A survey of the market segmentation practices by regulated micro finance institutions in Nairobi

Kiama, Alice M
URI: http://erepository.uonbi.ac.ke:8080/xmlui/handle/123456789/12807
Date: 2009

Abstract:

Micro and small-scale enterprises (SMEs) have generated a demand for credit and savings services that has resulted in the formation of over 100 microfinance organizations, half of which are non-governmental organizations (NGOs) practicing some form of micro lending across Kenya (Association of Microfinance Institutions of Kenya, 2007). The Kenyan microfinance sector began in the late 1960s with a few NGOs that set up pilot programs providing donor funded credit services. Some of these organizations have evolved over time to become commercialized, self-sustaining and hugely profitable institutions with over 100,000 clients. The regulations are expected to affect the market practices for the regulated MFIs. Various studies have been carried out for example, Kagwe (2008) carried out a study on the prospects of microfinance: The potential growth of Kenya’s microfinance industry, Omino (2005) studied the Regulation and Supervision of Microfinance Institutions in Kenya, Johnson (2004) carried out a research on the impact of micro finance institutions on the local financial market. None of these research projects has focused on market segmentation practices of the regulated Micro Finance Institutions in Nairobi. The researcher intended to bridge this gap in knowledge by conducting a survey of segmentation practices by the regulated MFIs in Nairobi. The study had three objectives namely; to identify the market segmentation criteria used by regulated MFIs in Nairobi, to determine the market segmentation process used by Microfinance institutions in Nairobi, to establish the effect of Microfinance Act on segmentation practices in Nairobi. The study found out that two factors are important in determining market segmentation criterion. These factors are client capability and cash flow. This illustrates customer centered approach in determining market segmentation practices. Changing dynamics of the market have proved challenging to the MFIs. The market environment has been changing with the mainstream banks turning to focus on low income segment of the market which they had previously overlooked. This has impacted negatively on MFIs as they rely on the un-banked low income segment of the market.