

THE EFFECT OF COMPETITION AND TECHNOLOGY ON GROWTH OF MICRO-FINANCE INSTITUTIONS IN KENYA

LUCY MUGADUKHA ANANGWE

ABSTRACT

The micro finance industry in Kenya has experienced rapid growth over the years in an attempt to meet the large demand from the estimated 38 percent of Kenyans lacking access to financial services. The demand for micro-finance service in Kenya is high yet the industry is only able to meet about 20 percent of their demand because of lack of financial resources and the capacity to assess risk process and monitor loans. The specific focus of this study was on the effects of competition among MFIs on different outcomes as well on the effects of ICT adoption in the institutional operations. MFIs tend to have a lower outreach when faced with intense competition. Increased competition is also associated with lower loan repayment, lower financial performance and lower efficiency. It adopted a descriptive study research design to collect the required information from the population targeted after which the data collected was analyzed through quantitative methods to show the causation factor of the growth in MFIs in Kenya. The target population included the financial institutions which are members of the Association of the Microfinance Institutions in Kenya. The sample included 34 institutions which have their operations within Nairobi. The sampling procedure applied was convenience sampling method. Both Primary and Secondary sources of data were used in the study where Primary data was collected with the use of a questionnaire and the secondary data collected from the MFI's annual reports and financial statements. Both descriptive and inferential methods were used in analysis. Measures of relative position and measures of relations and associations used were correlation and regression. The significance of the results was tested by the use of correlation coefficient (R) and the coefficient of determination (R²) as well as the F-test at 95% significance level. The study findings included that; both competition and ICT use in MFIs influence their performance thereby affecting their growth. Competition was found to have negative effects on the organizational performance while ICT adoption and application in organizational operations was found to have a positive effect on growth. Thus, the competitiveness of microfinance systems relates positively to the number of branches (networks) established in the country. Information technology contributes to the micro financial system in three different ways as follows: ICT saves the time of the customers and the employees conspicuously, ICT cuts down the expenses and ICT facilitates the network transactions. Therefore the study recommends that; to ensure competitiveness of the microfinance sector, policies should be implemented which shall ensure fair competition to the young micro finance institutions hence facilitating their growth as well that advanced information system supported by a superior mechanism control is required to make certain that an information system has achieved the required processes