FACTORS INFLUENCING THE GROWTH OF MICRO FINANCE INSTITUTIONS IN NYERI CENTRAL DISTRICT, NYERI COUNTY KENYA.

BY

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DECLARATION

This is my original work and has not been presented for any of the study programme in any university.

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WINNIE WANJIRU MAINA — DATE

L50/78353/2009

This research project report has been submitted for examination with my approval as the university supervisor.

Signature____________________ DATE 19-08-11

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DEDICATION

This research project is dedicated to my son Victor for inspiring me to achieve the best in life. To my brother; Mathew, for his constant encouragement and my parents for instilling in me the value of hard work and honesty.

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I am grateful to Professor Timothy Maitho my supervisor for his time and effort in guiding me through this project. I would also like to thank my lecturers at Nyeri Extra Mural centre for broadening my knowledge in the area of projects. My gratitude also goes to my course mates whose friendships, good humour, struggles and achievements in various aspects of the course and life have inspired and encouraged me to achieve this noble degree. Lastly my friend Betty Kanana.

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ABBREVIATIONS AND ACRONYMS

AMFI	Association of Micro Finance Institutions
MFIs	Micro Finance Institutions
MSEs	Micro and Small Enterprises
NGO	Non Government Organizations
SPSS	Statistical Package for Social Sciences

ABSTRACT

The Kenyan microfinance sector began in the late 1960s and has evolved over time to become commercialized, self-sustaining and hugely profitable institutions with over 100,000 clients. Microfinance is also rapidly becoming Kenya's most accessible and affordable financial service. There has been extensive research carried out on the growth of rural credit lending and the subsidized loan lending by non-governmental agencies in Kenya. However, there is little understanding of the factors influencing the success of public and private microfinance institutions. This research study was conducted in order to study the factors that are responsible for the growth of microfinance institutions. The study was guided by the following objectives: to establish the economic factors influencing the growth microfinance institutions in Nyeri Central District, to find out how growth in information and communications technology has impacted on the growth of microfinance institutions in Nyeri Central District, to find out the marketing strategies employed by microfinance institutions and how these strategies have impacted on growth of the institutions and to establish how the management structures adopted by the microfinance institutions in Nyeri Central District have influenced growth of these institutions. The study adopted a descriptive survey research design to study the factors influencing the growth of the MFIs. Random sampling method was used to obtain a representative sample. The informants for the study were drawn from the employees of MFIs and the officials of AMFI. Data was collected using questionnaires. Data obtained was analyzed using descriptive statistics with the aid of Statistical Package for Social science software and the findings were presented in tables. The findings of the study were hoped to be of benefit to the Association of Microfinance Institutions by shedding light on measures which should be taken to in order to improve delivery of microfinance services in Kenya. The researcher hoped that the study would also benefit managers of MFIs by providing useful data on the factors that influence the growth of their institutions. The findings showed that economic factors could be contributing to the growth of MFIs in Nyeri Central District including low annual turnover hence no enough funds for the high number of borrowers, low number of savers and high number of defaulters. It was also found out that all the MFIs are using technology. However, most of the MFIs' technology is not up to date. The challenges related to ICT include resistance to change among the employees, lack of funds to finance newer technology, and lack of technical skills to handle new technology. MFIs may not fully benefit from technology when it is not up to date additionally; it was found out that most of the MFIs do not carry out market research. The main reason for the same was due to lack of finances to facilitate the same. MFIs experience the following other problems in the course of marketing; inadequate travel time to clients, lack of business opportunities, lack of basic infrastructure and inadequate information about clients. Failure to carry out market research could deny the MFIs the chance to improve on their products and services, get new markets, and learn customer complaints all of which would hamper their growth. Finally, the management of most MFIs was found to be centralized since most crucial decisions are made at the home office. Employees are only involved in decision making through meetings with the management and through the suggestion box. Management was found to be authority based and this affects the institutions negatively. Based on the findings of the study, the researcher recommends that MFIs should regard the employees more highly because they are the ones who deliver the services. They should consider their welfare because satisfied employees are likely to give quality services which would help attract new customers as well as retain the old ones. These would lead to growth of the MFIs.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

A Microfinance institution is a small scale institution which offers financial services for both credits and deposits normally targeting the poor (Robinson, 1998). Micro-Finance Institutions (MFI's) usually are not for profit making, and are regulated financial intermediaries that directly provide savings and other financial services to its clients. Microfinance is often considered as one of the most effective and flexible strategies in the fight against global poverty. It is sustainable and can be implemented on a massive scale necessary to respond to urgent needs of those living on less than one dollar per day; that is; the world's poorest, through micro-lending.

The general purpose of micro lending in developing countries is to provide the poor with financial services and capital with the hope that they can break the cycle of poverty through business development. For years, non-governmental agencies have operated micro-lending, or microfinance, institutions but have been limited in the number of people they reach because they remain dependent on donations. While microfinance institutions (MFI's) continue to serve nearly 100 million poor and near-poor individuals, it is estimated that more than 1 billion people have no access to basic financial services (Matu 2008). In recent years, MFI's have begun seeking financial freedom from their donors and government agencies so that these groups can be sustainable. Operational or financial sustainability is vital to the long-term success of each institutions and the microfinance system as a whole, Morduch (1990) describes the need for more empirical work on the sustainability of MFIs. He points out that, "Empirical understandings of microfinance will also be aided by studies that quantify the roles of the various mechanisms in driving microfinance performance". The empirical work on microfinance institutions to date is limited to case studies and small sample reviews of financial conditions. It is important to find out the factors behind the growth of microfinance institutions in Kenya.

In Kenya, small-scale and Micro Enterprises (SMEs) have generated a demand for credit and savings services that has resulted in the formation of over 270 microfinance organizations, half of which are Non-Governmental Organization (NGOs) practicing some form of micro-lending across Kenya. 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. Microfinance is also rapidly becoming Kenya's most accessible and affordable financial service.

It is for this reason that the research will be conducted in order to study factors that are responsible for the growth of microfinance institutions in Nyeri Central District. There has been extensive research carried out on the growth of rural credit lending (Atieno, 2001) and the subsidized loan lending by non-governmental agencies in Kenya. However, there is little understanding of the factors influencing the success of public and private microfinance institutions. In 1999, the Association of Micro – Finance Institutions (AMFI) was registered under the societies Act as an umbrella organization to represent the microfinance institutions operating in Kenya. The AMFI's activities were initially funded through a 3 year grant from the United States Agency for International Development (USAID), which aims at supporting the growth and development of MFI's, by promoting sustainable, efficient and effective delivery of microfinance services.

Further, AMFI aims at organizing a network of MFI's in the country who were committed to developing and making available a wide array of microfinance services to those who needed it, especially those whose needs were unmet by the formal financial sector (USAID/Kenya, 2003). MFI has played a vital role in promoting the growth of microfinance in Kenya in addition to supporting MFI's to build capacity in order to overcome some of the challenges facing the sector. AMFI was instrumental in drafting and preparing the Microfinance Bill, which was passed and enacted into law in 2006 (USAID/Kenya, 2003).

According to the Microfinance Act (Republic of Kenya, 2006), MFIs in Kenya are classified into three different tiers, with the first being deposit-taking institutions such as banks, the second tier being credit only facilities, and the third tier being informal organizations supervised by an external agency other than the government. These distinct classifications have led to some of the MFIs specializing in certain niche markets, which have contributed to their growth and sustainability in delivering microfinance. For example, the ability to collect deposits has enabled Equity Bank to appeal to those excluded by the high costs of accessing traditional banks, while Jamii Bora has identified itself as the financial provider to former thieves and beggars (Micro credit E-News, 2008). With over 200 MFIs operating in the country, it would be important to understand the forces behind their success, or failure, in the face of the recent recession that has faced the global economy.

1.2 Statement of the problem

The Association of Microfinance Institutions (AMFI) still faces challenges in building the capacity of the microfinance sector and reducing the inefficient delivery of microfinance products and services despite the enactment of the Microfinance Act.

Furthermore, the continued success and rapid growth of microfinance has led to a financial gap in the funding required to meet the growing demand. This could seriously impact the ability of Kenyans to access the financial resources needed to obtain basic socio-economic benefits such as education, healthcare service, land ownership, income generating activities, and credit facilities. A study carried out by the group Financial Sector Deepening (2007) on the financial sector found that 35.2 percent of Kenyans in need of financial services were unable to access the formal financial services.

In addition, there was another 30.2 percent who are entirely excluded from accessing any financial services. This has greatly undermined the overall wellbeing of the poor people by limiting their opportunities to improve their socio-economic status. By understanding the factors that have influence the growth of microfinance institutions, it will be possible to advice microfinance service providers on measures they need to take in order to grow and reach a larger proportion of Kenyans in need of financial services.

1.3 Purpose of the study

The purpose of this study is to determine the factors that influence the growth of microfinance institutions in Nyeri Central District.

1.4 Objectives of the study

The objectives of the study are:

i. To establish economic factors influencing the growth microfinance institutions in Nyeri Central District.

ii. To investigate how growth in information and communications technology has had an impact on the growth of microfinance institutions in Nyeri Central District.

iii. To assess the marketing strategies employed by microfinance institutions and how these strategies have influenced growth of these institutions.

iv. To establish how the management structures adopted by the microfinance institutions in Nyeri Central District have influenced growth of these institutions.

1.5 Research Questions

The study seeks to address the following questions:

i. Which economic factors influence the growth of microfinance institutions in Nyeri Central District?

ii. How has the growth in information and communications technology influenced the growth of microfinance institutions in Nyeri Central District?

iii. How do the marketing strategies employed by microfinance institutions impact on growth of the institutions?

iv. How do the management structures adopted by the microfinance institutions in Nyeri Central District influence the growth to these institutions?

1.6 Significance of the study

The findings of the study will be of benefit to the Association of Microfinance Institutions (AMFI), which is the umbrella organization representing the microfinance institutions operating in Kenya by shedding light on measures which should be taken to in order to improve delivery of microfinance services in Kenya. Based on the findings of the study, recommendations will be made to AMFI on institutional changes that need to be effected for MFI to serve a larger proportion of Kenyans.

The study will also benefit managers of MFIs by providing useful data on the factors that influence the growth of their institutions. These factors include marketing strategies, organizational structures, socio-political factors, information technology factors, and economic sector factors. By implementing the recommendations of the study, MFI operators will realize growth and avoid making mistakes that could have been made by the other MFIs.

The study will also contribute to the body of knowledge on management of microfinance organizations. It will also form a basis upon which further research can be conducted, and thereby advancing knowledge.

1.7 Delimitations

The study will find out the factors that have led to the growth of microfinance institutions in Nyeri Central District. The study will be on conducted Micro Finance Instituitons operating in Nyeri Central District. This means that findings of the study cannot be generalized to other areas in Nyeri Central District. This is mainly because different microfinance institutions operate differently, with different policies and conditions. The sampling technique used will ensure that the respondents represent the entire target population with minimal chances of error. The use of a comprehensive sampling strategy will help curb the effect of respondents withholding information required for the study. The study will take a relatively short time, from March toJune 2011.

1.8 Limitations

It will not be possible to cover all MFIs operating within the target population due to inadequate time and financial resources. It is further expected that some respondents may not answer all the questions due to their subjective nature.

1.9 Assumptions

The study will be based on the following assumptions:-

i. That the respondents will cooperate and be honest in giving information about the microfinance institutions.
ii. That there are specific factors that have led to growth of microfinance institutions in Nyeri Central District.
iii. The people are literate enough to be able to respond to the research instruments.

1.10 Definition of significant terms

Economic factor These are the fiscal factors related to trade and industry, which determine the financial needs of a people.

Growth Refers to the development and expansion of an institution in terms of client base, capital base, branch network and number of employees.

Information and communication technologies: This is an umbrella term that includes all technologies for the manipulation and communication of information, including the computer, the mobile phone, internet, radio and television.

Management structure Refers to the arrangement or organization of a given institution from ownership to supervision and administration.

Marketing strategies Refers to the methods used by an institution to advertise and promote its products to potential customers as a way of attracting clientele.

Microfinance institution Refers to an organization whose main objective is to offer small scale financial services to those who have no access to traditional bank facilities.

Microfinance Refers to small scale financial services for both credit and savings normally targeting the poor.

Socio-political factors These are the collective societal factors and supporting political environment which exists in the country.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

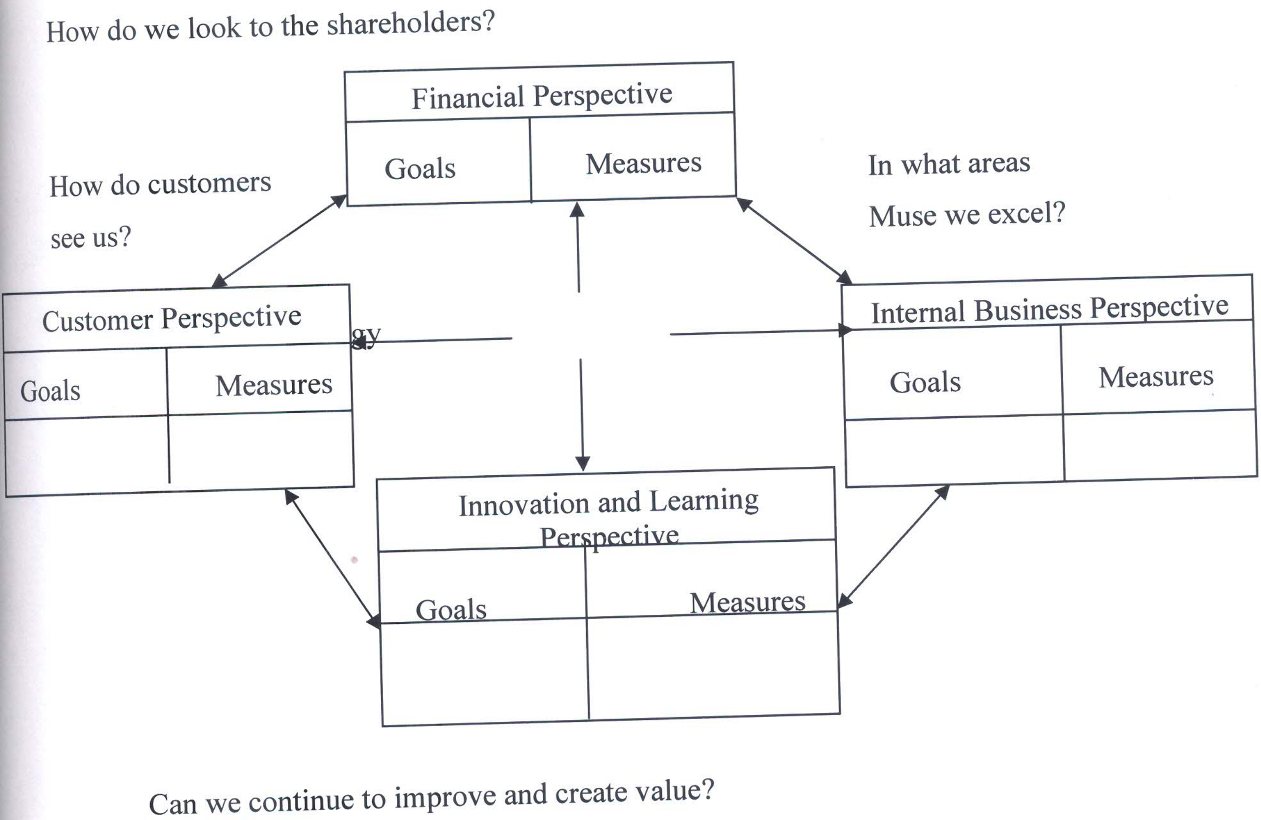
This chapter presents a review of literature related to the study on the factors that have led to the growth of microfinance institutions. The chapter first covers the theoretical framework and then gives literature on socio-political factors affecting growth of microfinance institutions. After this, literature on economic sector factors influencing growth of microfinance institutions and then the impact of information and communications technology on growth of microfinance organizations is reviewed. Other literature reviewed includes the impact of marketing strategies on growth of microfinance institutions, and the impact of management structures on growth of microfinance institutions, after which the conceptual framework is presented.

2.2 Theoretical Framework

The theoretical framework to be adapted will be the Balanced Scorecard (Kaplan and Norton, 2001).

2.2.1 The Balanced Scorecard

The study will be based on the Balanced score Card (BSC), which was introduced by Kaplan and Norton (1992). The balanced scorecard allows managers to look at the business from four perspectives. It provides answers to four basic questions (a) How do we look to the shareholder? (Financial perspective), (b) How do customers see us? (Customer perspective), (c) What must we excel at? (Internal perspective and (d) Can we continue to improve and create value (Innovation and learning perspective). The researchers view is that each of these four perspective influences the growth of microfinance institutions in Nyeri Central District. Figure 1 shows how the BSC translates a business unit mission and strategy into objectives and measures.



2.2.2 Figure 1: The Balanced Score Card

Source: Kaplan and Norton (1996)

These four perspectives enable companies to track organizational results and simultaneously monitor progress in building the capabilities that are necessary for acquiring the intellectual capital or intangible assets needed for future business growth and for providing keener competition (Kaplan and Norton, 2001)

2.2.3 The customer satisfaction perspective

The customer perspective involves corporations seeking to understand what their target customers want. According to Matu (2008) these are leading indicators. If customers are not satisfied, they will eventually find other suppliers that will meet their needs. Customer's satisfaction results in retained and repeat business as well as new business for customers referrals. Poor performance from this perspective is a leading indicator of future decline, even though the current financial picture may look good. In developing merits for satisfaction, customers should be analysed in terms of kinds of customers and the kinds of processes for which companies are providing a product or service to those customers groups.

Kaplan and Norton (1996) remark that, before establishing customer measures, organizations must identify the market segments they are serving or wish to serve. Organizations may select market segments that are most profitable, or that are underserved. Fresh segment it is possible to customize the following set of widely used measures, market share, customer retention, customer's acquisition, customer satisfaction and customer profitability. These measures can be summarized as follows Kaplan and Norton (1996).

2.2.4 Market share

Reflects the proportion of business in a given market in terms of numbers of customers, dollars spent, or unit volume sold that a business unit sells. Companies could measure market share by percentage of market segment captured by organizations or by percentage of each customer's total requirement served by companies.

2.2.5 Customer retention tracks, in absolute or relative terms, the rate at which a business unit retains or maintains ongoing relationships with its customers. Companies can readily measure customer loyalty by the percentage of growth of business with existing customers.

2.2.6 Customer acquisition

Measures in absolute relative terms, the rate at which a business unit attracts or wins new customers or business. Companies could measure number of actual new customers divided by number of new customers, ratio of sales to inquiries, average cost to acquire a new customer, average order size, or average revenue per customer interaction.

2.2.7 Customer satisfaction

Assesses the satisfaction level customers along specific performance criteria within the value proposition. Three techniques can be employed: mail surveys, telephone interviews and personal interviews or identify number of complaints, number of unsolicited thank you letters, and number of individuals indicating that they are extremely satisfied with their experience with organizations on a satisfaction survey.

2.2.8 Customer profitability

Measures the net profit of a customer or a segment, after allowing for the unique expenses required to support that customer. The techniques which will be employed include total profit per customer and total cost per customer or per transactions.

2.3 The financial perspective

The balanced scorecard does not disregard the traditional need for financial data but rather encourages organizations to identify their specific financial objectives and link the corporate strategy to these objectives (Kaplan and Norton (1996). The financial objectives serve as the focus for the objectives and measures of the other three perspectives. This perspective can employ any number of financial measurements, but care should be taken to ensure that the measures incorporate elements of both risk and return (Jalbert and Landry, 2003).

Every measure should be part of a cause-and-effect relationship that culminates in improving long-term sustainable financial performance. The scorecard is an illustration of the strategy, starting with the long-term financial objectives and then linking them to the customers focused initiatives, internal operational processes and investments in employees and systems that combine to produce the desired economic performance (Kaplan and Norton (1996).

Clearly it is important to get the 'right' measures. According to writers such as Kaplan and Norton (1996) and Steward (1999) suggest the leading organizations are now finding new financial measures, rather than simply considering the obvious financial measures of revenue, profit, share value or dividend cover, consideration is being given to a recently developed measure namely Economic Value Added (EVA). The authors of scorecard considered EVA as more accurate way of measuring a company's profitability, because it includes the cost of capital in the equation. Furthermore, according to (Kaplan and Norton (2001) the following three general objectives or themes that typically reflected in the financial perspective of a balanced scorecard are identified and summarized.

2.3.1 Revenue growth

Refers to expanding products and service offerings, reaching new customers and markets, changing the product and service mix toward higher value added offerings, and pricing products and services.

Regarding **asset utilization** managers attempt to reduce the working capital levels required to support a given volume and mix of business. They also strive to obtain greater utilization of their fixed asset base, by directing new business to resources currently not used to capacity, using scarce resources more efficiently, and disposing of assets that provide inadequate returns on their market value.

2.4 Internal Business Process Perspective

The internal business perspective involves identifying those internal business activities that are critical to the company's success. This perspective relates to the production of the company's goods and services and involves developing efficient work processes that minimize costs and maximize quality (Jalbert and Landry, 2003). The objectives and measures for this perspective thus enable a focus on maintaining and improving performance of those processes that deliver the objectives established as key to satisfying customers, which in turn satisfy shareholders. Internal business process measures address things such as productivity, accuracy, cycle time, core competencies and effective us of people and information resources. According to Kaplan and Norton (1996), there are many internal processes in the typical organization that deserve attention and measurement. Organizations need to measure of performance all the way from the identification of a customer need to the satisfaction of that customers need. This internal business perspective model encompasses three principal business processes, namely.

2.4.1 Innovation

This process helps the business unit researchers to identify the emerging or latent needs of customers, and then create the product or services which will meet these needs.

2.4.2 Operational

This process is where existing products and services are produced and delivered to customers. This process has historically been the focus of most organizations' performance measurement systems.

2.4.3 Post of sale service

This is a major step where training service is rendered to customers. For example, companies which sell sophisticated equipment or products may offer training programmes for customers' employees to help them use the equipment or system more effectively and efficiently. All these activities are expected to add value to target customers.

2.5 The Innovation and Learning Perspective

The innovation and learning perspective recognizes that customer's needs, perceptions, and expectations constantly change. As a result, corporations have to evolve and improve continuously. In order to adapt to change, organizations must create an environment conducive to innovation and learning. The perspective encourages investment for future growth in the area of human resources (Jalbert and Landry, 2003). Furthermore, the organization has to identify the infrastructure they must be built in order to create long-term growth and improvement. The objective is to build up mechanisms to fill up the existing gaps in knowledge and processes and to be continually innovative Kaplan and Norton (1996) emphasize that learning is more than training; it also includes things like mentors and tutors within the organization, as well as ease of communication among workers which allows them to readily get help on a problem when it is needed. The three common categories for learning and growth measures are: employee satisfaction, employee retention, and employee productivity. Examples of measures for the learning and growth perspective as given by Kaplan and Norton (1996) are given below.

2.5.1 Measuring employee satisfaction

The employee satisfaction objective recognizes that employee morale and satisfaction moral and satisfaction are now considered highly important by most organizations. Satisfied employees are preconditions for increasing productivity, responsiveness and quality and customer service. According to Kaplan and Norton (1996) excellent companies measure employee satisfaction with employee surveys on which specified percentage of randomly chosen employees in surveyed.

2.5.2 Measuring employee retention

This aims at retaining those employees the organization has a long-term interest. Long term loyal employees carry the values of the organization, knowledge of the organization process, and sensitivity to the needs of customers. Employee retention is generally measured by percentage of key staff turnover.

2.5.3 Measuring employee productivity

The objective of measuring employee productivity is an outcome of aggregate impact from enhancing employee skills, employee morale, innovation, improving internal processes and satisfying customers. This simplest measurement of productivity measures revenue per employee.

2.6 Economic Sector

The Kenya National Bureau of Statistics (KNBS) 29005 – 06 labour force surveys found that of the 18.8 million Kenyans in the age group 15- 64, 13.5 million were actively participating in the labour force. The population participating actively in the labour force can be subdivided into three sectors; agricultural, formal, and the Jua Kali sectors (Pollin and Githinji, 2007). The 2005 – 06 labour force survey by KNBS found that more than 50 percent of the actively participating labour force in Kenya was employed in the agricultural sectors where approximately 6.75 million Kenyans are engaged in the sector. The agricultural sector is where the majority of Kenyans are employed and its plays a significant role for rural households (Pollin and Githinji, 2007).

According to the survey by KNBS , the formal sector accounts for the smallest share of actively participating labour force in the country and represents about 14 per cent of total employment, which is 1.89 million (Pollin and Githinji, 2007). The formal sector is officially recognized by the Government of Kenya (GOK) and those employed pay a tax on the salaries they earn. "*Jua Kali*" means "hot sun" and was once synonymous with people who worked long hours under the sun making handicrafts as a means of livelihood. Over time, the term *Jua Kali* has been broaden to include all forms of livelihood (non-agricultural) that are not officially registered by the Government of Kenya to operate in the economy. Hence, *Jua Kali* literally means the informal economy. Further, according to internally accepted definitions, *Jua Kali* can also describe self-employment in the non-agricultural activities and is used as a key indicator for the informal economy.

According to the KNBS, the *Jua Kali* sector accounts for 36 percent of total employment and it employs more than 4.86 million people. A large number of workers in the *JuaKali* sector work more than 40 hours per week with low pay (Fairbourne and Gibson, 2007). Access to financial services for those working in the *Jua Kali* sector has always been a problem, which creates an opportunity from growth of microfinance institutions.

The role of the traditional banking institutions is to channel funds from households, firms, and governments with excess savings to those who have a shortage of investable funds (Mishkin, 2006). Similarly, MFI's provide financial services, primarily savings and credit to the poor who do have access to the traditional banking institutions. The innovative lending strategies of MFIs in Kenya are similar and include the following: loans, savings and deposit, payment services, insurance, money transfer, and non-financial services. The key difference is the smallness of products and services offered by MFIs.

Other features that distinguish microfinance services from those provided by the traditional financial institutions include the absence of collateral to access services and the simplicity of MFI operations which use innovative ICT solutions. The conventional wisdom is that MFI services are expected to force the traditional institutions to pay greater attention to the banking needs of the poor. However, despite the presence of the MFI institutions, the traditional banking system in Kenya continues to serve only a small proportion of the market, largely ignoring those considered "unbreakable" such as poor households (Matu, 2008). This could also be a contributing factor to growth of MFIs.

2.7 Information and Communication technology

The rapid growth of Information and Communication Technology (ICT) in Kenya has facilitated innovative ways for delivering financial services in additional to changing the methods of payment, which has helped with the expansion of microfinance in the country. Services such as M-Pesa allow mobile phone users with pre-paid accounts to transfer money to anyone within their mobile network (Matu, 2008). For example, customers register with Safaricom for an M-Pesa account to activate their mobile phone to turn cash into e-money at Safaricom authorized dealers; this then would allow customers to use their mobile phones in making payments and transferring money to other customers within the Safaricom network. This has made it possible for MFIs to integrate services such as M-Pesa into their payment methods and this has in turn enhanced the distribution of microfinance loans and the collection of repayments of loans, which has greatly reduced the transaction costs (Hughes and Lonie, 2007).

In terms of mobile phone access in Kenya, 26.9 percent of the population over 18 years owns a mobile phone (Financial Sector Deepening, 2007). According to Financial Sector Deepening (FSD) Kenya's 2006 national survey, 52.3 percent of the urban population owned a mobile phone, while half of this, about 18.6 percent reported owning a mobile phone, and still had access to one through a family member or a friend. The likelihood of using someone else's mobile phone was much higher in the rural areas, where 29 percent use this service compared to 22.8 percent in the urban areas who use this service. (Financial Sector Deepening, 2007).

As a result of the rapidly growing ICT sector in Kenya, electronic payment methods such as:-*pesa point*; an automated teller machine (ATM), *sokotele* ; a point of sale device (POS); cash-in-cash-out services, credit cards, and M-pesa have been gaining prominence and most MFIs are hoping to utilize them as the preferred form of payment for their microfinance services due to their cost saving nature. According to the Governor of the Central Bank of Kenya (CBK), professor Njuguna Ndung'u, the use of ICT solutions such as electronic payment methods has greatly benefited microfinance through the reduction of both the high fixed cost associated with running branches, mainly in rural areas, and lowering operating costs for MFIs through sharing their point of services with other vendors (Ndung'u, 2007).

In addition, the recent CBK microfinance prudential regulations proposal aims at further enhancing sharing agreements with non-bank vendors such as retail shops, supermarkets, pharmacies, and gas stations, which would improve transaction costs and result in increases of microfinance services in Kenya (Ndung'u, 2007). Matu

(2008) analyzed the implications of the CBK proposed microfinance prudential regulations and demonstrated that if the transaction cost (S) of delivering microfinance fell to (S1), the price of microfinance products and services (P) would fall to (P1), resulting in an increase in the number of microfinance products and services being sold assuming a fairly competitive market for microfinance products.

2.8 Marketing Strategies

Microfinance like any other service business is more difficult to manage using traditional marketing approach. MFIs require not only external marketing but also internal marketing, to motivate the employees and interactive marketing, to create employees skills in the service provider. MFIs which want to professionalize services must deliver "high touch" as well as "high tech" in their delivery mechanisms.

2.8.1 Competitive Differentiation

Micro Finance Institutions frequently face difficulty of differentiating their services fro those of competitors particularly when the market is facing intensive price competition. The solution to process competition is to develop a differentiated offer, delivery and image. The offer can include innovate features to distinguish it from competitor offers. What the customer expects form MFIs or the banks are loans for economic activity or housing or education or for other consumption purposes and these items constitutes primary service package (Kumaar, et al 2008).

For the entire primary services package MFIs can add secondary packages like low cost housing technology, training and free housing insurance for housing customers and entrepreneurial training program, marketing support services, etc to the non-farm activity customers and setting up agri-clinics along the branch to five inputs like soil testing, pesticides, hybrids, high yield seeds, fertilizers, drip irrigation, crop insurance, monsoon/rainfall insurance etc to the agri-based customers and also setting up education guidance cell in each branch for the education loan applicants (Kumaar, et al 2008).

2.8.2 Product Differentiation

The marginal communities who are the customers should be treated well and perceived as customers. By designing products to the evolving needs of clients, an organization can build client loyalty through customer service and thereby increase its profit. This means that the financial services offered by a MFI must be designed in response to the needs and capacities of the clientele.

Terms and conditions of loan, savings and other products should respond to the particular needs of the client group. More importantly, products should be tested before launching in the market. Product testing is used to gauge the perception of the customers on the suitability of the new products (Kumar, et al 2008).

2.8.3 Managing Service Quality

The key factor is to meet or exceed the target customer's service quality expectations. The Micro Finance Institutions must change the attitude of seeing the borrowers as beneficiaries in to customers. The Micro Finance Institutions should serve the customers in order to change the one time borrower in to a life time customers by taking into consideration of five determinants of services quality viz. reliability, responsiveness, assurance, empathy and tangibles (Kumaar, et al 2008).

2.9 Management Structures

Microfinance institutions are not a specific legal institutional , microfinance is considered a line of business. The institutions offering microfinance services, include non-government organizations (NGOs), foundations, cooperatives, commercial banks, regional rural banks (RRBs), local area banks (LABS) as well as specialized non-bank financial institutions. Owners can be governmental entities, private individuals, foundations, church organizations, other NGOs, holding companies, investment funds or even clients. Broadly speaking, microfinance institutions are either by non-governmental organizations (NGOs) or by shareholder owned firms (SHFs). In his framework Schreiner (2002) proposes six aspects of social benefits for microfinance clients. The six aspects can all be considered performance dimensions in a MFI. The six dimensions are: cost, depth, breadth, length, scope and worth, where cost is defined as the sum of monetary costs and transactions costs to clients, *Depth* is defined as clients' poverty level or their social preferences, *Breadth* is defined as the number of clients served, *length* is defined as the time from of the supply of services and *scope* is defined as number of types of financial contracts supplied. *Worth* estimates to what degree the clients value the services.

Schreiner's (2002) underlying assumption is that more socially oriented MFIs can trade off narrow breadth, short length and limited scope with greater depth, while les socially oriented MFIs compensate shallow depth with wide breadth, long length and ample scope. Rock et al (1998) identify more socially MFIs with NGOs, and the less socially oriented MFIs with SHFs.

A review of microfinance policy reports reveal that most of them highlight the strengths of SHFs and the weaknesses of NGOs. In particular, they emphasis that NGOs are less commercial and professional because they lack owners with the pecuniary incentive to monitor management (Christen and Rosenberg, 2000). The implicit message is the SHFs benefit from better governance, can access more funding and thus perform better than NGOs. However, an alternative hypothesis may be that SHFs and NGOs do not perform differently, because they may use the same business model to compete and to service customers in the microfinance market. In fact, different ownership forms are common in the banking and insurance industries (Hansmann, 1996).

In mature bank-markets where different ownership types co-exist, researchers find little evidence to suggest that ownership type influences operational efficiency (Crespi et al., 2004). In a recent large European study Iannota et al. (2007) found that investor owned banks have higher profitability, but have higher operating costs than non-investor owned banks. In historic terms pro-poor banking has generally been dominated by mutual and non-profit ownership, not by investor ownership (Hansmann, 1996). The question which is, which form of ownership results in more growth of MFIs?

Fig 1: Conceptual Framework

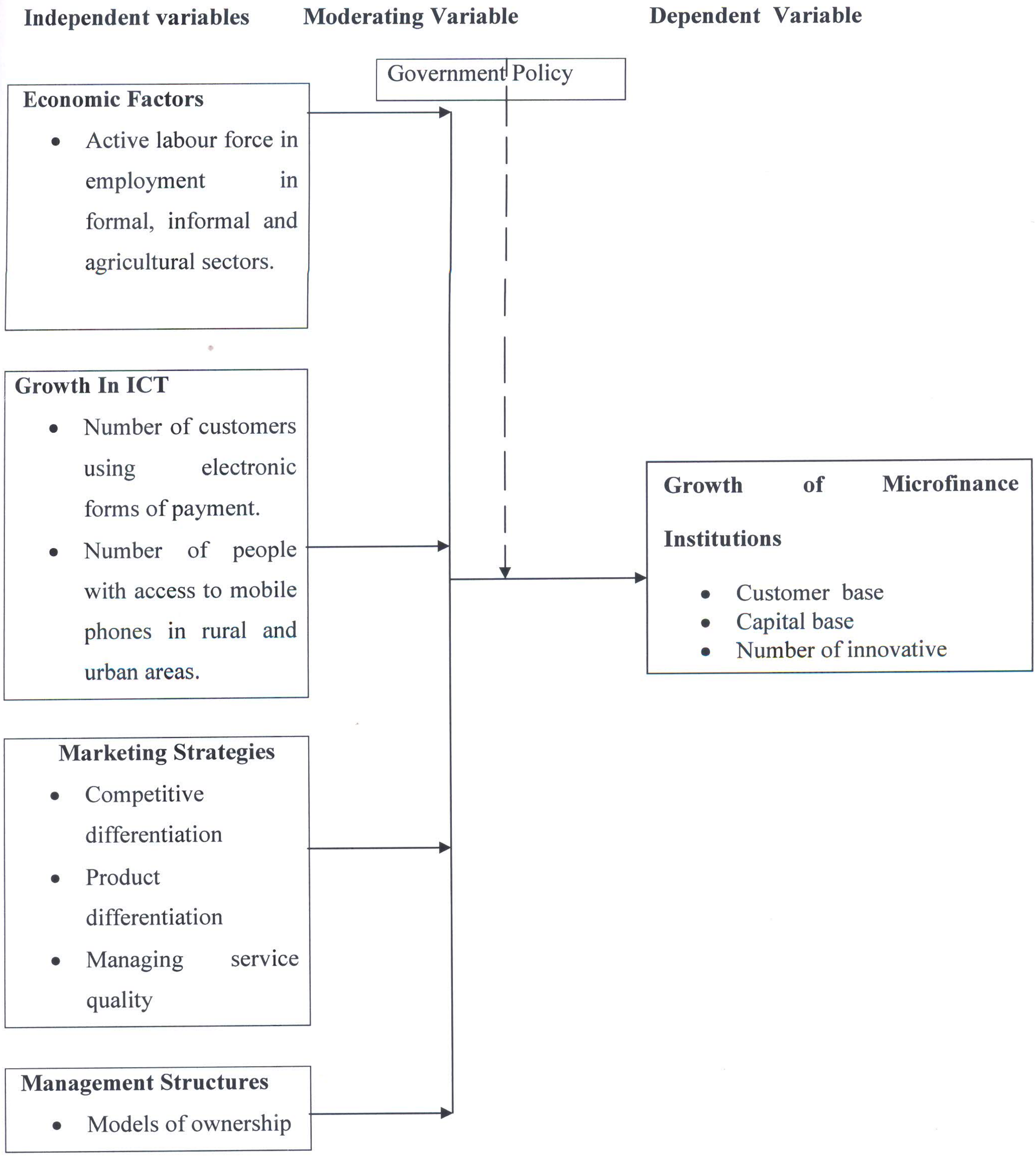


Figure 2: Conceptual Framework.

The purpose of this study is to find out the factors which have led to the growth of microfinance institutions in Nyeri Central District. These factors could be socio-political factors, economic factors, information and communication technologies, marketing strategies, and management structures. Growth of MFIs is the dependent variable, while the factors affecting growth as highlighted above are the independent variables of the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains the research methodology which was used in the study. It specifically covers research design, population, sampling technique, instruments of data collection and data analysis. The research aimed at finding out factors which have led to the growth of microfinance institutions in Nyeri Central District.

3.2 Research design

This study adopted the descriptive survey research design to identify the factors which have led to the growth of microfinance institutions in Nyeri Central District. This approach was used because it focuses on exploration behaviour, experiences and opinions of respondents. The design also attempts to get in depth opinion form participants. It also provides way of discerning, examining, comparing, contrasting and interpreting meaningful data in order to elicit rich, detailed material that can be used in analysis (Kothari, 1999). The design also allows used of multiple tools for data collection, such as questionnaires, in depth interviews and documents analysis there by giving the researcher a rich data base.

3.3 Target population

The population of the study comprised of all 12 microfinance institutions operating in Nyeri Central District, and which are registered with the Association of Microfinance Institutions (AMFI). Any MFI that is not registered with AMFI was excluded from the study. The management of the MFIs, together with officials of AMFI, were the target respondents for the study.

3.4 Sampling Procedures

The researcher visited the offices of the Association of Microfinance Institutions and request for a list of all MFIs operating in Nyeri Central District and which are registered with the association. The association's website (www.amifikenya.com) updated lastly in 2009, lists a total of 32 members MFIs, 12 of which were based in Nyeri Central District. Out of all the MFIs meeting this requirement, simple random sampling was used to select 9 MFIs.

According to Orodho (2004), simple random sample technique is used to select a sample in such a way that all members stand an equal chance of being selected. The technique eliminates the element of bias. It is easy to apply when a small population is involved and allows for diverse and multiple ideas. Form each of the MFIs, the researcher selected two employees, giving a total of 18 MFI employees for the study. Two officials of AMFI were also selected to participate in the study.

3.5 Data collection procedure

The data was collected through questionnaires. Questionnaires were used to collect data from the MFI employees and the AMFI officials. This enabled the researcher to get in depth data of other factors that influence growth of MFIs.

3.6 Data analysis

Quantitative and qualitative methods were used to analyze the data in order to determine the relationship between the variables. The quantitative data was analyzed using simple descriptive statistics including mean, mode and percentages. Qualitative analysis technique was used since the method attempts to get in depth opinion form.

Table 3.1 Operationalization of variations tables

Objectives	Variables	Indicator	Measurement Scale	Tool of Analysis	Level of Scale	Approach of Analysis
To establish the social-political factors influencing the growth of MFIs in Nyeri Central District.	Independent Variable -Social-political factors Dependent variable - Growth of MFI in Nyeri Central District	-Population growth in Kenya -Ratio of urban to rural population.	-Number of people in urban areas using MFI services as compared to rural areas	Mean	Ratio	Quantitative
To establish the economic factors influencing the growth of MFIs in Nyeri Central District	Independent Variable Economic factors Dependent Variable Growth of MFIs in Nyeri Central District	- Number of Population in agricultural, formal and informal sectors. - Per capita income -Innovative financial services - Customer base	- Increase in employment levels - Increase in income levels - Increase in customer numbers.	Mean	Ratio	Quantitative
To find out how the growth of Information Communication Technology has impacted the growth of MFIs in Nyeri Central District	Independent Variable Growth in ICT Dependent Variable Growth in MFIs in Nyeri Central District	-Innovative mobile payment solutions. -Level of use of ICT and mobile -telephony.	Increase in usage of computers in MFIs. -Level of internet access. -Number of people with access to mobile phones.	Mean	Ratio	Quantitative
To find out the marketing strategies employed by MFIs and how these strategies	Independent Variable Marketing strategies Dependent Variable Growth in MFIs in Nyeri Central District.		Advertising Branch network Customer satisfaction	Mode	Ordinal	Quantitative

have impacted on the growth of MFIs						
To establish how the management structures adapted by MFI`s in Nyeri Central District have influenced growth of MFI`s	Independent Variable Management structures Dependent Variables Growth in MFI S in Nyeri Central District	Decision making structures	Number of decisions made by BOD, home Office, Branch committees.	Mean	Ratio	Quantitative

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis, presentation and interpretation of the findings. The results are presented based on the objectives of the study which are aimed at examining the factors influencing the growth of micro finance institutions.

4.2 Questionnaire response rate

A total of 31 questionnaires were sent to the respondents; MFI employees and AMFI officials. All of them returned the questionnaires hence the response rate was 100%.

4.3 Demographic characteristics of MFI employees

The employees responded to the questionnaire items as shown below

4.4.1 Respondents' gender

In the following Table 4.1, the respondent's gender is shown.

Table 4.1 Respondents' gender

	Frequency	Percent	Cumulative Percent
Male	17	55.6	55.6
Female	14	44.4	100.0
Total	**31**	**100.0**	

Both genders were well represented with male employees being 55.6% and female employees being 44.4%. This implies that opinions from men and women who work in the MFI were well captured. It was important to get information from both male and female employees because men and women have different perceptions hence including both genders increases the extent to which the results of the study can be relied on.

4.4.2 Categories of respondents' age

Table 4.2 Categories of respondents' age

The respondent's age categories are as shown on table 4.2 below.

	Frequency	Percent	Cumulative Percent
Below 25 years	4	11.1	11.1
25 - 34	9	27.8	38.9
35 - 44	7	27.8	66.7
45 - 54	7	22.2	88.9
55 - 64	4	11.1	100.0
Total	**31**	**100.0**	

Majority of the employees are aged between 25 and 34 years and 35 to 44 years as indicated by 27.8% each. Others are aged between 45 and 54 years (22.2%), while the ones aged below 25 years and 55 to 64 years are 11.1% each. This implies that majority of the employees are aged above 35 years and this implies that they have been in the field for enough time which can allow them to respond to the questionnaire items appropriately. Age to some extent determines a person's work experience. People of different ages have different experiences and this is why it was imperative to include employees of different ages.

4.4.3 Classification of respondents' education level

The following Table 4.3, indicates the respondents level of education.

Table 4.3 Classification of respondents' education level

	Frequency	Percent	Cumulative Percent
O-level	5	16.7	16.7
Diploma	10	38.9	55.6
Higher diploma	4	11.1	66.7
Bachelor's degree	12	33.3	100.0
Total	**31**	**100.0**	

Majority of the employees have attained at least a diploma (84.3%); with 33.3% having a Bachelor's degree, 11.1% higher diploma and 38.9% having a diploma. The others (16.7%) have gone up to O-level. This implies that MFI employees are qualified people with various skills in accordance with areas of specialization. They can therefore respond to the questionnaire items effectively. In addition, it increases the chances of the MFI to grow since the workforce is educated and has the right skills to propel the MFI towards success.

Including employees of different education levels was important because it ensures inclusion of people with different skills.

4.4.4 Position held by the respondent in the MFI

Table 4.4 below shows the positions held by the respondents.

Table 4.4 Position held by the respondent in the MFI

	Frequency	Percent	Cumulative Percent
Manager	6	16.7	16.7
Bookkeeper	12	22.2	38.9
Cashier	7	38.9	77.8
Loan officer	6	22.2	100.0
Total	**31**	**100.0**	

16.7% of the respondents were managers, 22.2% were bookkeepers, and 38.9% were cashiers while 22.2% were loan officers. Managers could give relevant information regarding the management issues which could be affecting the growth of the MFIs. The others could give the factors affecting the growth MFI at a department level, depending on ones' department.

It was imperative to include employees holding different positions in the MFIs. This was to ensure that all areas of the MFIs were covered since every area can contribute to the success or failure of the MFI.

4.4.5 Respondents' working experience in the MFI

The following Table 4.5, shows the respondents working experience.

Table 4.5 Respondents' working experience in the MFI

	Frequency	Percent	Cumulative Percent
Below 5 years	6	16.7	16.7
6 - 10	14	61.1	77.8
11 – 15	4	11.1	88.9
16 - 20	4	5.6	94.4
Above 20 years	3	5.6	100.0
Total	**31**	**100.0**	

The employees who have working in the MFI for below 5 years were 16.7%. The ones with 6 to 10 years of working experience were 61.1%, the ones with 11 to 15 years of working experience were 11.1% while 16 to 20 years and above 20 years were 5.6% respectively. Since most of the employees have been working in MFIs for more than 6 years, it means that they are best placed to respond the questionnaire items since they have been observing the growth of the MFIs for the period of time that they have been working there. This means that the information given is reliable. A person's working experience is a precursor to the knowledge the person has about the organization s/he is working for.

4.4.6 Length of time that the MFI has been operating in Nyeri town

Table 4.6 below shows the length of time the MFI have been operating in Nyeri town

Table 4.6 Length of time that the MFI has been operating in Nyeri town

	Frequency	Percent	Cumulative Percent
Below 5 years	4	11.1	11.1
6 - 10	14	50.0	61.1
11 - 15	8	27.8	88.9
16 - 20	5	11.1	100.0
Total	**31**	**100.0**	

The MFIs which have been operating in Nyeri for less than 5 years were 11.1%, between 6 and 10 years were 50%, between 11 and 15 years were 27.8 % and between 16 and 20 years were 11.1%. Since majority of the MFIs have been in operation for more than 5 fives, it is easier to tell the extent to which they have been growing and the factors which have been influencing the same. It is important to know the length of time that the MFI has been operating in Nyeri town because this would help to determine its growth milestones.

4.4.7 Number of clients served by the MFI

The following Table 4.7 shows the number of clients served by the MFIs.

Table 4.7 Number of clients served by the MFI

	Frequency	Percent	Cumulative Percent
101 - 150	4	5.6	5.6
151 - 200	15	50.0	55.6
201 - 250	8	33.3	88.9
251 - 300	4	11.1	100.0
Total	**31**	**100.0**	

Half of the MFIs serve between 151 and 200 clients daily, 33.3% serve between 201 and 250 clients, while 11.1% serve between 251 and 300 clients and 5.6% serve between 101 and 150 clients per day. For MFI that serve beyond 200 clients daily, it shows that they are already established and they are growing. For the ones dealing with below 150 clients, it shows that they still have along way to go as far as growth is concerned. The number of clients served by the MFI is an indicator of the success of the MFIs because without
Clients; these institutions would not exist.

4.4.8 Number of employees in the MFI

The following Table 4.8 shows the number of employees in each MFI.

Table 4.8 Number of employees in the MFI

	Frequency	Percent	Cumulative Percent
Below 10	4	11.1	11.1
11 - 20	15	61.1	72.2
21 - 30	8	16.7	88.9
Above 40	4	11.1	100.0
Total	**31**	**100.0**	

Majority of the MFIs (61.1%) have between 11 and 20 employees, 16.7% have between 21 and 30 employees, while the MFIs with below 10 employees and above 40 employees are 11.1% each. This implies that there are many MFIs which have grown over time as they require more employees. The numbers of employees show the extent to which the MFI has grown because bigger MFIs would require more employees.

4.4.9 Number of branches that the MFI has

Table 4.9 below shows number of branches MFI operate.

Table 4.9 Number of branches that the MFI has

	Frequency	Percent	Cumulative Percent
Below 5	10	33.3	33.3
6 - 10	8	27.8	61.1
11 – 15	5	16.7	77.8
16 - 20	4	11.1	88.9
Above 20	4	11.1	100.0
Total	**31**	**100.0**	

33.3% of the MFIs have less than 5 branches, 27.8% have between 6 and 10 branches, 16.7% have between 11 and 15 branches while 11.1% have 16 to 20 branches and another 11.1% have above 20 branches. MFIs may open more branches in order to increase their client base or in order to be in a position to serve their customers better. Opening up of new branches either in the same region or in other areas is a sure sign that the MFI is growing.

The number of branches that a MFI has also indicates the extent to which it has grown.

4.5 Economic sector factors which influence the growth of MFIs

According to the respondents, a significant challenge facing microfinance institutions is the battle for financial self-sufficiency. This includes controlling the risks in the loan portfolio - ensuring the timely repayment of loans. In addition to adequate collection, timely payments provide for a greater extension of funds to other poor people in the region, resulting in further outreach and growth. Other challenging factors include the educational levels of clients, staff related incentives and skills development.

4.5.1 Number of products that the MFI has.

The following Table 4.10 shows the number of products offered by the MFIs..

Table 4.10 Number of products that the MFI has

	Frequency	Percent	Cumulative Percent
Below 4	8	22.2	22.2
4 - 8	15	55.6	77.8
Above 8	8	22.2	100.0
Total	**31**	**100.0**	

Majority of the MFIs (55.6%) have between 4 and 8 products while 22.2% have below 4 and another 22.2% have above 8 products. When the respondents were asked to name the products offered in the MFIs, some named deposits, loan facilities, e-banking, mobile banking, ATMs, Central depository and agency banking. For the MFIs to have the need to increase the number of products they offer, it means that their client base is growing and so is their needs. As the number of clients increase, so do their needs. This means that MFIs have to have a variety of products in order to satisfy the needs of their customers

4.5.2 Whether there is a difference between the products offered by the MFI compared to other MFIs in Nyeri

Table 4.11 shows the response when the respondents were asked whether there is a difference between the products offered by the MFI compared to other MFIs in Nyeri.

Table 4.11 Whether there is a difference between the products offered by the MFI compared to other MFIs in Nyeri

	Frequency	Percent	Cumulative Percent
Yes	10	27.8	27.8
No	21	72.2	100.0
Total	**31**	**100.0**	

Majority (72.2%) said no while 27.8% said yes. This implies that most MFIs offer the same kind of products and only a few are willing to use product differentiation.

MFIs may choose to use product differentiation in order to win more clients and this is the rationale for this item.

4.5.3 MFI annual turnover

The following Table 4.12, shows the annual turnover of MFIs turnover.

Table 4.12 MFI annual turnover

	Frequency	Percent	Cumulative Percent
Below 1 million	2	5.6	5.6
1 - 2	2	5.6	11.1
3 - 4	6	16.7	27.8
4 - 5	5	22.2	50.0
Above 5 million	16	50.0	100.0
Total	**31**	**100.0**	

That half of the MFIs (50%) make above 5 million shillings per year, 22.2% make between 4 and 5 million, while 16.7% make between 3 and 4 million and the ones which make below 1 million and 1 to 2 million are 5.6% each. Although they have such annual turnovers, the people who require financial assistance in form of loans are too many such that the MFIs can not afford to give loans to all of them. Since loans earn interest, lack of funds may deny the MFIs a chance to earn through loan interest thus hampering the growth of MFIsThe MFI annual turnover is also an indicator of the extent to which the MFI has grown. For MFIs to have large annual turnovers, it means that they have increased their client base and their products which bring in such turnovers.

4.5.4 Number of new borrowers in the current financial year

Table 4.13 shows the number of new borrowers.

Table 4.13 Number of new borrowers in the current financial year

	Frequency	Percent	Cumulative Percent
Below 3,000	5	11.1	11.1
3,001 – 6,000	8	33.3	44.4
6,001 – 9,000	7	22.2	66.6
9,001 – 12,000	7	22.2	88.8
Above 12,000	4	11.1	100.0
Total	**31**	**100.0**	

Most MFIs (33.3%) have between 3,001 and 6,000 borrowers, 22.2% have between 6,001 and 9,000 and between 9,001 and 12,000 each while the ones with above 12,000 and below 3,000 were 11.1% each. More number of borrowers means more income for the MFIs because of the interest on loans and this could mean growth of the MFIs. However, the more the borrowers, the higher the chances of defaulters and these would be making the MFIs to lag behind as far as growth is concerned.

4.5.5 Number of new savers in the MFIs

Below on Table 4.14 is the number of new savers in MFIs.

Table 4.14 Number of new savers in the MFIs

	Frequency	Percent	Cumulative Percent
Below 3,000	4	11.1	11.1
3001 – 6,000	9	27.8	38.9
6,001 – 9,000	8	38.9	77.8
9,001 – 12,000	5	11.1	88.9
Above 12,000	5	11.1	100.0
Total	**31**	**100.0**	

MFIs need depositors so that they can have the money to loan borrowers and invest. It is therefore imperative to establish the number of depositors that the MFIs have. In the following Table 4.14, 11.1% of the MFIs have below 3,000 number of new savers, 27.8% have between 3,000 and 6,000 savers, 38.9% have between 6,001 and 9,000 savers while 11.1% have between 9,001 and 12,000 and another 11.1% have above 12,000. Savings make funds to available to the MFIs and they are therefore very important. Increased number of savers means that there are more finances for the MFIs to invest in and loan borrowers and these would enable them to grow further. However, it is dependent on the amount of money they save.

4.6 Whether the MFI uses ICTs to conduct business

The trend in business is towards incorporation of ICT to make operations faster and easier. When the respondents were asked whether the MFI uses ICT to conduct business, all of them said yes. This implies that MFIs have acknowledged that in order to stay relevant business wise, they have to adopt ICT.

4.6.1 Types of technology used

Table 4.15 shows the types of technology used by MFIs.

Table 4.15 Types of technology used

	Frequency	Percent	Cumulative Percent
Internet	10	33.3	33.3
Mobile solutions	12	33.3	66.7
Computers	6	22.2	88.9
Fax	3	11.1	100.0
Total	**31**	**100.0**	

There are many types of ICT and their adoptability by an organization is dependent on availability of capital, clients' demands and availability of technical skills to operate them among others. In the table below 4.15 according to the respondents, the MFIs which mostly use internet and mobile solutions are 33.3% each, 22.2% said they mostly use computers while 11.1% said Fax. However, all of them indicated that they use computers. These findings show that the MFIs are willing to use ICT tools in order to make their work easier. Adopting ICT would enable the MFIs to serve more clients faster hence attract more of them promoting growth.

4.6.2 Status of ICTs in the MFI

On table 4.16 below is the status of ICT used by MFIs.

Table 4.16 Status of ICTs in the MFI

	Frequency	Percent	Cumulative Percent
Obsolete	4	11.1	11.1
Not up to date but still useful	15	50.0	61.1
Up to date	12	38.9	100.0
Total	**31**	**100.0**	

The MFIs might have ICT but the status in which it is what matters. As shown in Table 4.16, 11.1% of the MFIs use ICT which is obsolete, 50% use ICT which is outdated but still useful while 38.9% use up to date ICT. For ICT to have a positive impact on the growth of the MFI, it should be up to date. This would enable the MFI to cater for the new needs of their customers. Obsolete ICT may not achieve this.

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4.6.2 Effects of ICT on the growth of the MFIs

ICT can have a positive impact on the growth of MFIs especially if it is up to date. As shown in Table 4.17,

Table 4.17 Effects of ICTs on the growth of the MFIs

	Frequency	Percent	Cumulative Percent
Improved customer service	12	33.3	33.3
Better quality services	15	38.9	72.2
Faster service delivery	4	27.8	100.0
Total	**31**	**100.0**	

38.9% of the respondents were of the opinion that ICT leads to better quality services, 33.3% said that it leads to improved customer service while 27.8% said that it leads to faster service delivery. This implies that ICT can boost the growth of MFIs to a great extent.

4.6.3 Whether MFIs carry out market research

Shown in table 4.18,is whether MFIs carry out market research.

Table 4.18 whether MFIs carry out market research

	Frequency	Percent	Cumulative Percent
Yes	9	22.2	22.2
No	22	77.8	100.0
Total	**31**	**100.0**	

Majority of the respondents (77.8%) said that their MFIs do not carry out market research while 22.2% said that they do. For the ones that said that they carry out market research, 38.9% said that they do this in order to get to know new customer needs, 11.1% do it in order to learn customer complaints, 11.1% aim to evaluate how the MFI has been performing, while 11.1% want to get to know the level of customer satisfaction and 27.8% aim to establish new opportunities. All these would lead to the growth of the MFIs. For the ones who said they do not carry out market research, they gave the following reasons for not doing so; 5.6% said that the management sees no need for it, 72.2% said that it is due to lack of funds, 11.1% said that it due to lack of facilitators while another 11.1% said that it is due to lack of skills needed for the same. This implies that most of the MFIs would like to carry out market research in order to benefit from it but there are various factors hindering them. These could affect the growth of the MFIs negatively

4.6.4 Marketing strategies used by MFIs

Table 4.19 below shows the marketing strategies used by MFIs.

Table 4.19 Marketing strategies used by MFIs

	Frequency	Percent	Cumulative Percent
Client relations	20	55.6	55.6
Referrals	6	22.2	77.8
Advertisements	5	22.2	100.0
Total	**31**	**100.0**	

There are many marketing strategies which are used by different institutions. This depends on their applicability to the said institution. As shown in Table 4.19, majority of the MFIs (55.6%) use client relations while 22.2% use referrals and advertisements each. Client relations would help to maintain the current clients and their level of satisfaction would determine whether they would refer others the other MFIs. Advertisements targets new customers but it could as well inform the current customers of new products. All these would enable the MFI to grow.

4.6.5 Whether the MFI has had to change its products and services due to negative impact on social cohesion or client welfare

When asked whether the MFI has had to change its products and services due to negative impact on social cohesion or client welfare, all the respondents said no. This implies that before launching a new product, the MFIs are usually aware of their clients' needs and they ensure that client welfare is observed.

4.6.6 Problems facing the MFIs in serving the hard to reach or frontier areas

Shown on table 4.20 are the problems MFIs face in serving hard to reach areas.

Table 4.20 Problems facing the MFIs in serving the hard to reach or frontier areas

	Frequency	Percent	Cumulative Percent
Travel time to clients	6	16.7	16.7
Lack of business opportunities	6	16.7	33.3
Lack of basic infrastructure	4	11.1	44.4
Inadequate information about clients	4	11.1	55.6
Lack of trained personnel	4	11.1	66.7
Inadequate financial resources	9	33.3	100.0
Total	**31**	**100.0**	

16.7% of the MFIs have problems with travel time to clients, 16.7% lack of business opportunities , 11.1% lack of basic infrastructure, 11.1% have inadequate information about clients, 11.1% lack of trained personnel while 66.7% have inadequate financial resources. Even though there are many problems facing the MFIs, the major problem seems to be inadequacy of financial resources. Since most operations in the MFIs would require funds, inadequacy of the same could negatively affect the growth of the MFIs. When asked about the impact of the marketing strategies used by MFIs, the respondents said that the strategies have helped the MFIs to get new customers and well and retain most the ones they have acquired before.

4.6.7 People involved in making decisions regarding different issues in the MFI

Table 4.21 People involved in making decisions regarding different issues in the MFI

	BOD	Committee	Home office	Branch	Total
Deciding on where to expand operations	83.3%	11.1%	5.6%	0	100%
Hiring of Manager	0	16.7%	77.7%	5.6%	100%
Hiring of Staff/Loan Officer	0	0	94.4%	5.6%	100%
Firing of Manager	0	16.7%	77.7%	5.6%	100%
Firing of Staff/Loan Officer	0	0	94.4%	5.6%	100%
Approving Staff Promotion	0	0	100%	0	100%
Approving the branch budget	0	0	100%	0	100%
Signing of Cheques	0	0	11.1%	88.9%	100%
Approve clients' Loan	0	0	16.7%	83.8%	100%
Releasing loan proceeds	0	0	16.7%	83.3%	100%
Approving debt write-offs	0	0	100%	0	100%
	1	3	11	7	

Most decisions are made at the home office followed by the branch level and a few are made by the committee while the BOD makes decisions on the crucial matters of the MFIs. However it depends on the size of the MFI. This implies that the management structure is centralized because very few decisions are made at the branch level.

4.6.8 Features which best describe the management structure in MFIs

The respondents were asked on the features that best describe the management structure in MFIs the following table 4.22 shows the results.

Table 4.22 Features which best describe the management structure in MFIs

	Frequency	Percent	Cumulative Percent
Rigid task definition	5	11.1	11.1
Vertical communication	6	22.2	33.3
High degrees of formalization	6	22.2	55.5
Authority-based influence	4	11.1	66.6
Centralized control	5	16.7	83.3
Low degree of co-ordination	5	16.7	100.0
Total	**31**	**100.0**	

As shown in Table 4.22, 11.1 of the respondents were of the opinion that management structures in their MFI is characterized by rigid task definition, 22.2% said vertical communication, another 22.2% said high degrees of formalization, 22.1% said that they have authority-based influence, 16.7% said that they have centralized control and another 16.7% said low degree of co-ordination. All these characteristics could be failing the MFIs' growth. This is because rigid task definition limits the employees on the way the task should be handled. This could affect their motivation negatively thus lowering their productivity. Vertical communication limits the way employees express themselves and this can lead to breakdown of communication which would negatively impact on the success of the MFIs. Influence should be expertise based and not authority based because when authority is overused, employees tend to rebel and this affects organizations negatively. Centralized control causes delay in different operations affecting customer satisfaction and employee morale. On the other hand, low degree of coordination could lead to frustrations among employees and delays. Departments coordinate their activities in order to meet the overall goal of the institution Failure to do this would negatively affect the growth of the institution.

All these mean that the growth of the MFIs is largely affected by the management structures within these institutions.

4.6.9 Respondents rating the management structure in the MFI

Table 4.29 shows the employees rating for the management structure in the MFI.

Table 4.23 Respondents rating the management structure in the MFI

	Frequency	Percent	Cumulative Percent
Very effective	2	5.6	5.6
Effective	10	27.7	33.3
Neutral	8	22.2	55.8
Ineffective	9	33.3	89.1
Very ineffective	2	11.1	100.0
Total	**31**	**100.0**	

As shown in Table 4.23, 5.6% of the respondents said that the management structures in their MFI is very effective, 27.7% said that it is effective, 22.2% said that it is neutral, while 33.3% said that it is ineffective and 11.1% said that it is very ineffective. This implies that 66.6% of the MFIs management structures are at most neutral. This means that if the MFIs want to grow, they have to change their management structures. When the respondents were asked how the management structures have influenced the growth of the MFIs, they said that the management is too rigid and does want to change with customer needs hence dragging the success of the MFIs down. Others said that to the management, the customer comes first and that the customer is always right. This has made the employees to be neglected. Additionally, the policy on the customer being right has made many employees pay for crimes they did not commit because their side of the story is never listened to by the management. These de-motivate the employees and kill their morale which is not good for the growth of the MFIs.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study aimed at examining the factors influencing the growth of micro finance institutions in Nyeri central district, central province Kenya.This chapter therefore highlights a summary, discussion, conclusions and recommendations.

5.2 Summary of findings

The Kenyan microfinance sector began in the late 1960s with a few non governmental organizations 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. Microfinance is also rapidly becoming Kenya's most accessible and affordable financial service. There has been extensive research carried out on the growth of rural credit lending and the subsidized loan lending by non-governmental agencies in Kenya. However, there is little understanding of the factors influencing the success of public and private microfinance institutions. This research study was conducted in order to study the factors that are responsible for the growth of microfinance institutions.

The study was guided by the following objectives: to establish the economic factors influencing the growth microfinance institutions in Nyeri Central District, to find out how growth in information and communications technology has impacted on the growth of microfinance institutions in Nyeri Central District, to find out the marketing strategies employed by microfinance institutions and how these strategies have impacted on growth of the institutions and to establish how the management structures adopted by the microfinance institutions in Nyeri Central District have influenced growth of these institutions. The study adopted a descriptive survey research design to study the factors influencing the growth of the MFIs. Random sampling method was used to obtain a representative sample. The informants for the study were drawn from the employees of MFIs and the officials of AMFI. Data was collected using questionnaires. Data obtained was analyzed using descriptive statistics with the aid of Statistical Package for Social science software and the findings were presented in tables.

jective	Main findings
1. To establish the economic factors influencing the growth microfinance institutions in Nyeri Central District	1. The findings showed that economic factors could be contributing to the growth of MFIs in Nyeri Central District. The economic factors which were found to do this includes low annual turnover, high number of borrowers, low number of savers, high number of defaulters.
2. To find out how growth in information and communications technology has impacted on the growth of microfinance institutions in Nyeri Central District.	2. It was found out that all the MFIs are using technology. The types of technology adopted include telephony, computers, internet and Fax machine. However, most of the MFIs' technology is not up to date. ICT leads to better quality services, faster delivery of services and more customer satisfaction. The challenges related to ICT include resistance to change among the employees, lack of funds to finance newer technology, and lack of technical skills to handle new technology.
3. To find out the marketing strategies employed by microfinance institutions and how these strategies have impacted on growth of the institutions	3. Most of the MFIs do not carry out market research. The marketing strategies used by MFIs include; client relations, referrals and advertisements. MFIs experience the following problems in the course of marketing; inadequate travel time to clients, lack of business opportunities, lack of basic infrastructure, inadequate information about clients.
4. To establish how the management structures adopted by the microfinance institutions in Nyeri Central District	4. The management of most MFIs is centralized since most crucial decisions are made at the home office. Employees are involved in decision making through meetings with the management and through the suggestion box. Management was found to be authority based.

5.3 Discussion

In the following discussion each of the four objectives will be discussed at length and the finding in relation to the study.

Firstly, economic factors and their contribution to the growth of MFIs: The MFIs have different numbers of clients that they serve but for the MFIs serving beyond 200 clients daily, it shows that they are already established and they are growing. Opening up of new branches is sign that the MFIs are growing. The number of borrowers can also show whether the MFIs are growing because more number of borrowers means more income for the MFIs because of the interest on loans. Savings make funds to be available to the MFIs and they are therefore very important. Increased number of savers means that there are more finances for the MFIs to invest in and loan borrowers and these would enable them to grow further. However, it was found out that ICT and market research were hindered by lack of finances and this implies that despite the figures, MFIs are not making enough money to sustain themselves and their clients. This could be affecting their growth negatively. The role of the traditional banking institutions is to channel funds from households, firms, and governments with excess savings to those who have a shortage of investable funds (Mishkin, 2006).

Further findings show that AMFI has ever received financial capital or subsidy for MFIs and this boosts the MFIs financial position. The sources of financial assistance come from international donor/ funding agencies and Non-government organization (NGO). MFIs sustain themselves by increasing loan interest rates to return the cost of the loan, avoiding the loans which seem too risky and thoroughly investigating the borrowers before lending them money. The MFIs have loan defaulters moderately frequently. Defaulting on loan is expensive for MFIs because they lose on the loan itself and the cost of lending. It can therefore drag the growth of MFIs down. This implies that defaulting in loan payments could be affecting the growth of the MFIs. The success of the MFIs is rated average and this implies that the MFIs still have areas they need to improve on in order to attain more milestones of growth.

In the last few years, the MFIs have dealt with global recession by ensuring that product portfolios are accurate and recent reflection of customer needs, wants and preferences observed. This is because during times of financial volatility there is little margin for error. MFIs have also been shifting from seeking scale to ensuring financial sustainability: In a time of financial downturn, microfinance institutions temper growth aspirations and focus instead on economic sustainability. This way, they can survive. However, there are economic challenges which have been affecting the growth of MFIs, these comprise: battle for financial self-sufficiency. This includes controlling the risks in the loan portfolio for example by ensuring the timely repayment of loans, adequate collection and ensuring timely. Other challenging factors include the educational levels of clients, lack of capital to lend to clients and staff related incentives and skills development.

Secondly, growth of ICT and its impact on the growth of MFIs: The findings show that all the MFIs use technology. This implies that they have acknowledged that in order to stay relevant business wise, they have to adopt ICT. These findings show that the MFIs are willing to use ICT tools in order to make their work easier. Adopting ICT is a sign of growth because they would enable the MFIs to serve more clients faster hence attract more of them. For ICT to have a positive impact on the growth of the MFI, it should be up to date. This would enable the MFI to cater for the new needs of their customers. Obsolete ICT may not achieve this. ICT leads to better quality services, improved customer service and faster service delivery. This implies that ICT can boost the growth of MFIs to a great extent. The type of technology applied in the MFI operations include telephony, internet, computers and Fax machines.

The Micro Finance Institutions should serve the customers in order to change the one time borrower in to a life time customers by taking into consideration of five determinants of services quality viz. reliability, responsiveness, assurance, empathy and tangibles (Kumaar, et al 2008).

These enable the operations of the MFIs to be done faster and more accurately increasing customer satisfaction. The challenges which the MFIs experience as far as technology is concerned include resistance to change among the employees, lack of funds to finance newer technology, and lack of technical skills to handle new technology. However, lack of funds is a main challenge affecting majority of the MFIs. On the issue of how growth in technology has impacted the MFIs, it has ensured faster services hence serve more customers, improved efficiency and it has contributed to more satisfied employees. It was also found out that MFIs offer training to the workers regarding technical skills. Some of the employees respond positively while others respond negatively. This implies that although the MFIs adopt technology, there are employees who do not support the same and this can make the MFIs not to benefit fully from the technology. MFIs adoption of new technology was rated average.

The reason as to why the MFIs have not excelled in adopting new technology might be because of lack of funds to support the same.

Thirdly, marketing strategies employed by MFIs and their impact on their growth: Most of the MFIs do not carry out market research. This implies that most of the MFIs would like to carry out market research in order to benefit from it but there are various factors hindering them. These could affect the growth of the MFIs negatively. The marketing strategies used by MFIs include; client relations, referrals and advertisements. Client relations would help to maintain the current clients and their level of satisfaction would determine whether they would refer others the other MFIs. Advertisements targets new customers but it could as well inform the current customers of new products. All these would enable the MFI to grow. MFIs experience the following problems in the course of marketing; inadequate travel time to clients, lack of business opportunities, lack of basic infrastructure, inadequate information about clients, lack of trained personnel and inadequate financial resources.

Even though there are many problems facing the MFIs, the major problem seems to be inadequacy of financial resources. Since most operations in the MFIs would require funds, inadequacy of the same could negatively affect the growth of the MFIs. The impact of the marketing strategies used by MFIs, include helping the MFIs to get new customers as well as retain most the ones they have acquired before. MFIs adopt the following ways to fight competition; they have fewer requirements for loans and they handle customers' complaints promptly. These work towards maintaining the customers that they already have as well as getting new ones. These would therefore promote the growth of MFIs. In relation to the methods that MFIs use to reach the poor, geographical targeting, individual targeting and methodological targeting are used. MFIs also try to get to hard to reach areas in search of more customers. The MFIs conduct area scanning or market study before they enter a new area. This means that MFIs are careful and want to establish their institutions in areas where they are likely to get profits. It was also established that AMFI monitors the impact of their microfinance activities on their clients using savings, family income, growth of business and assets as the impact indicators.these agrees with (Kumaar, et al 2008)` What the customer expects form MFIs or the banks are loans for economic activity or housing or education or for other consumption purposes and these items constitutes primary service package.'

Lastly, management structures and their influence on the growth on the MFIs: Most decisions are made at the home office followed by branch level and a few by the committee while the BOD makes decisions on the crucial matters of the MFIs. This implies that the management structure is centralized because very few decisions are made at the branch level and this is where most of the MFI operations are. Management structures have the following features; rigid task definition, vertical communication, high degrees of formalization, authority-based influence, centralized control and low degree of co-ordination. These are likely to affect the growth of MFIs negatively because they have a chain of effects; they limit the employees whose motivation goes down thus affecting their productivity. This may cause customer dissatisfaction hence withdrawal thus affecting the growth of the MFIs negatively.

When the respondents were asked how the management structures have influenced the growth of the MFIs, they said that the management is too rigid and does want to change with customer needs hence dragging the success of the MFIs down. Others said that to the management, the customer comes first and that the customer is always right. This has made the employees to be neglected. Additionally, the policy on the customer being right has made many employees pay for crimes they did not commit because their side of the story is never listened to by the management. These de-motivate the employees and kill their morale which is not good for the growth of the MFIs. Further findings showed that employees participate in decision making through specific and regular information and meetings between staff and senior management and through the suggestion box.

5.4 Conclusion

The findings showed that economic factors could be contributing to the growth of MFIs in Nyeri Central District. The economic factors which were found to do this includes low annual turnover hence no enough funds for the high number of borrowers, low number of savers and high number of defaulters.

These contribute to stagnation since growth might not be there if there are no funds to facilitate the same. It was also found out that all the MFIs are using technology. However, most of the MFIs' technology is not up to date. The challenges related to ICT include resistance to change among the employees, lack of funds to finance newer technology, and lack of technical skills to handle new technology. MFIs may not fully benefit from technology when it is not up to date hence technology was found to be contributing to the slow growth of the MFIs. Additionally, it was found out that most of the MFIs do not carry out market research. The main reason for the same was due to lack of finances to facilitate the same. MFIs experience the following other problems in the course of marketing; inadequate travel time to clients, lack of business opportunities, lack of basic infrastructure and inadequate information about clients.

Failure to carry out market research could deny the MFIs the chance to improve on their products and services, get new markets, and learn customer complaints all of which would hamper their growth. Finally, the management of most MFIs was found to be centralized since most crucial decisions are made at the home office. Employees are only involved in decision making through meetings with the management and through the suggestion box. Management was found to be authority based and this affects the institutions negatively.

5.5 Recommendations

Based on the findings of the study, the researcher recommends the following.

1. There are economic factors influencing the growth of Micro Finance Institutions in Nyeri Central District including low annual turnover, high umber of borrowers, low number of savers and a high number of . it is therefore recommended that MFIs seek additional financing to enable increased lending.
2. Growth in ICT has impacted on the growth of MFIs whereby all are using technology in their operations. It is recommended that they continually update their technology and train their staff to ensure optimal utilisation.
3. Marketing strategies employed by MFIs have been found to be client relations, referrals and advertisements. It is recommended that MFIs carry out market research and implement measures to continuously meet dynamic customer needs.
4. Finally the management structures adapted have influenced the growth of MFIs whereby most decisions are made at the home office because satisfied employees are likely to give high quality services thereby attracting new customers while retaining existing ones.

5.6 Suggestion for further study

The researcher suggests that a similar study should be done in other regions in Kenya to establish that factors affecting the growth of MFIs.

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APPENDICES

APPENDIX 1 COVER LETTER

Winnie Wanjiru Maina,

P.O Box 112,

Muranga.

Dear respondent,

I am a student of the University of Nairobi pursuing a Master of Arts Degree in Project Planning and Management. I am currently undertaking research on the factors influencing the growth of micro Finance Institutions in Nyeri Central District. The questionnaire attached is for the purpose of collecting information in regard to this. Please provide objective, truthful and complete information either by ticking[] √in the boxes or by filling in the blank spaces provided.

Kindly note that the information you provide will be treated with confidentiality and anonymity and will only be used for the purpose of this study.

Thank you.

Yours faithfully,

Winnie Maina

Researcher.

APPENDIX 2 QUESTIONNAIRE FOR MFI EMPLOYEES

Instructions

Kindly answer the following questions by ticking in the appropriate box or filling the space provided

Date____________

Section A: Demographic information

1. What is your gender?

Male [ ] Female [ ]

2. How old are you?

Below 25 years [ ] 25 – 34 years [ ]

35 – 44 years [ ] 45 – 54 years [ ]

55 – 64 years [ ] 65 years and above [ ]

3. What is your level of education?

O- Level [ ] Diploma [ ]

Higher diploma [ ] Bachelor's degree [ ]Master degree [ ]

Other (specify)..

4. What position do you hold in this MFI?

Manager [ ]

Bookkeeper [ ] Cashier [ ] Loan Officer [ ]

5. For how long have you served as an employee of the MFI?

Below 5 years [ ] 6 – 10 years [ ]

11 – 15 years [ ] 16 – 20 years [ ] Above 20 years [ ]

Section B: Organizational information

6. For how long has the MFI been operating in Nyeri Central District?

Below 5 years [ ] 6 – 10 years [ ]

11 – 15 years [ ] 16 – 20 years [ ] Above 20 years [ ]

7. How many clients do you serve as of today? Between .... and ....

8. How many employees are employed by this MFI?.............................

9. How many branches does the MFI have?..................................

10. a) How many products does the MFI offer?................................

b)Namethem

....

11. a) Is there a difference between the products offered by this MFI and others MFIs operating in Nyeri Central District?

Yes [ ] No [ ]

b) If yes, describe the difference

....

Section C: Main issues

The economic factors influencing the growth microfinance institutions

12. What is the annual turnover of this MFI?

Below 1 million	[ ]	1 million to 2 million	[ ]
2 million to 3 million	[ ]	3 million to 4 million	[ ]
4 million to 5 million	[ ]	Above 5 million	[ ]

13. How many borrowers have you had in the current financial year?

Women	[ ]	Men	[ ]
Indigenous	[ ]	Other people	[ ]

14. How many savers have you had in the current financial year?

Women	[ ]	Men	[ ]
Indigenous	[ ]	Other people	[ ]

15. State three other economic sector factors influencing the growth of this MFI

……

Growth of information and communications technology and its impact on the growth of microfinance institutions

16. a) Do you use ICTs to conduct business in this MFI?

Yes [ ] No [ ]

b) If no, why?

The technology in the MFI is obsolete [ ]

The MFI does not adopt technology as fast as it comes [ ]

The management finds no use of technology [ ]

The MFI is more labour than capital intensive [ ]

Others (specify)……………………………………………………………………

c) If yes, which technology does the MFI use?

Internet [ ] Mobile solutions [ ]

Computers [ ] Fax [ ]

Others (specify)……………………………………………………………………………

17. Briefly explain the status of ICTs in this MFI.

Obsolete [ ] Not up to date but still useful [ ]

Up to date [ ]

18. How would you describe the effects of ICTs on the growth of this MFI?

Improved customer service [ ] Better quality services [ ]

Faster service delivery [ ]

Others (specify)……………………………………………………………………

19. Name three other technology you feel the MFI needs to adopt in order to be more competitive

……………………………………………………………………………………………………

The marketing strategies employed by microfinance institutions and their impact on the growth of the institutions.

20. Does this MFI carry out market research?

Yes [ ] No [ ]

b) If yes, what does it aim to achieve by doing so? (tick all relevant responses)

Get to know new customer needs [ ]

Learn customer complaints [ ]

Evaluate how the MFI has been performing [ ]

Get to know the level of customer satisfaction [ ]

Establish new opportunities [ ]

Others (specify) ....

c) If no, why?

The management sees no need for it [ ]

Lack of funds [ ]

Lack of facilitators [ ]

Lack of skills needed for the same [ ]

Others (specify)...

21. Which among the following marketing strategies does this MFI use?

Direct mail [ ]

Client relations [ ]

Referrals [ ]

Advertisements [ ]

Other (specify)..

22. a) Has the MFI ever had to change its products and services due to negative impact on social cohesion or client welfare?

Yes [ ]

No [ ]

b) If yes, what changes were necessary?

....

....

....

23. In your opinion, what are the problems facing your microfinance institution in serving the hard to reach or frontier areas?

Security/Peace and Order Situation [ ]

Travel time to clients [ ]

Lack of business opportunities [ ]

Lack of basic infrastructure [ ]

Inadequate information about clients [ ]

Lack of trained personnel [ ]

Inadequate financial resources [ ]

Others (specify)..

24. In your opinion, how have the strategies employed by the MFI impacted on growth of the institution? (State three ways)

....

....

....

The management structures adopted by the microfinance institutions

25. Indicate the people involved in making decisions regarding the following issues

	BOD	Committee	Home office	Branch	Others
Deciding on where to expand operations					
Hiring of Manager					
Hiring of Staff/Loan Officer					
Firing of Manager					
Firing of Staff/Loan Officer					
Approving Staff Promotion					
Approving the branch budget					
Signing of Cheques					
Approve clients' Loan					
Releasing loan proceeds					
Approving debt write-offs					

26. Kindly tick the features which best describe the management structure in this MFI

Rigid task definition [ ]

Flexible task definition [ ]

Vertical communication [ ]

Lateral communication [ ]

High degrees of formalization [ ]

Low degrees of formalization [ ]

Authority-based influence [ ]

Expertise-based influence [ ]

Centralized control [ ]

Decentralized control [ ]

Complex differentiation [ ]

Simple differentiation [ ]

High degree of co-ordination [ ]

Low degree of co-ordination [ ]

27. How would you rate the management structure used in this MFI?

Very effective [ ]

Effective [ ]

Neutral [ ]

Ineffective [ ]

Very ineffective [ ]

28. State three ways in which the management structure has influenced growth of this MFI.

....

....

....

Thank you

APPENDIX 3 QUESTIONNAIRE FOR AMFI OFFICIALS

Instructions

Kindly answer the following questions by ticking in the appropriate box or filling the space provided

Date_______________

Section A: Demographic information

1. What is your gender?

Male [ ] Female [ ]

2. How old are you?

Below 25 years [ ] 25 – 34 years [ ]

35 – 44 years [ ] 45 – 54 years [ ]

55 – 64 years [ ] 65 years and above [ ]

3. What is your level of education?

O- Level [ ] Diploma [ ]

Higher diploma [ ] Bachelor's degree [ ]

Master degree [ ] Other (specify)..

4. What is your designation?..

5. For how long have you worked for AMFI?

Below 5 years [ ] 6 – 10 years [ ]

11 – 15 years [ ] 16 – 20 years [ ] Above 20 years [ ]

Section B: Organizational information

6. For how long has the AMFI been operating?

Below 5 years [ ] 6 – 10 years [ ]

11 – 15 years [ ] 16 – 20 years [ ] Above 20 years [ ]

7. How many MFIs do you serve as of today? ....

8. How many clients to you have...

Section C: Main issues

Economic factors

9. Have you ever received financial capital or subsidy for MFIs?

Yes [ ] No [ ]

b) If yes, from who?

International donor/ funding agencies [ ]

Government [ ]

Religious organization/foundation [ ]

Non-government organization (NGO) [ ]

Other grants, donations or subsidies [ ]

Others (specify)...

10. Dealing with low income earners means having minimal deposits and lending small loans. How do MFIs sustain themselves? (tick all relevant options)

Increase loan interest rates to return the cost of the loan [ ]

Having foreclosures for defaulters [ ]

Avoiding the loans which seem too risky [ ]

Thoroughly investigating the borrowers before lending them money [ ]

Investing the customers deposits in profitable ventures [ ]

Others (specify)...

11. How frequent do you have loan defaulters in your MFI?

Very frequently [ ] Frequently [ ]

Moderately frequently [ ] Infrequently [ ]

Very infrequently [ ]

12. How would you rate the success of MFIs?

Very high [ ] High [ ]

Moderate [ ] Low [ ] Very low [ ]

13. State four ways in which the MFIs have dealt with global recession in the last few years?

....

Growth in information and communications technology

15. a) Has there been change in information and technology in the MFIs?

Yes [ ] No [ ]

b) If yes, what kind technology have you applied in MFI operations?

....

16. What challenges do the MFIs experience as far as technology is concerned?

Resistance to change among the employees [ ]

Lack of funds to finance newer technology [ ]

Lack of technical skills to handle new technology [ ]

Others (specify)..

17. How has growth in technology impacted the MFIs?

Faster services hence serve more customers [ ]

Improved efficiency [ ]

More satisfied employees hence higher quality services [ ]

More satisfied customers [ ]

Others (specify)..

18. Do the MFIs offer training to the workers regarding technical skills?

Yes [ ] No [ ]

b) If yes, how is the workers' response towards the same?

Positive [ ] Negative [ ]

c) If no, what are the reasons behind its failure to?

Lack of funds [ ]

Management finds it unnecessary [ ]

Lack of interest among workers [ ]

Lack of programs and facilitators for the same [ ]

Others (specify)..

19. How would you rate the MFIs as far as adoption of new technology is concerned?

Excellent [ ] Good [ ]

Average [ ] Fair [ ]

Poor [ ]

Marketing strategies

20. How do the MFIs deal with competition from banks and other financial institution?

Offers higher quality services [ ]

Has lower loan interest rate [ ]

Has fewer requirements for loans [ ]

Has a variety of products for different categories of customers [ ]

Handles customers' complaints promptly [ ]

Others (specify)...

21. Among these, which method do MFIs use to reach the poor?

Geographical targeting [ ]

Individual targeting [ ]

Methodological targeting [ ]

Others (specify)...

22. a) Do you target any specific groups of clients?

Yes [ ] No [ ]

b) Indicate the clients you target as categorised

Gender: Male [ ] Female [ ] Both Male & Female [ ]

Geographic location: Rural [ ] Urban [ ] Both Rural & Urban [ ]

23. Do you reach out to hard to reach areas?

Yes [ ] No [ ]

24. In your estimate, what percentage of total potential market/clients do you currently reach through micro financial services?

Below 25% [ ] 26 – 50 % [ ]

51 – 75% [ ] Above 75 % [ ]

25. Do you conduct area scanning or market study before you enter a new area?

Yes [ ] No [ ]

26. Are you monitoring the impact of your microfinance activities on your clients?

Yes [ ] No [ ]

27. What impact indicators do you use?

Family income

Savings

Assets

Growth of business

Employment generation

Number of microenterprises

Others (please specify) ....

Management structures

28. a) Can the employees participate in decision-making?

Yes [ ]

No [ ]

b) If yes, how?

Through specific and regular information and meetings between staff and senior management [ ]

Through an elected consultative body [ ]

Through participation in governance [ ]

Through the suggestion box [ ]

Other (specify)..

29. Do you consult clients to make your MFI's policy directions responsive to their needs?

Yes [ ]

No [ ]

30. Do you have a Management Information System?

Yes [ ]

No [ ]

31. What data do you collect in your system (manual or computerized)?

Number of loans disbursed [ ]

Amount of loans disbursed [ ]

Number of loans outstanding [ ]

Amount of loans outstanding [ ]

Amount of loans repaid [ ]

Amount of loans in arrears [ ]

Aging of loans in arrears [ ]

Portfolio at risk

Number of active borrowers [ ]

Number of CBU/Savers clients [ ]

Amount of CBU/Savings generated[ ]

Balance sheet [ ]

Income and expense statement [ ]

Number of male clients [ ]

Number of female clients [ ]

Others (specify)................................

32. a) Does the AMFI facilitate the creation of local management or leadership skills? (Training for team building, representation, etc.; valuing of local management skills, etc.)

Yes [ ]

No [ ]

b) If yes, how often?

After two weeks [ ]

Monthly [ ]

Quarterly [ ]

Semi annually [ ]

Annually [ ]

Other (specify)..

Thank you