and profitability of MFBs in Kenya. This study used descriptive statistics. The study found that the financial structure decision is crucial for any business organization. The decision is important because of the need to maximize returns to various organizational constituencies, and also because of the impact such a decision has on an organization's ability to deal with its competitive environment. From the findings the study found that most of MFBs in Kenya were using equity and or donations as their main source finances in Kenya which accounted for by 72.42% and 27.58% in form of debt. The study further found that there exist a positive relationship between equity financing and profitability of MFBs in Kenya.

Silva (2018) on the effect of debt structure on MFBs performance; the objective was to determine the effects of capital restructuring on MFBs performance in Kristiansand. The study found that total debt and short term debt ratio impacts positively and significantly on ROE while positively and significantly on ROA. Long term debt ratio had a positively and significantly impact ROE but not significantly impact on ROA of MFBs. This shows that if MFBs use long term debt to finance their operations, there may not be a pressure on management of MFB. This further suggests that profitable MFBs depend more on long term debt financing. The study uses a dataset which consists of 290 MFBs from 61countries.This indicated that ROA and ROE was used as performance indicators, while debt to equity, long term debt to equity, short term debt to equity, debt to assets, long term debt to assets and short term debt to assets ratios are used as indicators of financial structure of MFBs.

Kyereboah- Coleman (2017) conducted a study consisting of a data-set of 290 MFBs, and found that most of the micro-financing firms incorporate more of debt-financing in their structures (long term debt in particular). The findings also propose that debt-financing enables the micro-financing firms to better reach a larger number of customers and experience greater economies of scales, allowing MFBs to better cope with moral hazards and tough situations. The findings also conclude that the ratio of total-debt to short–term-debt significantly positively impacts the ROA, while significantly positively affecting the ROE; strongly suggesting that profitable MFBs rely more on the long-term debt financing.

According to Kisgen (2016), equity capital is the mode that enables equity holders to exert influence and monitor managerial decisions continuously through the board of directors. Hall et al. (2016) suggests that strategic assets should be financed through equity. A deviation from this relationship can lead to higher organizing costs, which could have far reaching implications in the long run resulting in poor performance.

Graham (2017) discussed the main costs of equity as; tax costs, adverse selection, premium and floatation costs. These costs have an effect on the performance of firms when aggregated. These findings by Graham are consistent with existing theoretical models and empirical studies. Myers and Majluf (2014) consider a firm with a single all-or-nothing investment opportunity shows that asymmetric information increases the cost of equity if the firm is pooled with those of lower quality resulting in decreased performance.

Contrarily, Kimando and Kihoro (2012) argues that the firm that uses equity finance is able to make its performance better since there is direct control and because all the equity holders are the residual claimants they have to ensure that resources are allocated efficiently to be able to maximize shareholders wealth. Both's arguments have been supported by Boateng (2011) who found that use of equity capital is positively related to the performance of family owned businesses in Pakistan. Equity restructuring involves aligning the retained earnings and share capital for the Microfinance Banks. (Raposo & Lehmann, 2019). Equity restructuring is a transaction between a corporation and its shareholders that alters the fair value of the shares associated with an option or similar reward (Njagi, Maina & Kariuki, 2017).

Silva (2018) on the effect of equity structure on MFBs performance is consistent with the previous study by Kyereboah-Coleman (2017). This study found that total equity impacts positively and significantly on ROE while positively and significantly on ROA. Long term equity had a positively and significantly impact ROE but not significantly impact on ROA of MFBs. This shows that if MFBs use long term debt to finance their operations, there may not be a pressure on management of MFB. This further suggests that profitable MFBs depend more on long term debt financing. The study uses a data set which consists of 290 MFBs from 61 countries. ROA and ROE is used as performance indicators, while debt to equity, long term debt to equity, short term debt to equity, debt to assets, long term debt to assets and short term debt to assets ratios are used as indicators of financial structure of MFBs.

METHODOLOGY

This research used descriptive survey design. This design includes gathering information that answers inquiries regarding the members of the studies, and is also suitable for exploring associations between study variables. From Central Bank of Kenya directory of licensed microfinance banks, the total thirteen microfinance banks were considered as the target population as well as the sample size of the study and financial data analyzed for a period of 5 years making a total of 65 observations. This study took the entire population of the thirteen microfinance banks using census technique. This study used secondary data. The data was drawn from past audited financial reports (Income Statement, Statement of Financial Position, and Cash Flow Statement) as they were published by the respective microfinance banks. They were used for calculation to discover the quantifiable manner changes. The secondary data was retrieved from financial records of microfinance banks; consideration period was between the financial years 2016 to 2020 (5 years period of time). The income statements and balance sheets tools was used for data mining guided by secondary data collection schedule as indicated in appendix II. Data was analyzed by regression panel data analysis tool. Secondary data was collected from microfinance banks from 2016-2020 where financial statements was used. The data analysis was used as a research technique for the systematic, objective, and qualitative description of content manifestation of a communication (Cooperu & Schindler, 2011). The study used inferential statistics which were regression analysis and correlation analysis to test null hypotheses.

FINDINGS

Effect of Debt restructuring on Profitability

The study sought to examine the influence of debt restructuring on profitability of Microfinance banks

in Kenya. The first null hypothesis denoted, **H_{o1}:** There is no significant relationship between debt restructuring and profitability of Microfinance banks in Kenya. Having gone by the fixed effect model basing on the Haussmann LM test, the results of the fixed effect model are presented in Table 1.

Table 1: Regression Fixed Effect of debt restructuring on Profitability

Fixed-effects (within) regression		Number of obs =	65
Group variable: MFB_ID		Number of groups =	13
R-sq:		Obs per group:	
within =	0.1073	min =	5
between =	0.8407	avg =	5
overall =	0.474	max =	5
		F(1,51) =	8.99
corr(u_i, Xb) = 0.4757		Prob > chi2 =	0.0042

ROA	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
DR	0.01127	0.003758	3.00	0.004	0.01881	0.00373
_cons	0.06117	0.010806	5.66	0.000	0.08286	0.03948
sigma_u	0.081822					
sigma_e	0.06569					
Rho	0.608065	(fraction of variance due to u_i)				

F test that all u_i=0: F(12, 51) = 6.00 Prob > F = 0.0000

The analysis showed that the panels were strongly balanced for this bivariate analysis as shown by the number of observations per group. There were a total of 65 observations used in this analysis considering 13 groups of entities implying strongly balance panels. The minimum, maximum and average numbers of observations per groups were all equal to 5.

The R^2 is generally a measure of the variation of the dependent variable profitability that is explained by the variation of the predictors in the model. The result obtained from fixed effect model indicated that debt restructuring accounted for 47.4% (Overall R square=0.474) of the variation in profitability of Microfinance banks in Kenya. The ANOVA statistics measure the general significance of the model. The F-statistic to the model shows is 8.99 which is greater than 0 implying that the estimated parameters in the model are at least not equal to zero. This infers that debt restructuring has an influence on profitability of Microfinance banks in Kenya.

The estimated coefficient of debt restructuring is significantly not equal to zero (β=0.01127, t= 3.000, p-value= 0.004). The P-value is less than 0.05 which implies that the estimated coefficient is significant at 5% significance level. The estimated coefficient of debt restructuring here implies that a unit increase in debt restructuring would cause the levels of profitability to increase by 0.011 units. The p-value of the constant is less than 0.05 which shows a significant constant term. The regression model is as shown below

ROA = -0.06117+0.01127DR

Kibet (2015) carried out a study to establish whether there was a relationship between debt restructuring and profitability of MFIs in Kenya. From the findings the study found that most of MFIs in Kenya were using equity and or donations as their main source finances in Kenya which accounted for by 72.42% and 27.58% in form of debt. The study further found that there exist a positive relationship between equity financing and profitability of MFIs in Kenya. Silva (2018) on the

effect of debt structure on MFIs performance; the objective was to determine the effects of capital restructuring on MFIs performance in Kristiansand. This shows that if MFIs use long term debt to finance their operations, there may not be a pressure on management of MFI. This further suggests that profitable MFIs depend more on long term debt financing.

The influence of equity restructuring on profitability

The study sought to determine the influence of equity restructuring on profitability of Microfinance banks in Kenya. The second null hypothesis denoted, **H_{o2}:** There is no significant relationship between equity restructuring and profitability of Microfinance banks in Kenya. Having gone by the fixed effect model basing on the Hausman LM test, the results of the fixed effect model are presented in Table 2.

Table 2: Regression Fixed Effect of Liquidity Management on Profitability

Fixed-effects (within) regression		Number of obs =	65
Group variable: MFB_ID		Number of groups =	13
R-sq:		Obs per group:	
within =	0.0562	min =	5
between =	0.2831	avg =	5
overall =	0.1159	max =	5
		F(1,51) =	3.03
corr(u_i, Xb) = 0.2361		Prob > chi2 =	0.0141

ROA	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
ER	0.18992	0.022022	8.624	0.014	0.63565	0.255806
_cons	10.53863	1.019758	10.33	0.000	12.474237	8.6030
sigma_u	0.438485					
sigma_e	0.179306					
Rho	0.856739	(fraction of variance due to u_i)				

F test that all u_i=0: F(12, 51) = 23.78 Prob > F = 0.0000

The analysis showed that the panels were strongly balanced for this bivariate analysis as shown by the number of observations per group. The result obtained from fixed effect model indicated that Equity restructuring accounted for 11.59% (Overall R square=0.1159) of the variation in profitability of Microfinance banks in Kenya. The ANOVA statistics measure the general significance of the model. The F-statistic to the model shows is 3.03 which is greater than 0 implying that the estimated parameters in the model are at least not equal to zero. This infers that Equity restructuring has an influence on profitability of Microfinance banks in Kenya. The influence is significant at $P<0.05$.

The estimated coefficient of equity restructuring is significantly not equal to zero (β=-0.18992, t= -8.624, p-value= 0.014). The P-value is less than 0.05 which implies that the estimated coefficient is significant at 5% significance level. The estimated coefficient of equity restructuring here implies that a unit increase in equity restructuring would cause the levels of profitability to increase by 0.18992 units. The p-value of the constant is less than 0.05 which shows a significant constant term. The regression model is as shown below

ROA = -10.53863+0.18992ER

Silva (2018) on the effect of equity restructuring on MFIs performance is consistent with the previous study by Kyereboah-Coleman (2017). This study found that total equity impacts positively and significantly on ROE while negatively and significantly on ROA. Long term equity had a positively and significantly impact ROE but not significantly impact on ROA of MFIs. This shows that if MFIs use long term debt to finance their operations, there may not be a pressure on management of MFI. However, Sekabira (2013) found that equity restructuring were negatively correlated to equity and financial sustainability of microfinance institutions. When sustainability was more constricted to financial sustainability, debt and share capital remained noteworthy.

CONCLUSIONS AND RECOMMENDATIONS

Based on the study findings the study concluded that there is a correlation between debt restructuring, equity restructuring, loan restructuring and deposit restructuring on return on asset for the Microfinance Banks. On debt restructuring, the study concluded that on average, the Microfinance Banks's had maintained a moderate short term debt to long term debt of above 50%. The results showed that debt restructuring is positively and significantly related with the profitability of the Microfinance Banks. As MFB increase their ratio of short term to long term debt their profitability also increases. Further the study concluded that on average, equity restructuring by the Microfinance Banks's was average in comparison the share capital/total equity issued by the Microfinance Banks's. This implied that as a result of equity restructuring, share capital slightly comprise majority of MFB equity. The results further showed that equity restructuring is positively and significantly related with the financial performance of the Microfinance Banks. Therefore, incrase in share capital would result to increase in profitability of MFBs.

Based on the positive and significant effect of debt restructuring on profitability of Microfinance Banks, the study recommends that the Microfinance banks management undertaking debt restructuring as their long-term financing strategy should align it to their capital structure thereby affording the business more time to realize a return on an investment. Further, microfinance banks should consider long term debt which minimizes the refinancing risk that comes with shorter-term debt maturities, due to its fixed interest rate, thus decreasing a company's interest rate and balance sheet risk.

Based on the positive and significant effect of equity restructuring on profitability of Microfinance Banks, the study recommends that the Microfinance banks management should consider share capital during equity restructuring. This is because raising equity via share capital is very flexible in terms of how many shares to issue, what to initially charge for them and when it wishes to issue them so to finance liquidity gaps hence enhance their profitability.

Suggestion for Further Studies

The findings of this study can be improved if the study is expanded to cover a longer period. A future research can be carried out on the same topic, but using data across a longer period. This is with the assumption that the data for a longer time would provide results that are better than those provided by the data used in this study. The possible higher objectivity that arises based on the sample period may be settled covering a longer period.

The current study focused on MFB of which one of the variables (deposit restructuring) was found to be insignificant. Therefore, the suggested a further research can be carried out to investigate the effects of deposit restructuring on the profitability of other financial institutions such as commercial banks and Deposit Taking Saccos to see if the same results can be replicated.

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